

The background features a dynamic, abstract composition of light trails in shades of blue, orange, and yellow, suggesting motion and energy. A large, bright yellow arrow points from the top right towards the center of the slide.

# The NZ Economy: *From Rockstar to easy listening*

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ONE STEP AHEAD

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**ONE STEP › AHEAD**

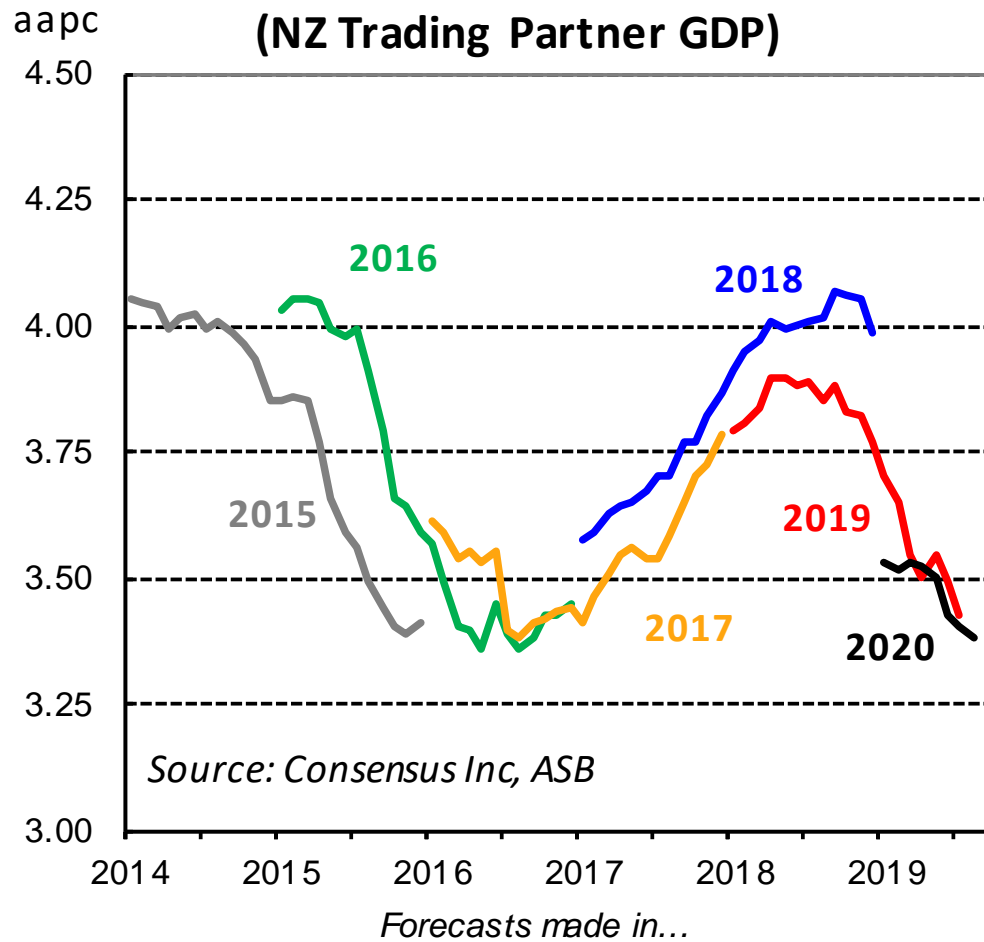
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# › Outline

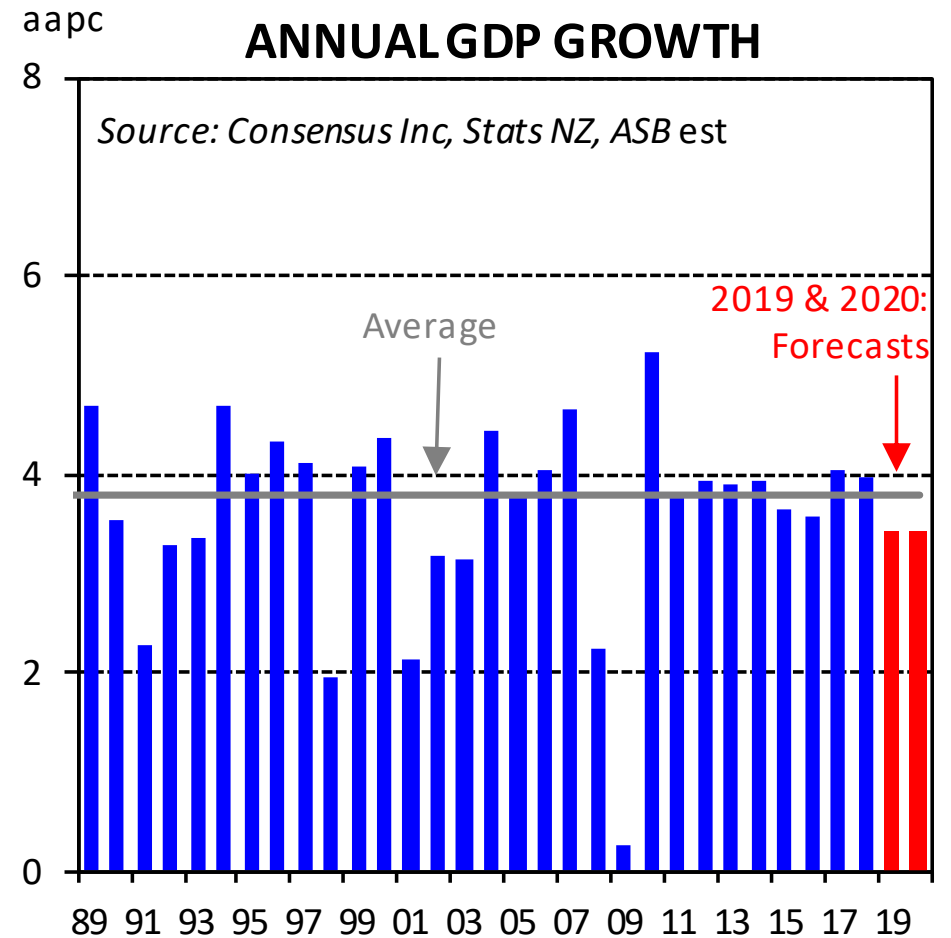
- › Global outlook.
- › Domestic outlook.
- › Key take-outs.

# › Scaling back in global growth outlook

## EVOLUTION OF CONSENSUS FORECASTS (NZ Trading Partner GDP)



## NZ TRADING PARTNER ANNUAL GDP GROWTH





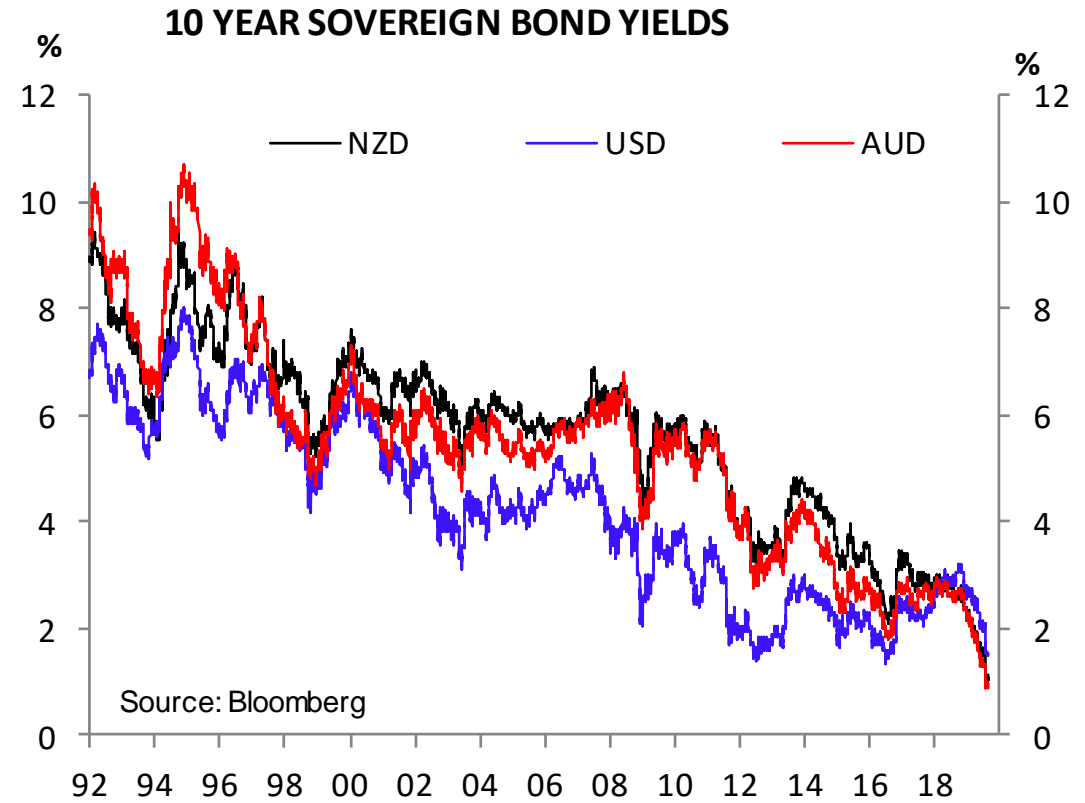
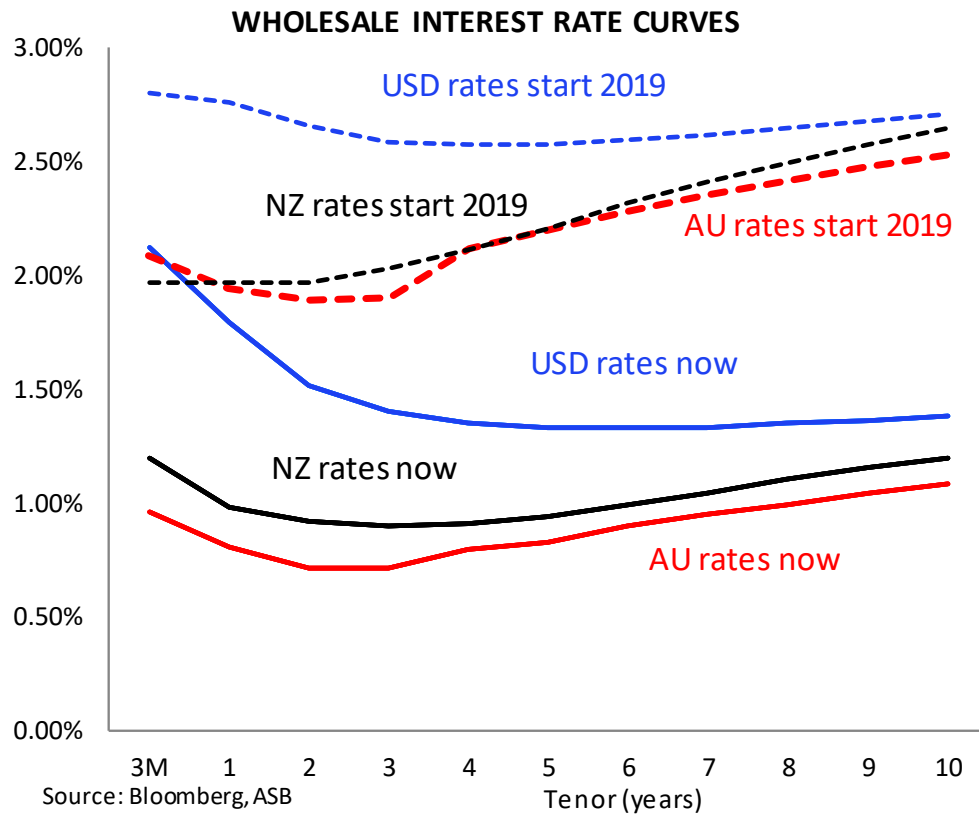
## › The populism pushback



# › So what?

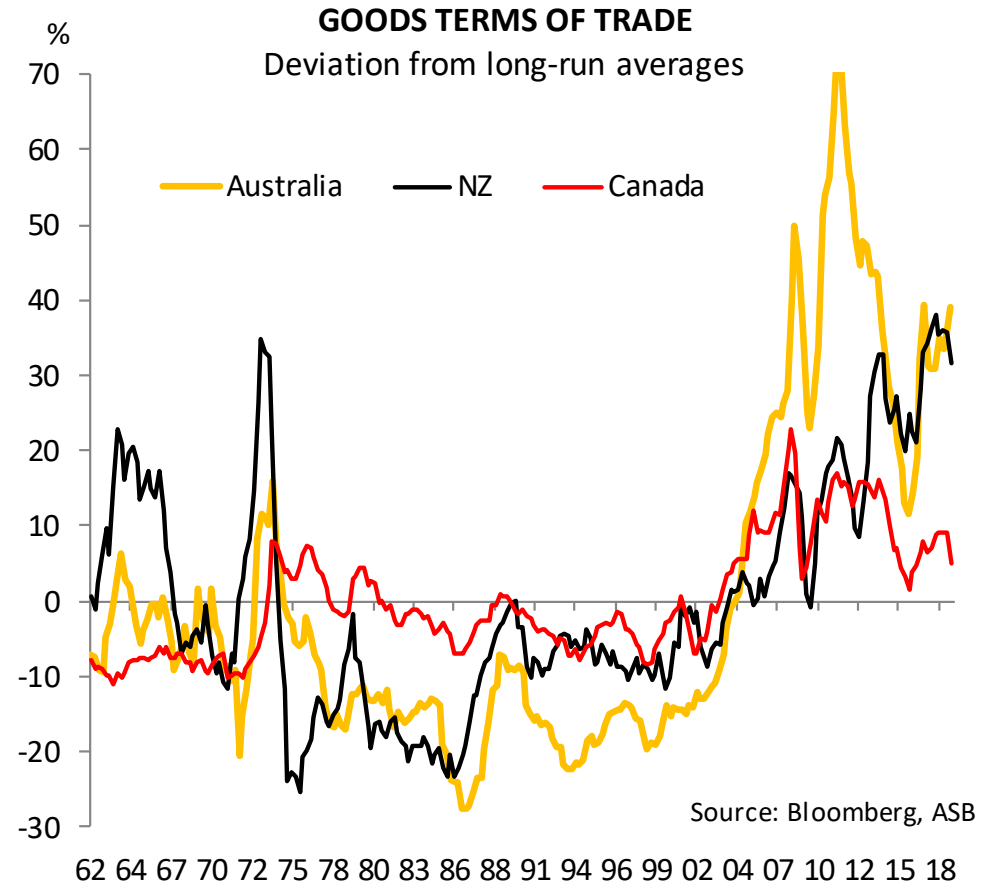
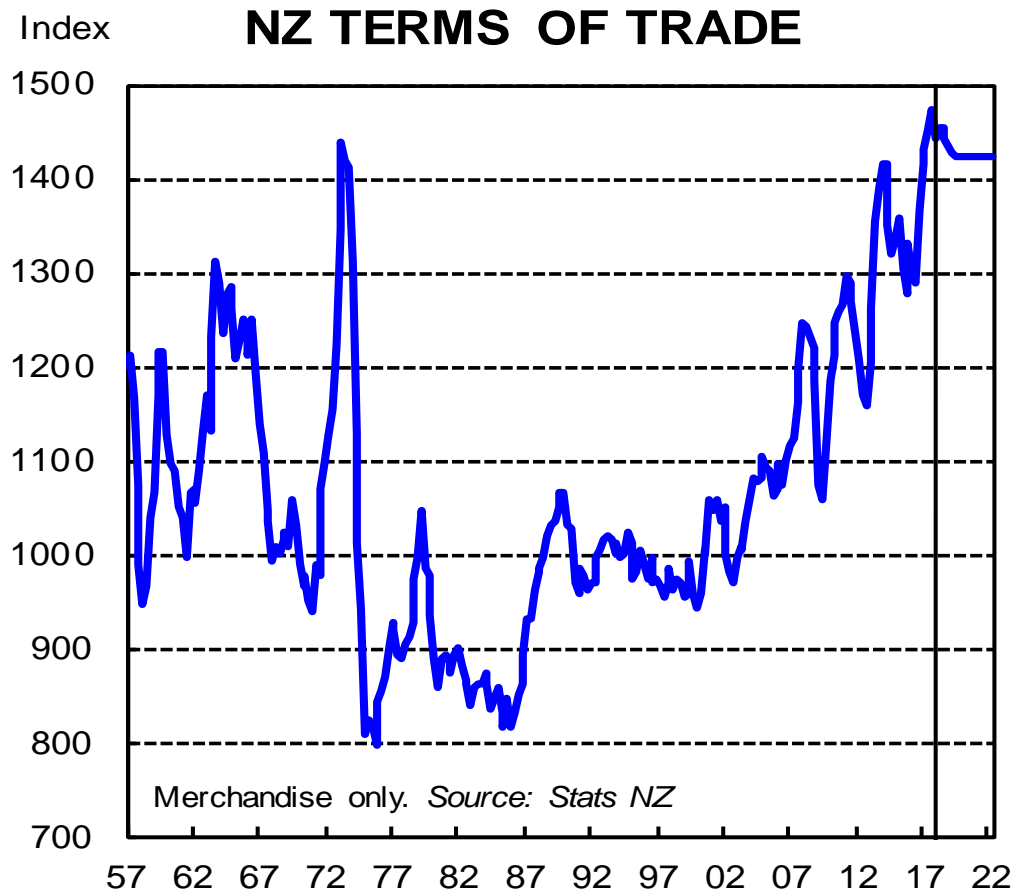


# > So what?





# > But, NZ still relatively well-placed



Who is my  
competitor?



# JAMIE'S COMFORT FOOD



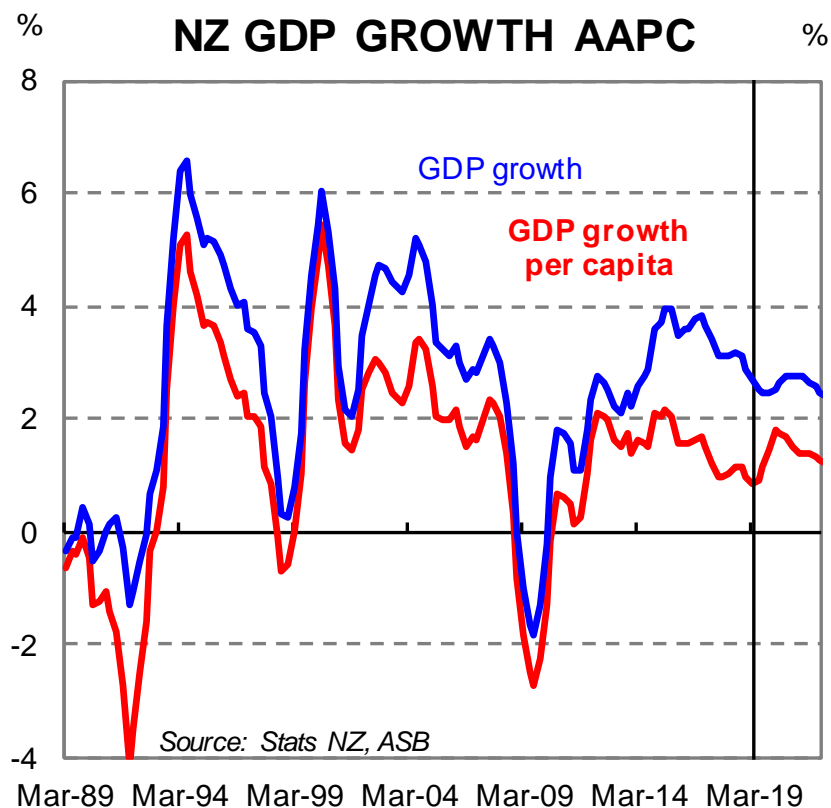
100 ULTIMATE RECIPES – TREAT THE ONES YOU LOVE

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# › But there are losers... and risks



# ➤ NZ outlook: past the peak and skewed risks

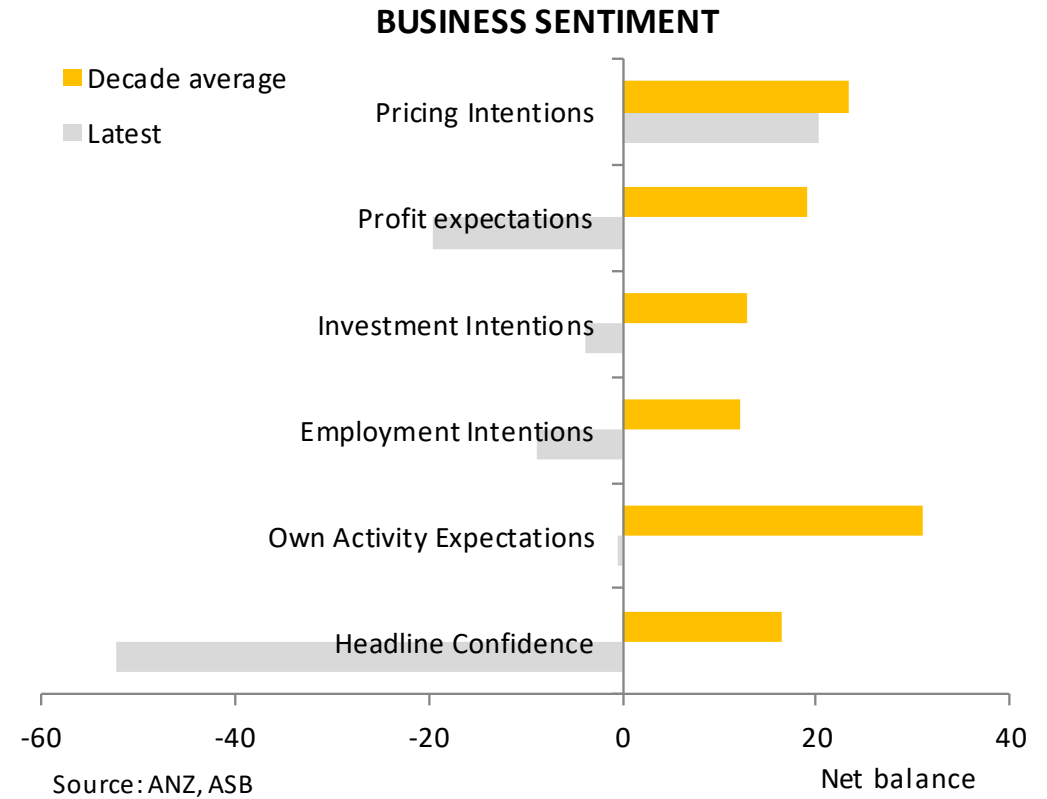
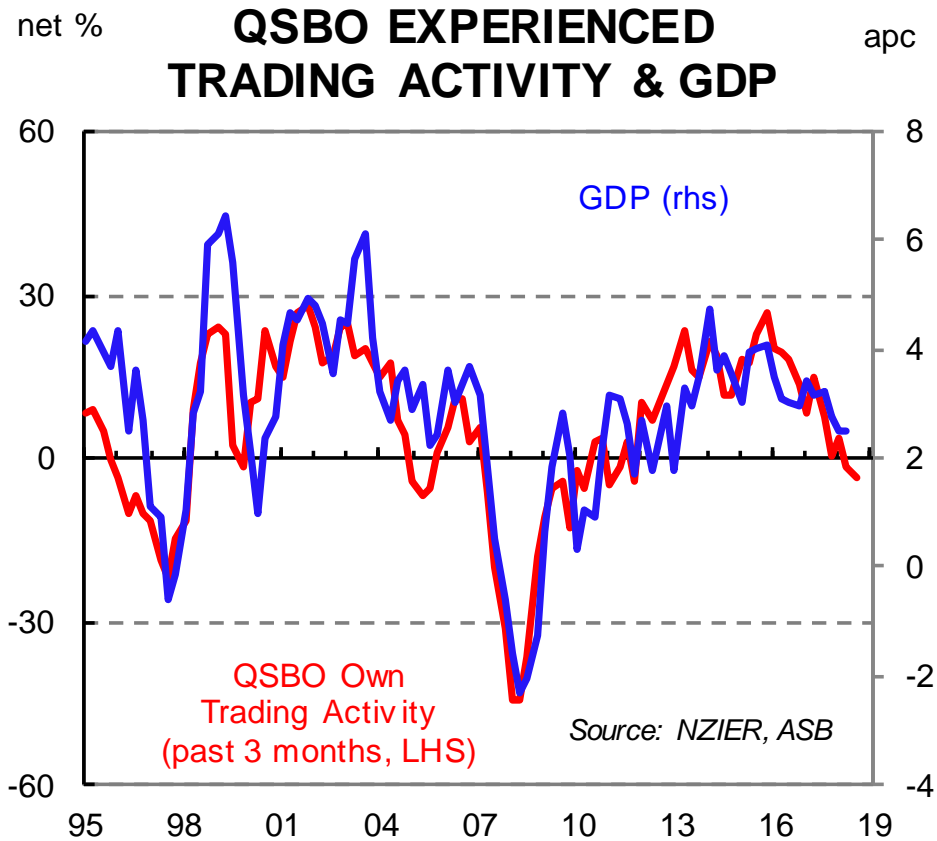


- Income growth supportive:
  - Export returns solid.
  - Terms of Trade near highs
- Historically low interest rates.
- Government support
- Population growth.
  
- Risks tilted to downside.
- Domestic and global risks.

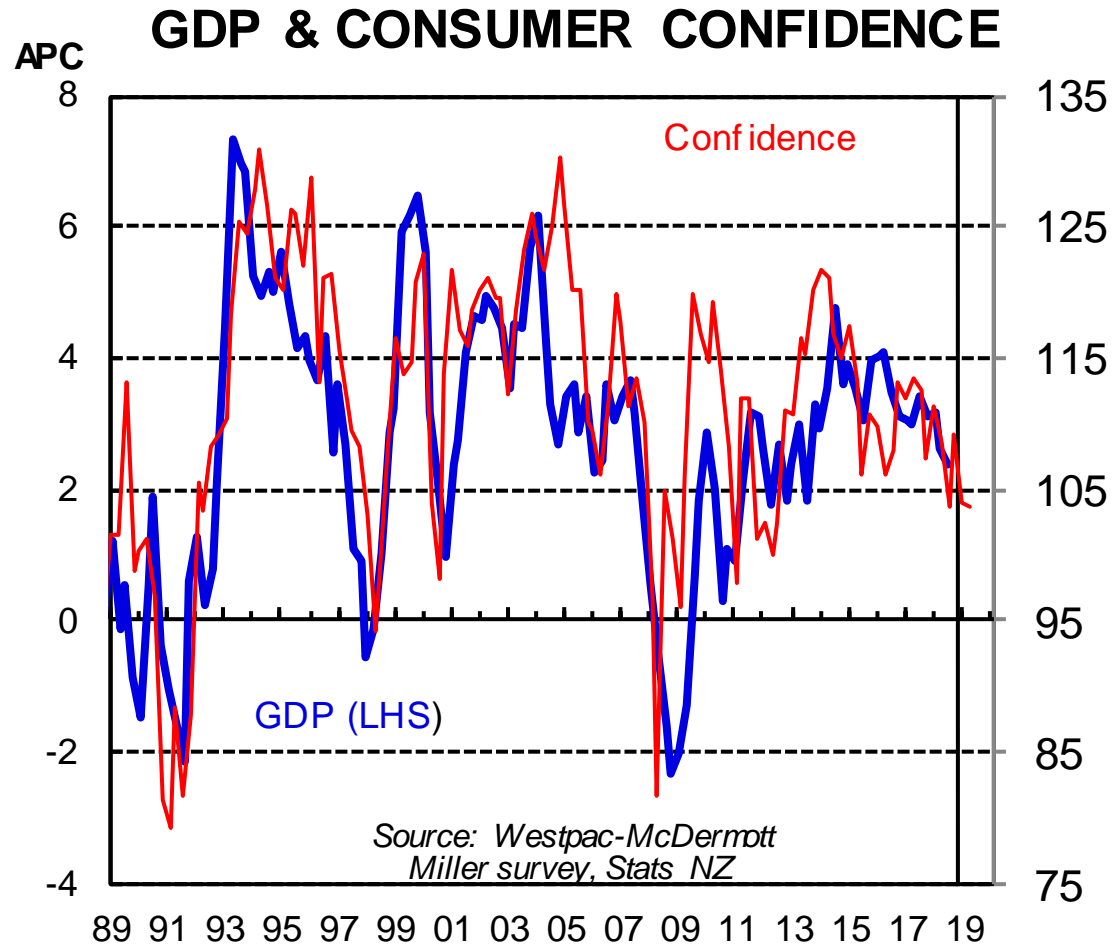
## › NZ: Politics vs Business



# ➤ Protest vote or something else?

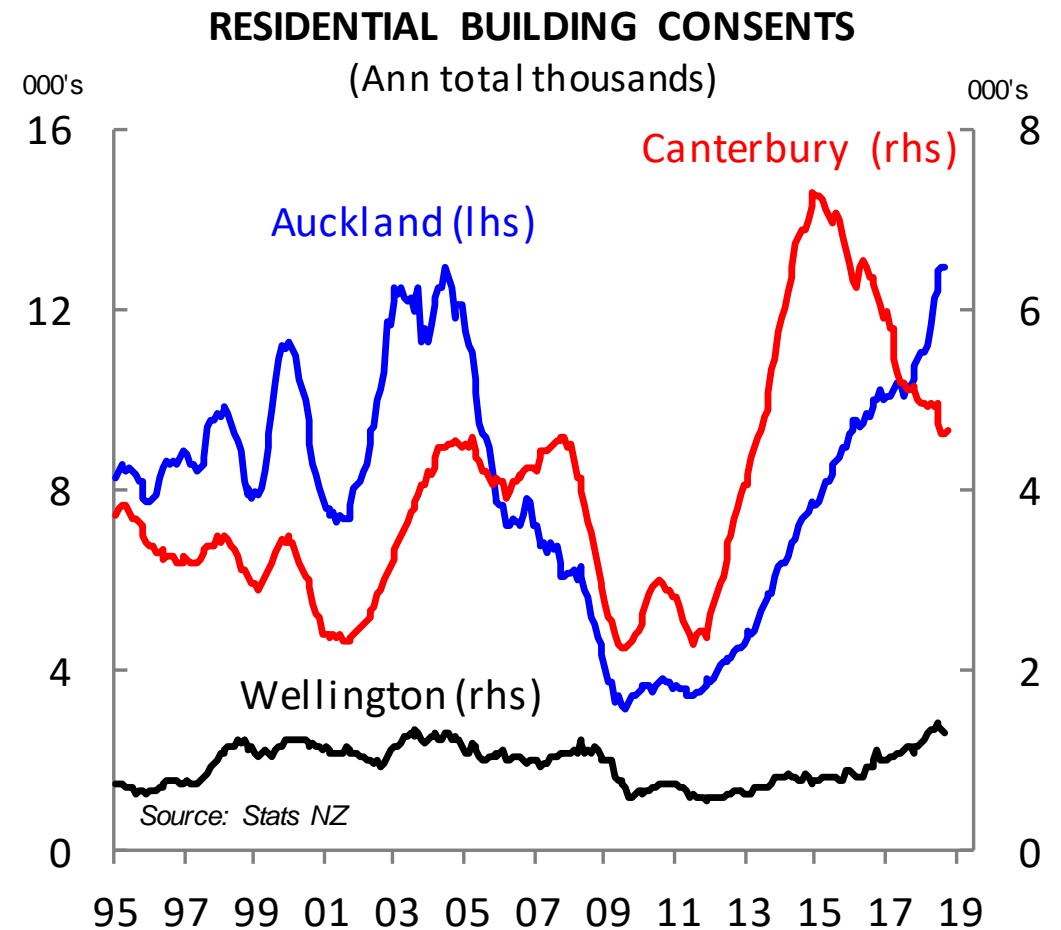
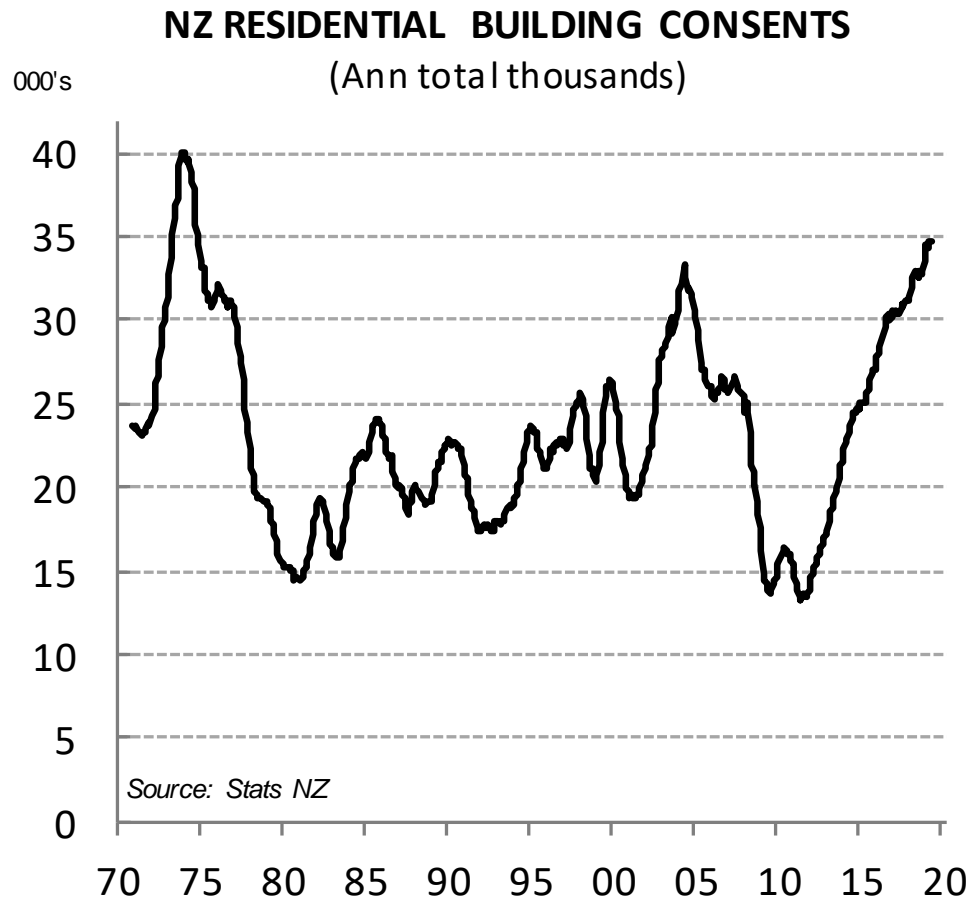


# > Consumers expect the NZ economy to soften





# > But still lots of building going on



# › Auckland housing underperformance

	Sales (s.a)	Prices	Days to Sell	Rents		Inventory
	%yoy	%yoy	Dev from avg	%yoy	Yield (%)	Dev from avg
Auckland	6.6	-3.3	8	2.7	3.3	4%
Canterbury	14.6	0.7	8	1.4	4.1	-17%
Wellington	2.8	5.8	-3	11.1	3.8	-46%
Manawatu	-5.0	18.0	-16	10.5	4.4	-71%
Gisborne	14.9	11.2	-13	8.4	4.8	-70%
Hawke's Bay	8.5	11.2	-15	7.2	4.3	-73%
Bay of Plenty	0.9	6.5	-8	6.4	3.8	-61%
Taranaki	11.3	9.1	-6	8.7	4.9	-17%
Waikato	-0.8	3.0	-7	5.9	3.7	-43%
Nelson/Tasman	25.0	6.4	-5	9.5	3.7	-40%
Marlborough	13.7	6.4	-7	7.0	4.4	-62%
West Coast S.I.	-19.4	6.4	10	5.8	7.8	-64%
Otago	-1.9	7.9	-9	7.0	4.4	-68%
Southland	-17.0	19.5	-4	12.4	4.7	-63%
Northland	-5.1	4.2	-2	10.2	4.2	-59%

Brrr



Sizzling

Sources: ASB, REINZ, MBIE, realestate.co.nz

# › RBNZ proposed bank capital requirements

- Propose to increase Tier 1 capital for NZ locally incorporated banks.
- 16% of Risk-Weighted Assets (RWA) for Big 4
- 15% for other locally incorporated banks.
- 5 year transition period
- Close the gap between IRB and standardised bank capital requirements.
- Has been considerable feedback.

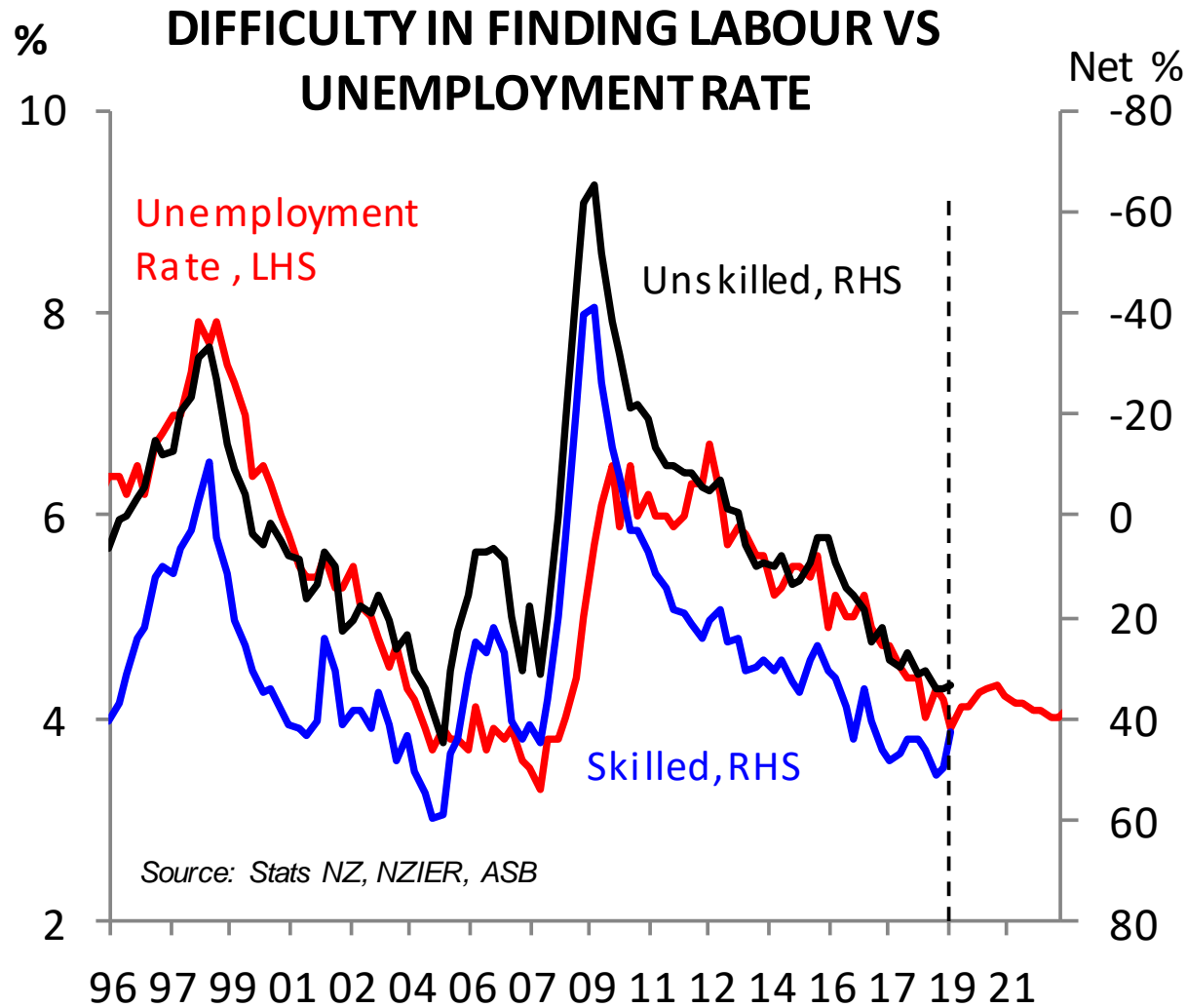
## Timetable:

- End September – Report from external consultants published.
- In principal decision – 1<sup>st</sup> week December.
- Implementation: From April 2020.

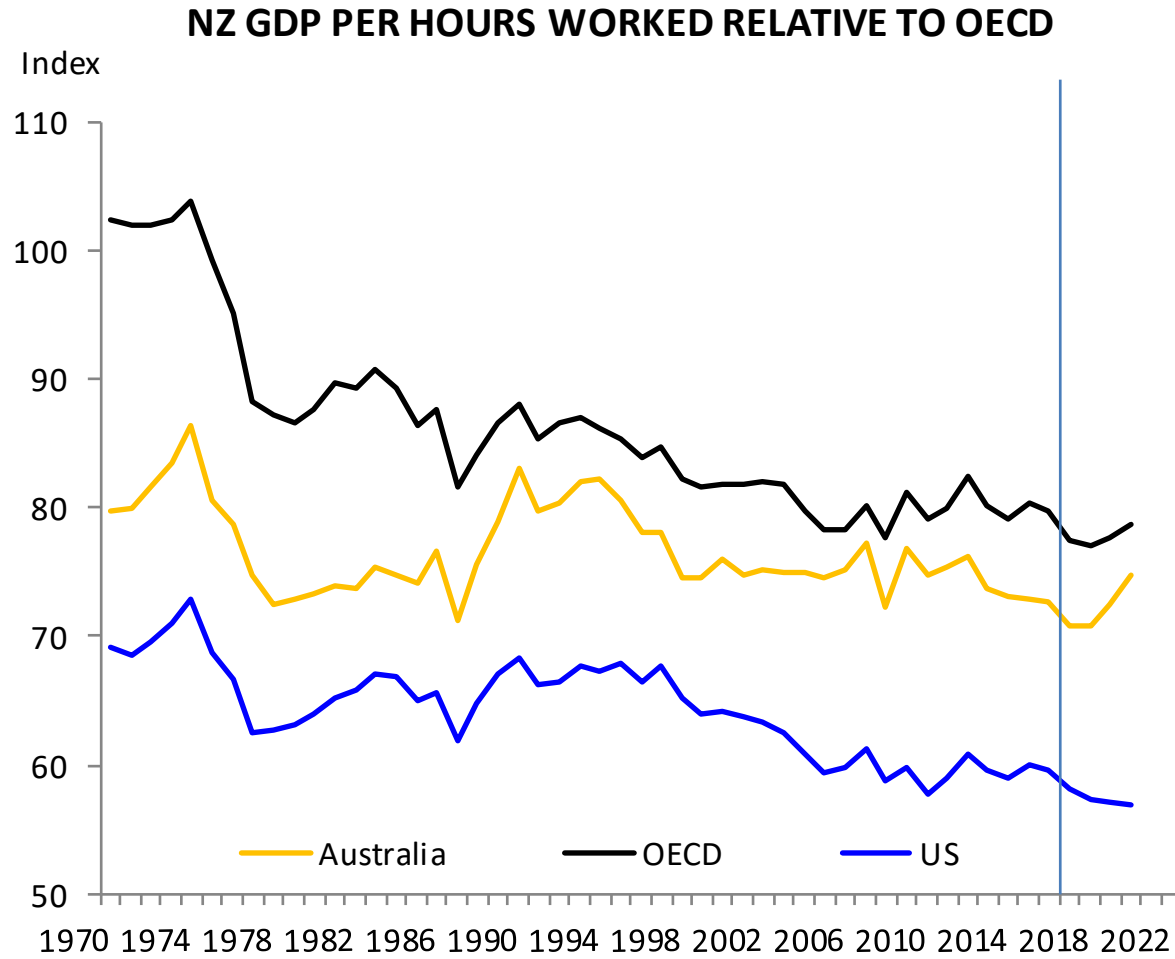
## › Potential Impacts

- In June, big 4 banks currently had \$35bn in Tier 1 capital
  - 13% of the \$260bn in RWA (\$385bn in loans)
- Extra \$20-22bn capital required to get to 16%-17% Tier 1
- Changes will increase cost of funds/retail lending interest rates
- Banks are likely to act quickly despite the long signalled phasing in period
- ASB estimates: +50bps on lending rates
- Impacts uneven by sector with bigger hit to capital intensive sectors
- Deposit interest rates lower
- Potential for tighter credit
- Timing is not ideal for this stage of the cycle

# > Domestic capacity constraints are acute

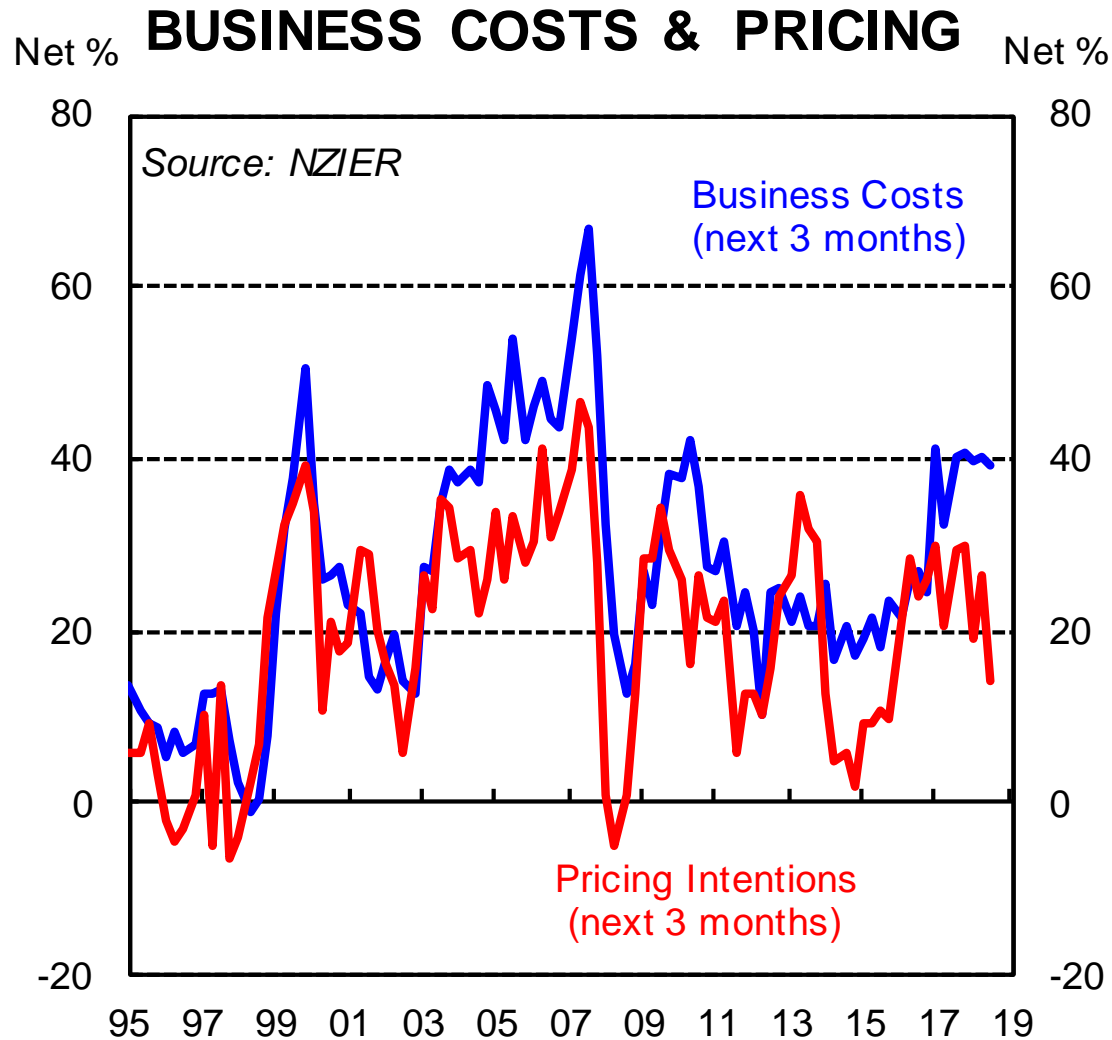


# > Productivity still MIA

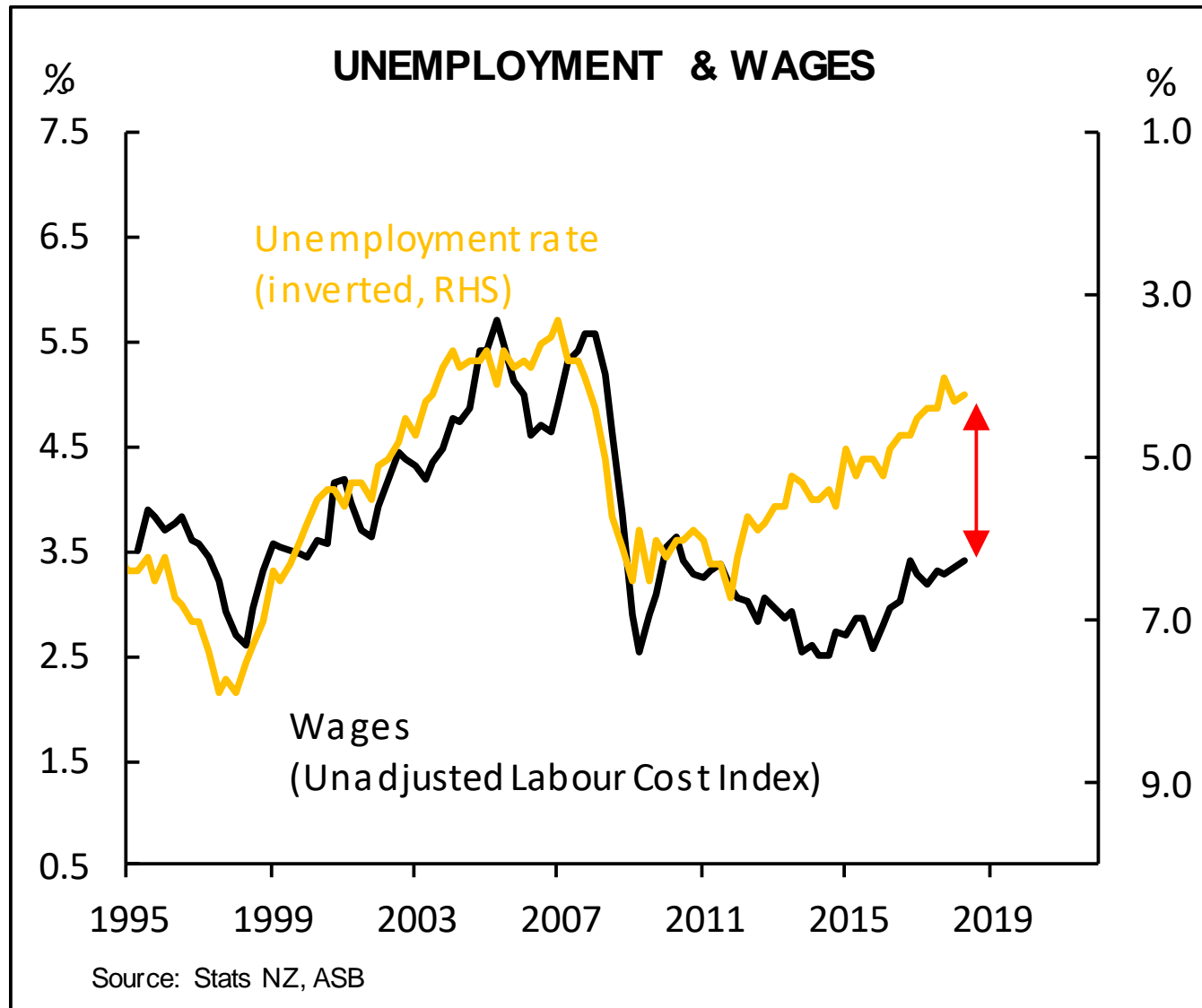


Source: OECD, ASB

# ➤ Cost pressures building and tight margins



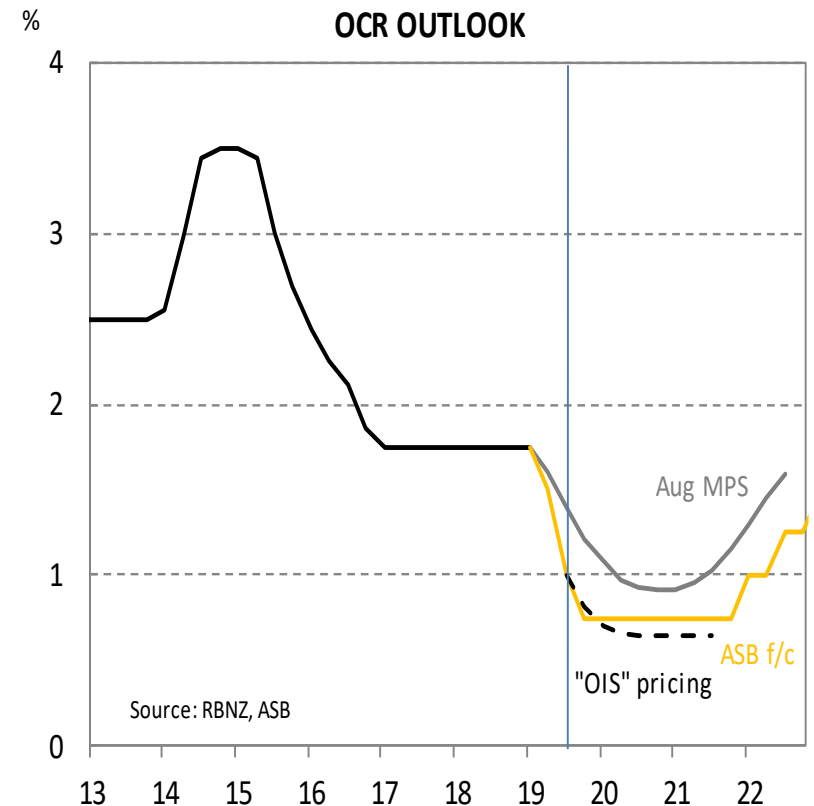
# › But inflation benign so far



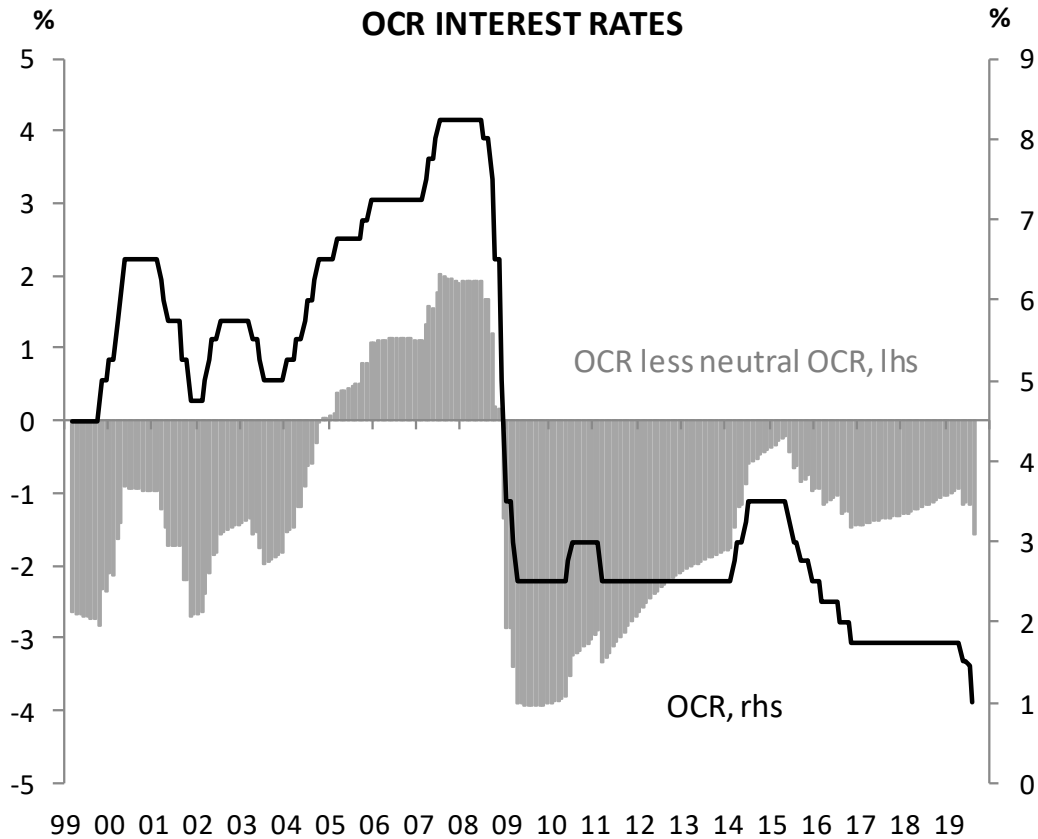


# › How low can they go?

- › NZ interest rates around record lows
- › We expect 0.75% to be the floor in OCR.
  - › Risks to the downside.
- › OCR floor:
  - › NZ Treasury = -0.35%
  - › RBNZ = ?
- › Negative interest rates in parts of Europe
  - › Switzerland -0.75



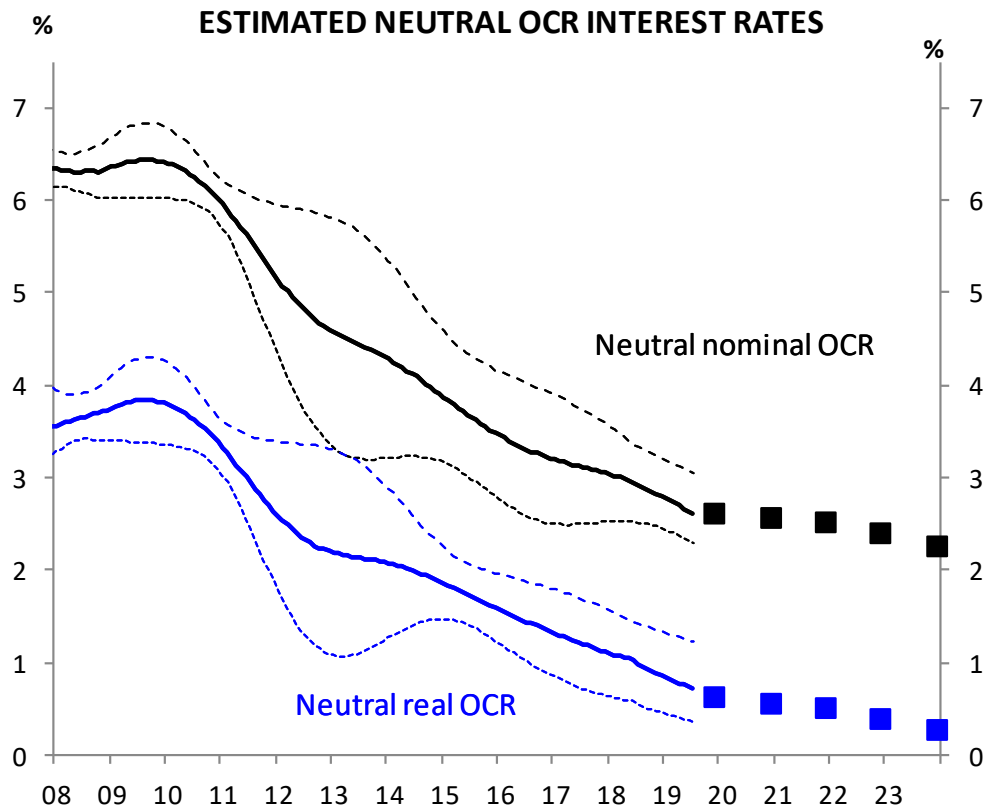
# › 1% OCR not providing much stimulus



Source: Bloomberg, RBNZ, ASB

- › 2.5%-2.75% neutral OCR.
- › 1% OCR unlikely to be the floor.

## > As NZ “neutral” interest rate drifts lower

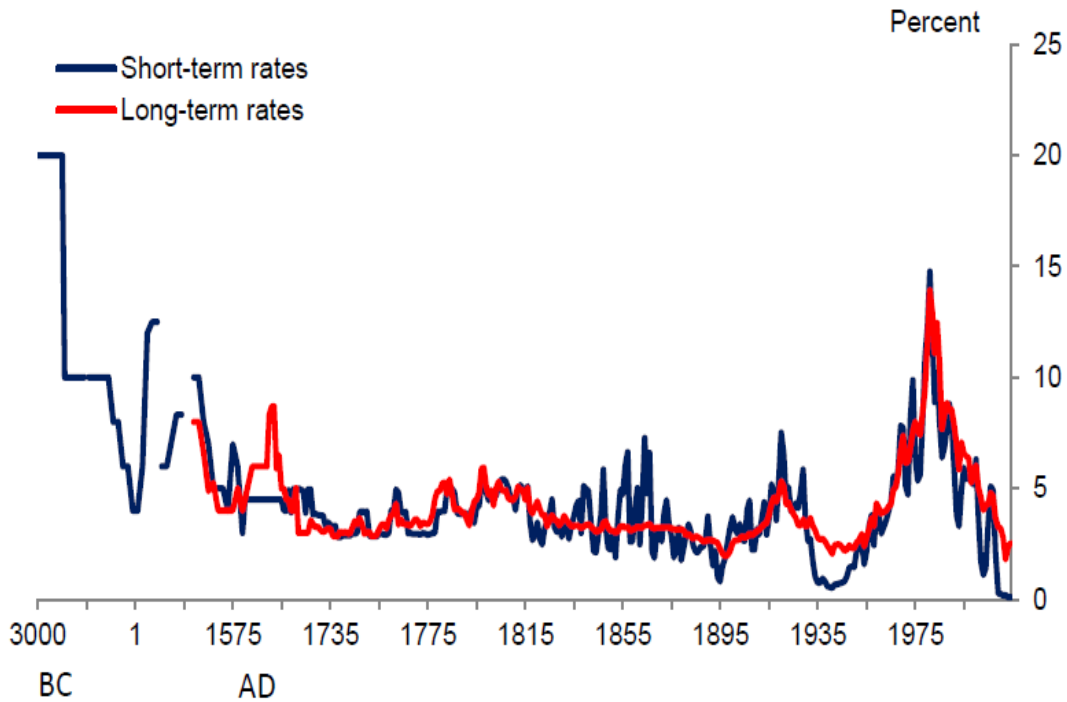


## > “Goldilocks” Official Cash Rate on a downward trend:

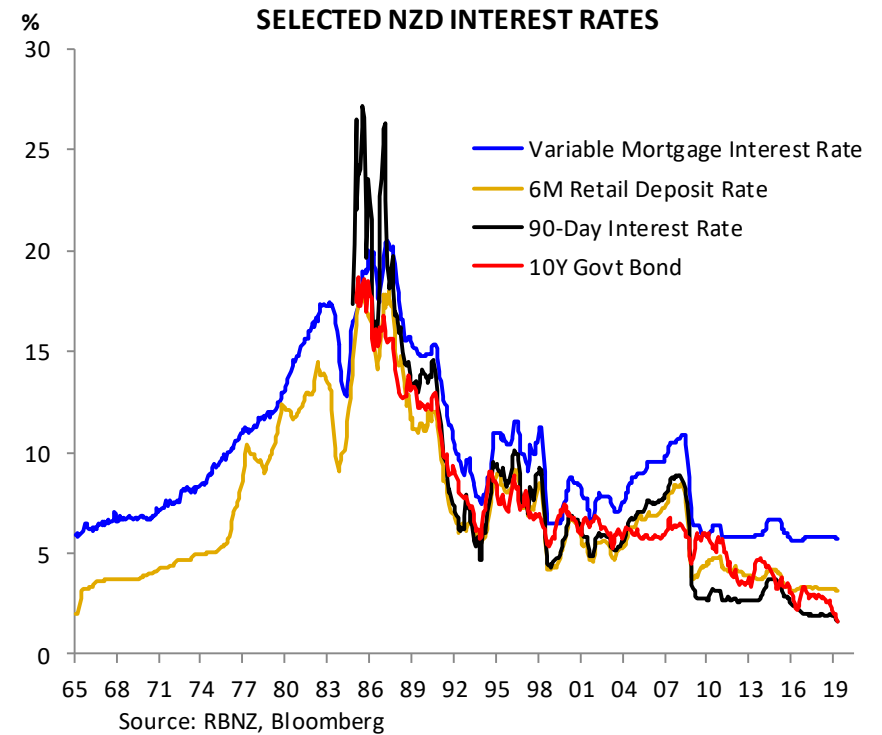
- Higher Bank capital requirements (+50bps by 2023).
- Debt level sensitivity  $\uparrow$ .
- Productivity growth  $\downarrow$  = lower return on capital.
- Ageing population: savings  $\uparrow$ .
- Greater risk aversion.
- Less “impatient” to spend.

# › Low interest rates: 1970s-1990s the aberration

Chart 12: Short and long-term interest rates



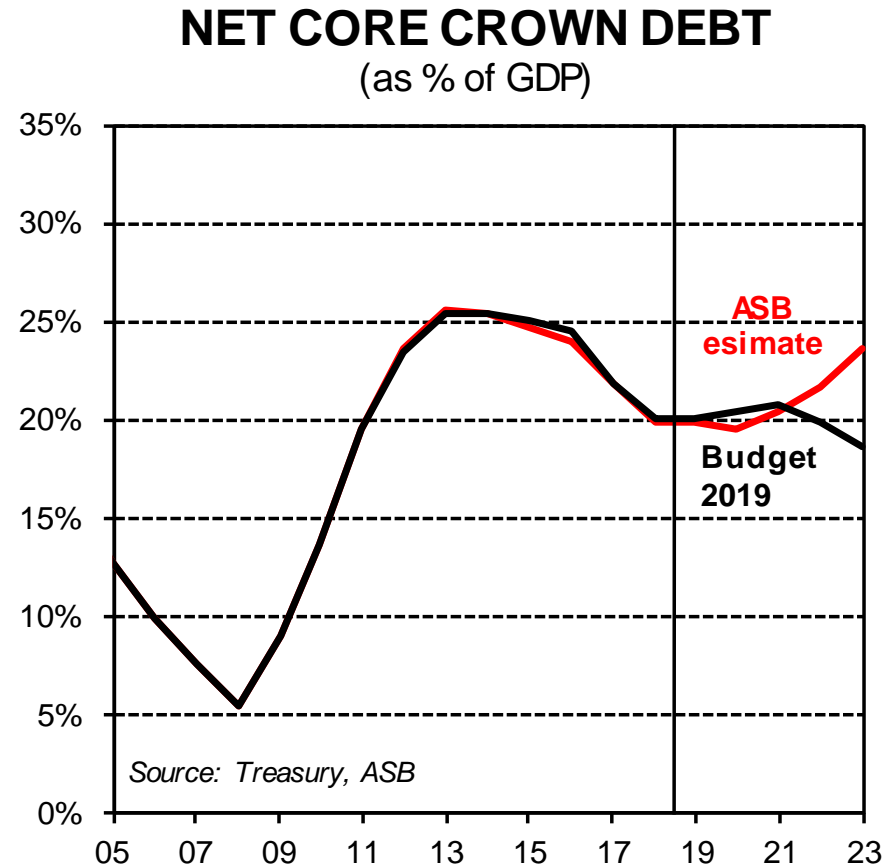
Source: Bank of England "Growing, fast and slow"



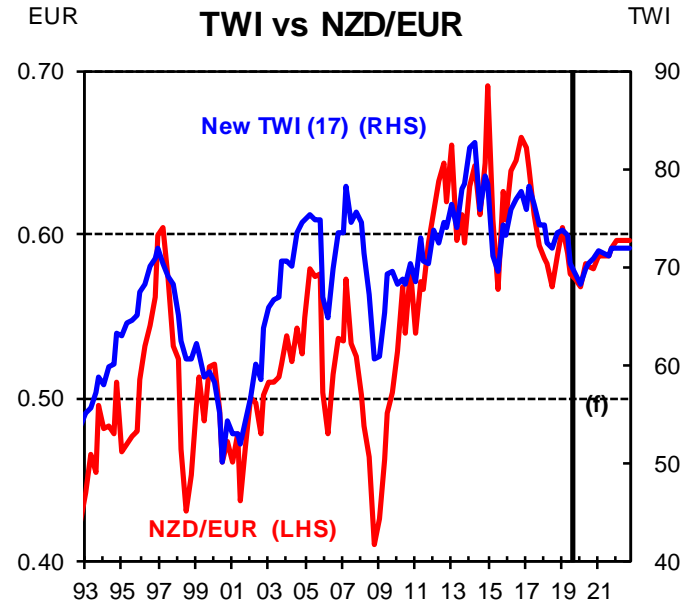
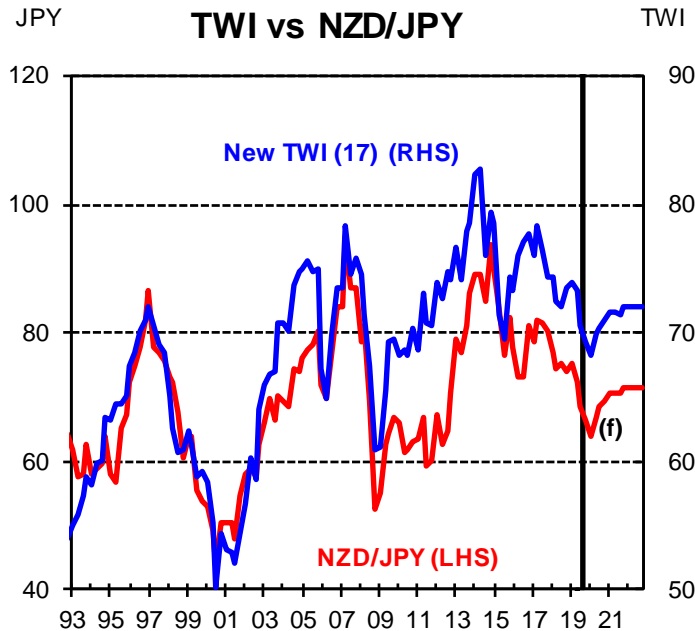
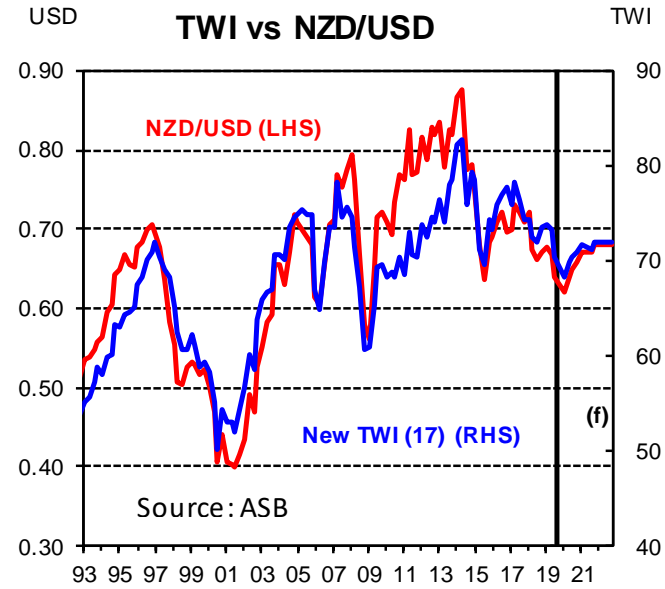
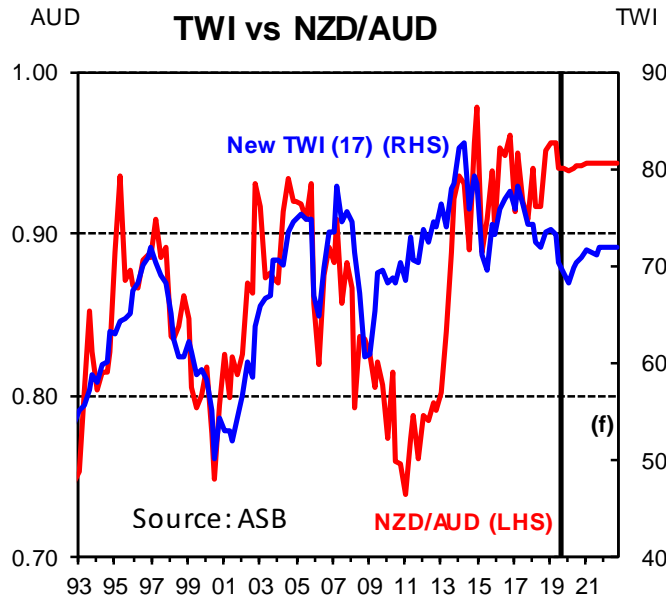
Source: RBNZ, Bloomberg

# › Fiscal Policy can come to the party

- › NZ well-placed relative to OECD peers.
- › Cheap time to borrow.
- › Bang for buck
- › Quality still matters



# > NZD to be broadly supported despite low NZ interest rates



## › Key take-aways

- › Slowing global growth
  - › more visible/crystallising risks.
- › NZ still reasonably well-placed
- › Need new growth drivers
- › Lower for longer interest rate outlook.

## › Key take-aways

- › Central banks in action:
  - › RBNZ to cut 25bps in Q4 19 (0.75% trough)
  - › RBA to cut 50bps by Q1 2020 (0.50% trough)
  - › FOMC to cut 75bps by Q1 2020 (1.25-1.5% Fed funds rate trough)
  - › More policy stimulus from ECB, PBOC, Bank of Canada.
- › Get used to a low yield environment
- › Hard to see a turning point
- › Maintain focus on investment into productive assets



## > Economic forecasts

ASB economic forecasts		Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Mar-21	Mar-22	Mar-23
		<< actual		forecast >>						
<b>NZ GDP real</b>	<b>AA%</b>	<b>2.9</b>	<b>2.7</b>	<b>2.5</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.7</b>	<b>2.5</b>	<b>2.3</b>
private consumption	AA%	3.2	3.2	3.3	3.3	3.2	3.2	3.9	3.3	2.8
dwelling construction	AA%	2.6	3.5	5.1	7.3	8.8	8.8	-1.0	-6.2	-7.7
other investment	AA%	4.1	2.1	0.7	1.0	1.5	1.6	3.3	4.5	5.1
exports	AA%	3.1	3.5	3.6	4.2	4.6	3.7	2.7	2.3	2.1
imports	AA%	5.8	4.1	1.8	1.1	1.6	2.4	5.1	3.8	3.4
NZ GDP real	A%	2.5	2.5	2.3	2.4	2.5	2.6	2.8	2.3	2.4
NZ GDP real	Q%	0.6	0.6	0.6	0.5					
<b>NZ CPI</b>	<b>A%</b>	<b>1.9</b>	<b>1.5</b>	<b>1.7</b>	<b>1.3</b>	<b>1.4</b>	<b>1.8</b>	<b>1.8</b>	<b>2.0</b>	<b>1.9</b>
NZ house prices (QV index)	A%	2.8	1.4	0.9	2.4	3.4	4.4	1.9	1.0	2.6
NZ unemployment (sa%)	Qtr	4.3	4.2	3.9	4.1	4.1	4.2	4.0	3.9	4.1
NZ private sector wages (LCI)	A%	2.0	2.0	2.2	2.3	2.3	2.5	2.4	2.4	2.4

A%= percentage change since same quarter the previous year

AA%= percentage change for year ending quarter since the previous year

## › Financial Market forecasts

### ASB interest rate forecasts

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Mar-21	Mar-22	Mar-23
(end of quarter)			<< actual	forecast >>					
NZ cash rate target	1.75	1.75	1.50	1.00	0.75	0.75	0.75	1.00	1.50
NZ 90-day bank bill	1.97	1.85	1.65	1.20	0.95	0.95	0.95	1.20	1.70
NZ 2-year swap rate	1.97	1.63	1.35	0.95	0.85	0.85	0.85	1.20	1.70
NZ 10-year gov't stock	2.38	1.81	1.57	0.95	0.90	0.90	1.00	1.40	1.80

### ASB foreign exchange forecasts

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Mar-21	Mar-22	Mar-23
(end of quarter)			<< actual	forecast >>					
USD per NZD	0.67	0.68	0.67	0.64	0.63	0.62	0.67	0.68	0.68
GBP per NZD	0.53	0.52	0.53	0.53	0.53	0.53	0.54	0.52	0.52
AUD per NZD	0.95	0.96	0.96	0.94	0.94	0.94	0.94	0.94	0.94
JPY per NZD	74.1	75.2	72.1	68.5	66.2	63.9	70.4	71.4	71.4
EUR per NZD	0.59	0.60	0.59	0.58	0.57	0.57	0.59	0.60	0.60
CNY per NZD	4.61	4.57	4.60	4.51	4.47	4.43	4.72	4.76	4.76
TWI - 17 country	73.48	73.86	73.2	70.5	69.3	68.3	71.7	72.1	72.1



› Thank you

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