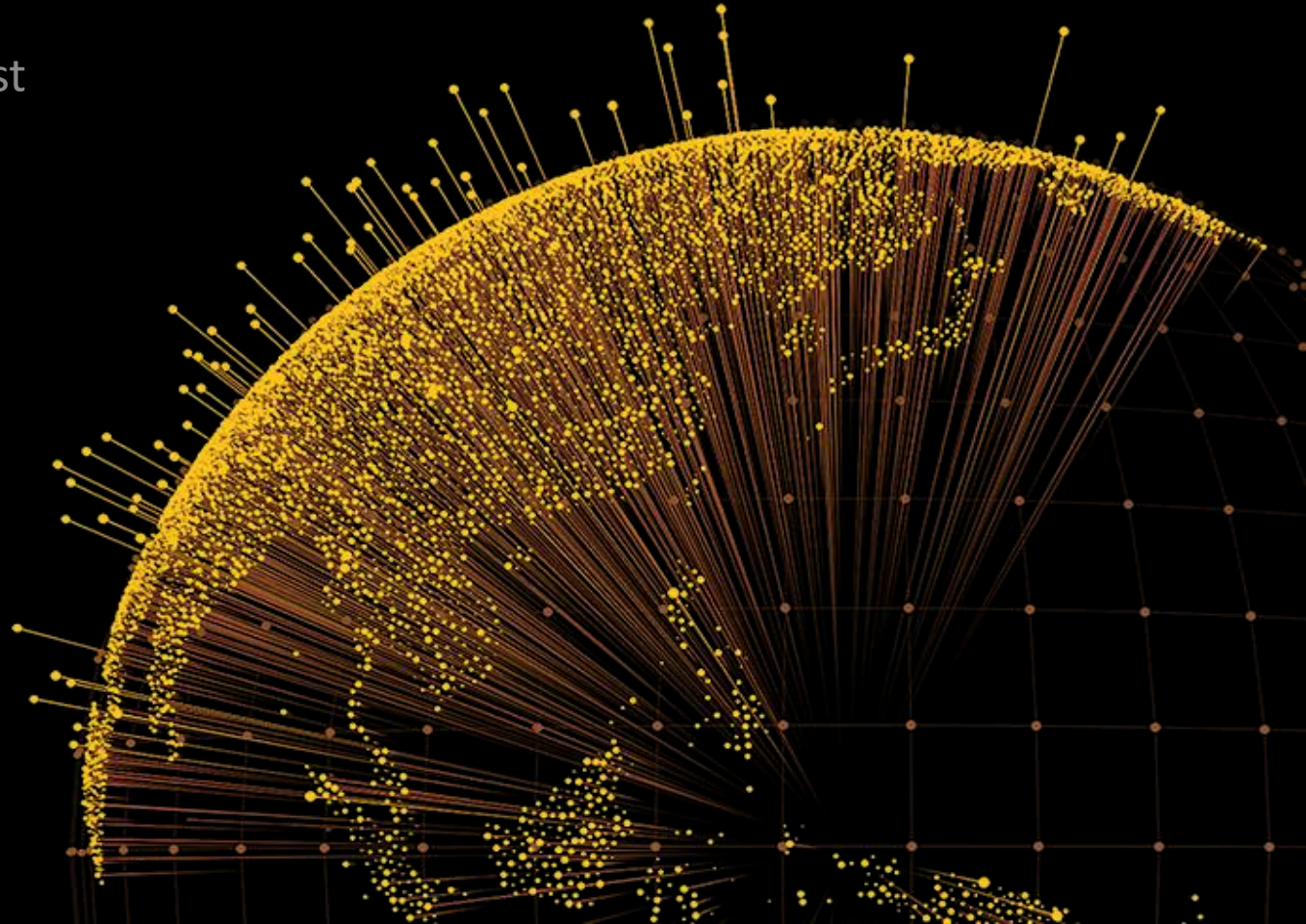


Economic Stardust?

Nick Tuffley – ASB Chief Economist

November 2017



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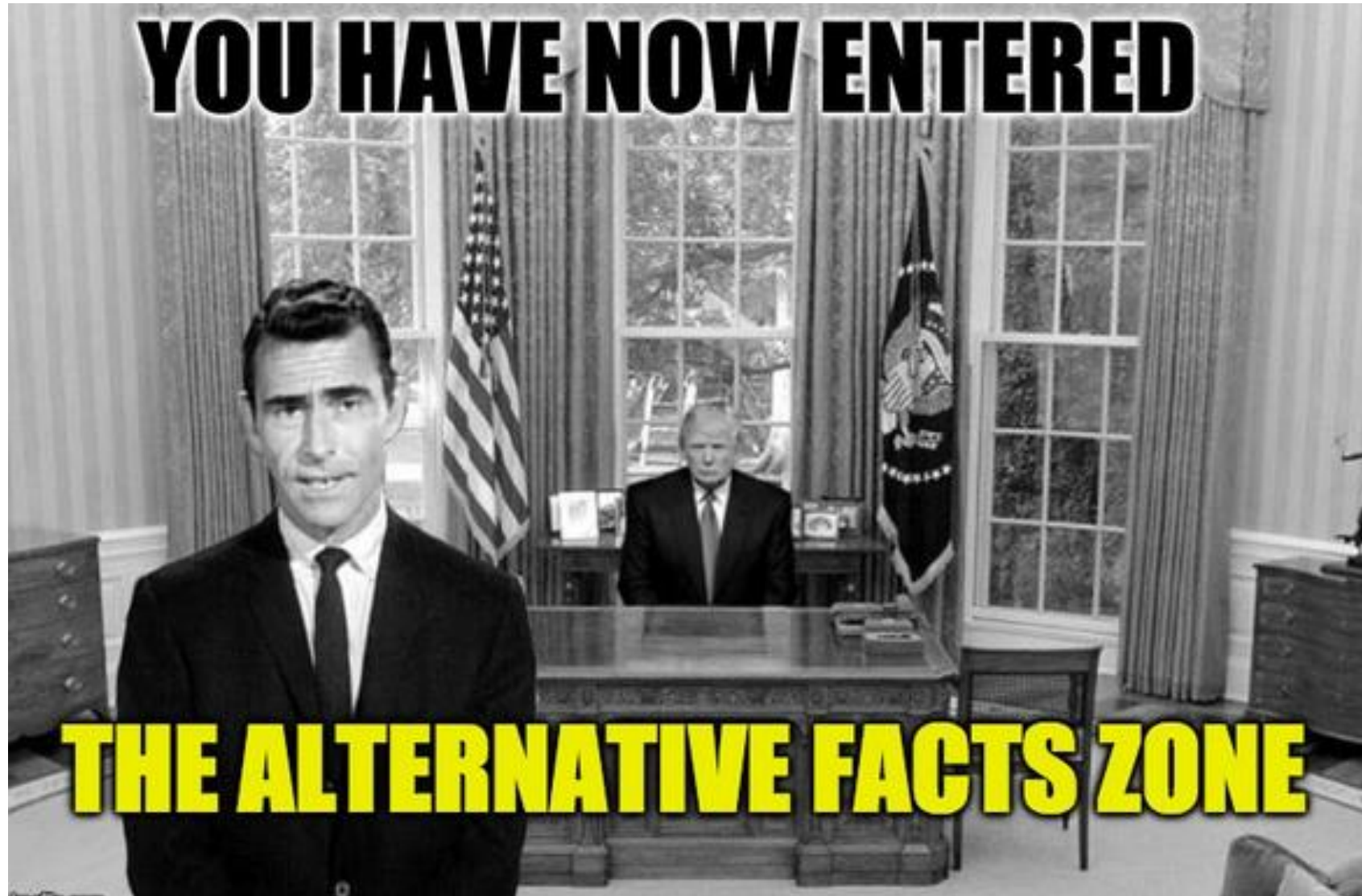
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Topics

- Global outlook
- Policies of the new Government
- Housing, construction
- NZ economic growth overview
- Inflation, interest rates and NZD

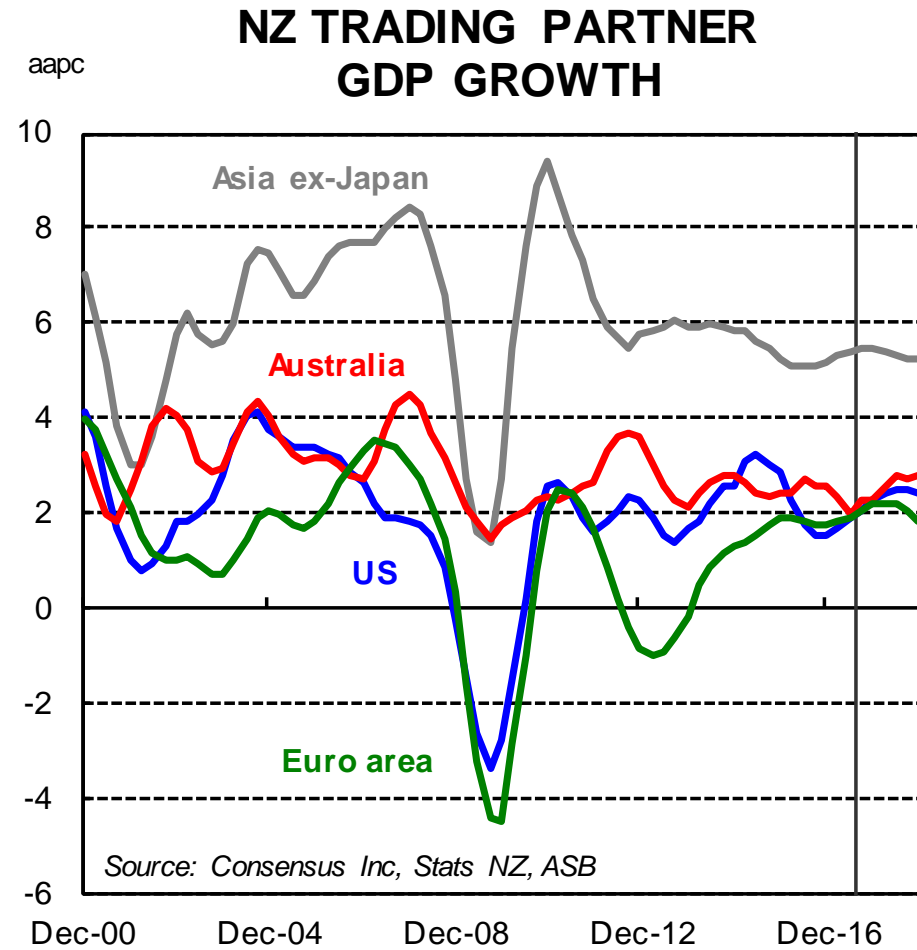
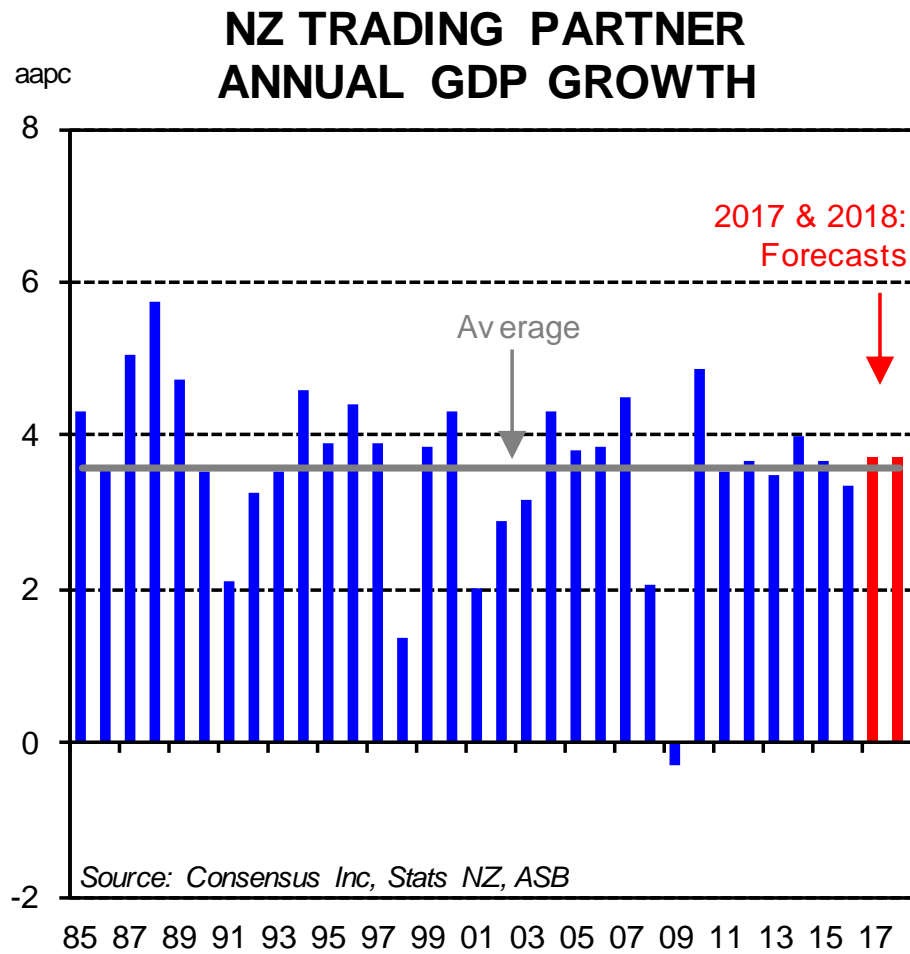
Global picture



Potential NZ impact from Trump victory

- The USA is the destination of 12% of New Zealand's exports (4th behind Australia, China and the EU).
- US growth (spurred by income tax cuts and greater government spending) could boost NZ export demand.
- But potential for trade protection to impact on NZ's key trading partners.
- Inflationary policies in the US could push the US Federal Reserve to lift interest rates faster than expected; could boost USD.
- Overall impacts appear muted vs. campaign rhetoric.

Broad global outlook



#FinishedWaitingForWinston



Labour-NZ First (and Greens)

- Tighten immigration policy by 20-30k vs current flows;
- Tax Working Group (and probable capital gains tax); probable end of negative gearing; 5-year bright-line tax.
- Kiwibuild housing boost 10,000 per year.
- Restrict Foreign ownership of property; OIO tightening;
- Monetary Policy Framework changes – employment focus;
- Focus on regional and primary industries, forestry;
- Explore moving port from Auckland to Northland;
- More cautious approach to FTAs;
- Environmental alternatives to water royalties on agriculture;
- Industrial relations – boost minimum wage, Labour's Fair Pay Agreement policy may be watered down.

High-level implications (1)

- People/labour:
 - slightly slower growth through immigration cuts - low-quality students, lower-skilled migrants.
 - Risk of skill shortages if not well targeted.
 - Stronger wage growth through more rapid lifts in minimum wage.
 - Some uncertainty over rigidity of industrial relations
- Monetary policy:
 - Likely to be minor changes in practice
 - Inclusion of a worded “full employment” target
 - Formal committee structure for decisions

High-level implications (2)

- Housing market:
 - Weak/flat prices
 - Investor caution to persist given likely tax changes
 - First Home buyers to remain active
- Housing construction:
 - Kiwibuild projects, mass production focus
 - Potential crowding out given industry capacity constraints
 - ‘Kiwivisas’ to enable construction-related immigration
 - Likely to be improved co-ordination with transport and other infrastructure provision
- Regional development
 - Forestry, central and upper North Island big winners

High-level implications (3)

- Transport:
 - Tilt to rail and light rail (urban transit), particularly in NI.
 - (but what about the future world of Transport as a Service?)
- Climate change:
 - Independent Climate Commission
 - Long-term zero carbon emissions focus
- Agriculture:
 - Into ETS if Climate Commission decrees, 95% of carbon emissions exempt initially
 - No water royalties on agriculture over this government term
 - Government irrigation project support to end

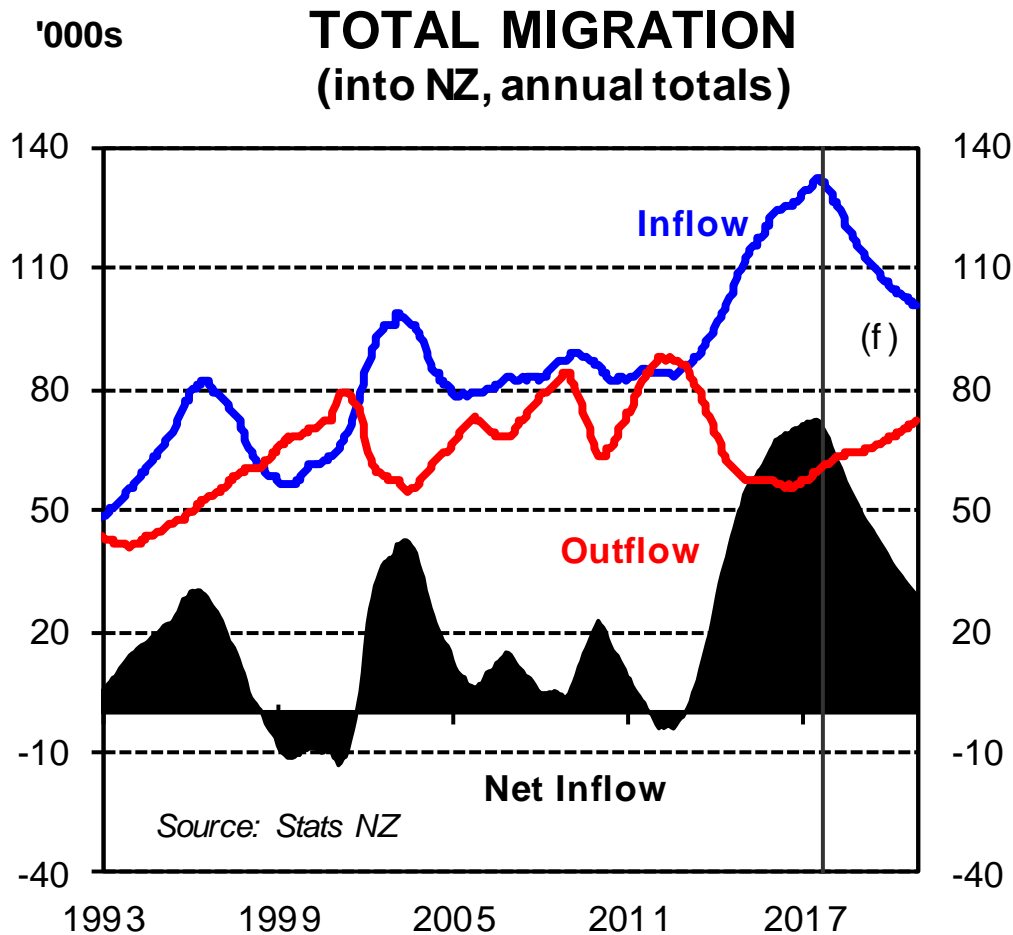
Main economic implications

- Slightly slower overall growth through bigger migration drop
- (per-capita growth not necessarily affected)
- Stronger wage inflation at low end of wage distribution
- Potential for stronger inflation pressure – wages, construction
- Housing market flat-line: tilt from investors to FHBs
- Pressure to contain stronger fiscal spending
- Greater government borrowing but little interest rate impact
- OCR increases still a long way off

Housing, construction

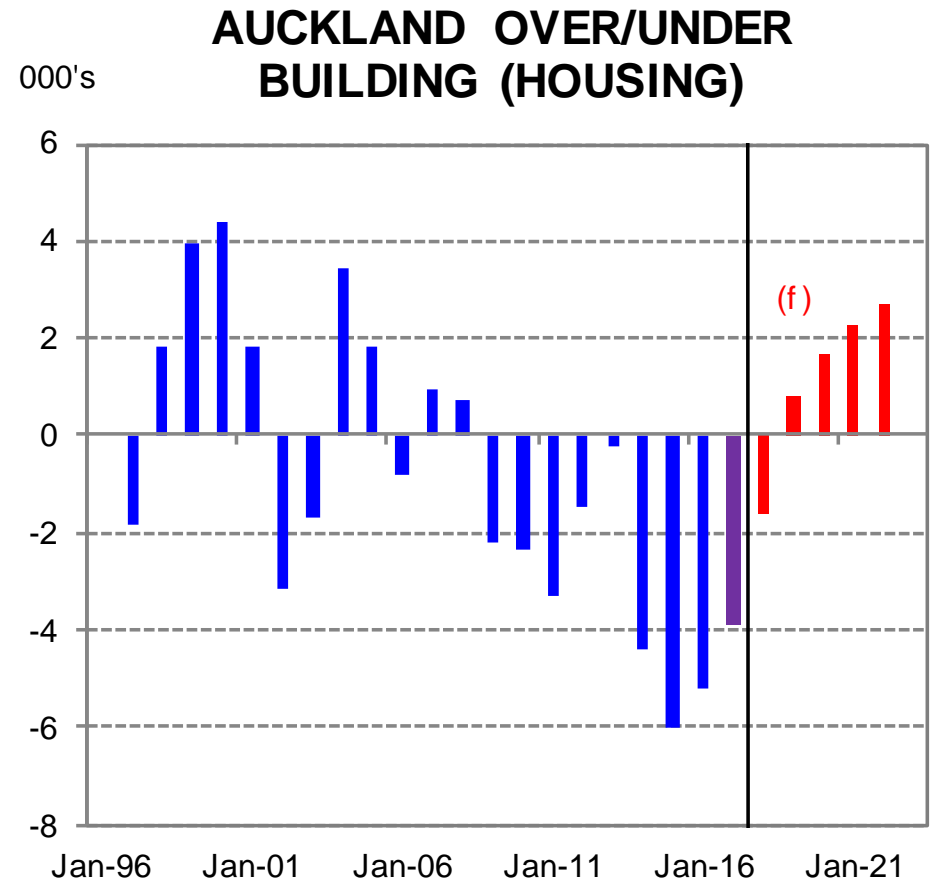
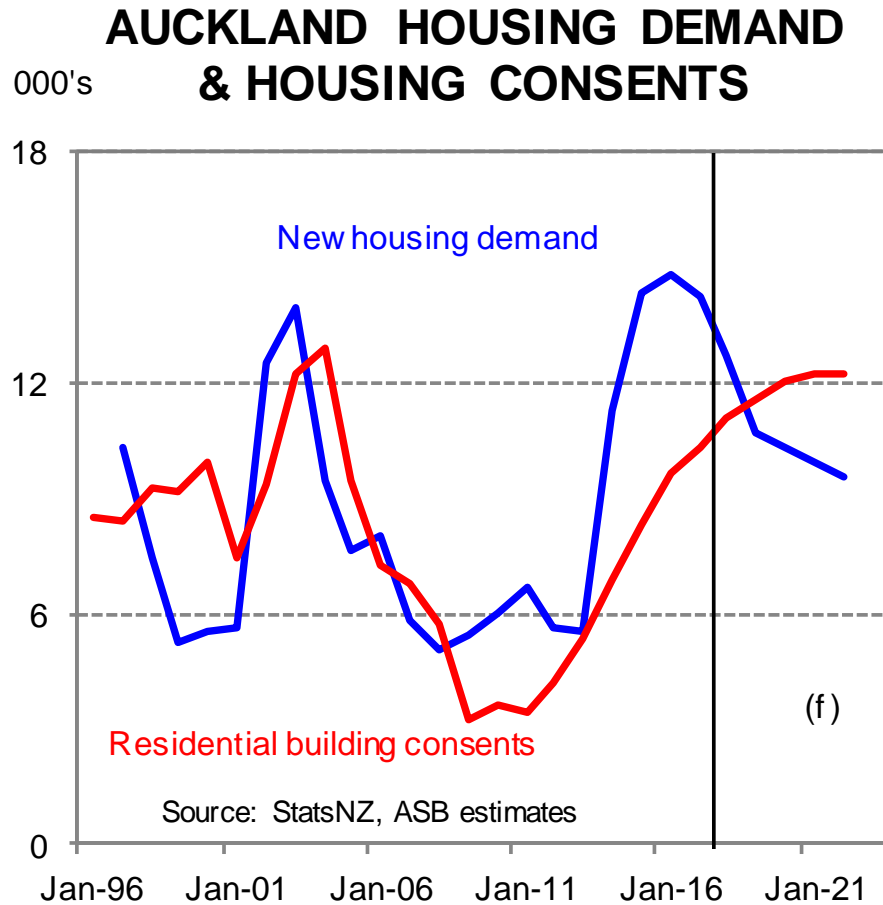


Strong migration will slow but still firm



- Net migration near record highs.
- Moderation expected:
 - Bigger net outflow to Australia as Aust. job prospects keep improving
 - More restrictive entry requirements

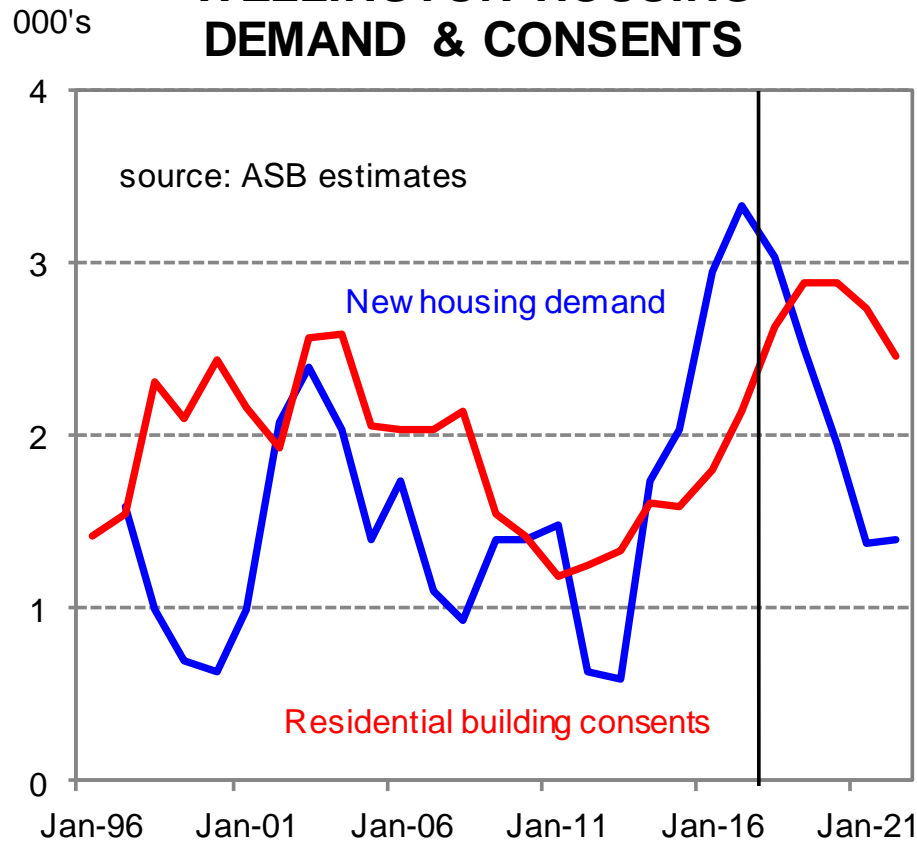
Auckland housing supply shortfall persistent



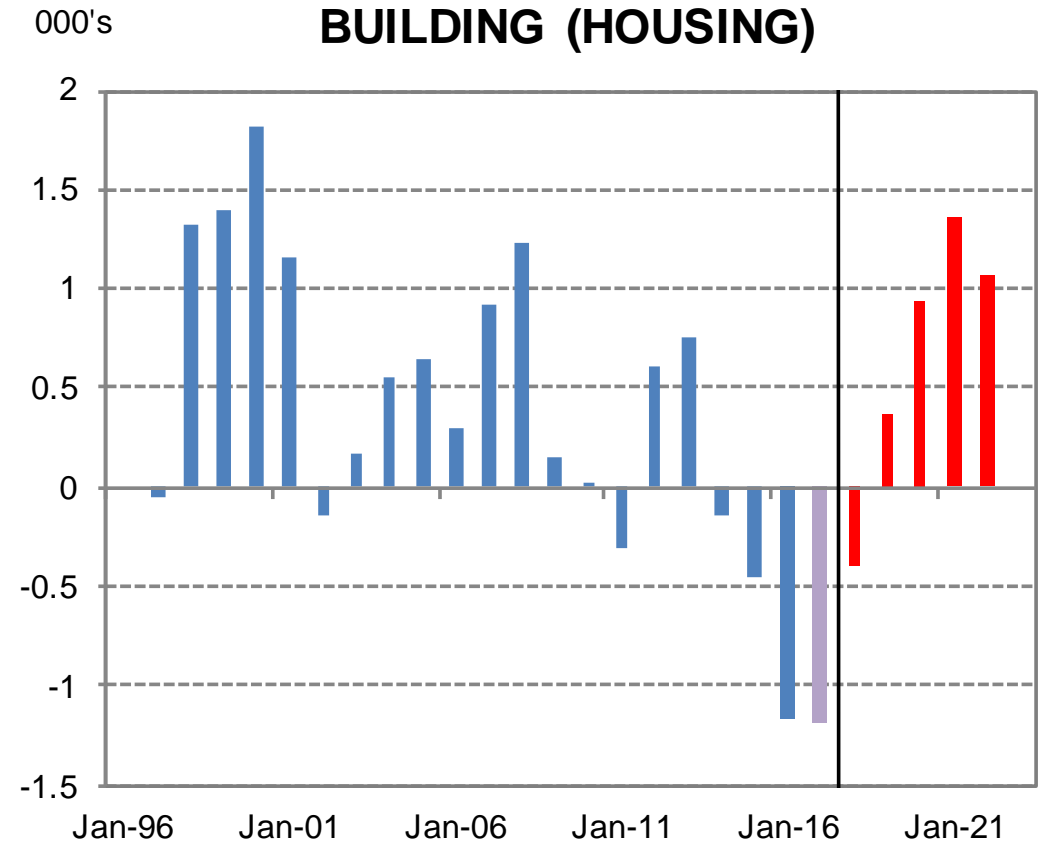
Cumulative shortfall 2006 – 2016 approx 27,000 houses

Wellington housing shortfall

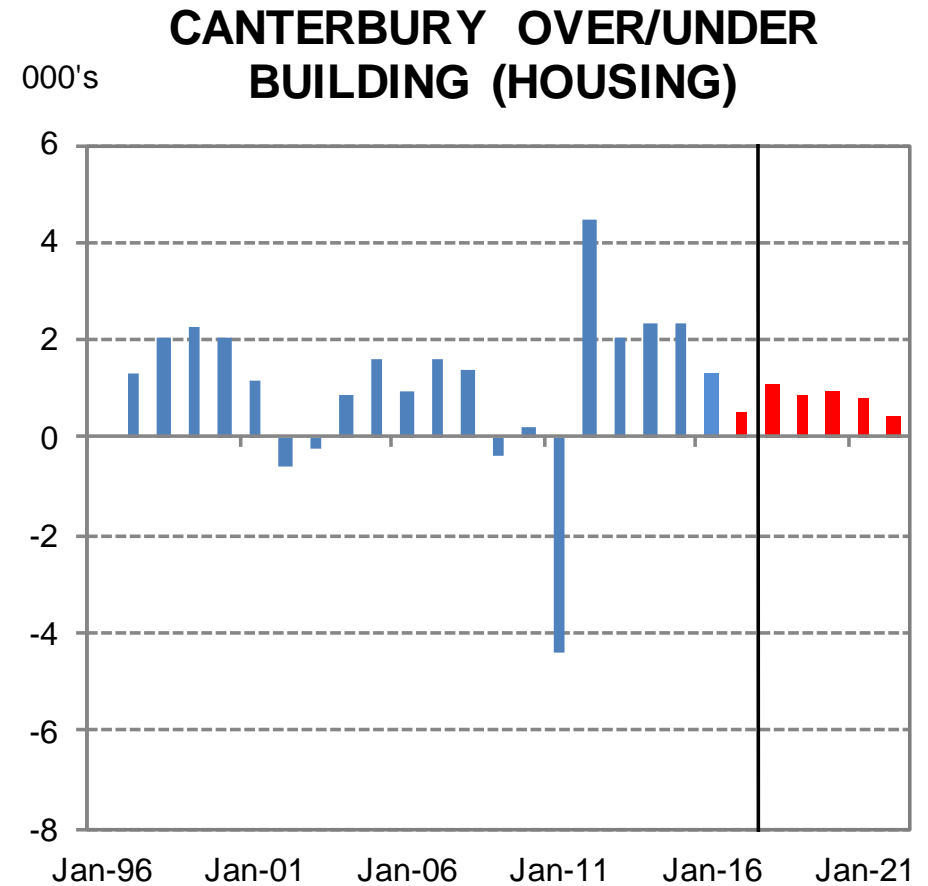
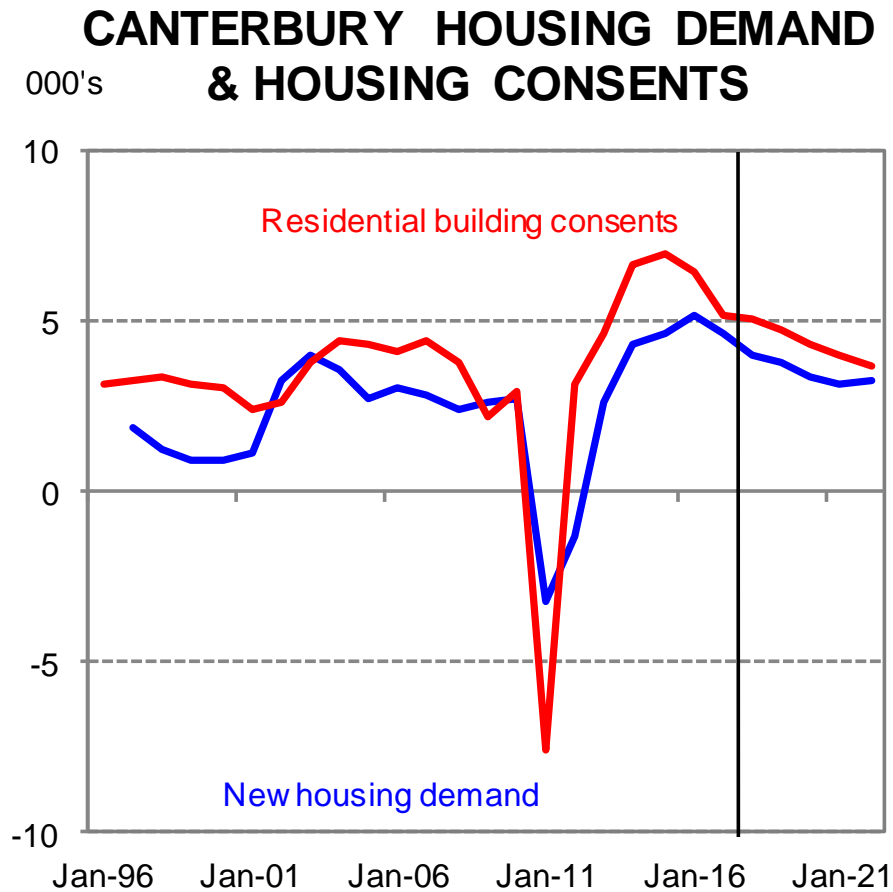
WELLINGTON HOUSING DEMAND & CONSENTS



WELLINGTON OVER/UNDER BUILDING (HOUSING)



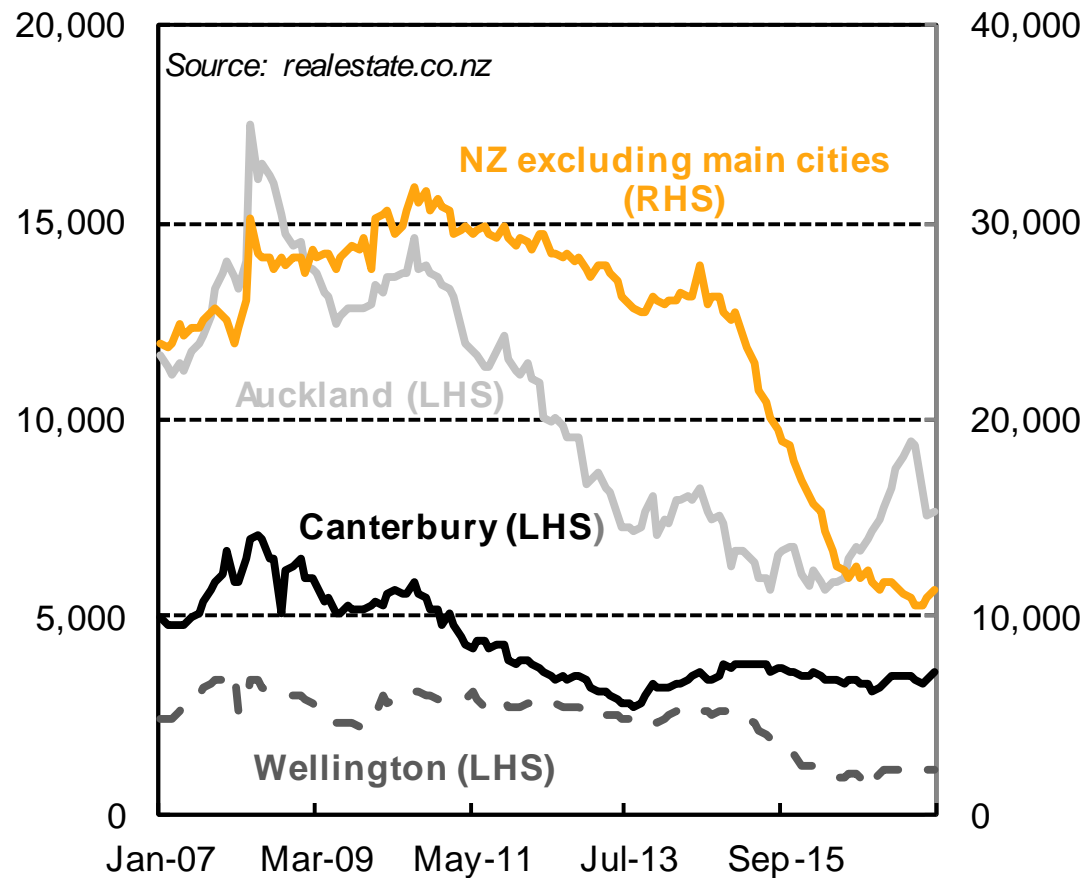
Canterbury housing supply has caught up



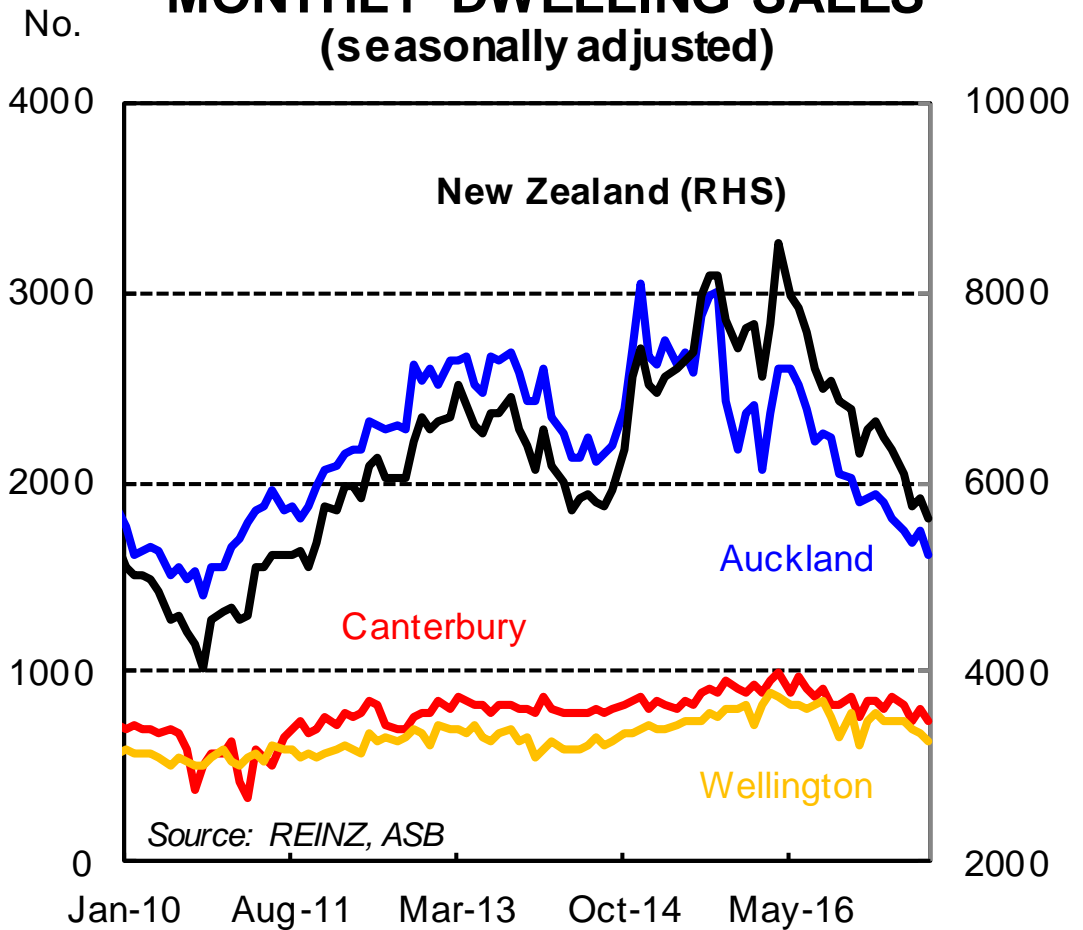
Earthquake recovery phase over (assuming 10,000 homes permanently destroyed). Building now tracking population.

Regional house listings, sales

TOTAL INVENTORY

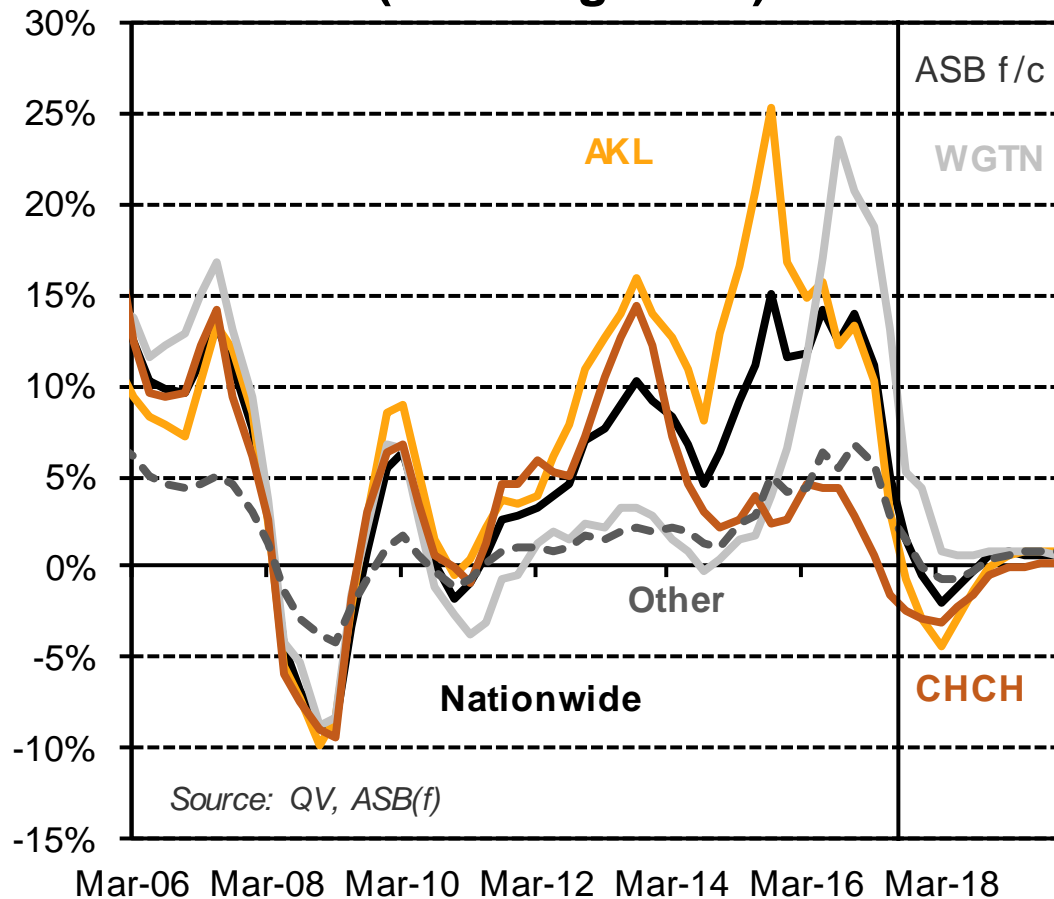


MONTHLY DWELLING SALES (seasonally adjusted)



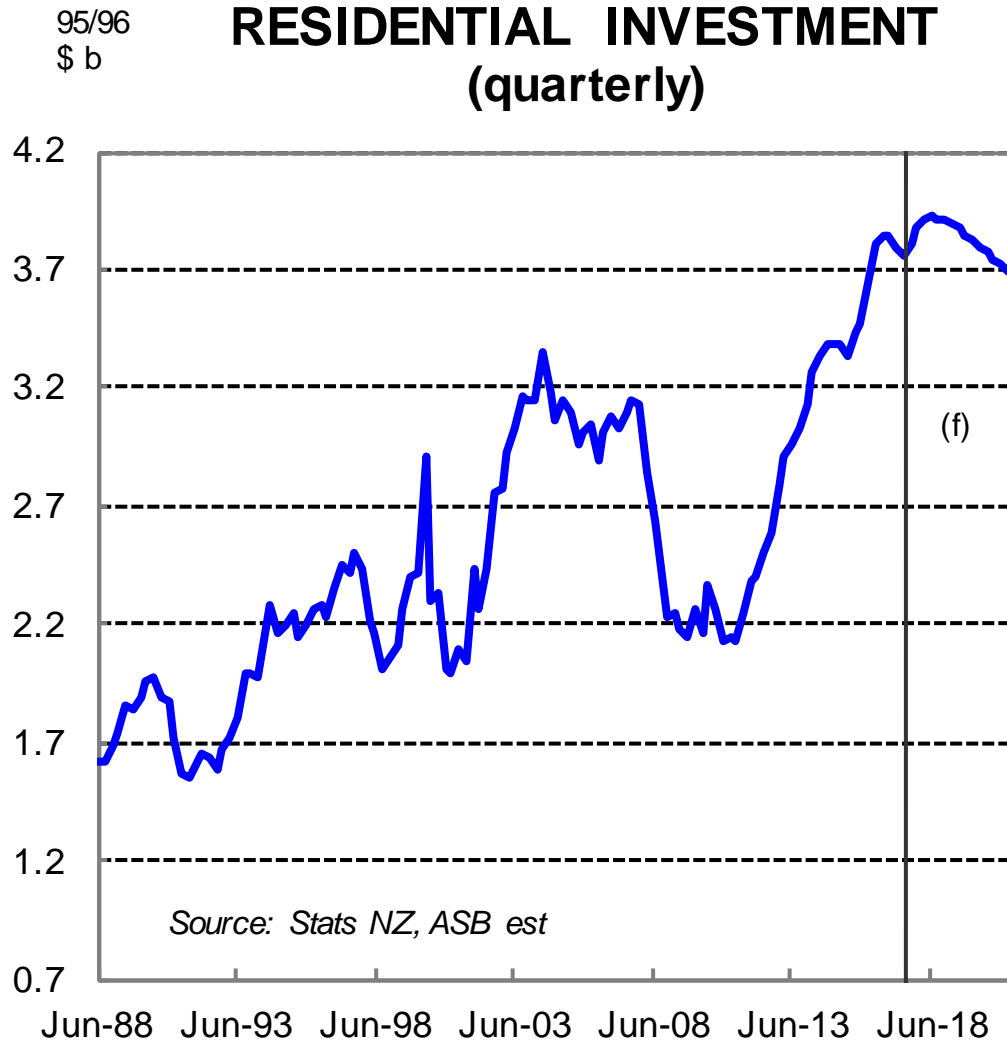
Housing market

REGIONAL HOUSE PRICE FORECASTS (annual growth)



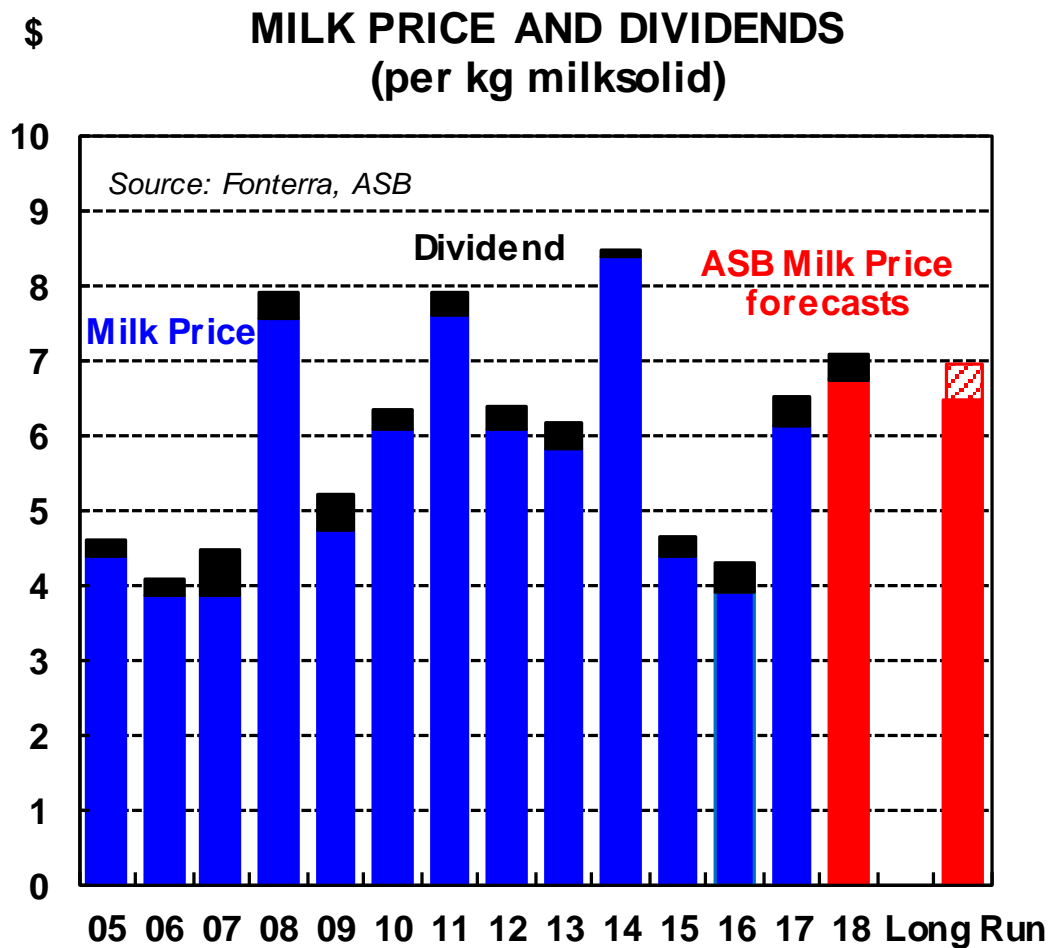
- ▶ Momentum easing nationwide:
 - Investor loan restrictions
 - Election uncertainty
- ▶ Flat/falling Auckland & ChCh prices in 2017, continue into early 2018.
- ▶ Wellington eking out gains.
- ▶ Flat prices elsewhere.

Building outlook



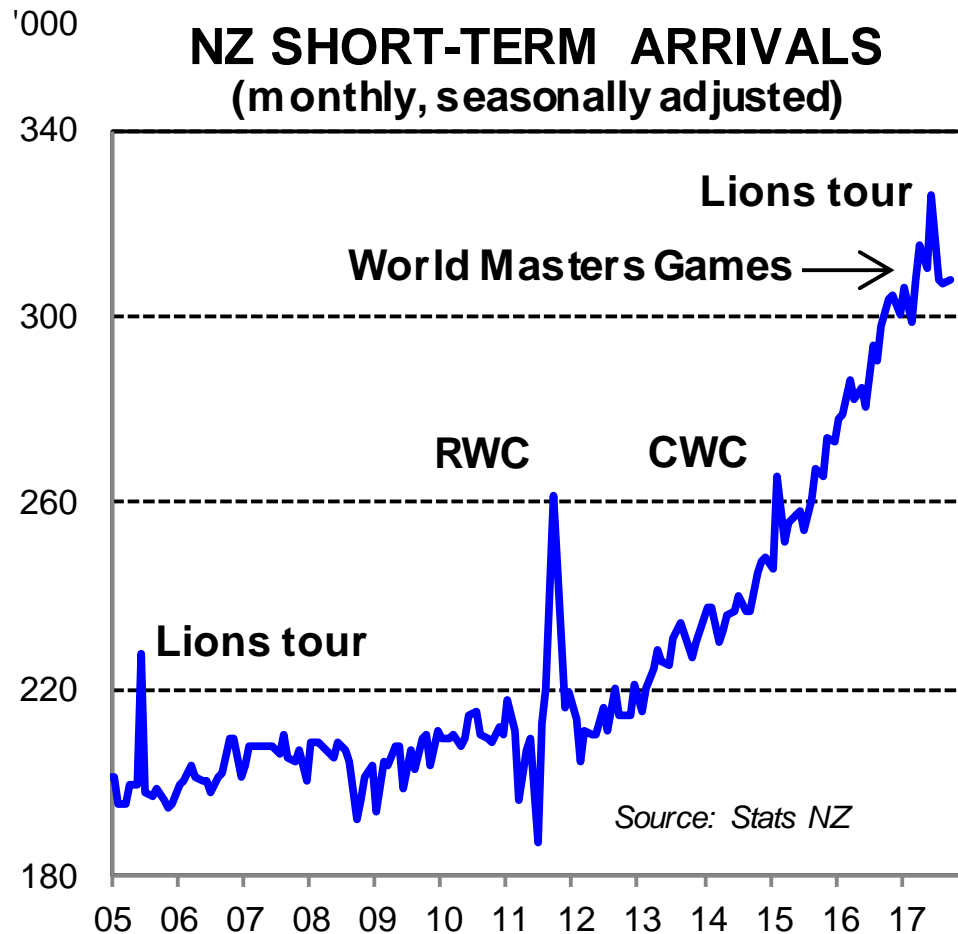
General outlook

Milk price forecast



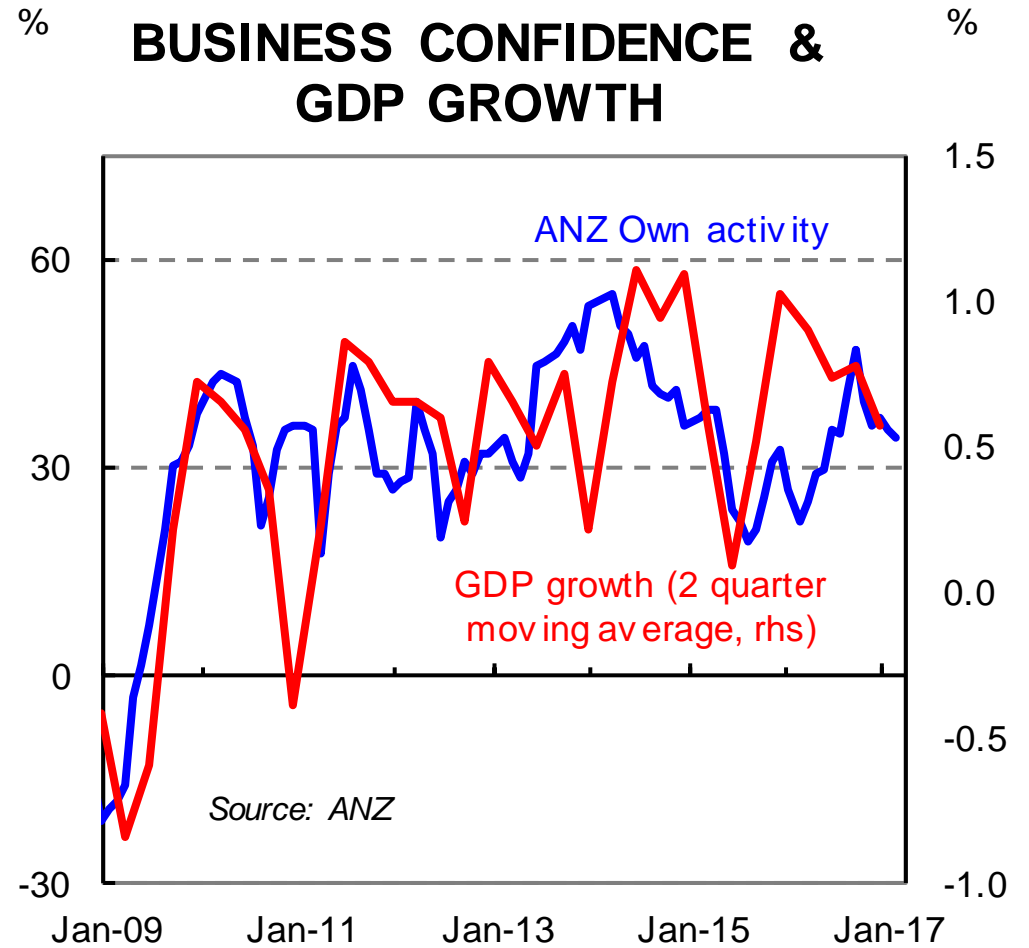
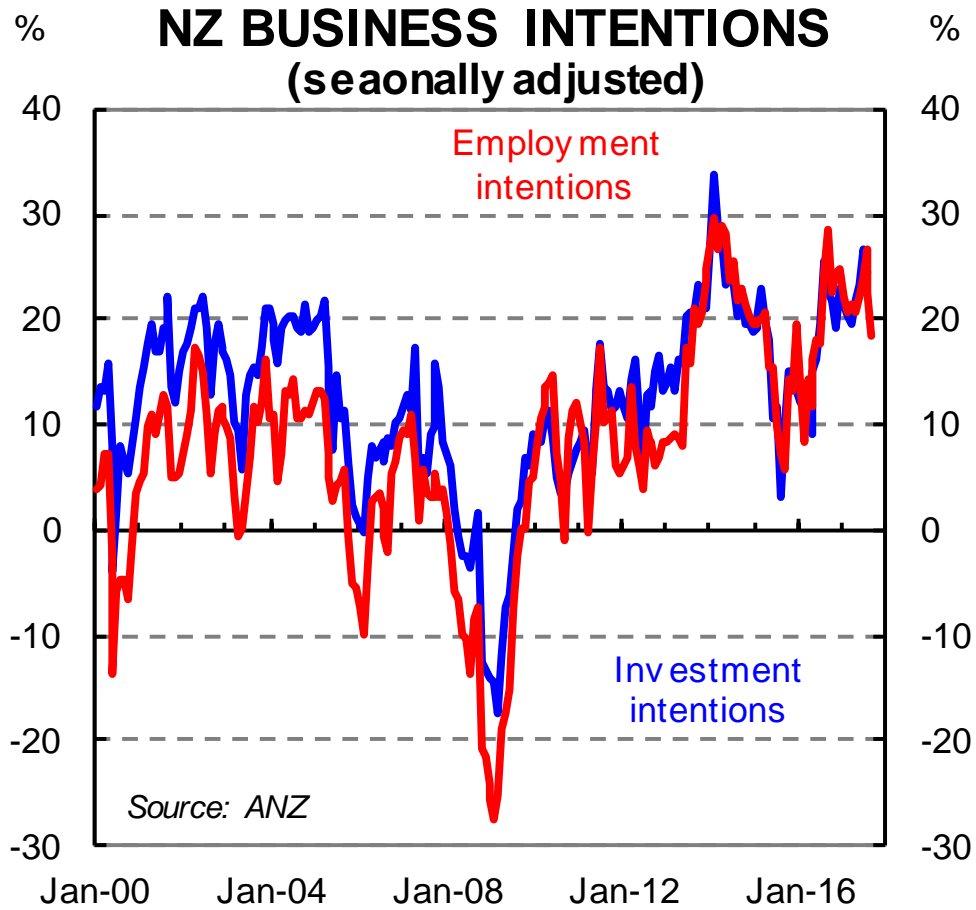
- Optimistic about the new season: forecasting \$6.75/kg for 2017/18.
 - NZ production growth crimped by wet spring
 - Milk fat demand strong
- Long-term outlook remains positive.

Tourism strong but stretched

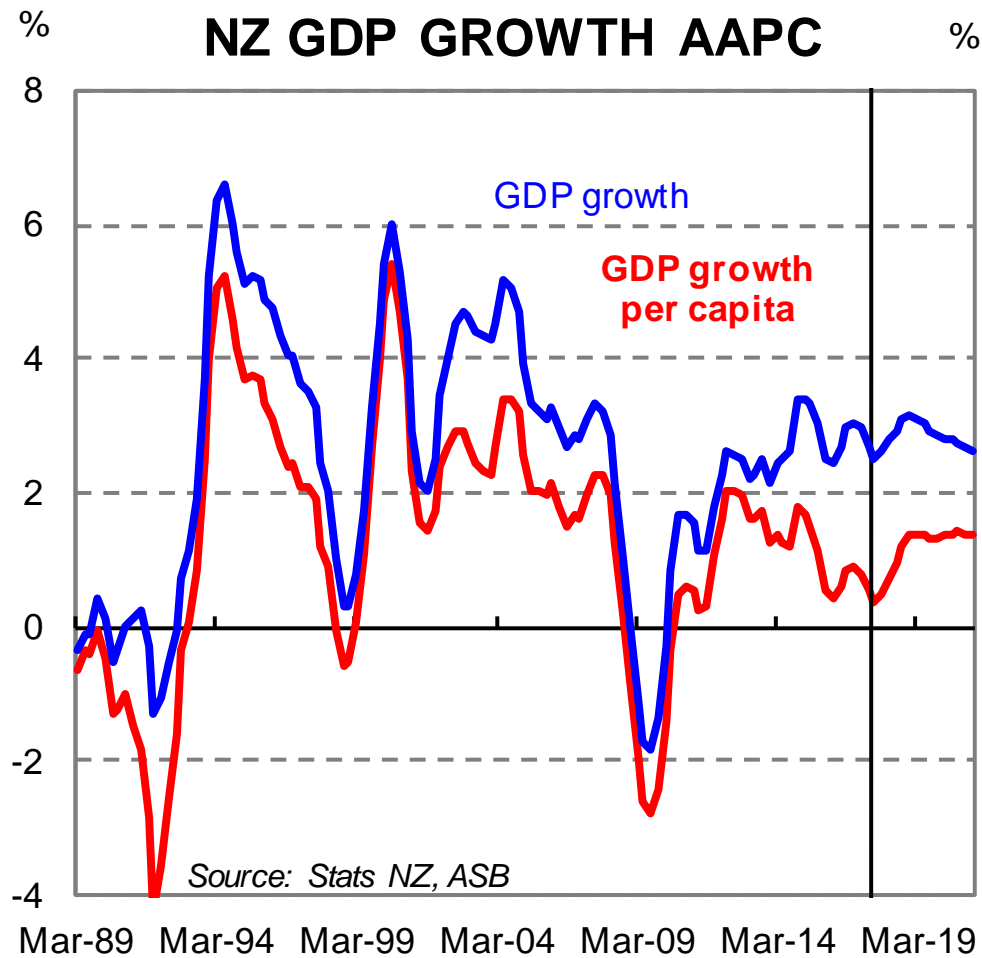


- Tourism numbers and spend have lifted strongly.
- Source of arrivals remains broad, limiting risk of a downturn.
- Accommodation capacity constraints could act as a brake to growth.
 - Hotel building frenzy starting

Business confidence got election jitters



Growth outlook respectable

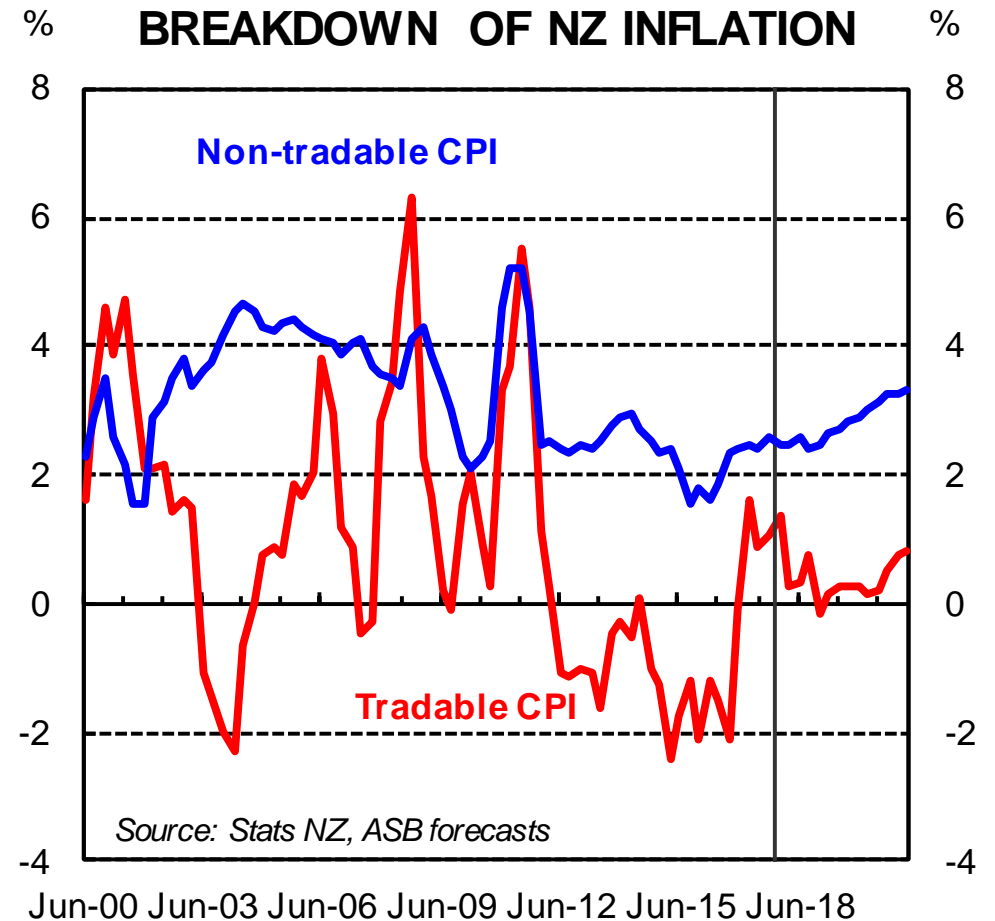
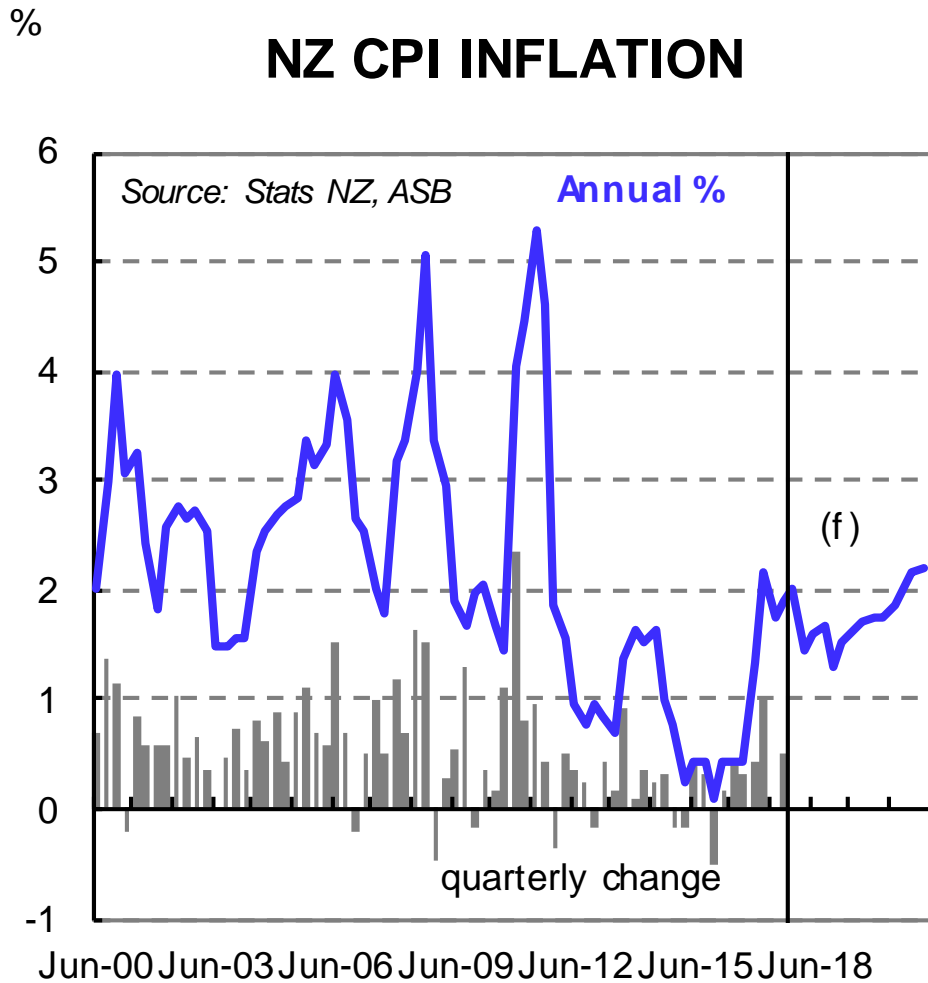


- Still-low interest rates.
- Income growth supportive:
 - Dairy recovery generating stronger rural cashflows.
 - Terms of Trade around record high.
- Slower migration will trim *overall* growth rate, but population growth still well above average.

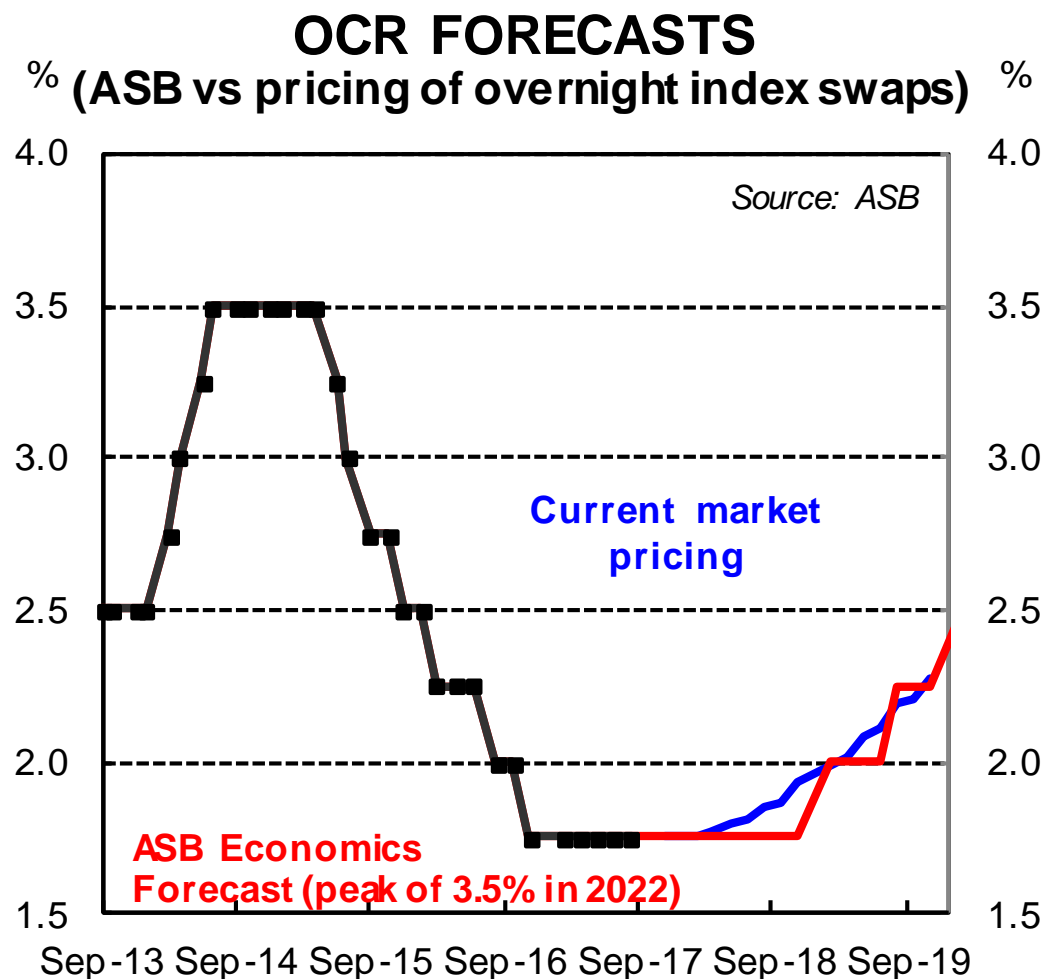
Inflation, financial markets



Inflation: now back above 1%

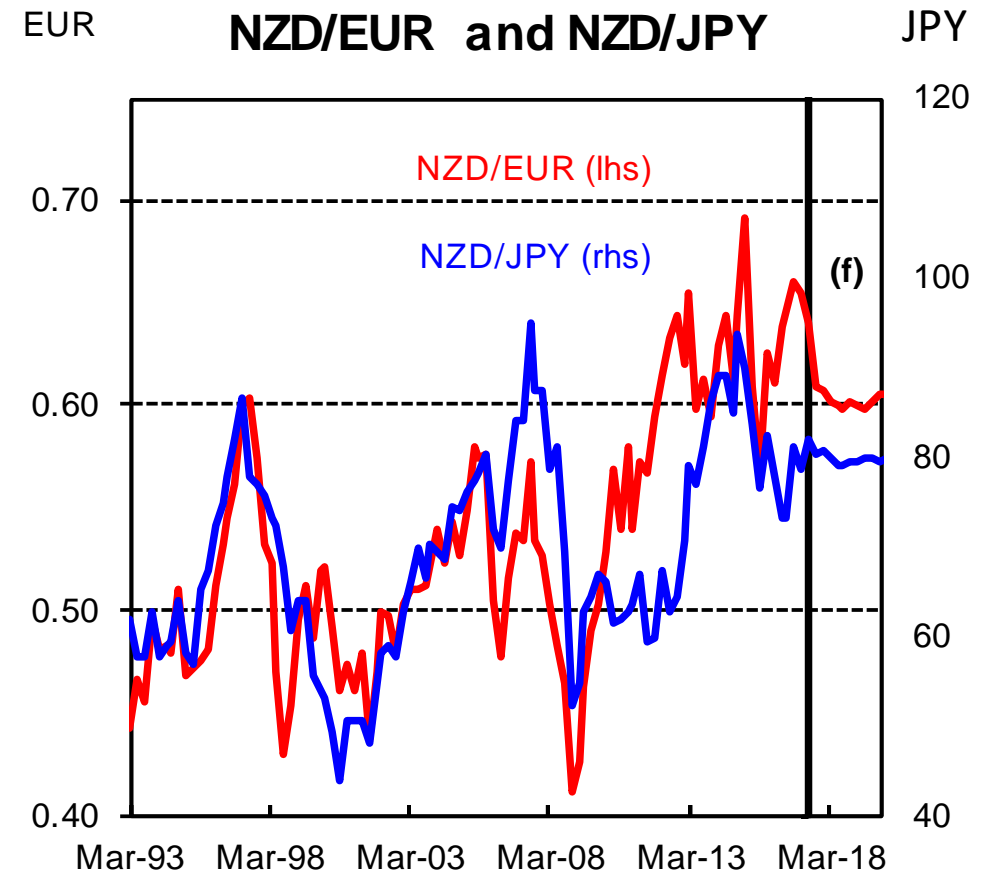
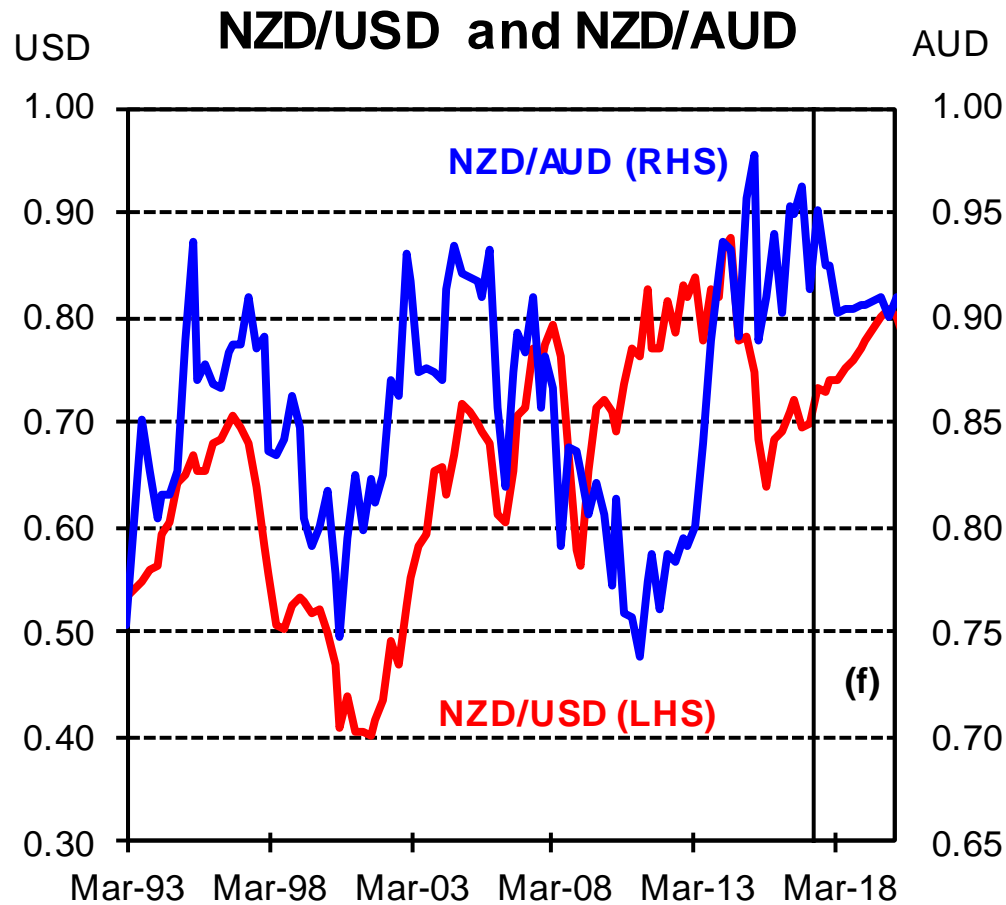


Interest rates low for a long time



- The OCR is comfortably on hold now.
 - High threshold for further cuts.
 - Increases a long way off.
- ASB view: no hikes until 2019H1.
- Market pricing now broadly in line with our view.
- Looming target change, though may not make much practical difference.

NZD forecasts (risk lower in near team)



Summary

- NZ economy growth to pick up to 3.0-3.2% growth over 2018/19
- ...supported by population, low interest rates, real wage growth, and dairy recovery.
- 2017 house prices flat/down in Auckland and ChCh, flattening elsewhere.
- Key risks: Trump fat-thumb slip-up; NZ post-election uncertainty.
- Inflation expected to remain around 1-2%.
- The RBNZ is expected to hold the OCR at 1.75% for the foreseeable future, even with a target change.