

It's
Ours.

**Kiwi
bank.**


Fiscally sound and seeking growth

...we need more infrastructure

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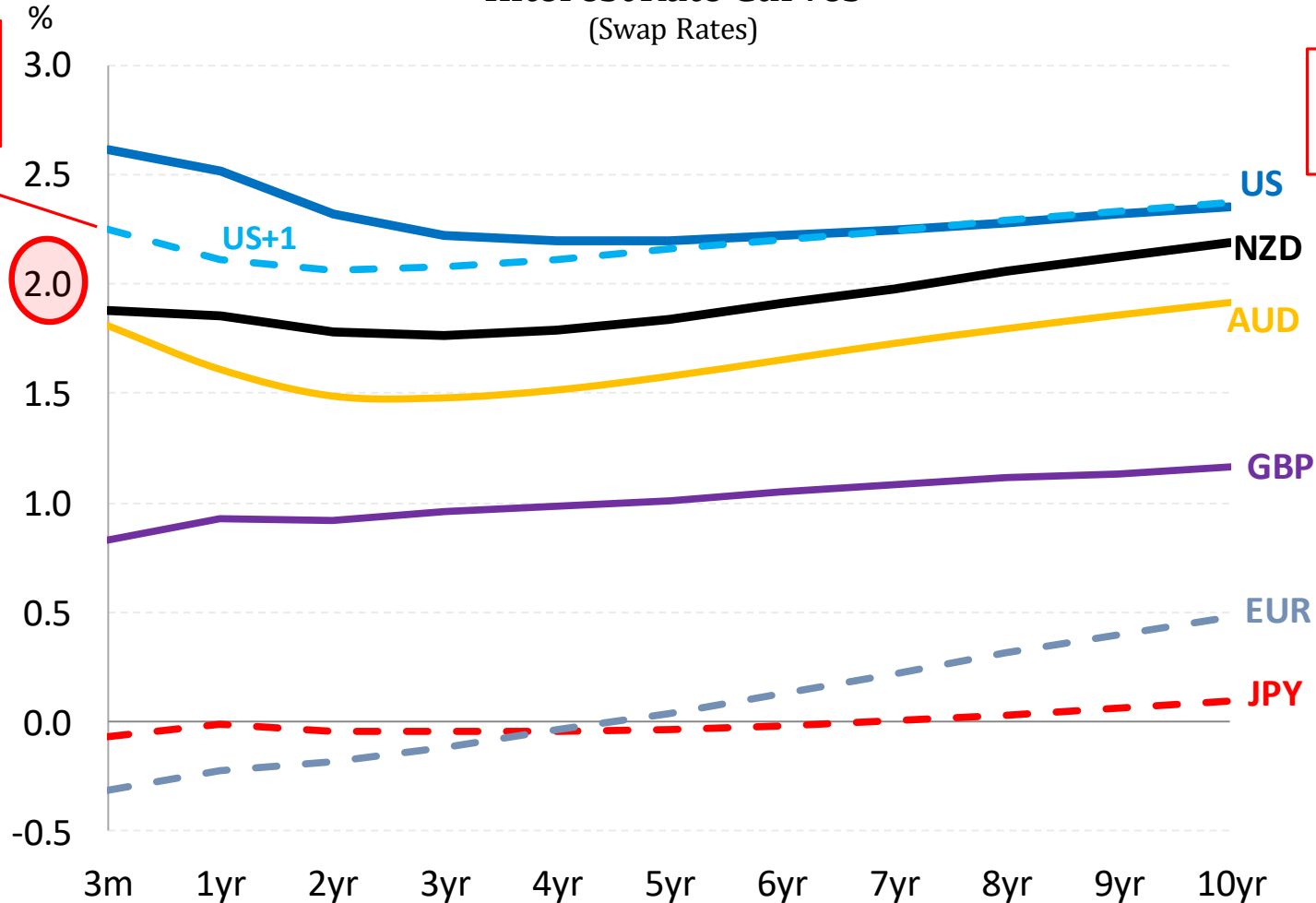
 inner.kiwi/commentary/

 kiwieconomics@kiwibank.co.nz

Everything we need to know, is in this chart...

Interest rates are low, very low, and will remain very low for a very long time..

Interest Rate Curves
(Swap Rates)

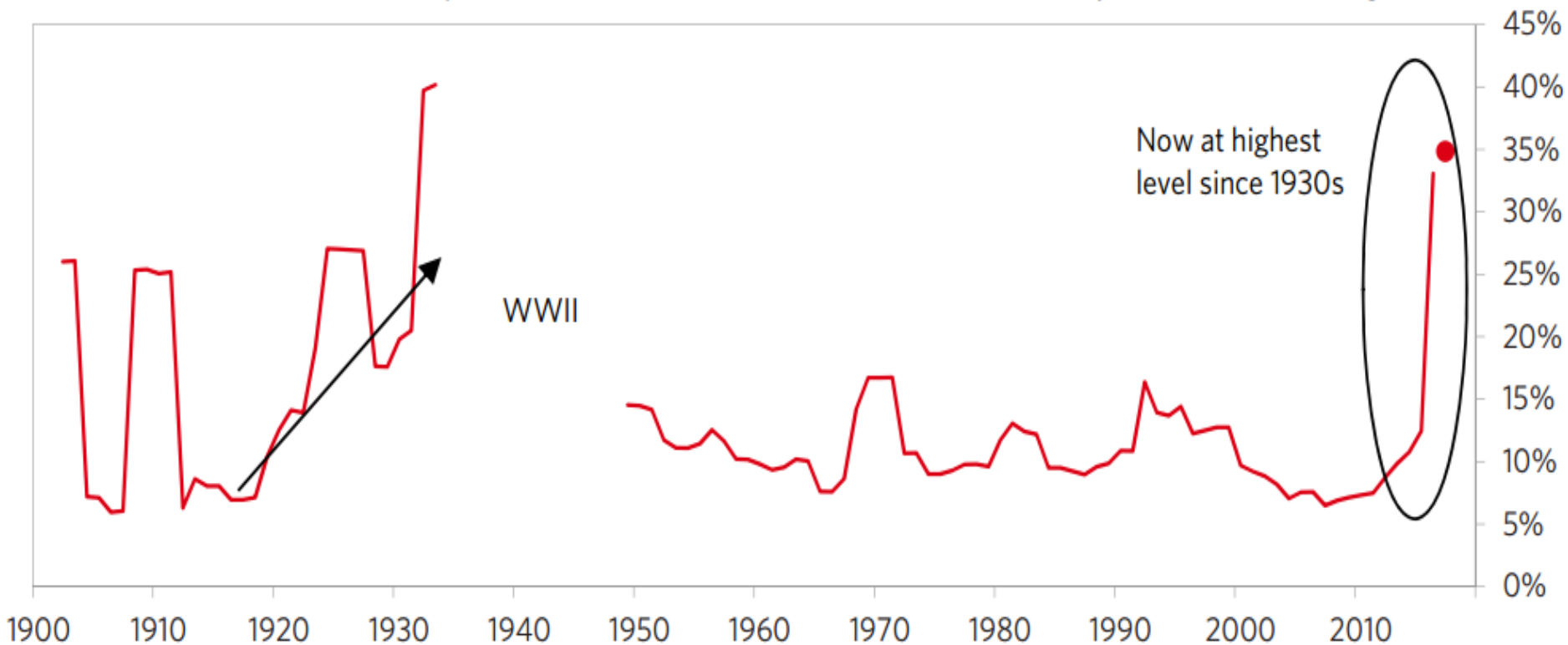


The rise of the angry voter, is popular in disbelief.

Rising Inequality has produced populists in: Trump's US, Italy, Philippines, Turkey, Brazil, plus Brexiteers, and Frexit followers.

Developed World Populism Index*

— Vote Share of Populist/Anti-Establishment Parties • Timely Estimate from Polling

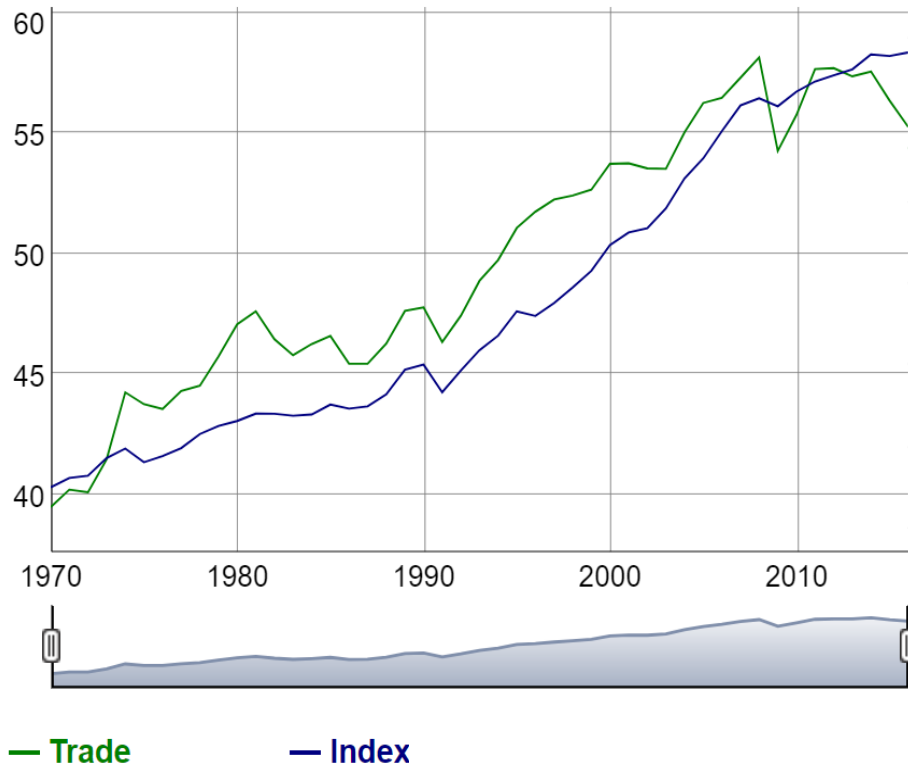


*The latest point includes cases like Trump, UKIP in the UK, AfD in Germany, National Front in France, Podemos in Spain, and Five Star Movement in Italy. It doesn't include major emerging country populists, like Erdogan in Turkey or Duterte in the Philippines. (Bridgewater Daily Observations)

We're stopped globalising, and started protecting.

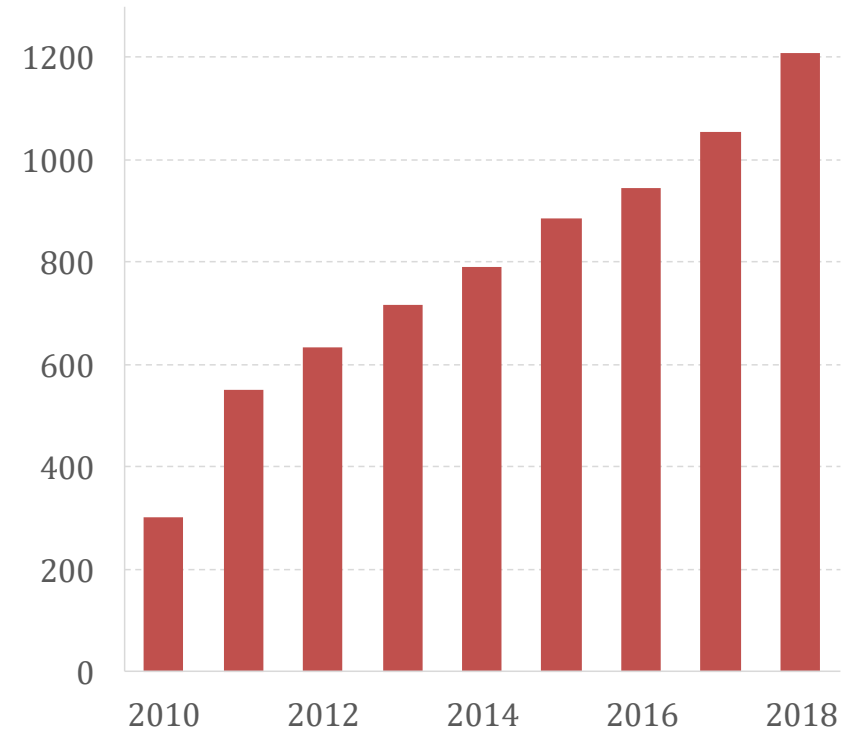
Trade restrictions have increase in number and volume every year since 2008.

KOF Index of Globalisation
(1970-2016)



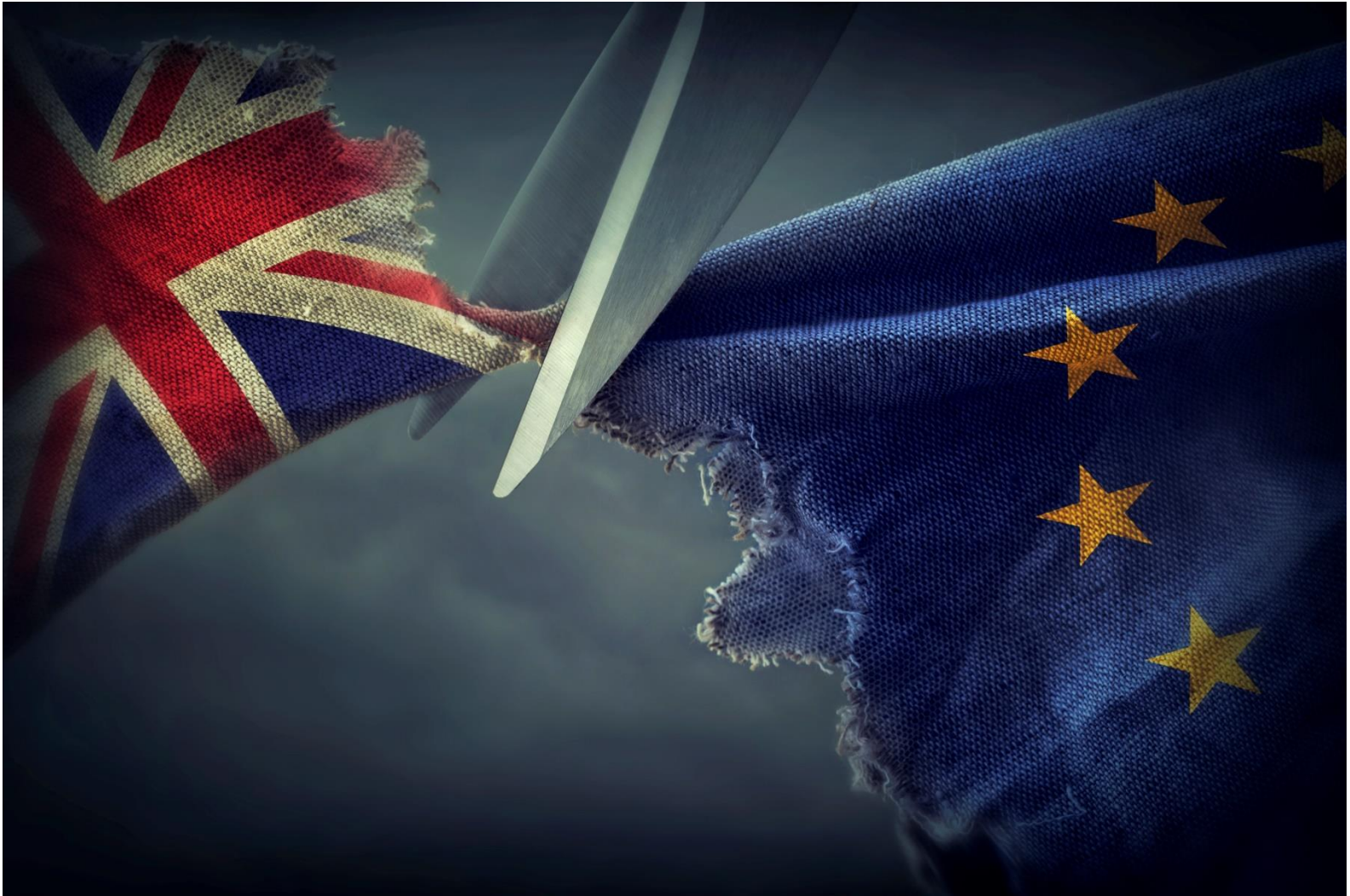
Trade Restrictive Measures in G20

Cummulative trade restrictive measures since 2008



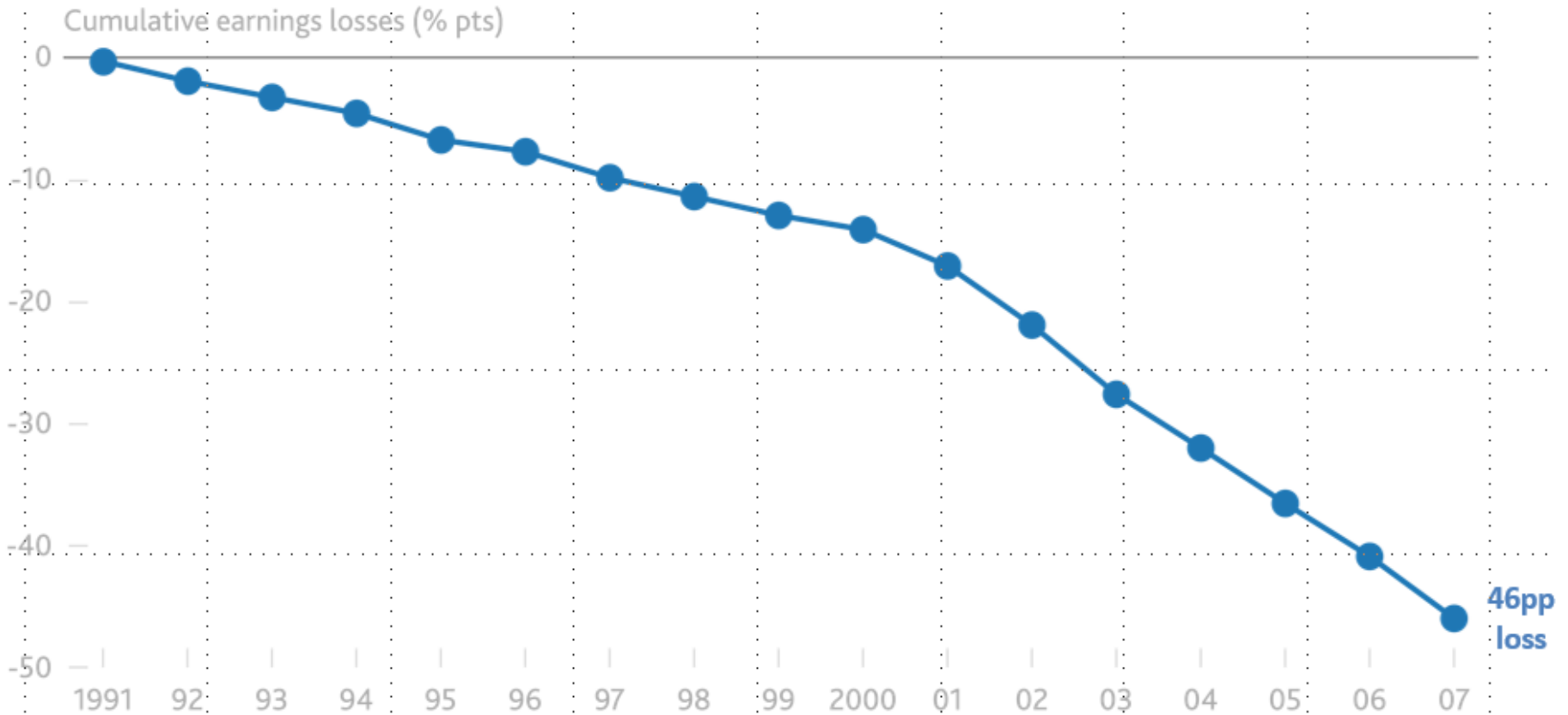
Brexit Breaking Bad...

Brexit is possibly the most complicated political situation you'll ever see.



Globalisation, and EU entry, exposes some workers.

The relative wages of workers exposed to global labour markets get squeezed.



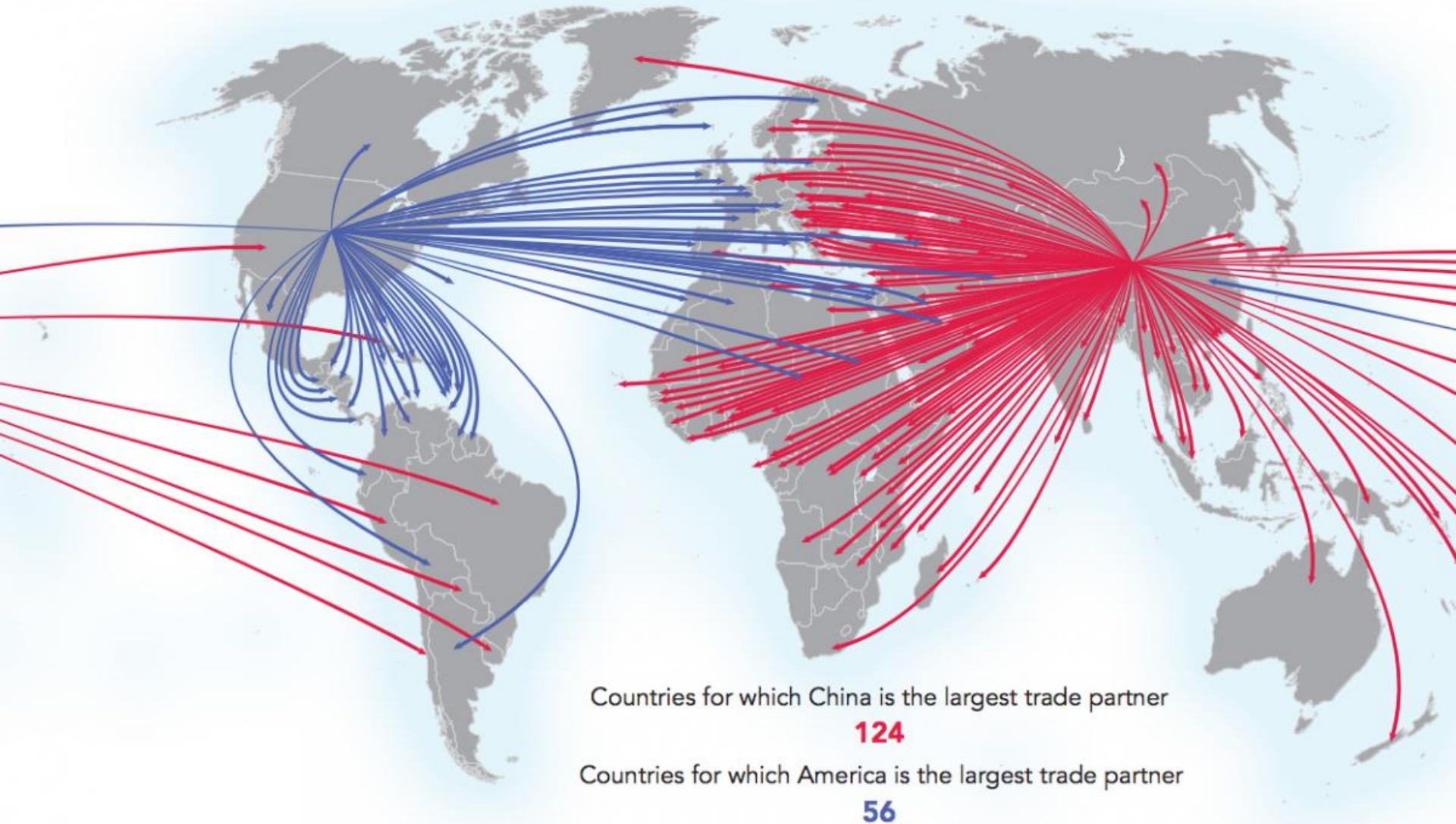
'Trade adjustment: worker-level evidence' by Autor, Dorn, Hanson and Song

Tr(i)umphant Trump is a Populist Protectionist...

The US-China trade deal should be signed, but is only the start.



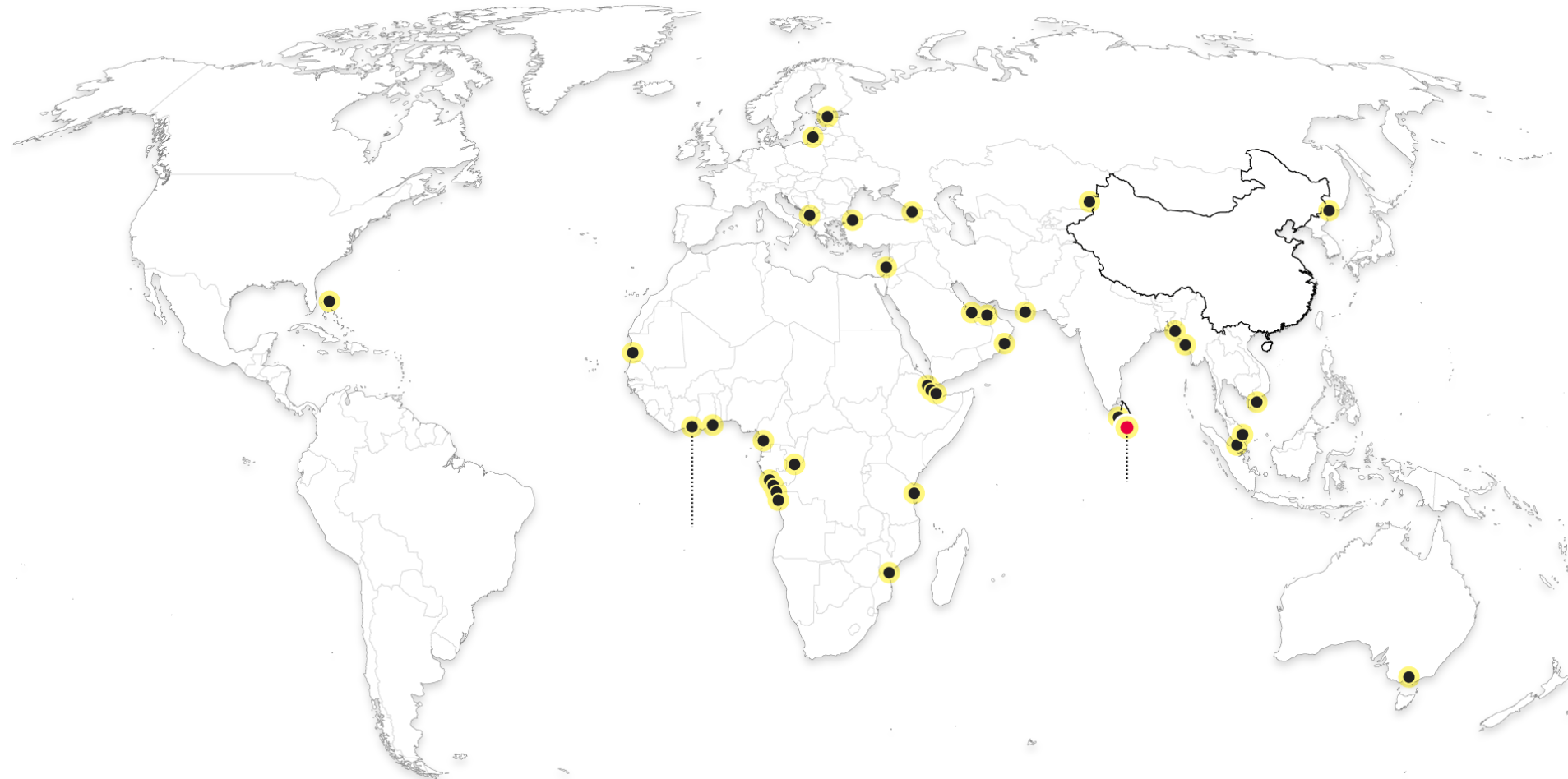
China is the world's largest trading partner.



China's new silk road and belt initiative is BIG.

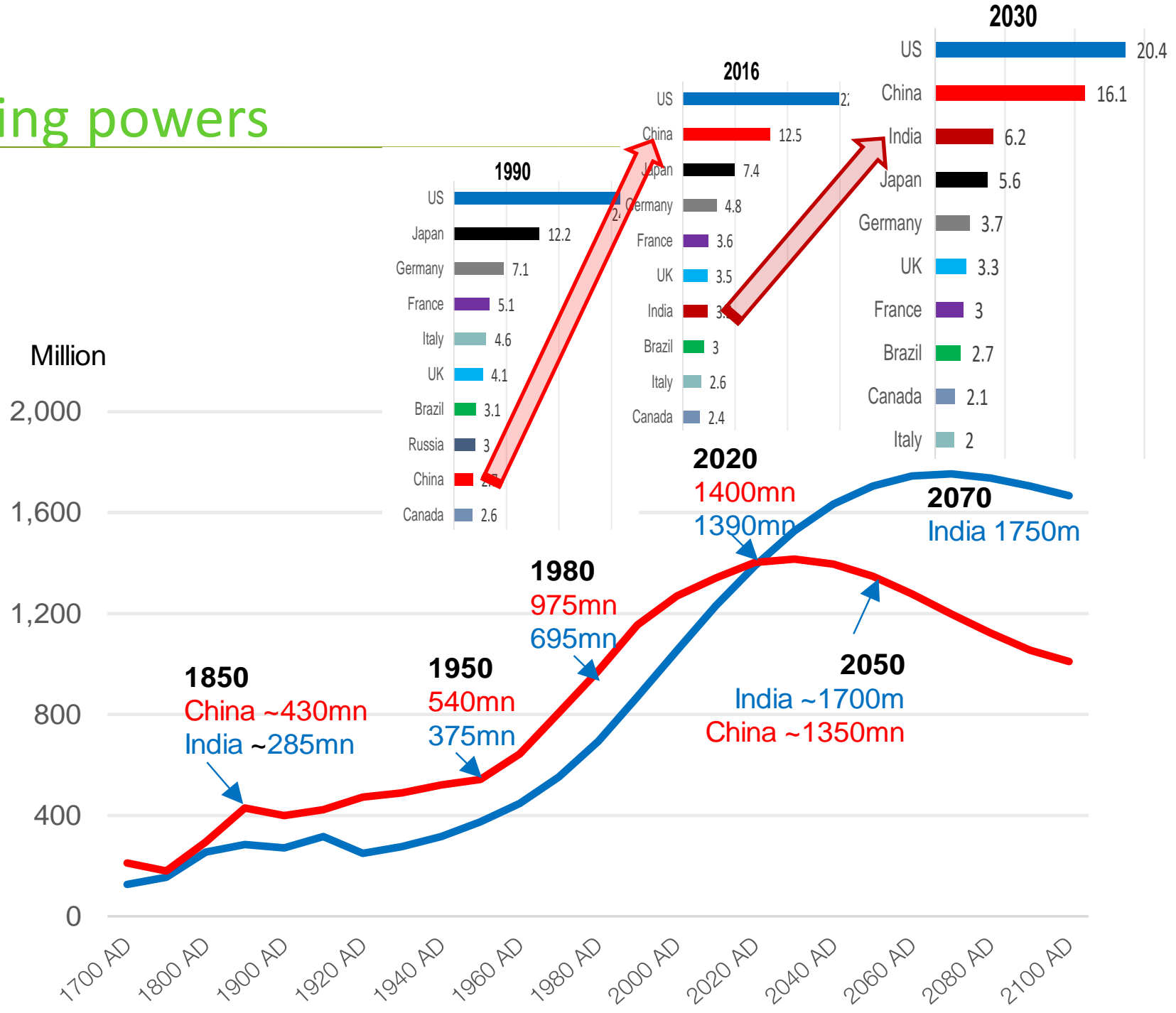


35 strategic Chinese-funded ports, will test the US.



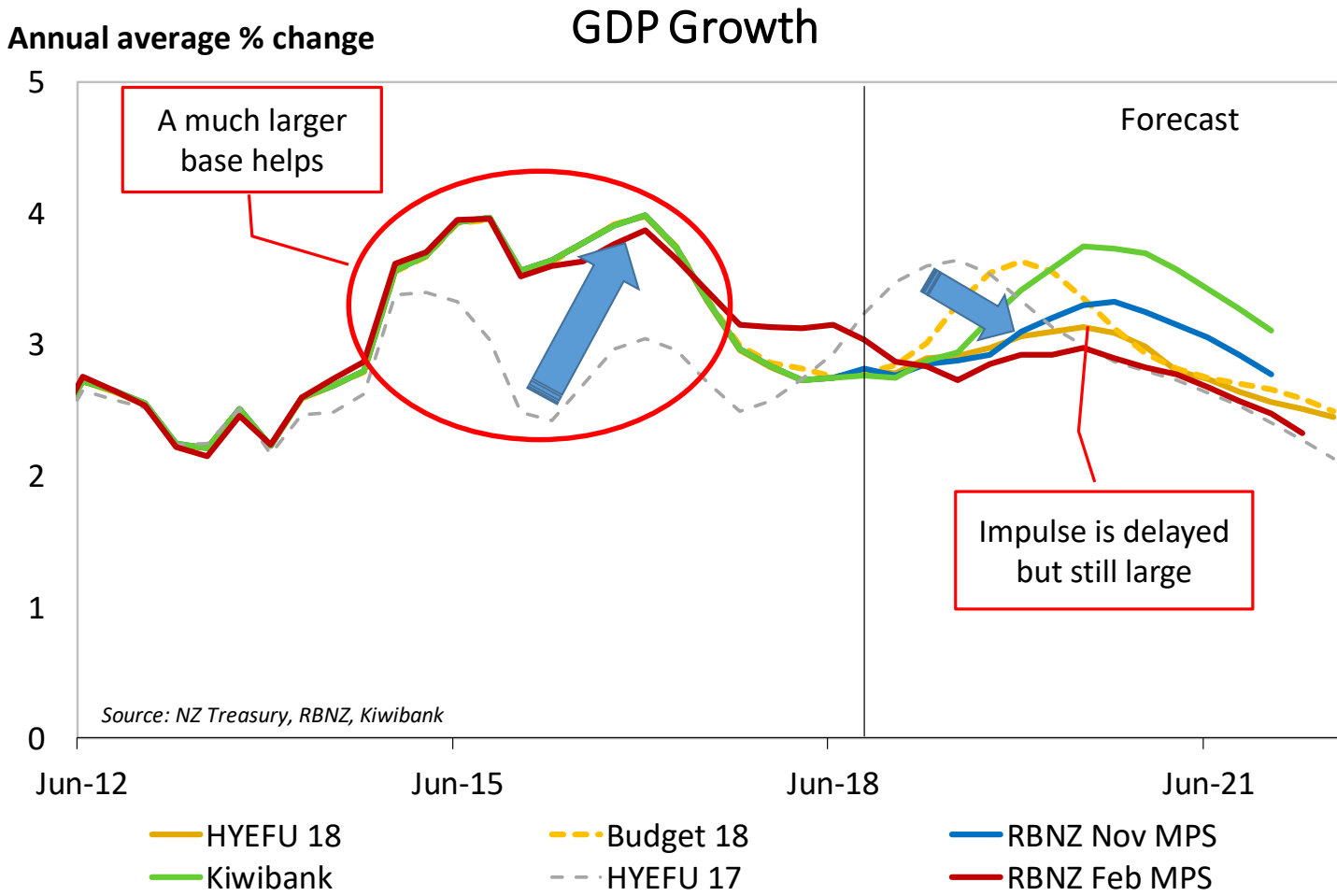
Source: NY Times

Rising powers



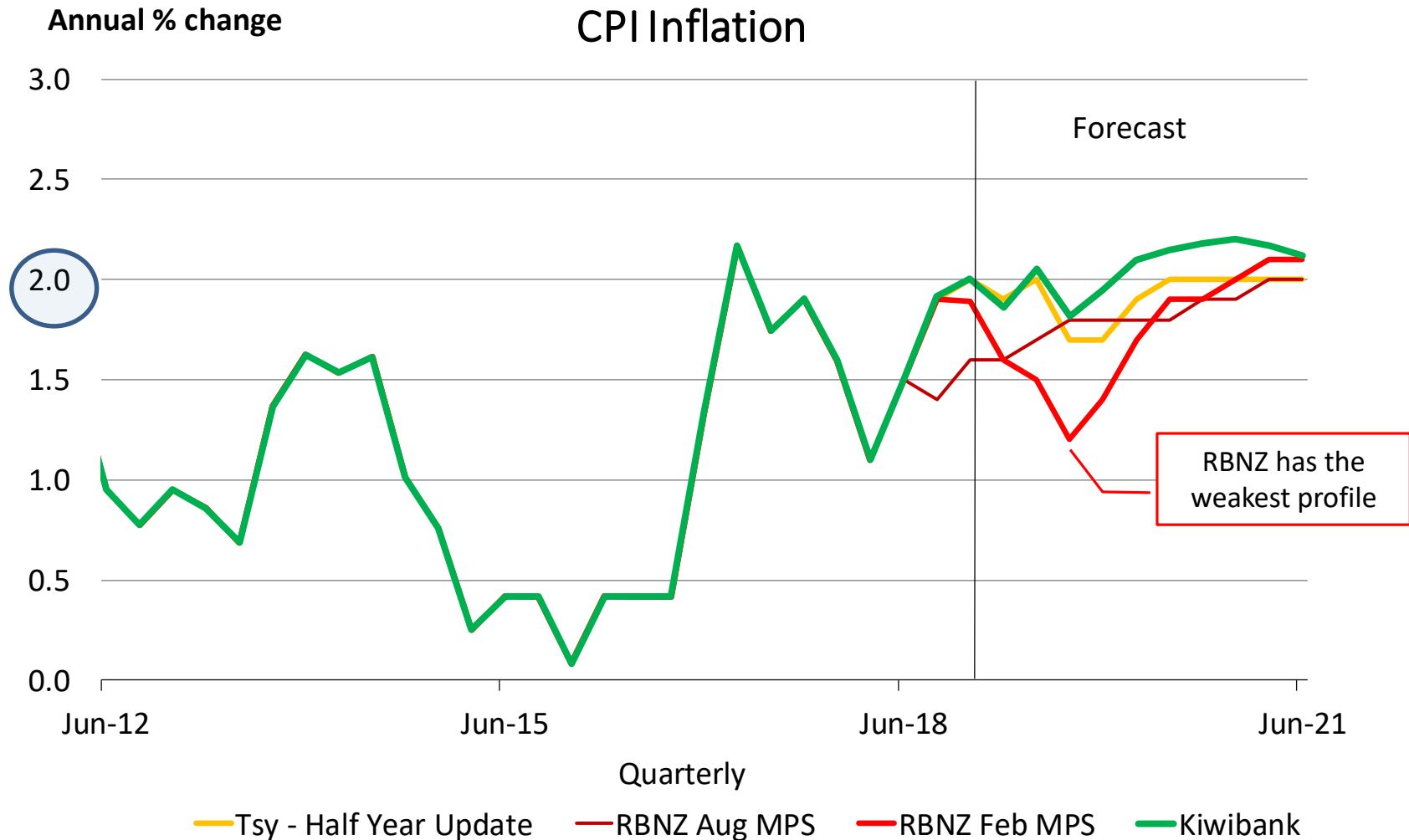
Our growth has cooled, but is set to break 3%

Compared to RBNZ, Treasury, and market forecasts the “big 3” (growth, inflation, and employment) have come in better than expected.



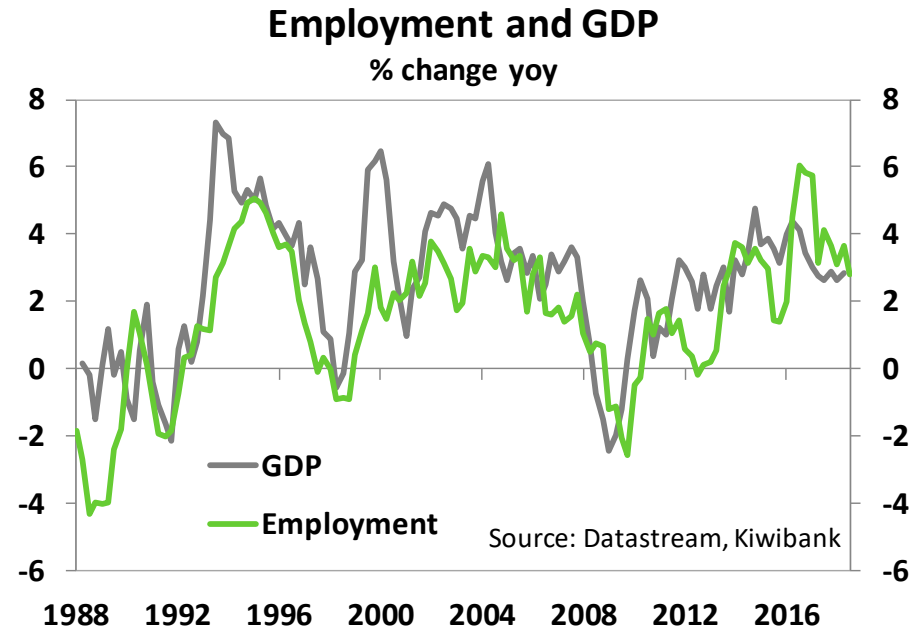
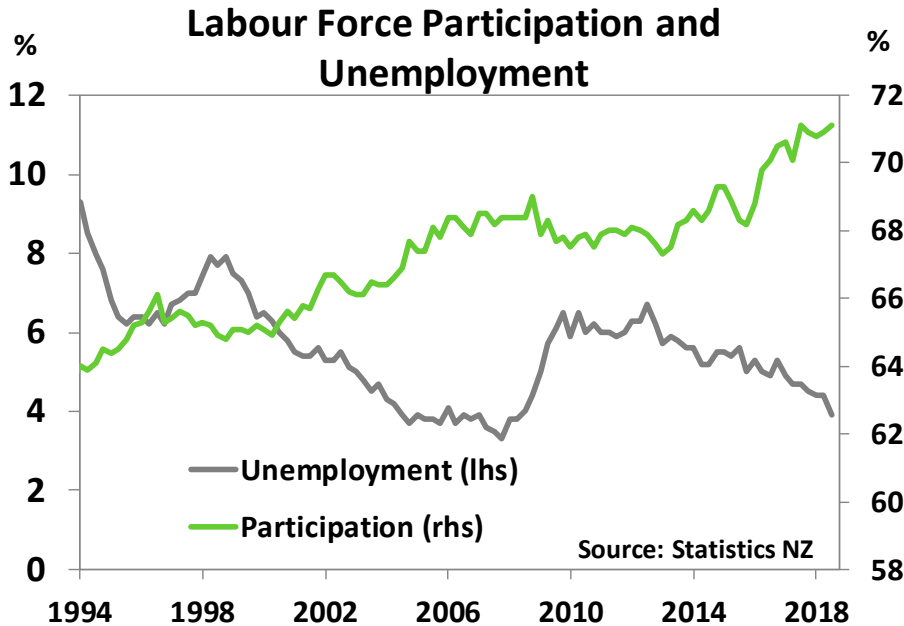
Inflation is picking up, but it's far from heated.

The Treasury is most conservative, well behind the RBNZ, and the mighty Kiwibank.



The labour market is tight.

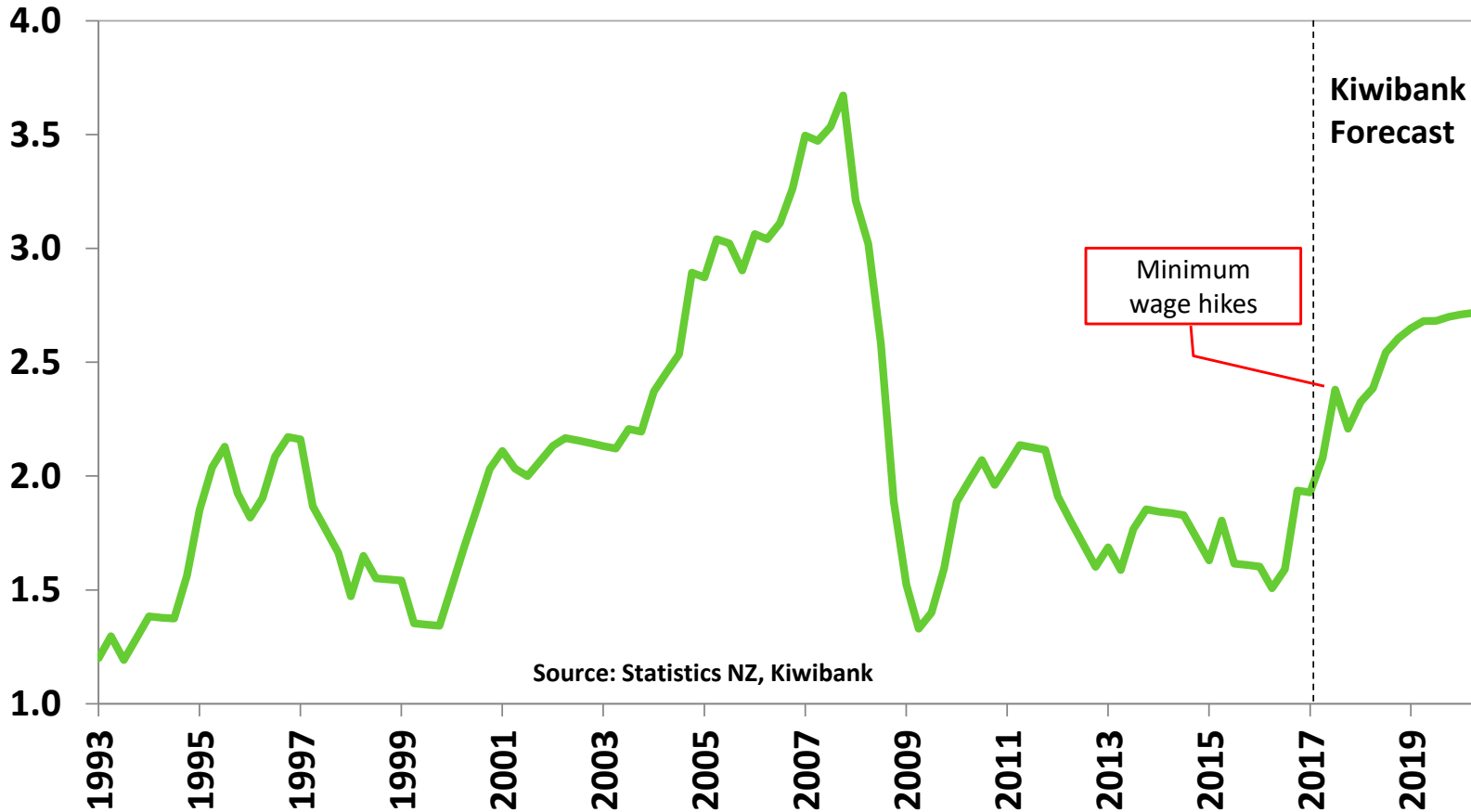
The nominal economy is bigger, wages are starting to rise, and unemployment payments are fewer. More tax in and less welfare out, means a better budget position.



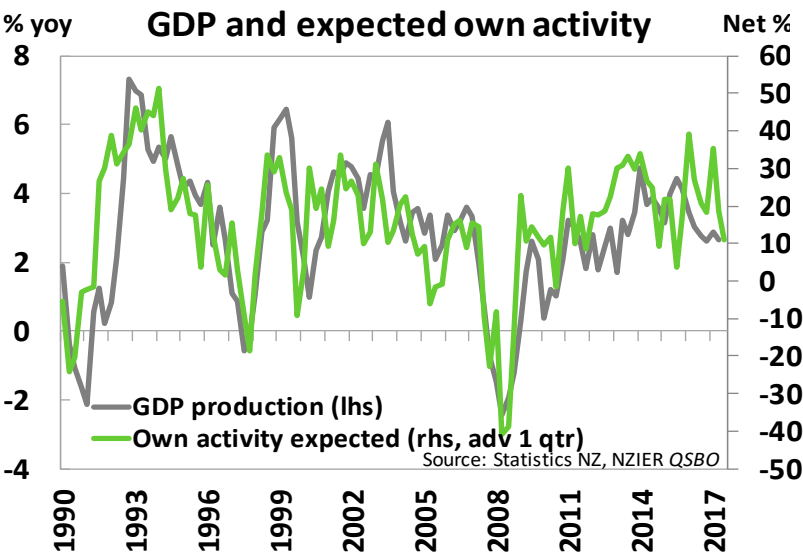
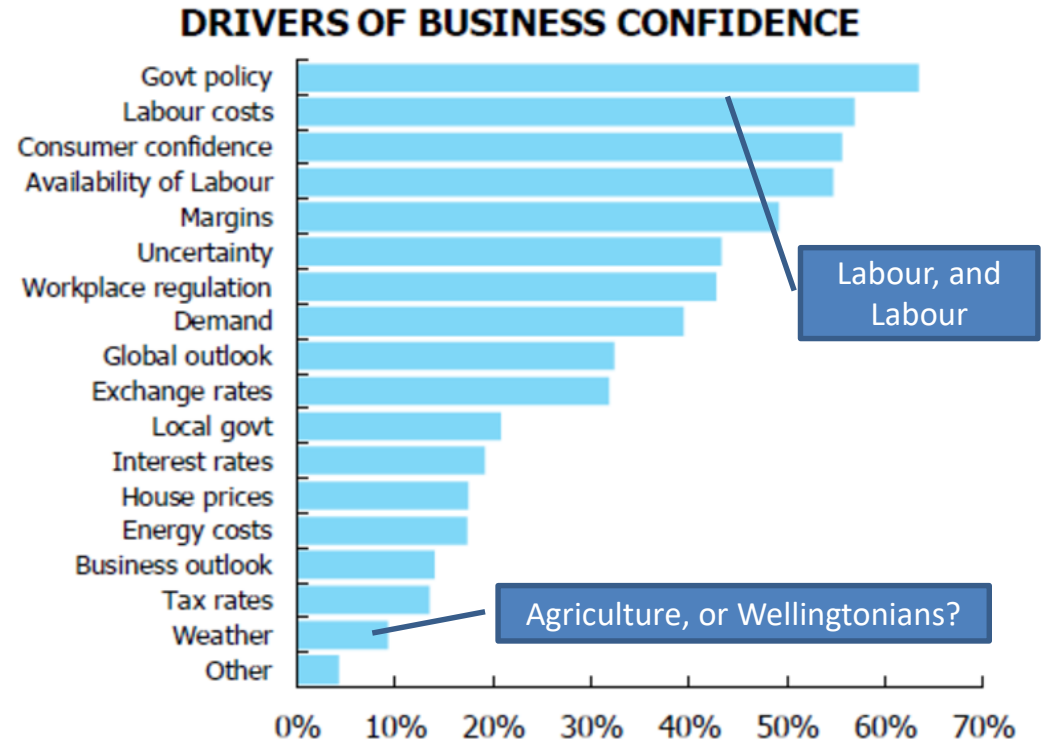
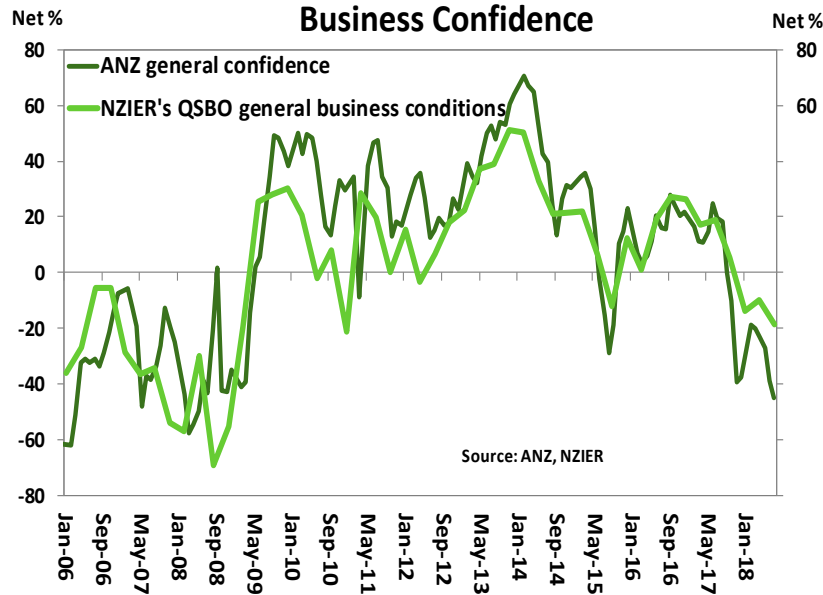
We need to see wage growth first...

... because inflation has been too tame for too long.

Private Sector Labour Cost Index % YoY

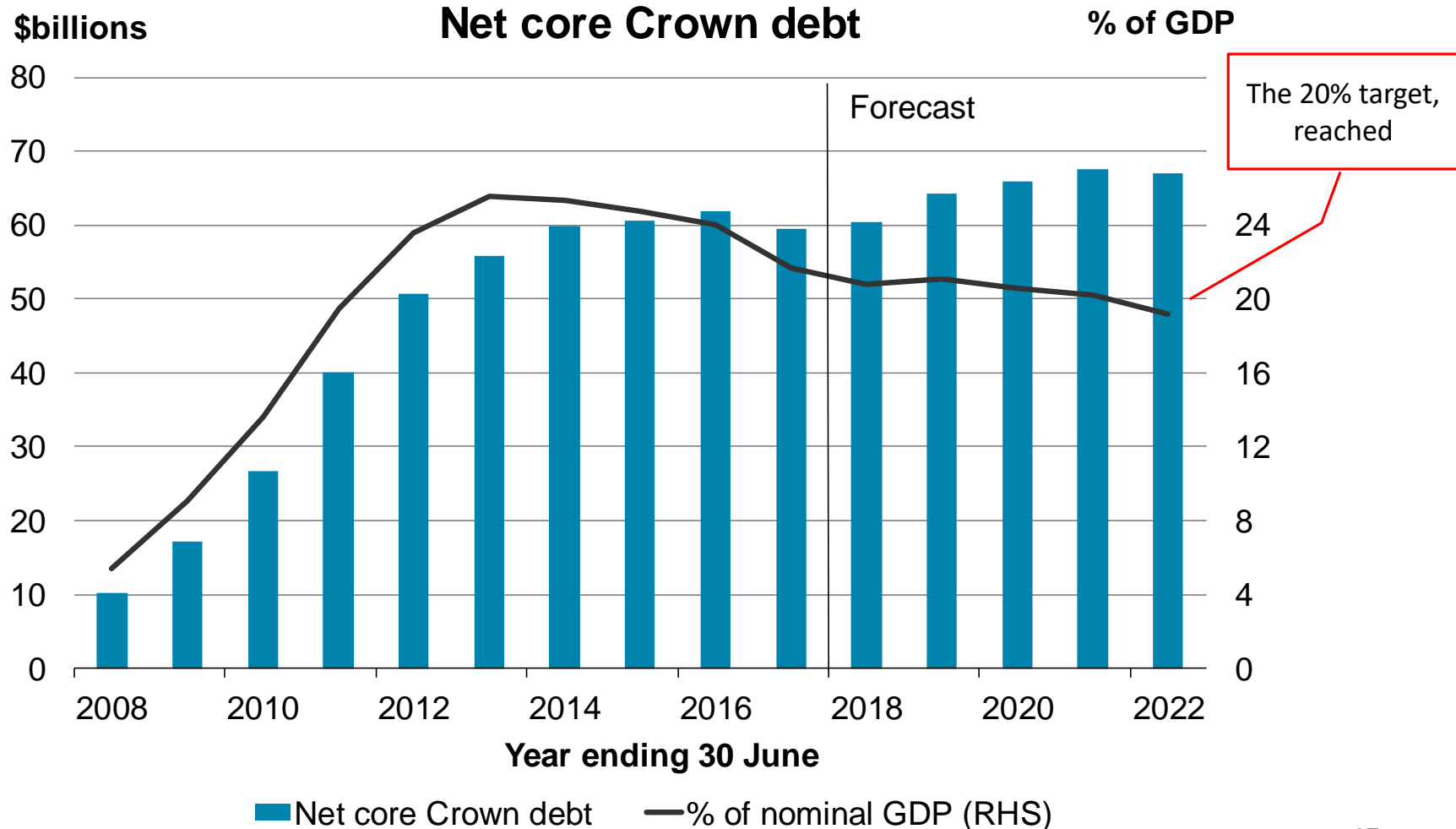


Labour pains: firms are complaining of labour costs/shortages, and Labour policies



Govt net debt has peaked, already.

But why are we so obsessed with 20% (of GDP)? We don't need to be...

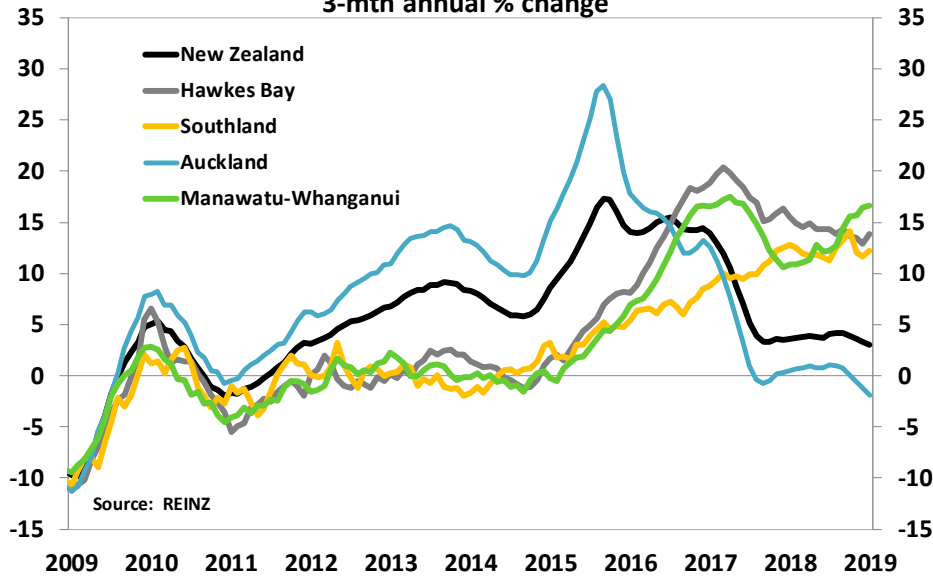


The housing market is well supported and spreading

The regions are playing catch up to the major cities (as some Aucklanders leave).

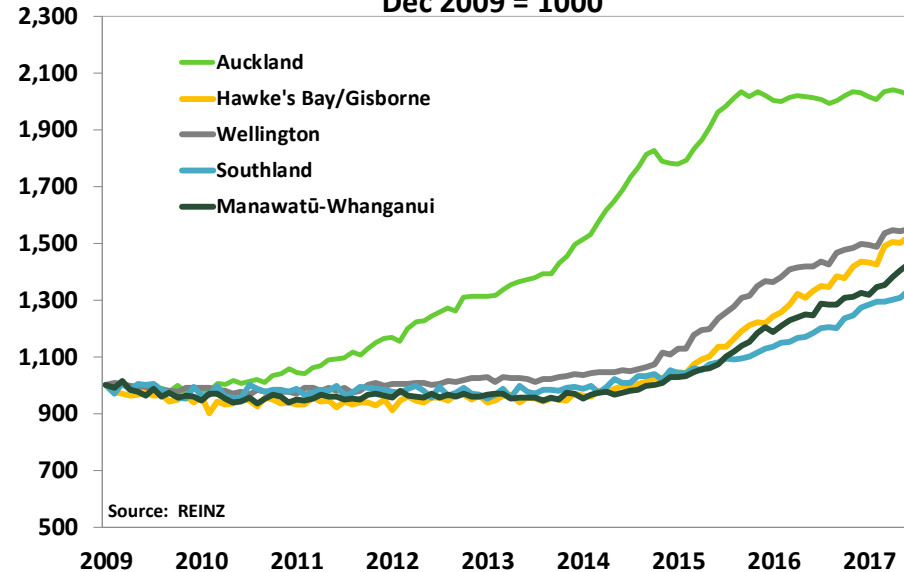
REINZ house price index

3-mth annual % change



House Price Index: Regions play catch-up

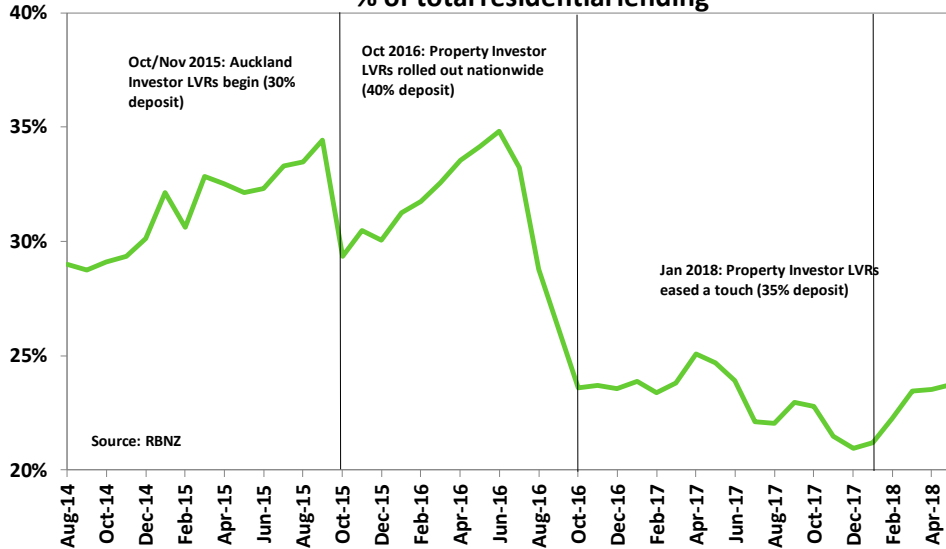
Dec 2009 = 1000



Macroprudential policy has restrained investors

Residential investor mortgage lending share

% of total residential lending



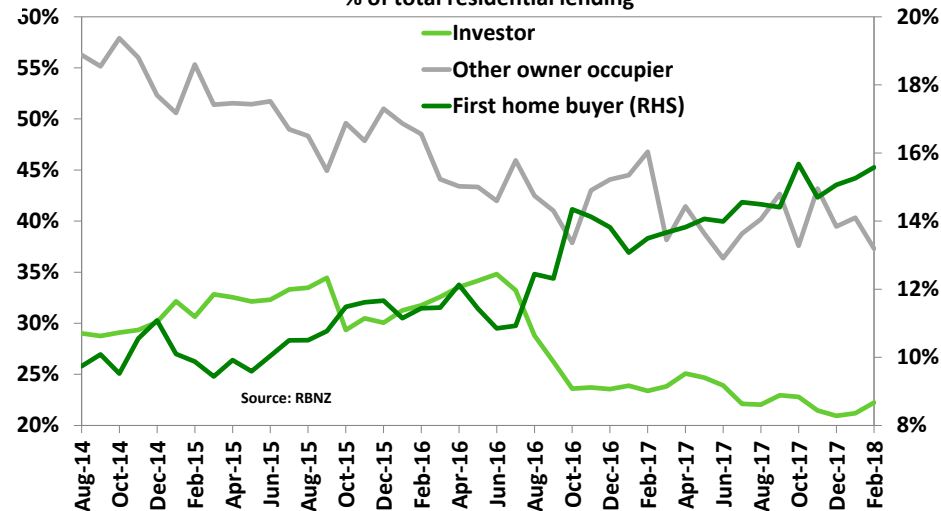
Lending was a little too aggressive over 2014-16.

Now lending is safer, but slower.

First home buyers have increased as a percentage of total.

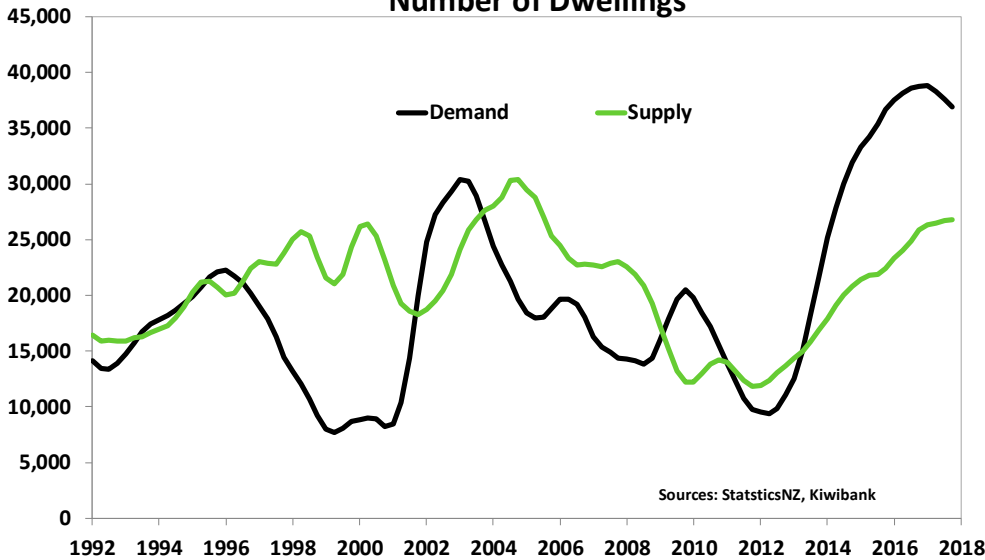
Residential mortgage lending share by borrower

% of total residential lending



We are short 100,000 homes!

Change in Housing Demand and Supply Number of Dwellings

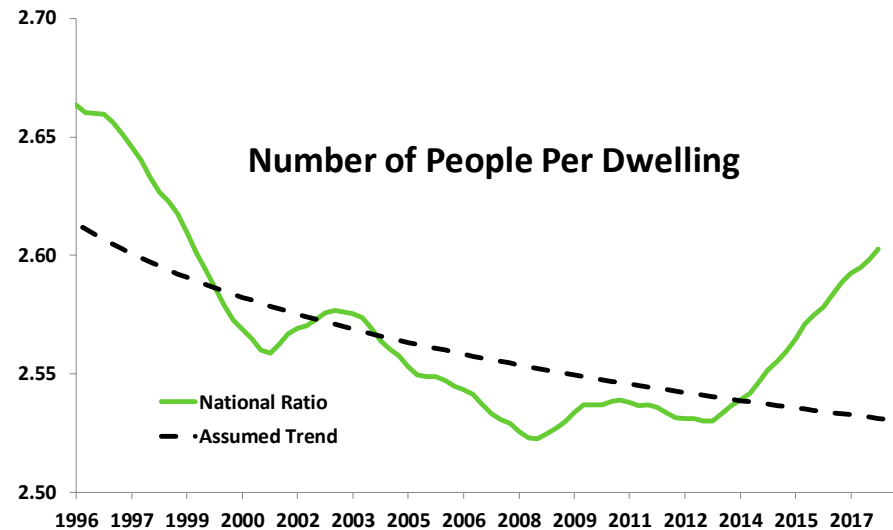


The recent spike in people per dwelling confirms undersupply. Think battery hens rather than open range. And peoples preferences are adapting.

The 3 P's of property are:

- ❖ **Population** – we've had a massive migration boom.
- ❖ **Policy** – the RBNZ has tightened lending standards with one hand, and lowered interest rates with the other.
- ❖ **Preference** – our dreams for housing have adapted to undersupply, and moved towards high(er) density.

Number of People Per Dwelling



Thank you and here's our disclaimer!

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