

# Economic update

This presentation is general in nature and should not be seen as personalised advice. It has been designed in an educational nature and should not be relied upon as advice for your personal situation.

Bagrie Economics accept no liability for any loss or damage caused by this presentation.

Data and information have been gathered from sources Bagrie Economics believes to be reliable.

Straight shooting weekly economic updates 8pm every Sunday. [www.bagrieconomics.co.nz](http://www.bagrieconomics.co.nz)

# Then versus now

## The last 30 years

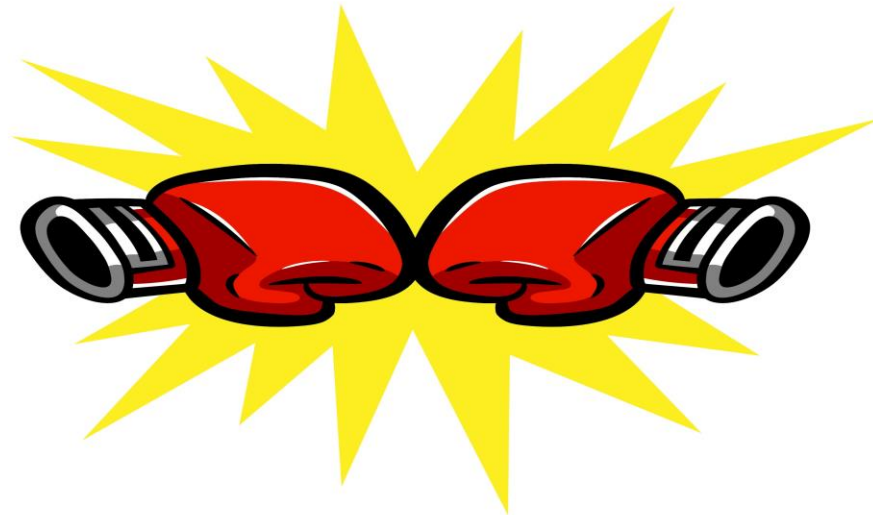
- Globalised, trusted and connected world
- Low inflation and low volatility
- Trend lower in interest rates
- Under-investment in infrastructure (low debt)
- All power to the employers
- Demographics a tailwind
- Rising inequality
- Stability/abundance
- Trade for economic reasons
- Efficiency and just in time
- Linear world/steady change
- Political leaders

## Now

- Fragmented world with distrust
- Inflation and volatility
- Rising term premiums
- Forced to address legacy issues amidst higher debt
- Rising power of the employees
- Demographics less favourable
- Outright fragmentation and crime
- Volatility/scarcity/sustainability
- Trade with security as a theme
- Just in case model
- Non-linear – rapid change (AI)
- Populist leaders

# A clash of forces and we need real leaders

Cyclical  
challenge  
(inflation)



Adapting to  
structural  
change



Populism, division and  
global fracturing

# Central bank independence under pressure

**Bloomberg**

Markets

**Distrust In US Inflation Data  
Threatens \$2 Trillion Market**

## *Trump's Fight With the Fed Won't End With Rate Cuts*

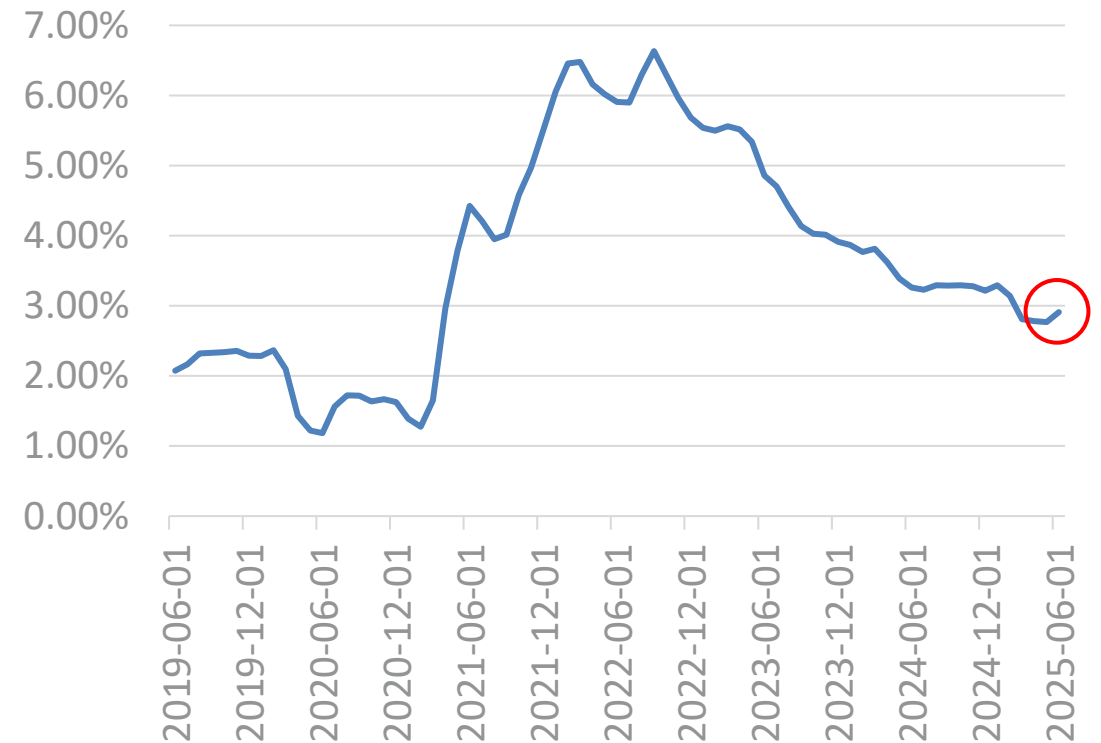
President Trump wants the Fed to slash borrowing costs, but the central bank is unlikely to take such aggressive steps even once it begins to lower interest rates.

# US CPI on the ascent again as early signs of tariff increases appear

## CPI



## Core CPI



# The geo-strategic imperative now dominates the commercial imperative

*“Large and persistent annual U.S. goods trade deficits have led to the hollowing out of our **manufacturing base**; inhibited our ability to scale advanced domestic **manufacturing capacity**; undermined critical **supply chains**; and rendered our **defense-industrial base** dependent on foreign adversaries” DJT*

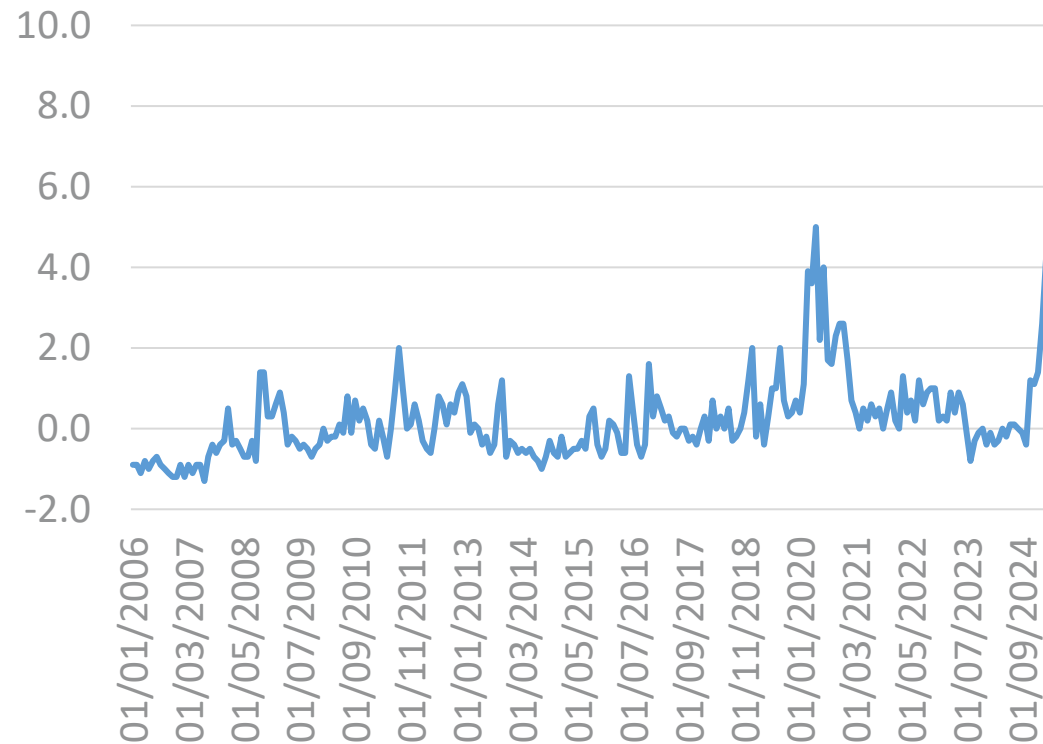
**“We Will Reindustrialise”; “Economic Security is National Security”.**

“We have gone to a highly financialised economy.... Wall Streets done great but it’s now Main Streets turn”

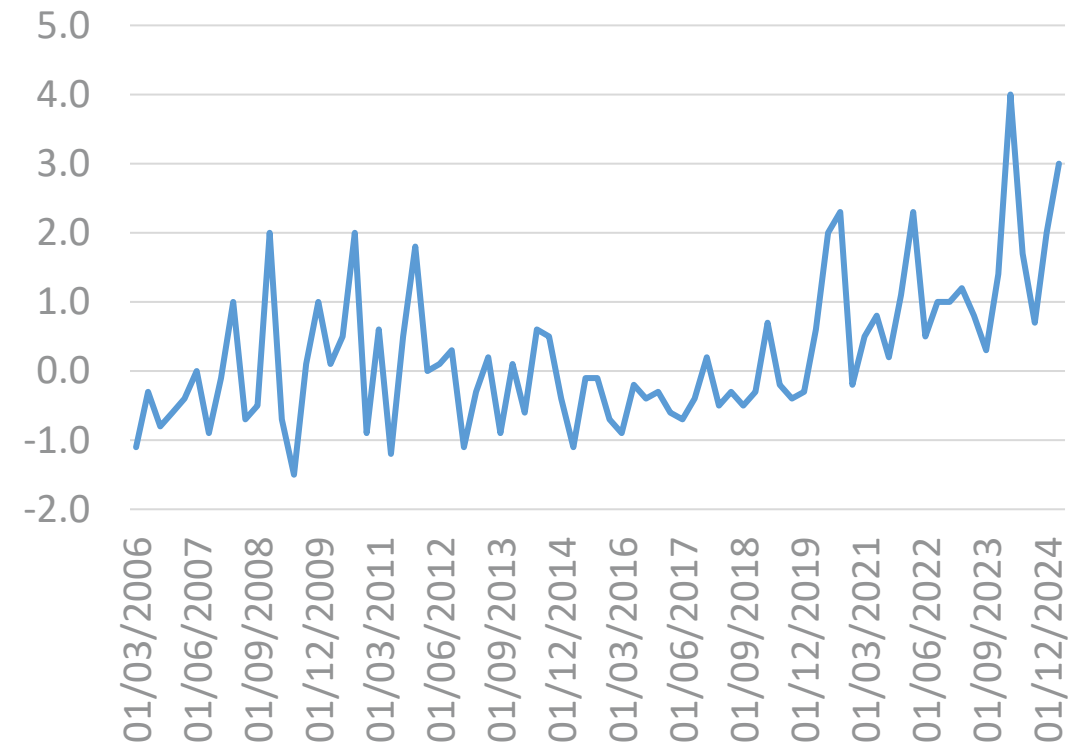
[www.youtube.com/watch?v=zLnX1SQfgJI](https://www.youtube.com/watch?v=zLnX1SQfgJI)

# Uncertainty is high

## Economic Policy Uncertainty – standard deviation



## NZIER Business uncertainty – standard deviation



## China hits back at US tariffs with export controls on key rare earths

China produces around 90% of the world's rare earths, a group of 17 elements used across the defense, electric vehicle, energy and electronics industries. The United States has only one rare earths mine and most of its supply comes from China.

Beijing said it would restrict the export of seven rare earths — samarium, used in optical lasers and powerful magnets; gadolinium, used as a contrast agent for MRI scans; terbium, used in display devices; dysprosium, used in magnets for wind turbines and electric vehicles; lutetium, used in oil refineries; scandium, used in aerospace and yttrium, used in radar technology

# Huge strategic shifts around the globe were signalled years ago

- MFAT's "Navigating a Shifting World" - 2023
  - Power trumping rules
  - Security driving trade
  - Efficiency replaced by resilience as just in time becomes just in case
- Defence review
  - "An increasingly powerful China is using all its instruments of national power in ways that can pose challenges to existing international rules and norms"
- NZSIS
  - "ongoing activity in and against New Zealand and our home region that is linked to the [People's Republic of China's] intelligence services.."

# IPSOS Issues Monitor shows mood swing

## Political party most capable of managing Top 5 issues

Labour is now perceived to be the most capable of managing 3 out of the top 5 issues: *Inflation / Cost of living*, *Healthcare / hospitals* and *Housing / price of housing*. This is one more than the previous wave.

National, having lost New Zealanders' confidence in its ability to manage *Inflation / Cost of living* since Feb '25, is seen as the party most capable of addressing concerns around *The economy* and *Crime / Law & order*.

|      | Issue                      | Political party most capable of managing issue                                       |
|------|----------------------------|--------------------------------------------------------------------------------------|
| 1    | Inflation / cost of living |    |
| 2    | Healthcare / hospitals     |    |
| 3    | The economy                |   |
| =4/5 | Housing / Price of housing |  |
| =4/5 | Crime / Law & Order        |  |

September 2023

| ISSUE                         | POLITICAL PARTY                                                                       |
|-------------------------------|---------------------------------------------------------------------------------------|
| 1: Inflation / cost of living |    |
| 2: Crime / law & order        |    |
| 3: Housing / price of housing |    |
| 4: Healthcare / hospitals     |    |
| 5: The economy                |    |
| 6=: Climate change            |    |
| 6=: Petrol prices / fuel      |    |
| 8: Poverty / inequality       |  |
| 9: Education                  |  |
| 10=: Taxation                 |  |

# IPSOS Issues Monitor shows mood swing 2#

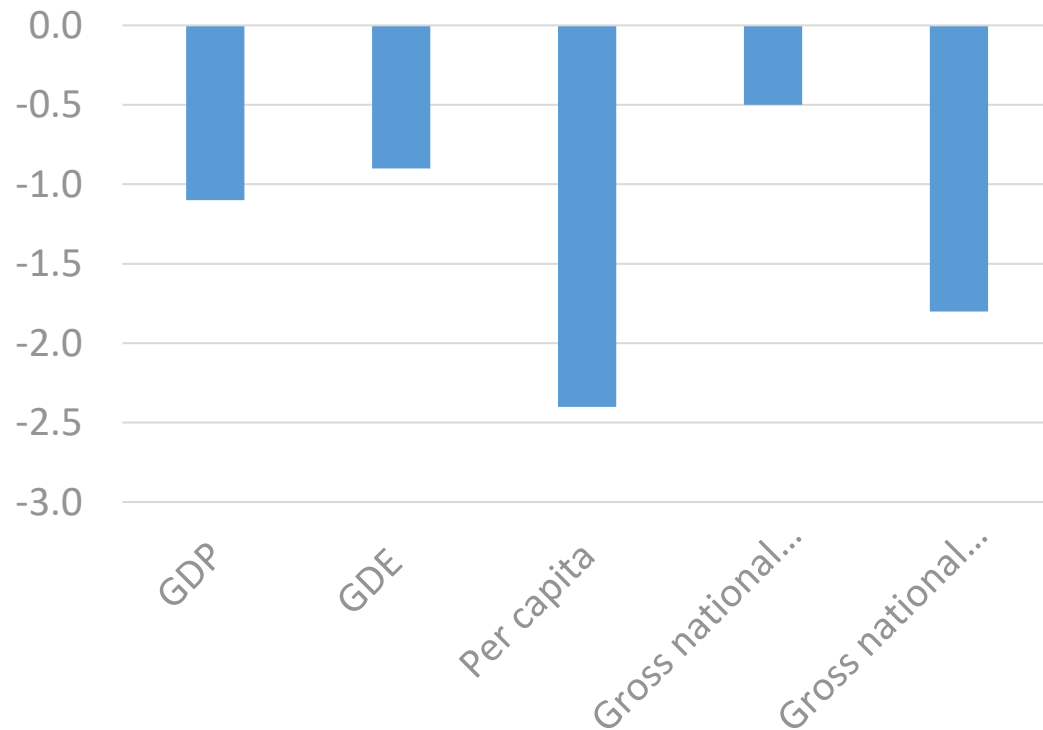
## Political party most capable of managing other issues

Labour remains the party seen to be most capable of managing the majority of the remaining issues in the Top 20 (11, up from 10 in the previous wave) National's perceived capability of managing issues continues to decline, only being seen as most capable of managing 1 of the remaining 15 issues (down from 3 in the previous wave). Te Pati Māori continues to be seen as most capable of managing *Issues facing Māori*, while The Green Party is seen as being most capable of managing *Climate change* and *Environmental Pollution / water concerns*.

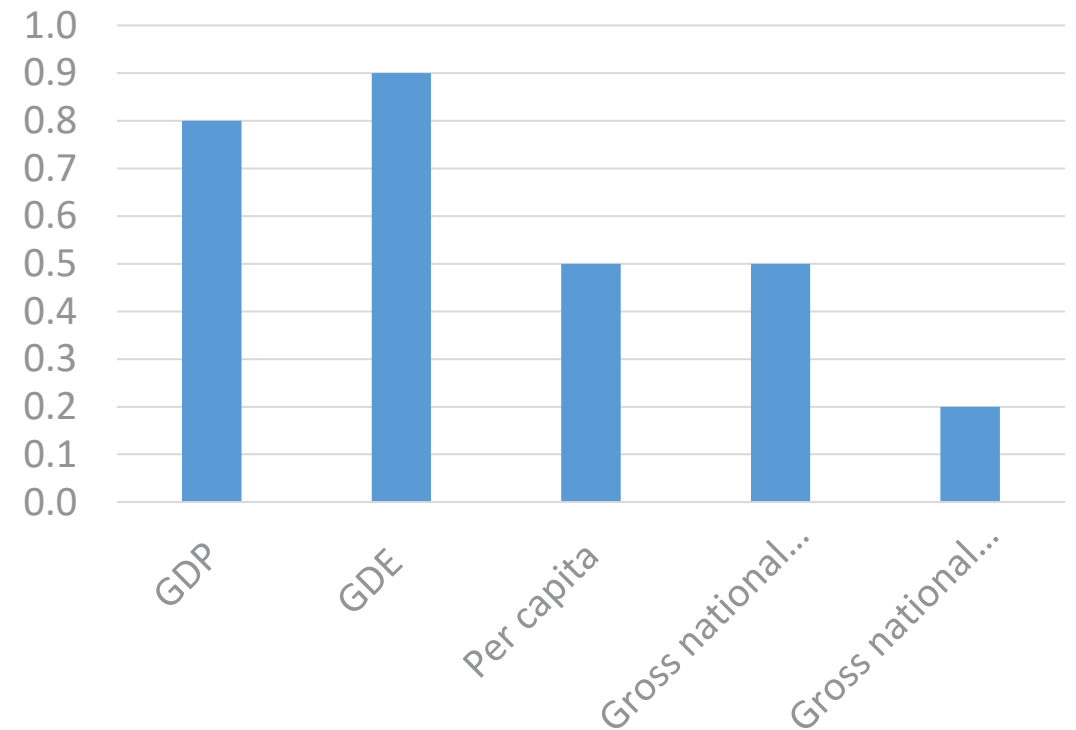
| Issue |                                               | Political party most capable of managing issue                                       | Issue |                                          | Political party most capable of managing issue                                        |
|-------|-----------------------------------------------|--------------------------------------------------------------------------------------|-------|------------------------------------------|---------------------------------------------------------------------------------------|
| 6     | Poverty / Inequality                          |    | 14=   | Race relations / Racism                  |    |
|       | Climate change                                |    |       | Taxation                                 |    |
|       | Unemployment                                  |    | 16    | Environmental Pollution / water concerns |    |
| 9     | Education                                     |    | 17    | Issues facing Māori                      |   |
|       | Transport / public transport / infrastructure |  | =18   | Immigration                              |  |
| 10=   | Petrol prices / fuel                          |  |       | Population / overpopulation              |  |
|       | Drug / Alcohol abuse                          |  | 20    | Defence / foreign affairs / terrorism    |  |
|       | Household debt / personal debt                |  |       |                                          |                                                                                       |

# GDP – out of a hole but still in a hole

## GDP – annual % change

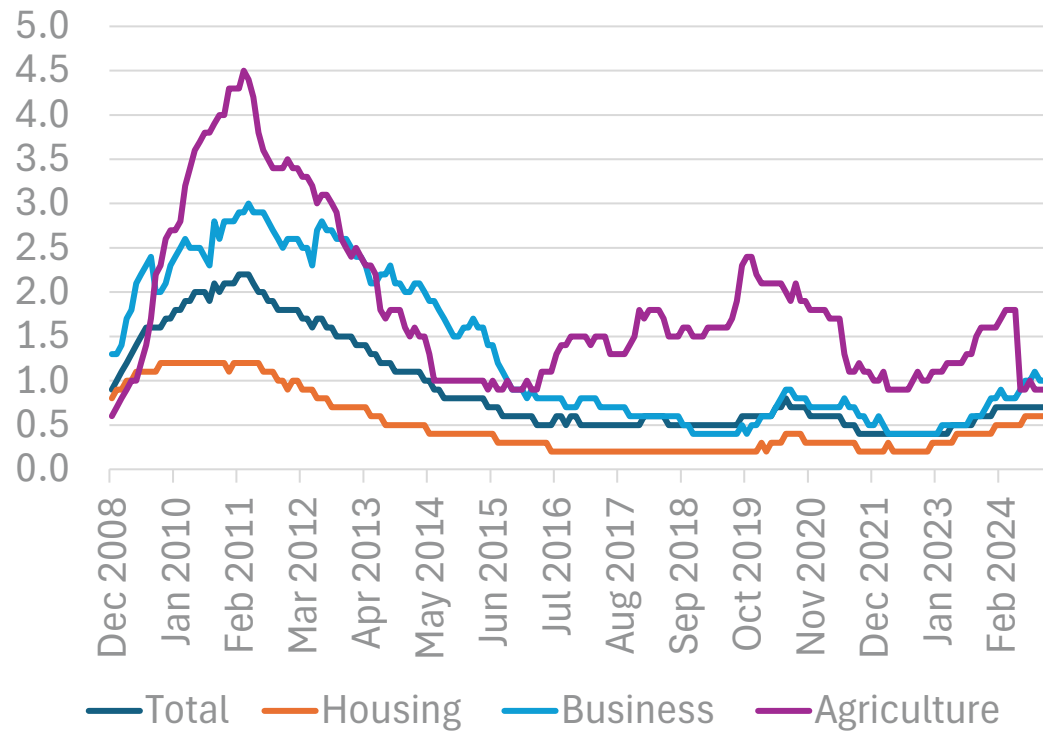


## GDP – quarterly % change

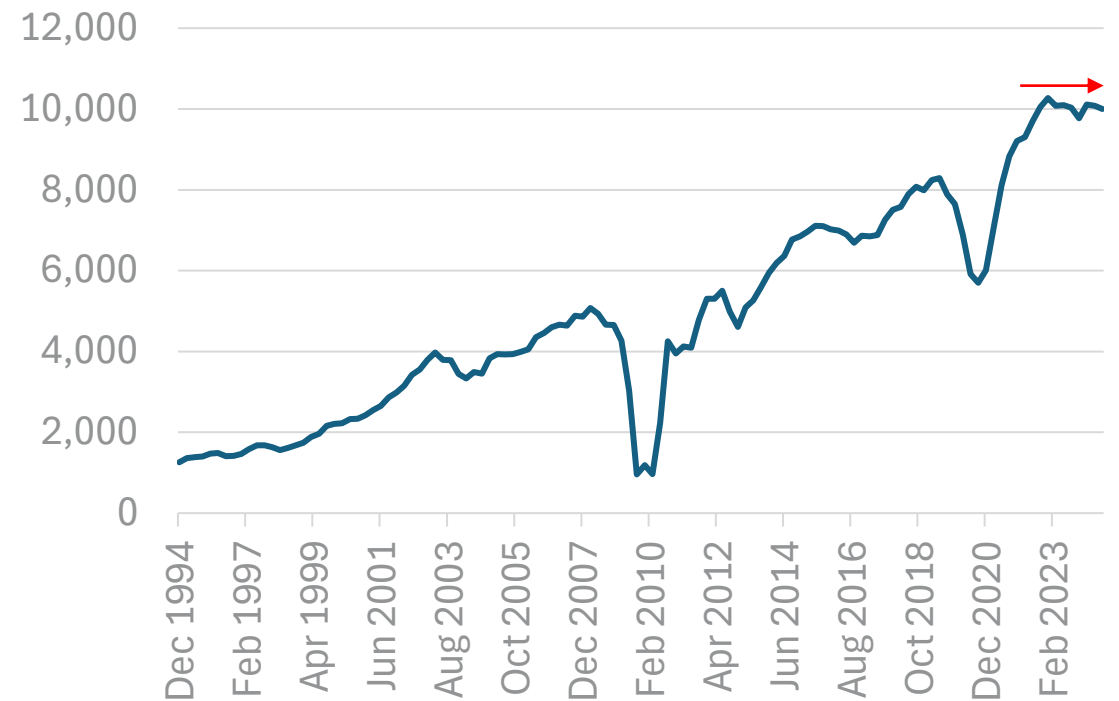


# Toughest time since the GFC? Yet bank losses only 0.08% of total loans

## Non performing loans as % of total

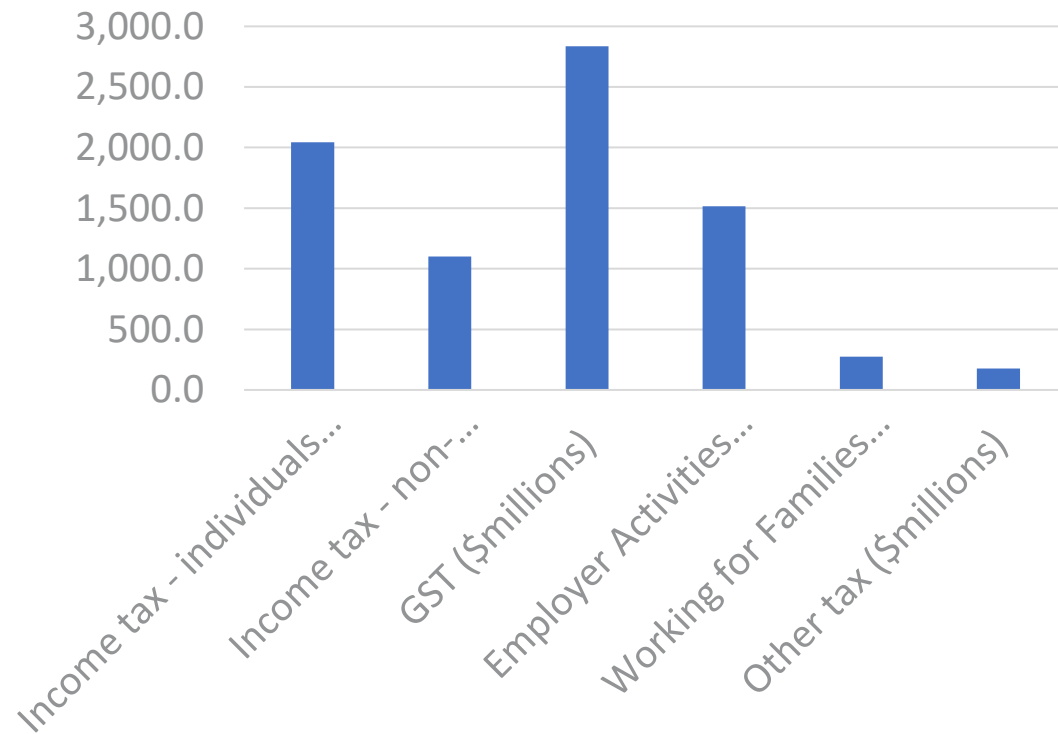


## Bank profits \$m

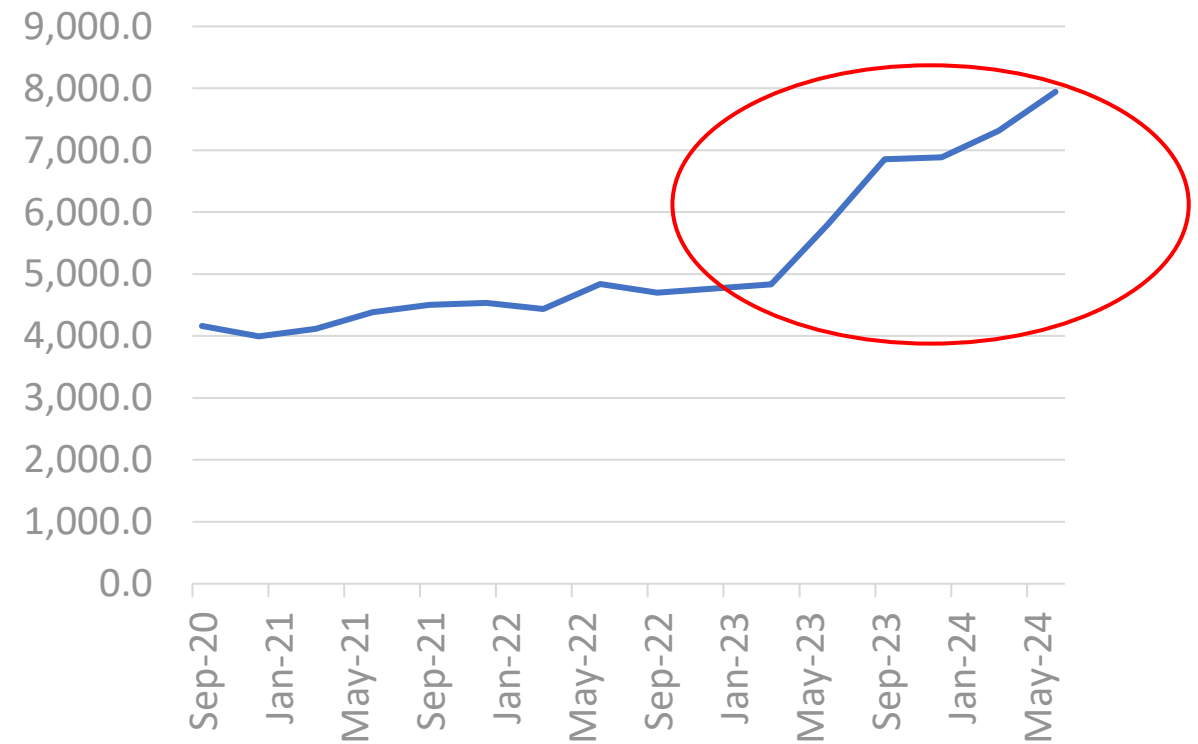


# Tax debt means insolvencies still coming

**Tax debt – by type \$m**

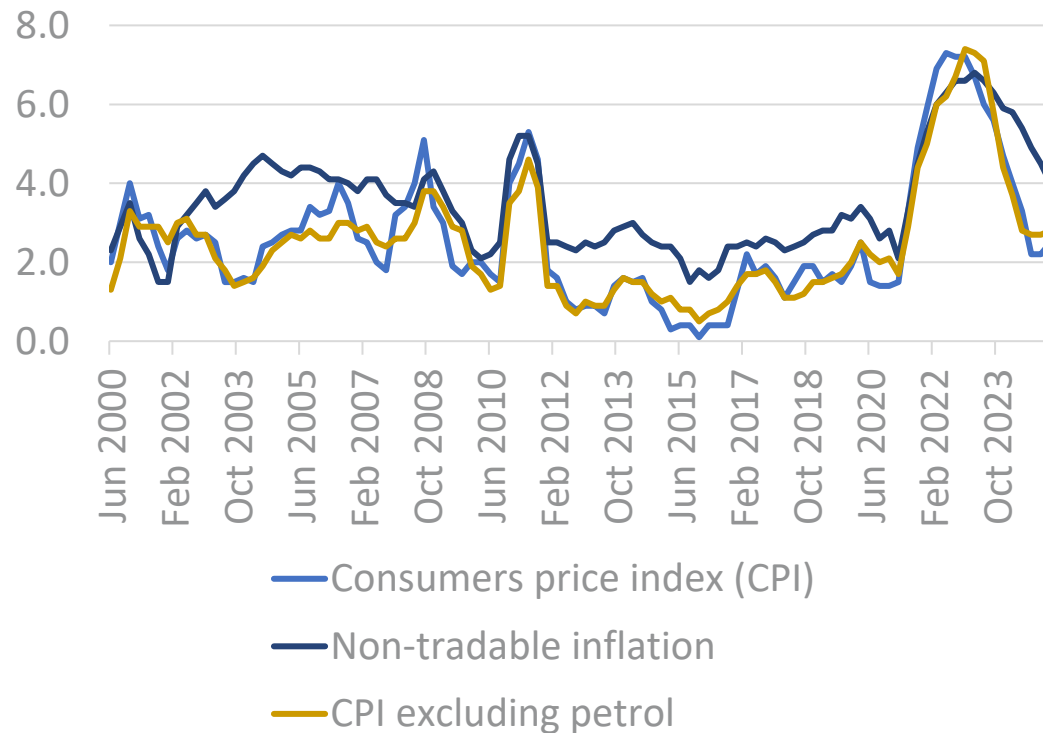


**Tax debt - \$m**

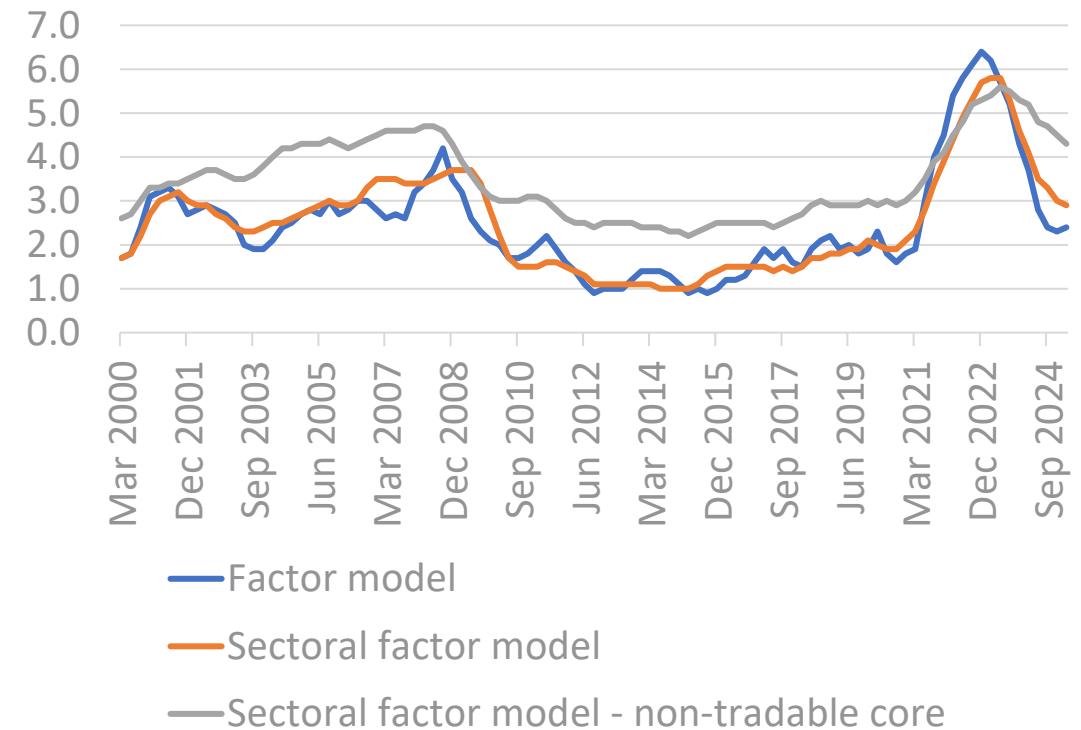


# Inflation subsided as the economy got beaten up = lower OCR

## Inflation measures – annual % change

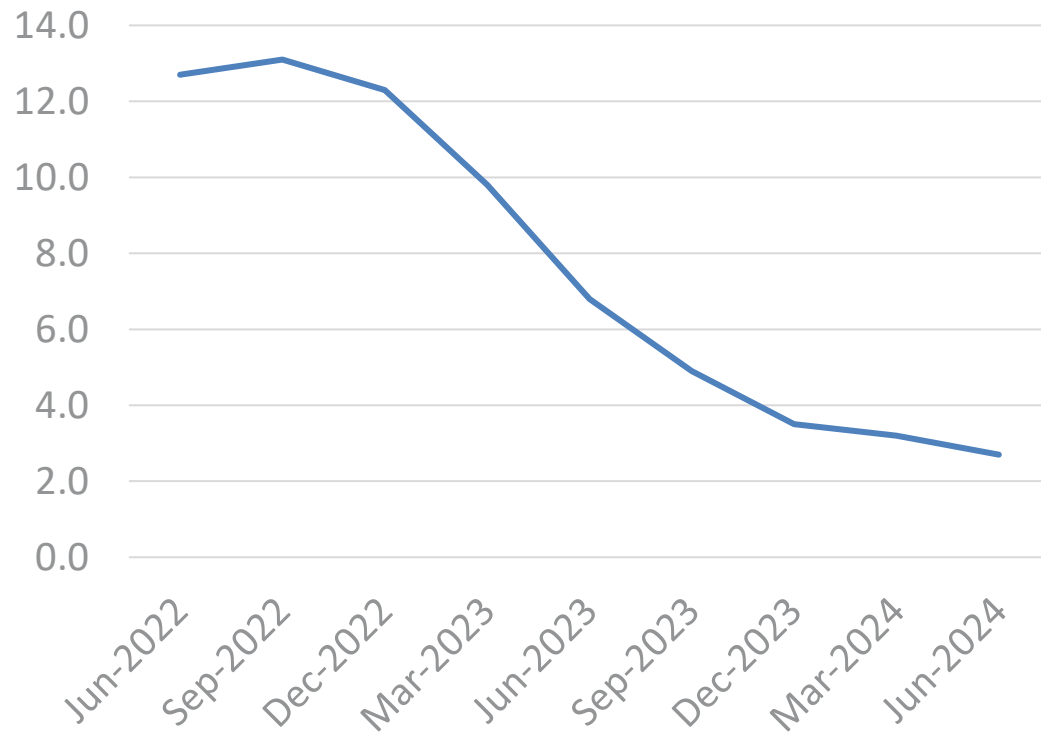


## Core inflation measures – annual % change

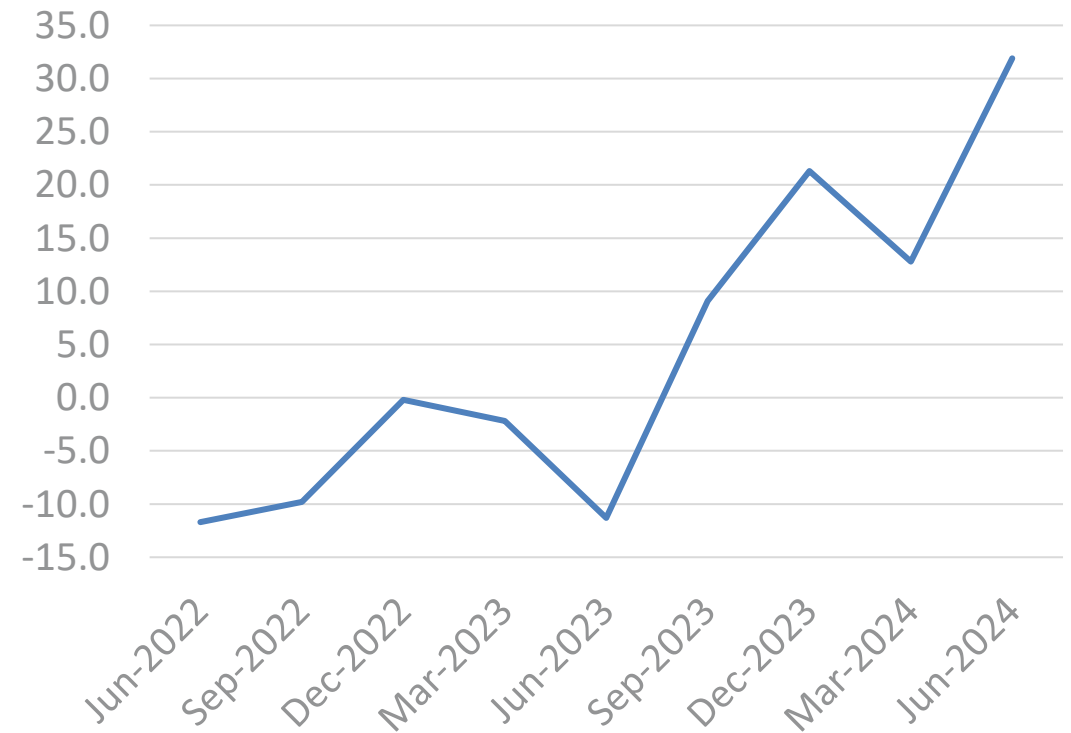


# Some sectors are economically sensitive. Others are not such as rates, electricity, medical insurance

**Construction – annual % change**

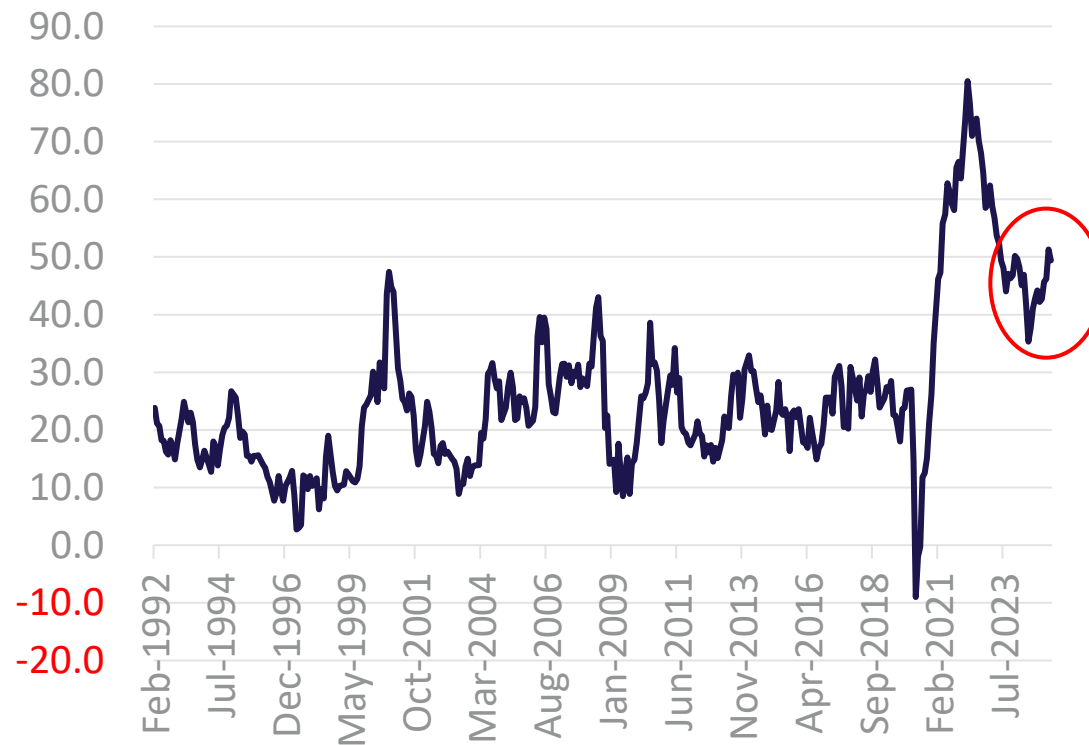


**Electricity and Gas output prices – annual % change**

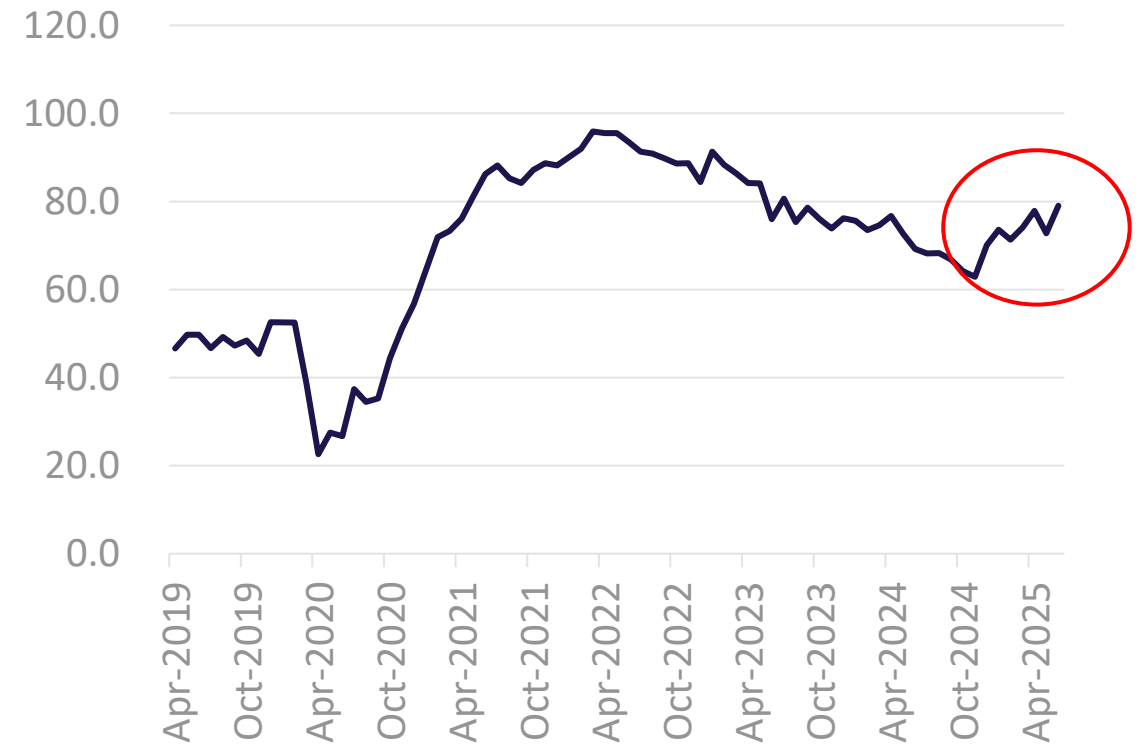


# Signs of pricing uplift in NZ needs watched. Headline inflation tracking back up to 3%

## Pricing intentions - balance

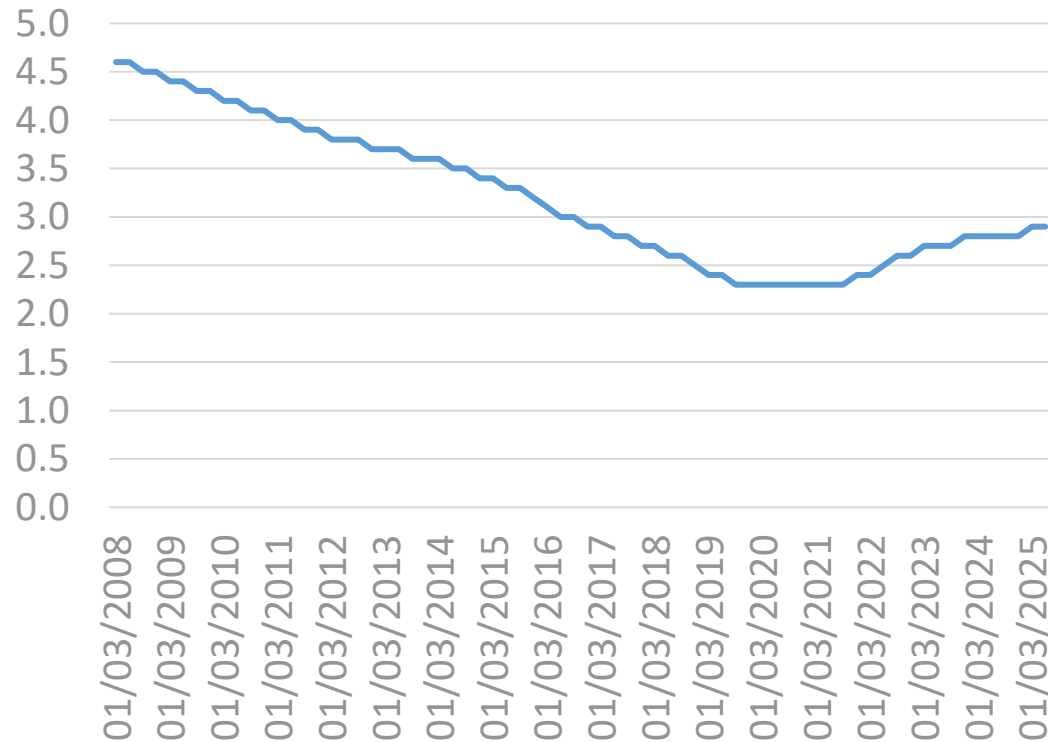


## Costs – net balance

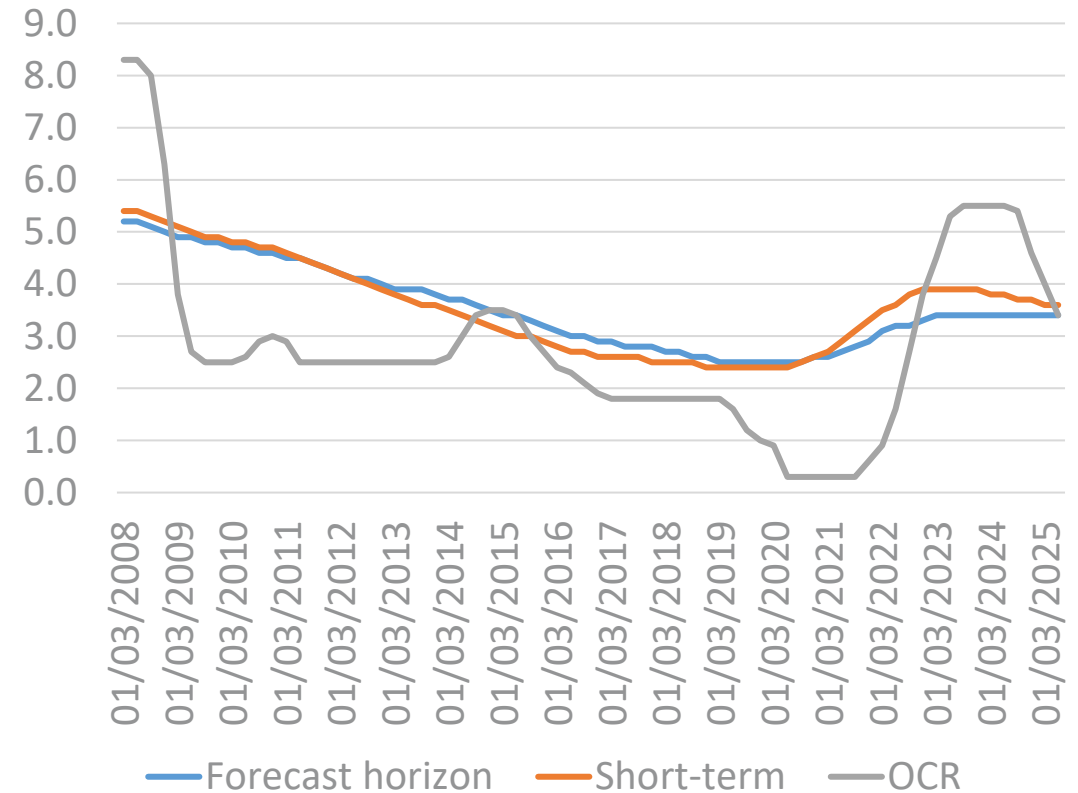


# OCR now clearly in the neutral zone – time for a cup-of-tea

## Neutral OCR – long-term

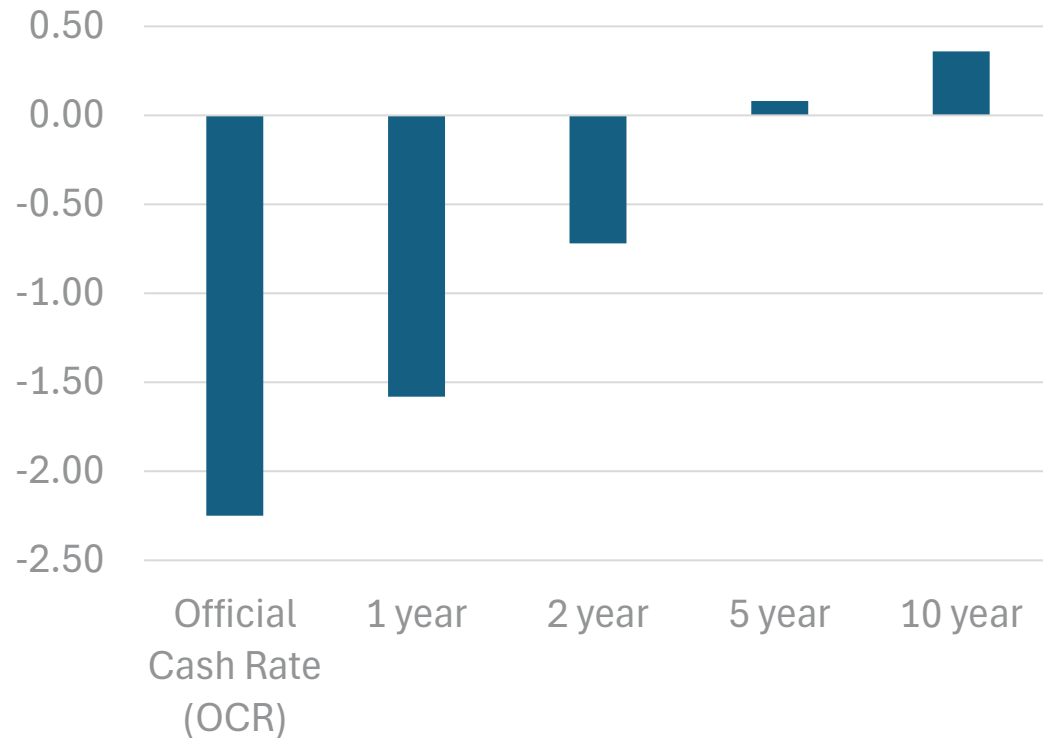


## Neutral OCR



# Short-term rates down but long-term rates remain elevated

Change in bond yields since start of easing cycle

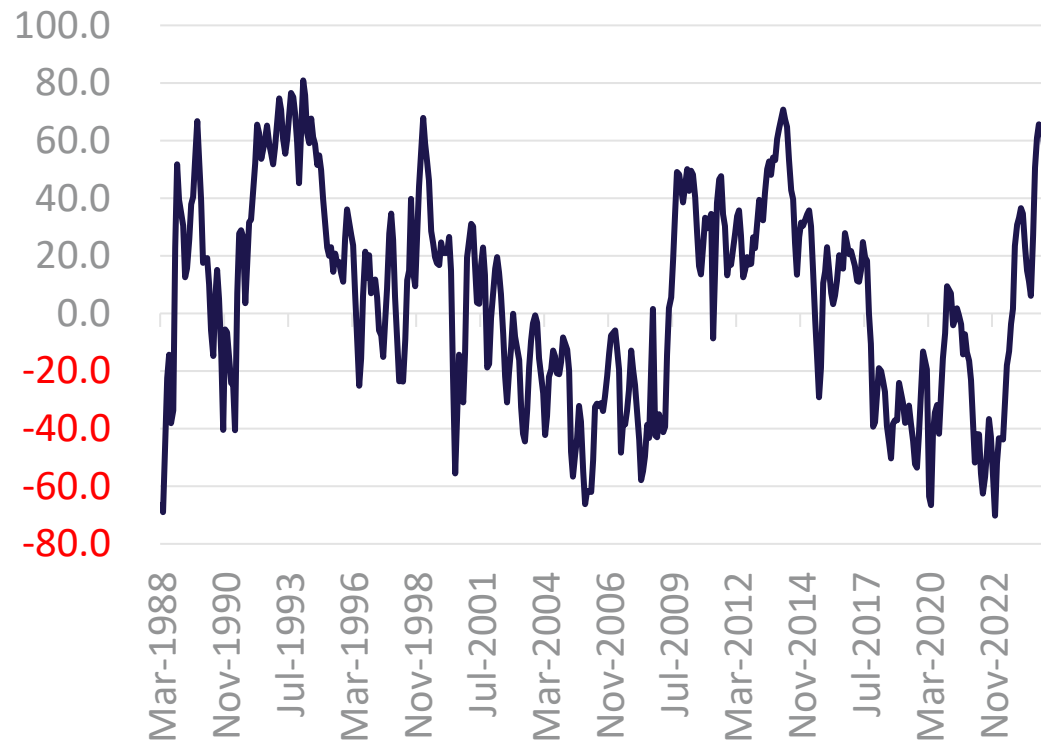


NZ 10 year bond yield

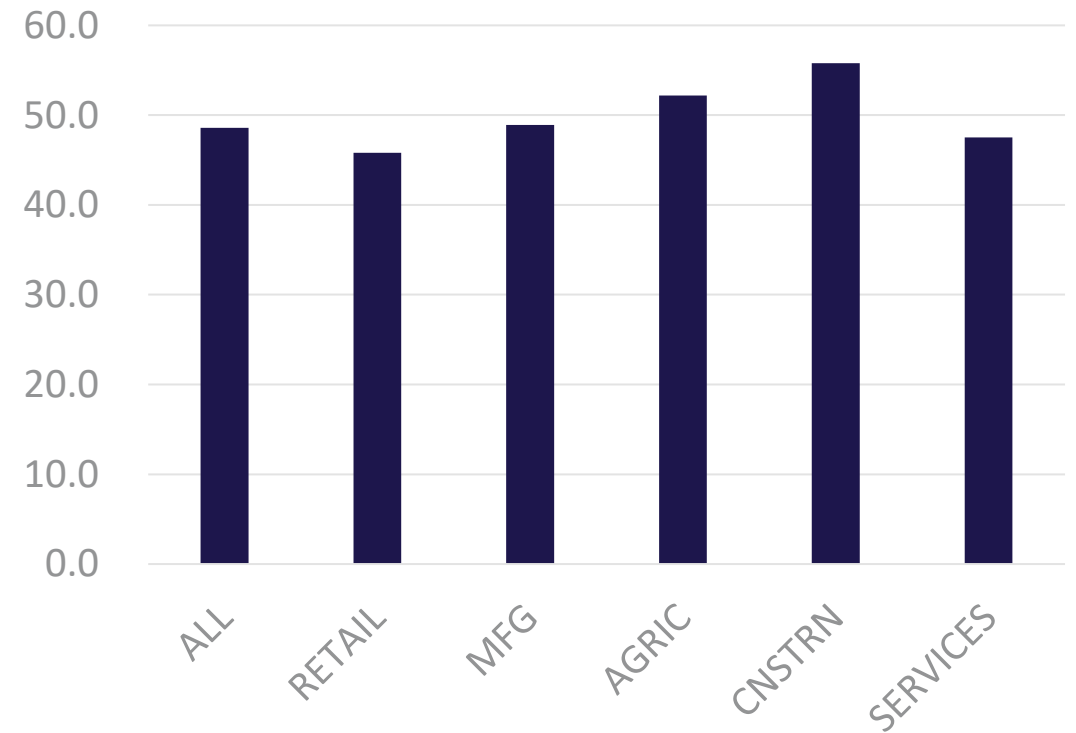


# NZ business confidence is strong and activity expectations high across the board

## Business confidence

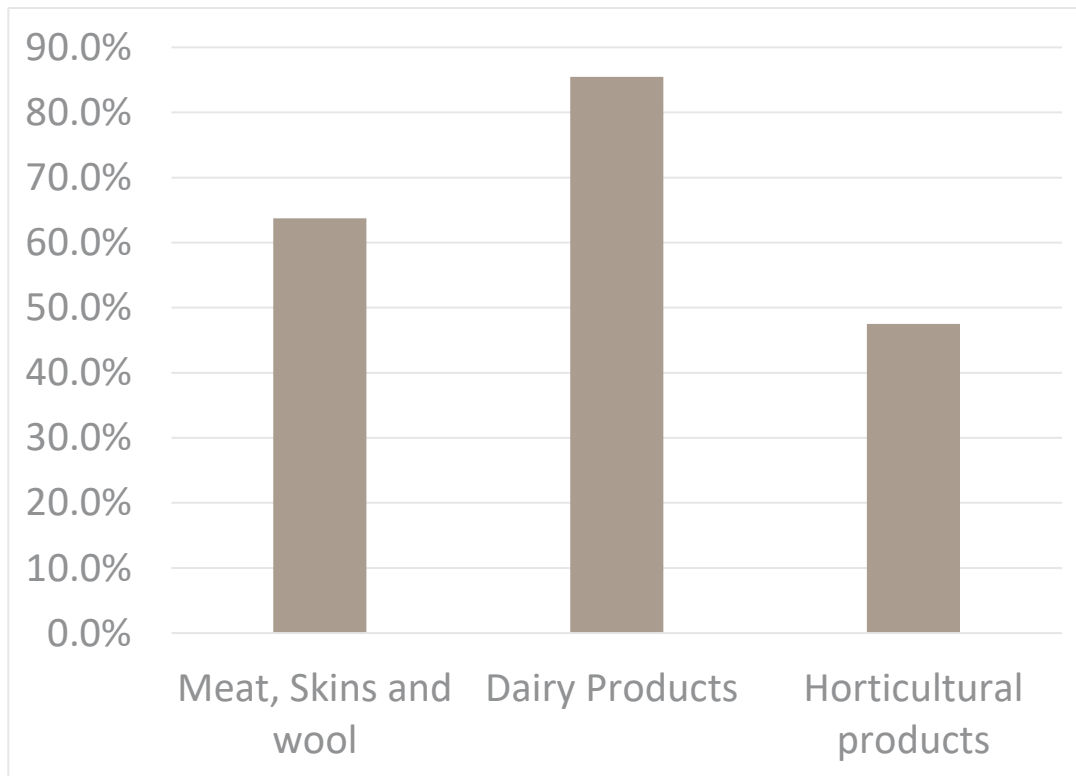


## Activity expectations by sector – net balance

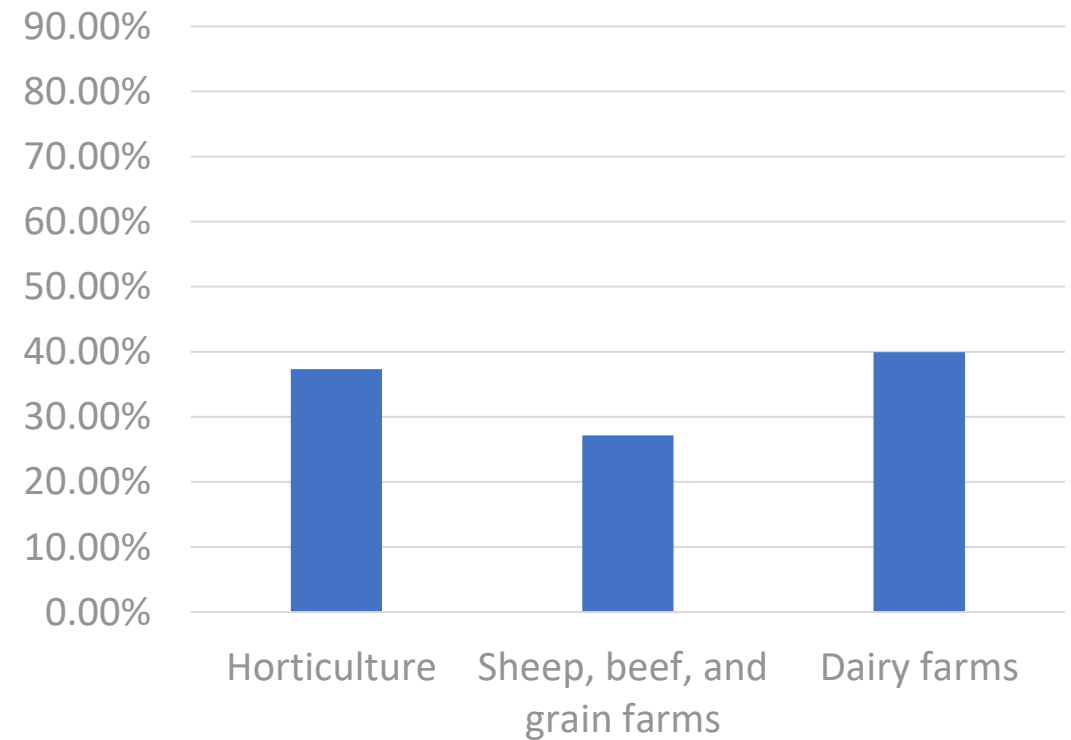


# NZD commodity price movements have exceeded cost rises = rural regions leading recovery

## Commodity price change since 2018



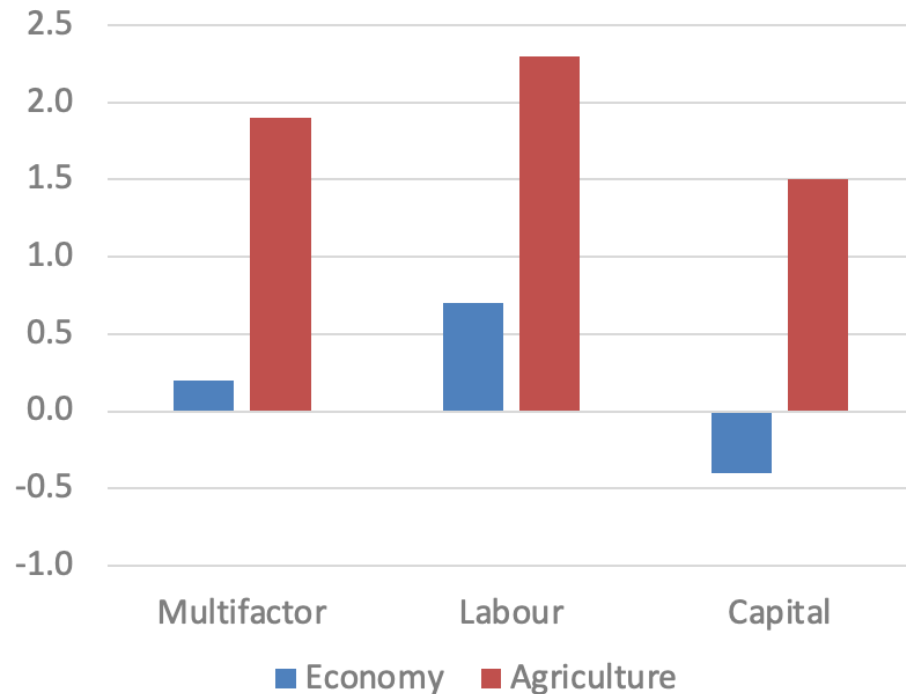
## Cost change since 2018



Source: ANZ, Stats NZ

# Low productivity remains a huge issue = handbrake on upturn

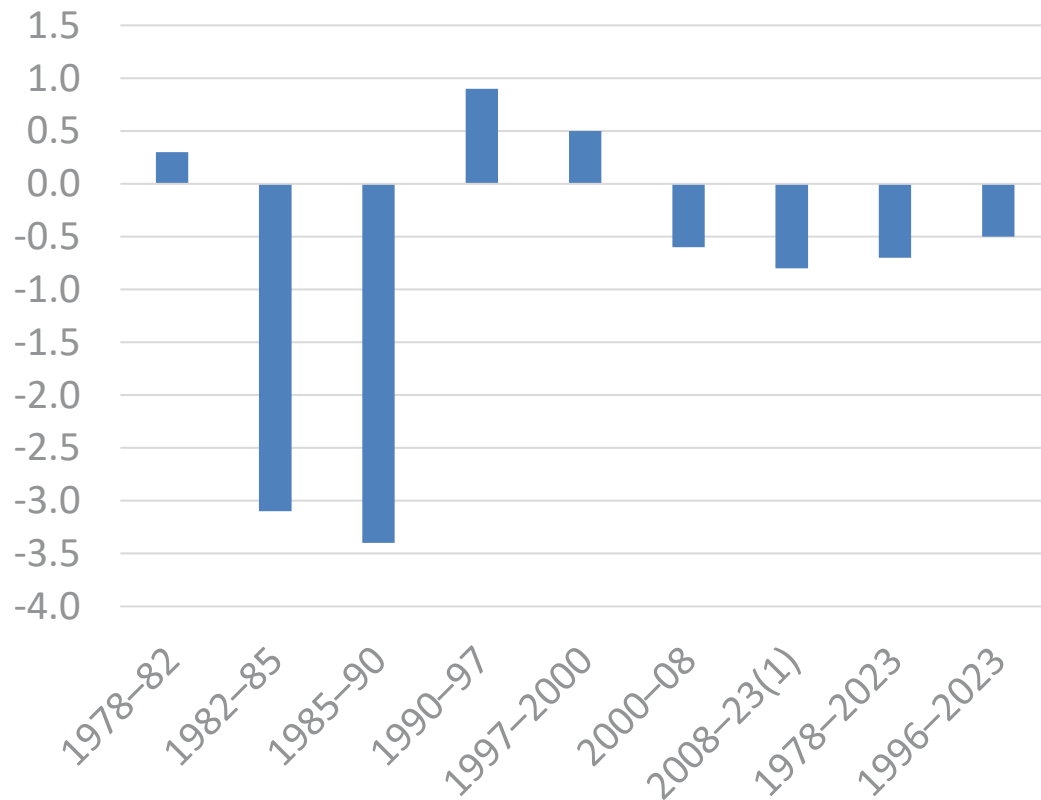
Productivity growth average 2008-2023 % per year



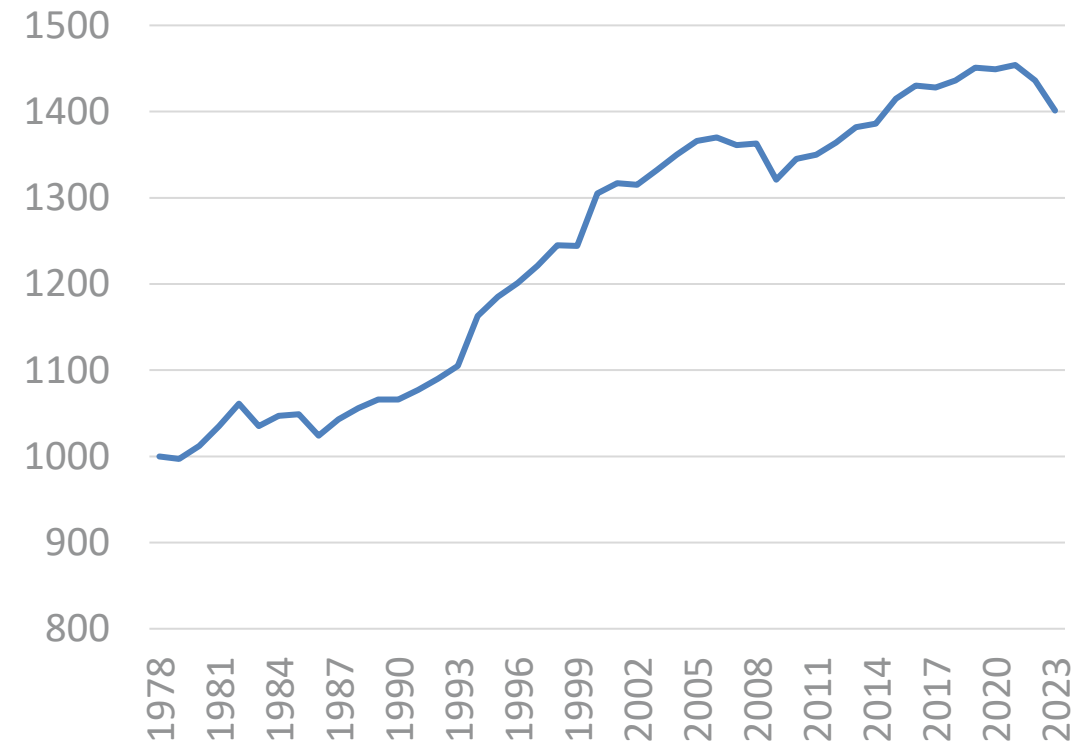
- “Sustainable improvements in our living standards depend upon productivity.”
- “Productivity for the whole economy averaged 1.4% p.a. between 1993 and 2013 but averaged only 0.2% p.a. over the last ten years.”
- “Considering the evidence, the Treasury's view is that productivity growth is most likely to remain slow over the coming years.”
- **Still waiting for the policy platform... and common sense to fix what is broken**

# Woeful capital productivity performance

Capital productivity by cycle – average annual % change



Multi-factor productivity index



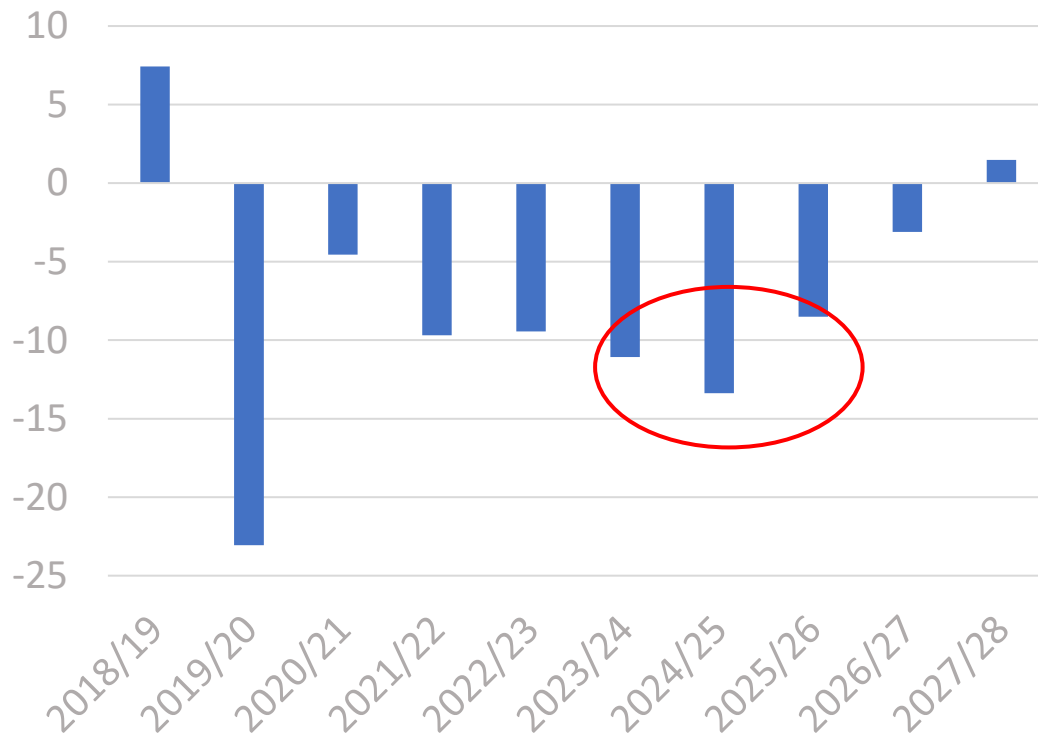
Source: Stats NZ

# Lots of basics to get right. Hit from education yet to be fully felt

- “....New Zealand is one in a group of OECD countries in which the proficiency of our children in reading, science and mathematics has declined over the last 10 years, as measured by the OECD’s Programme for International Student Assessment or PISA.”
- “...the decline of almost 29 points in New Zealand’s average PISA score between 2006 and 2018 will eventually reduce aggregate productivity levels by close to 4 percentage points.”
- “New Zealand may not be well-placed to successfully absorb new productivity-enhancing innovations given falling educational attainment, our relatively low managerial capability and low, albeit growing, levels of research and development (R&D).”

# Government needs more money which means funding tradeoffs

## Government operating balance \$b



## Can we return to surplus?

- Material declines in per capita spending required
- Health is a huge problem for the government
- Road of National Significance unfunded as yet
- Rise in defence spending coming from where?

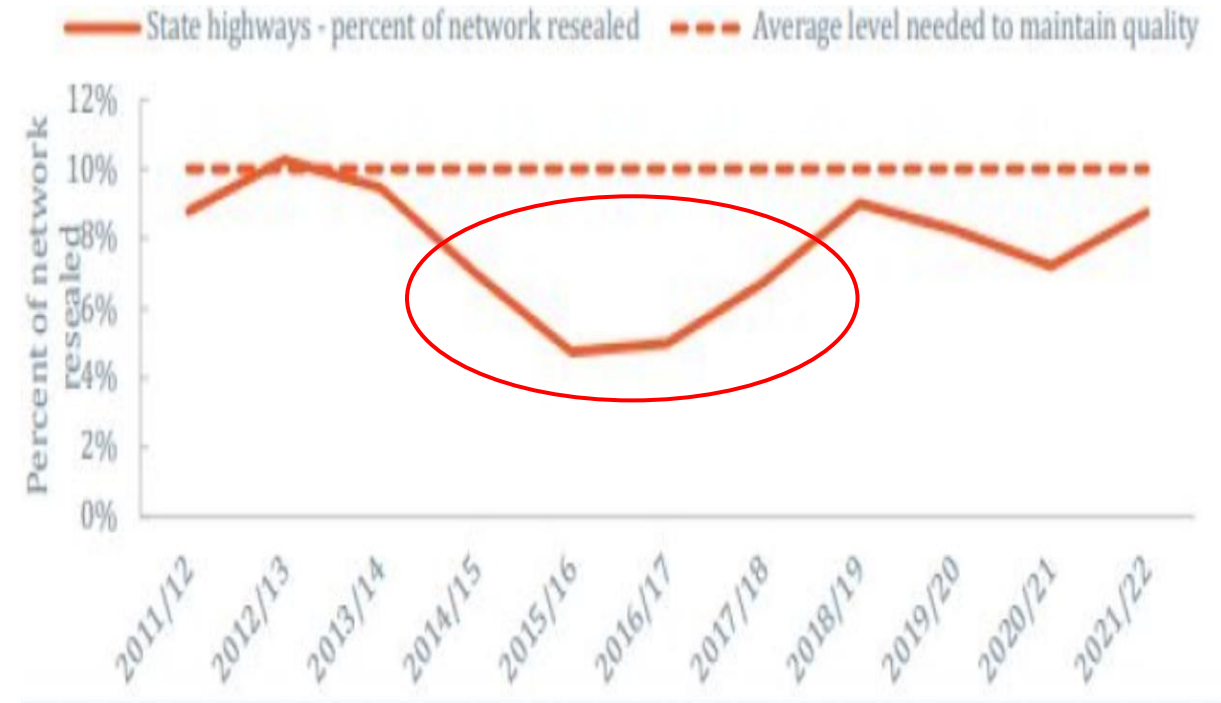
# Is history set to repeat?

## Per student funding for property



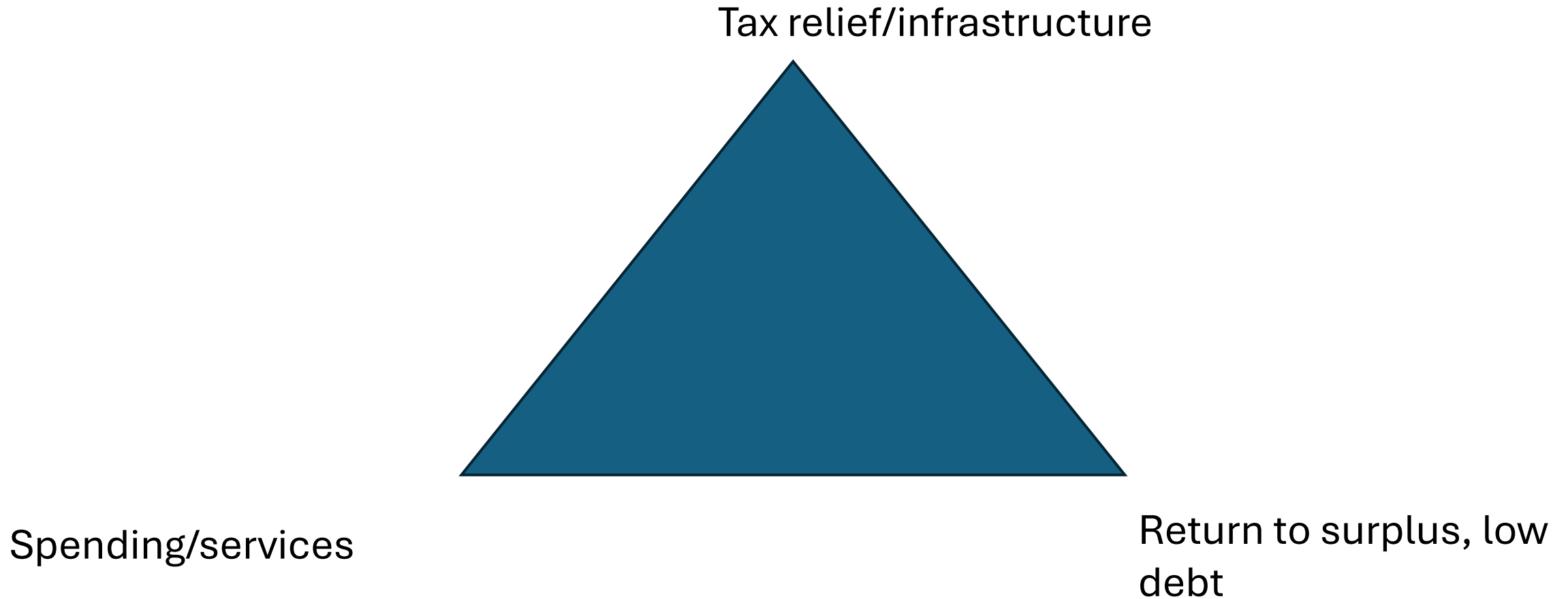
Source: Education counts, Infrastructure  
Commission

## Under-investment in roads



Infrastructure Commission graph of the percentage of the State highway network resealed between 2012 and

# The impossible trinity for the Finance Minister. You can be on one side of the triangle



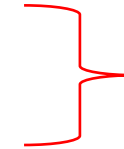
# NZ needs a new growth model which could be exciting

## Old growth model

- Selling more expensive houses to each other
- Migration/tourism/China
- Terms of trade
- Easy policy calls

## Required/new growth model

- Productivity
- Capital investment
- Natural resources
- Tough policy calls



That means  
looking at the  
banks

# How is it going to pan out?

- We are the two-bit player at the international roulette table
- The geo-strategic now dominates commercial imperatives
- All about security and lots of uncertainty
- NZ does not look too bad when you consider the rest of the world
- Rural sector and interest rates doing the growth lifting in NZ
- Construction taking time to turn and uncertainty will not help
- We need to leverage our natural areas of advantage more
- Without an improvement in productivity we face a long crawl
- This is a fundamental reset