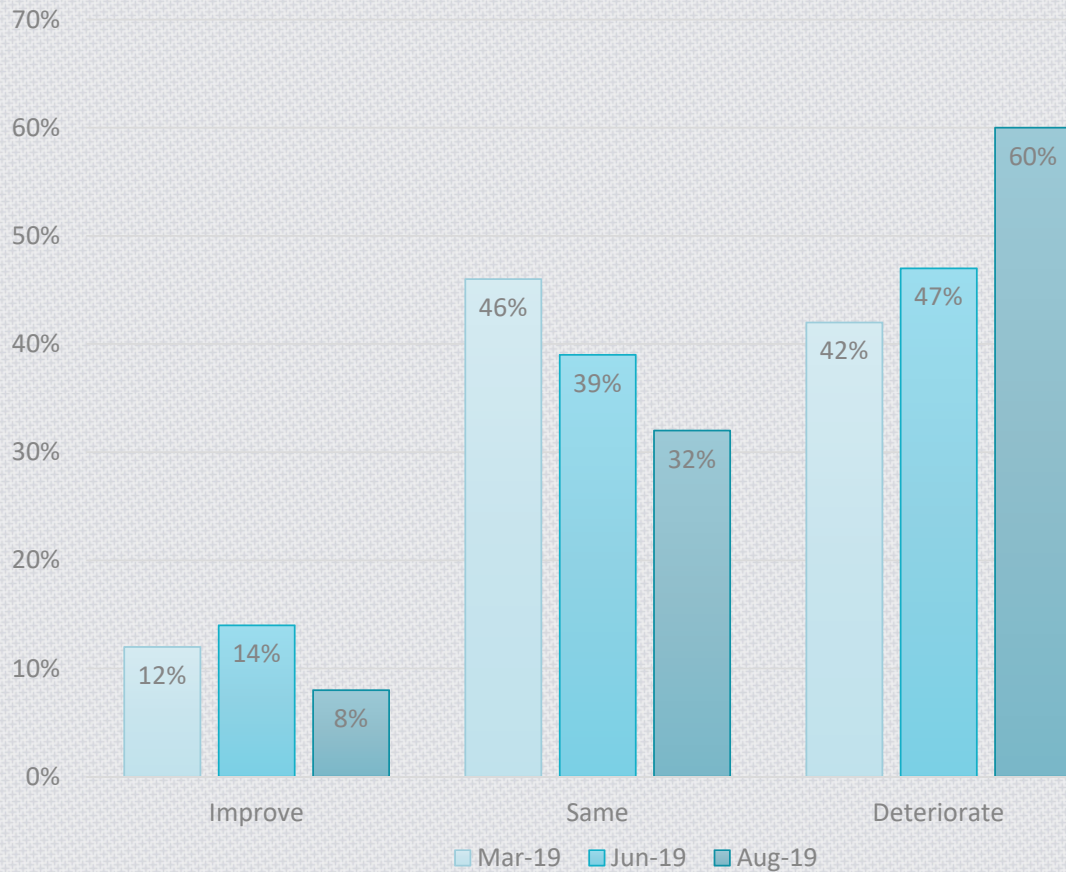




**MICHAEL BARNETT**

**CEO AUCKLAND CHAMBER**

# GENERAL BUSINESS SITUATION IN NZ



**AUGUST 2019**

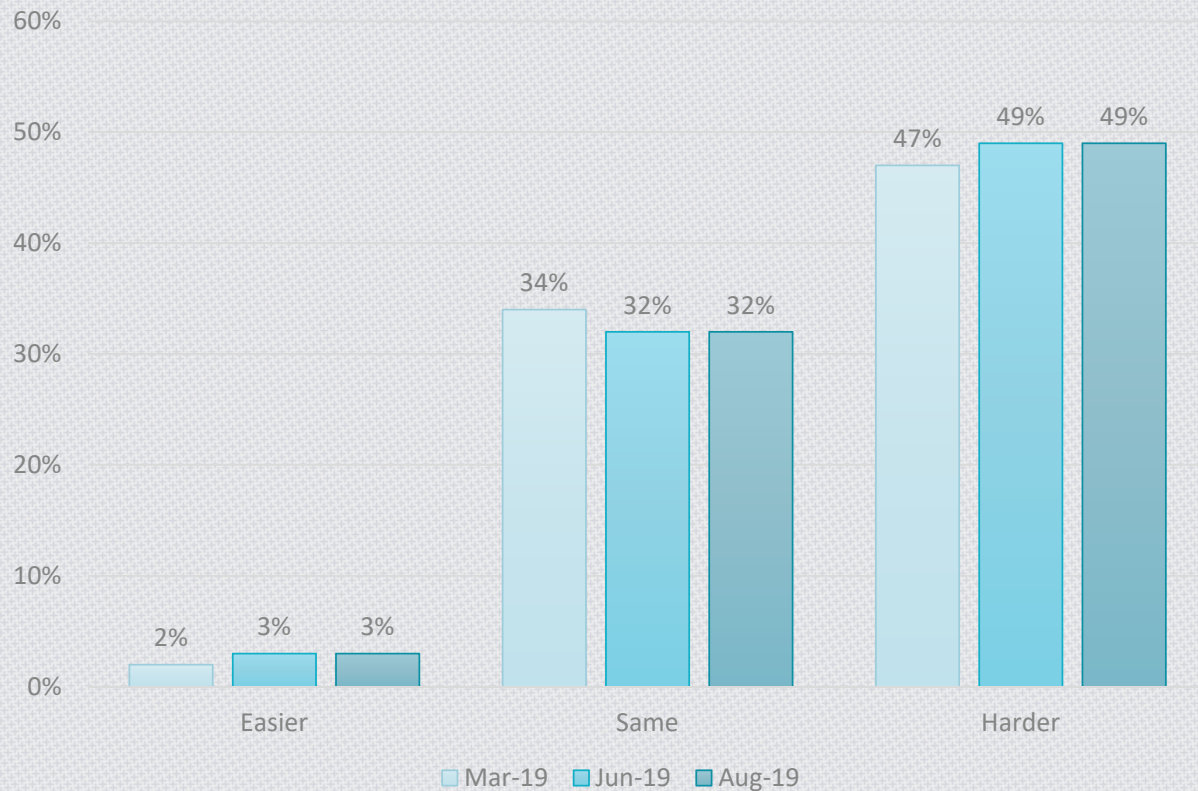
**8%** IMPROVE

**32%** SAME

**60%** DETERIORATE



# FINDING SKILLED STAFF



**AUGUST 2019**

**3%** EASIER

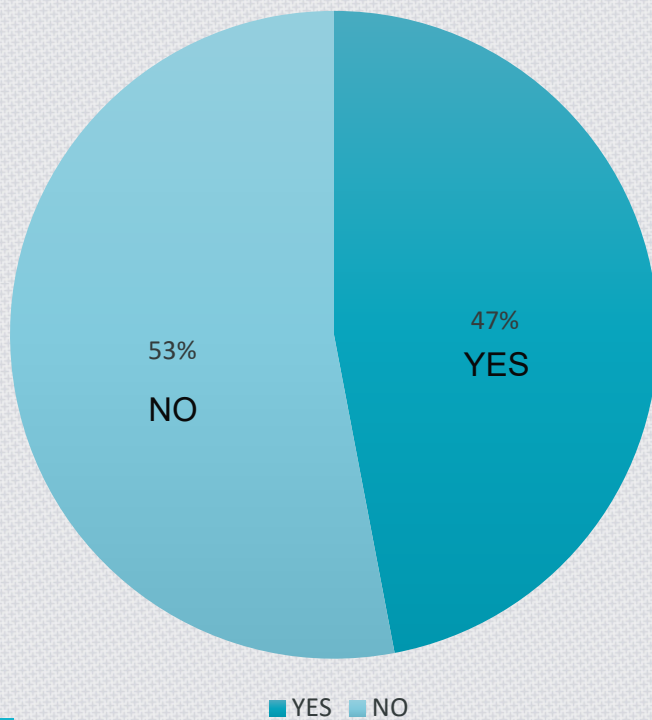
**31%** SAME

**49%** HARDER

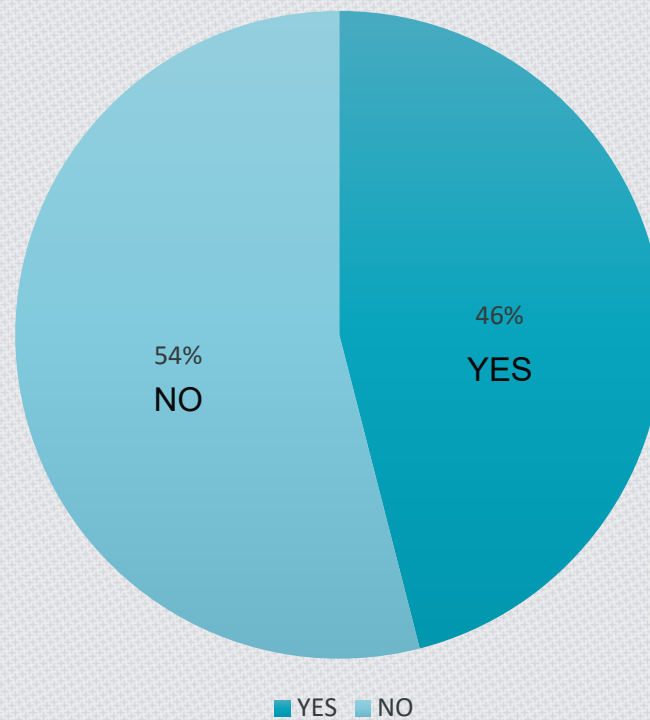


# RECRUITING NOW

Mar-19



Jun-19



**AUGUST 2019**

**44%** YES

**56%** NO



**BERNARD HICKEY**

**newsroom.pro**

# Mr Shock and Orr-some



# How low can you go Adrian?



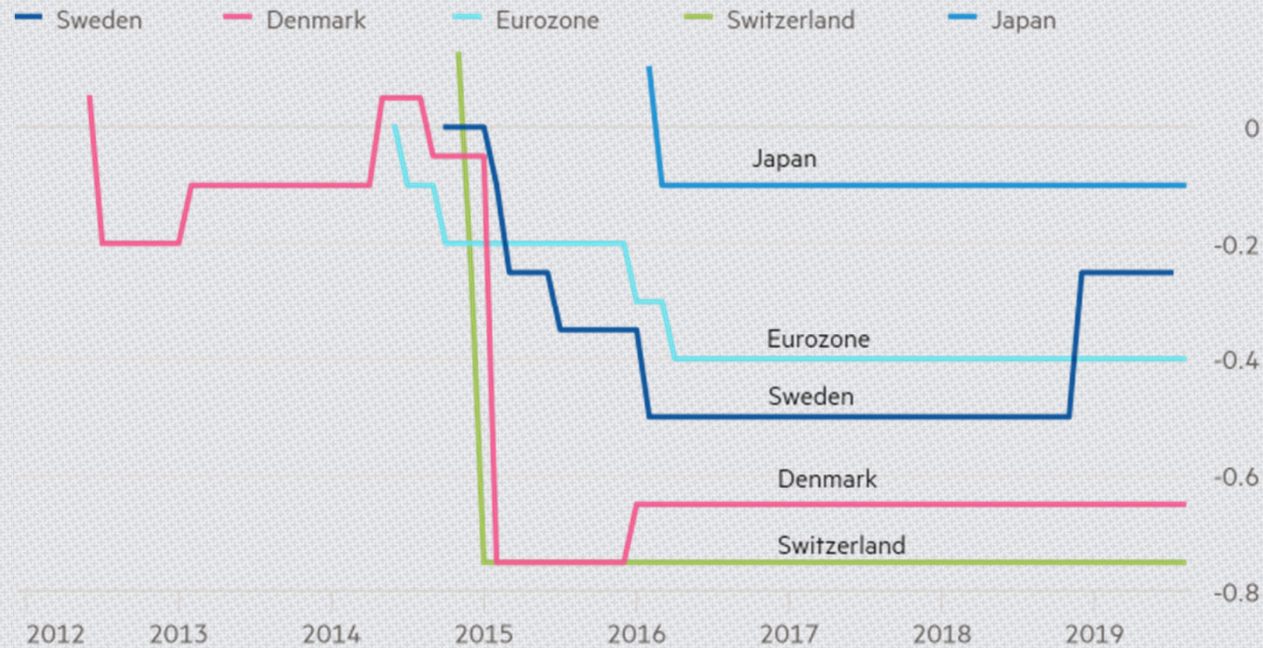
# Negative. Interest. Rates. WTF!



# It is a real thing up north

## Crossing the zero bound

Central bank policy rates (%)



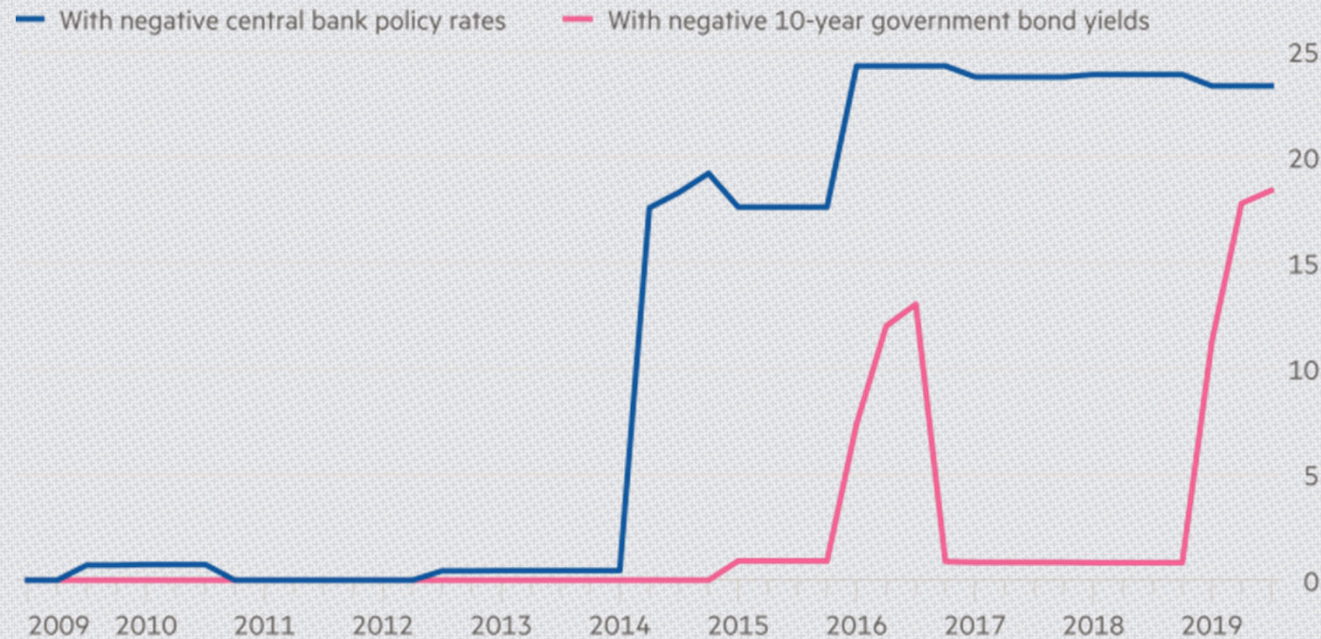
Source: Refinitiv  
© FT



# Quarter of globe has gone negative

Central banks covering almost a quarter of the global economy have negative rates

Share of world GDP at market prices (%)



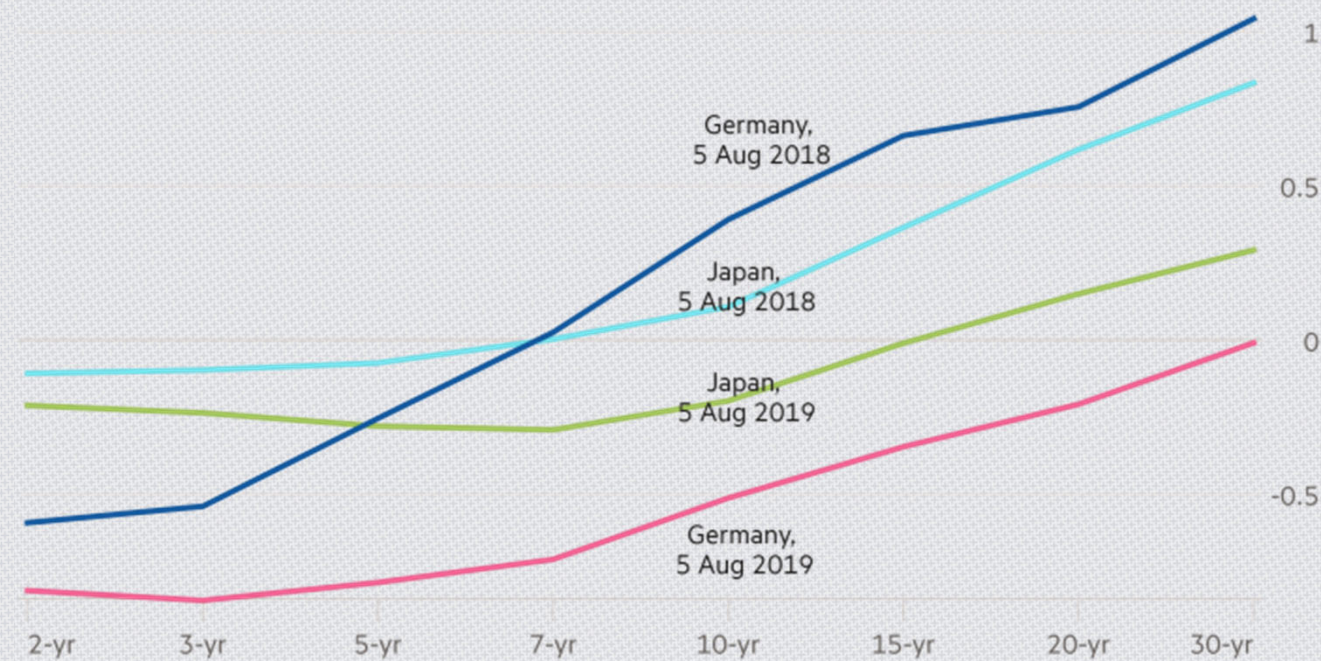
Source: IMF, FT research  
© FT



# Even the Germans are turning Japanese

The entire German yield curve is now negative

German and Japanese government bond yield curves (by maturity, %)



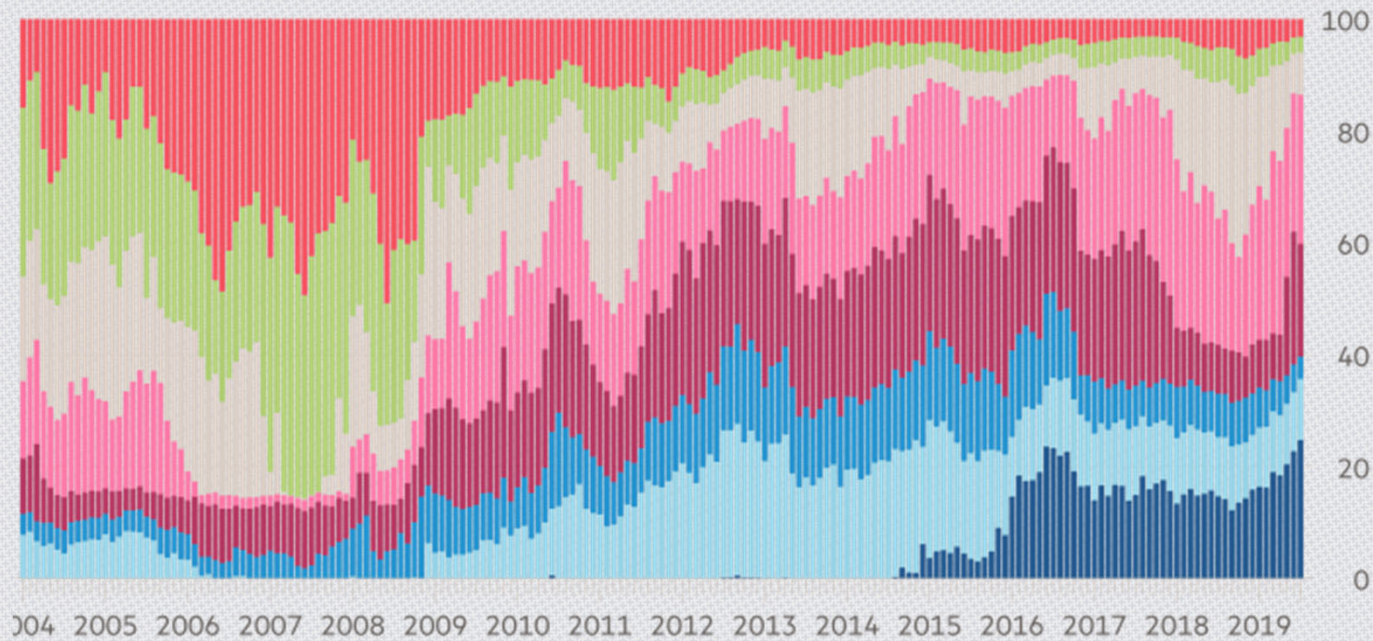
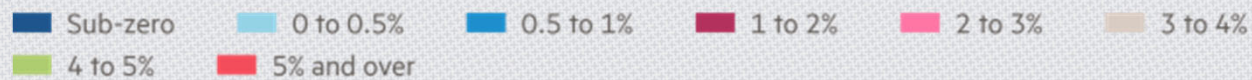
Source: Refinitiv  
© FT



# 60% of bonds yield less than 2%

High returns are rare in the post-crisis world

Global bond market, by yield (% share)



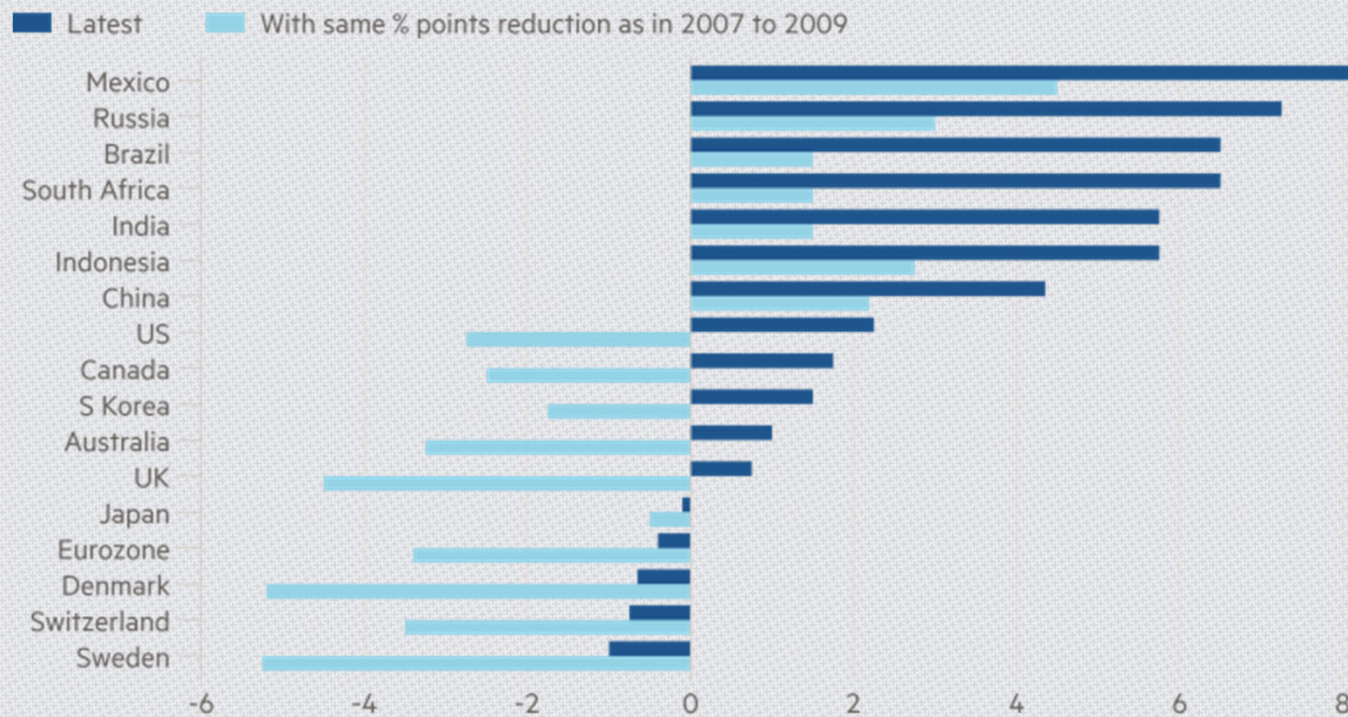
Source: ICE Data Indices  
© FT



# Central banks running out of ammo

A global recession could push more countries into negative territory

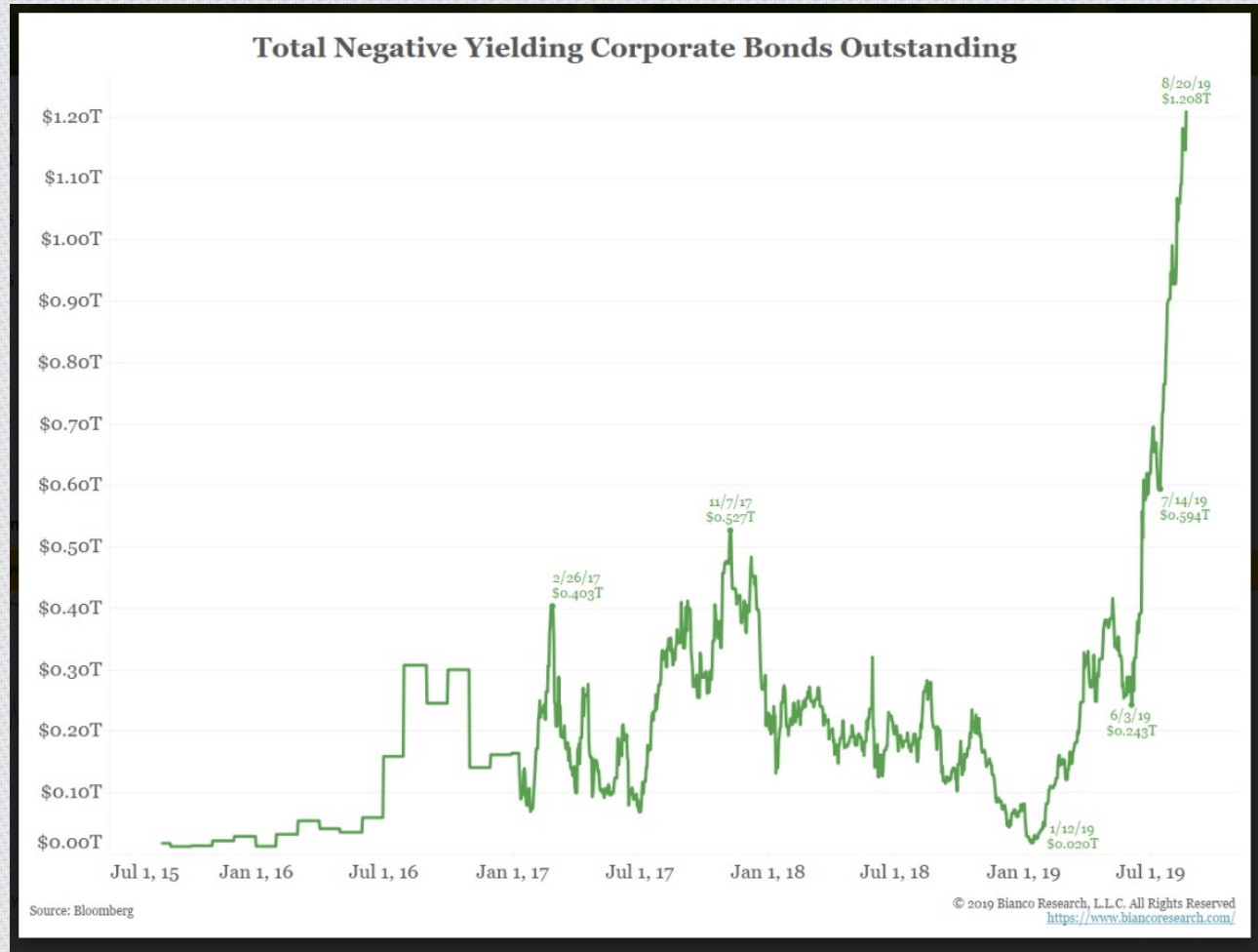
Central bank policy rates (%)



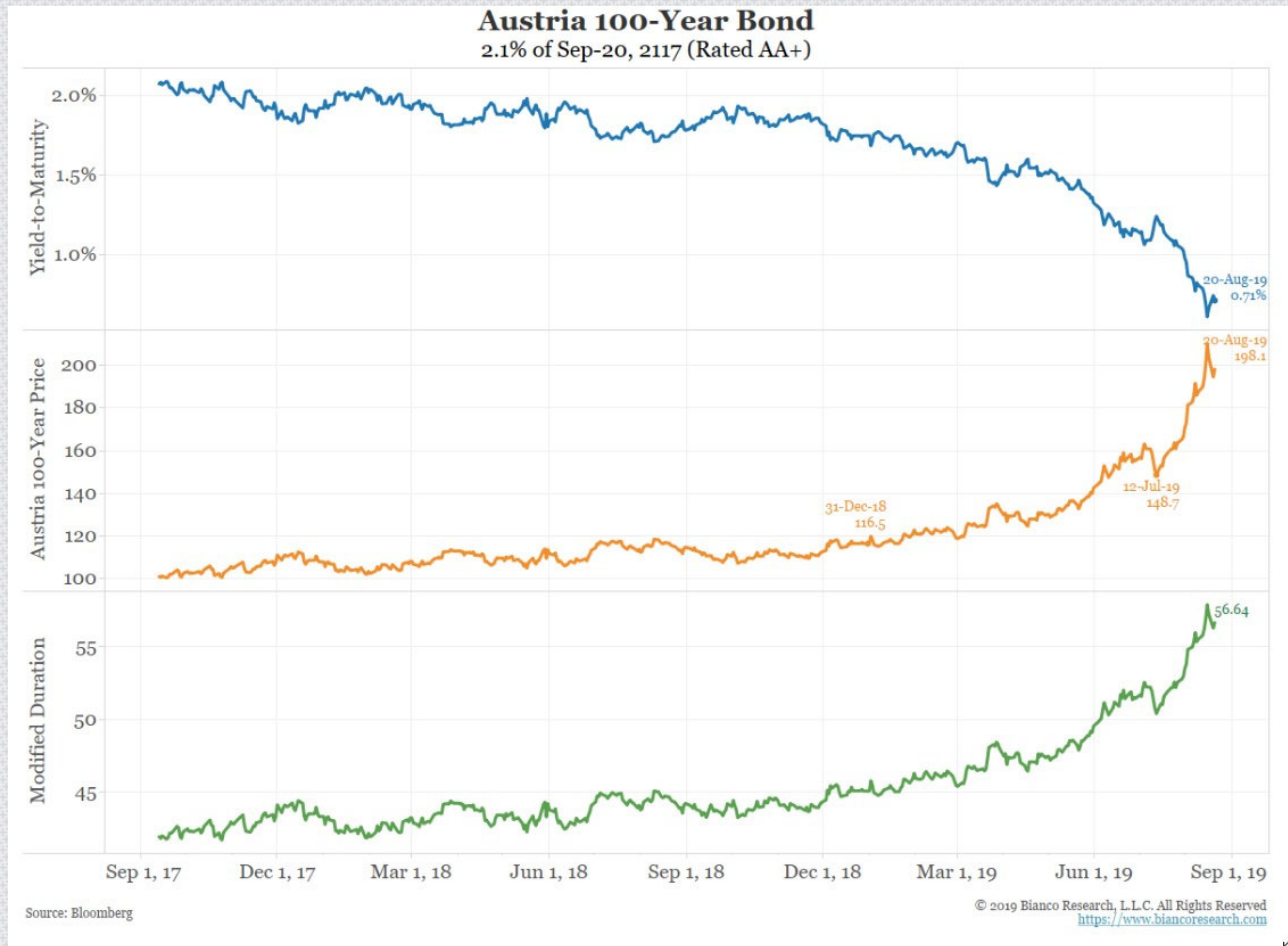
Source: Refinitiv  
© FT



# US\$1.2t of corporate bonds now negative

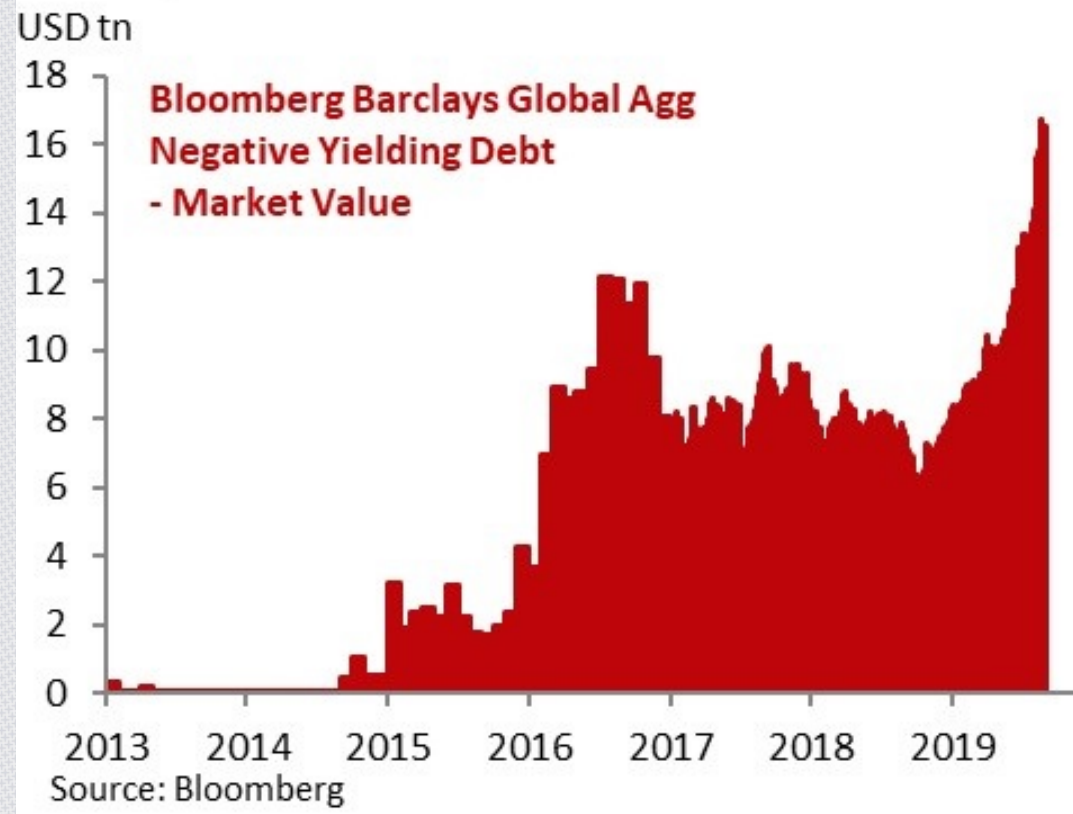


# Austria's 100 year bond at 0.4%

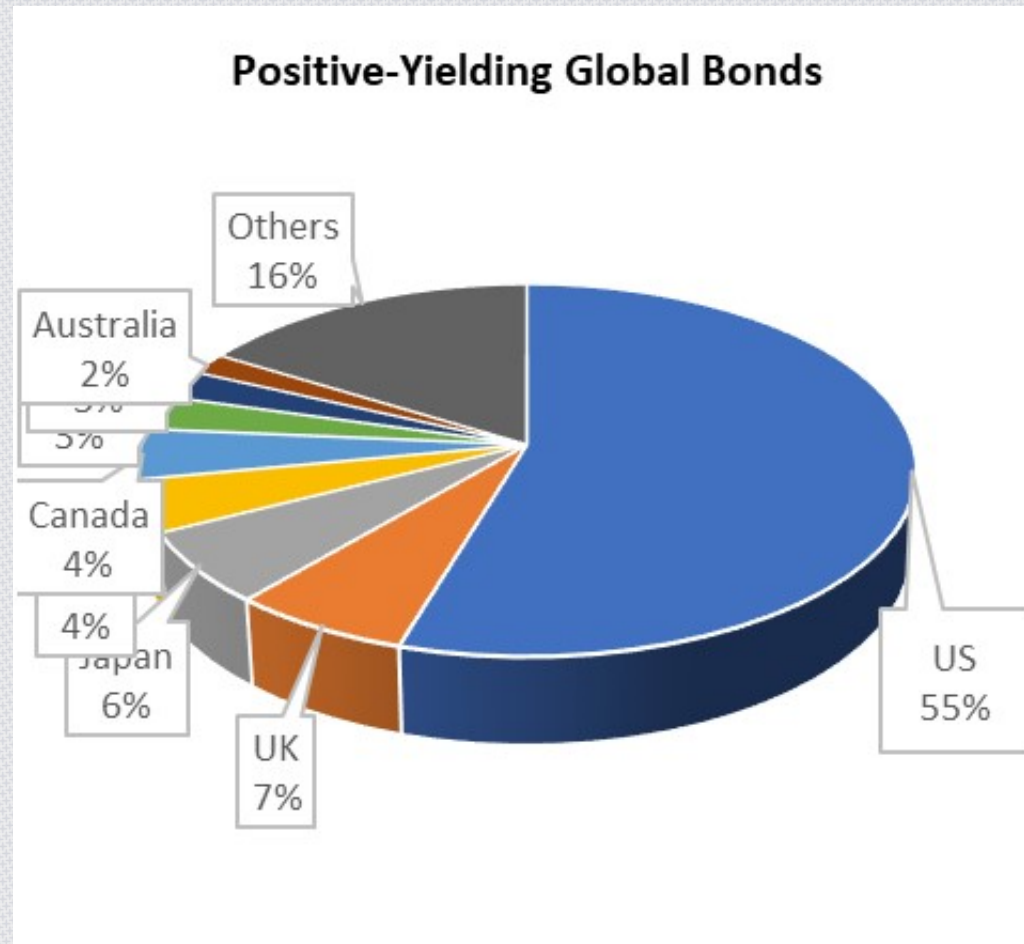


# US\$17 trillion of negative yield bonds

**Global negative-yielding debt at a record high and still climbing.**



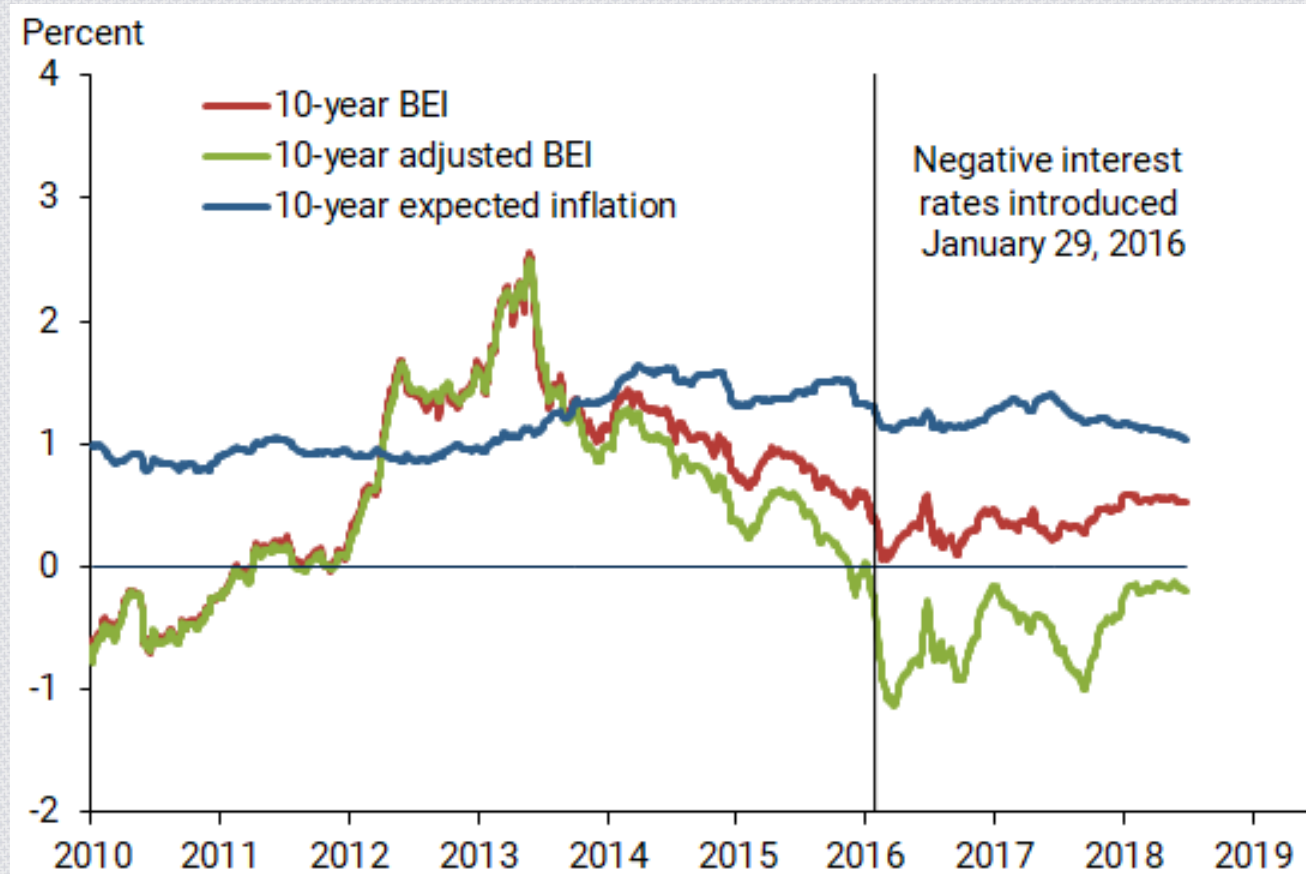
# NZ one of the few with positive yields



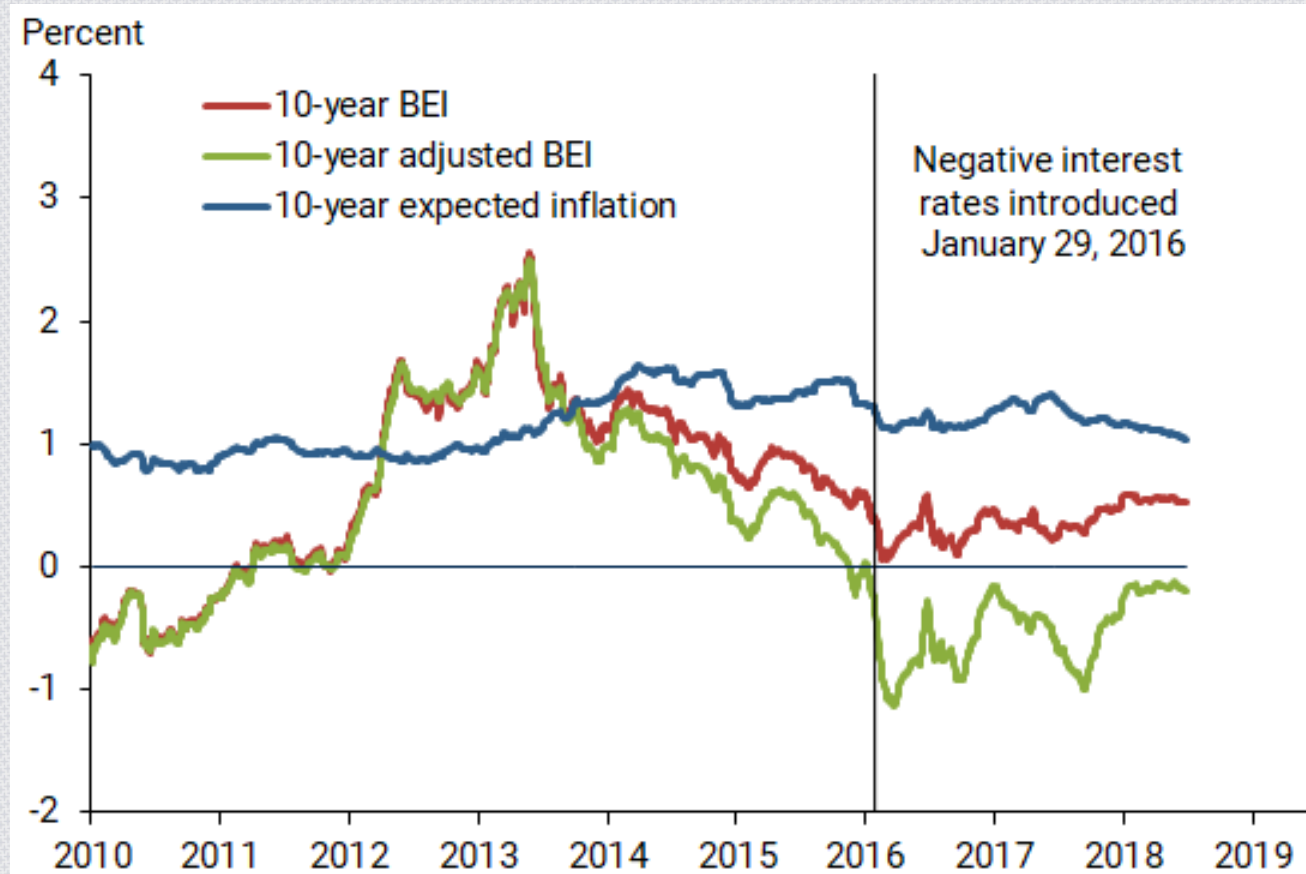
# Japan a late starter to the negative party



# It didn't work. Inflation expectations fell



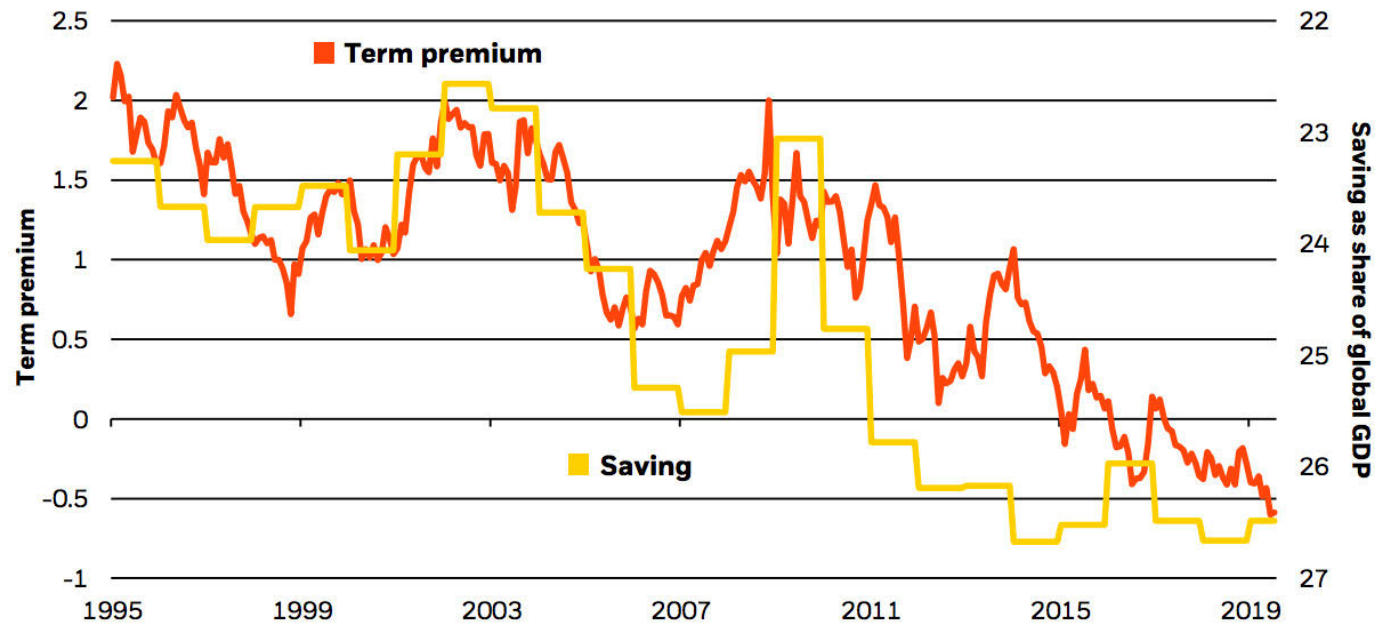
# QE also hasn't worked. Fire up the helos?



# Instead. Print money. Give it to Govt

## Fiscal expansion could absorb saving glut

BlackRock estimate of the G3 term premium global saving to GDP inverted, 1995-2019



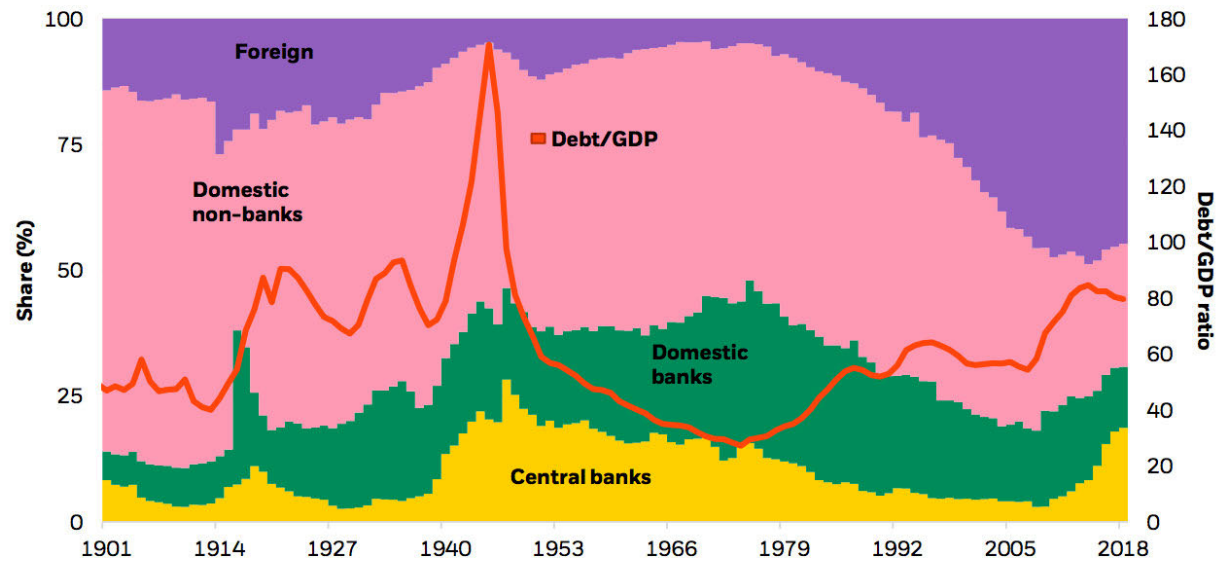
Sources: BlackRock Investment Institute, Federal Reserve Bank of New York and IMF, with data from Refinitiv Datastream, August 2019. Notes: This chart shows our estimate of the G3 term premium on 10-year sovereign yields and gross global savings. The G3 term premium is a GDP-weighted average of the US, German, and Japanese term premium, with each individual country estimated using a term structure model – based on the relationship between short- and long-term interest rates – similar to that of a New York Fed model. Global savings reflect gross savings, or output excluding final consumption relative to overall GDP.



# It's been done before. Here in 1935

## Bigger bank holdings

Different holders of DM government debt, 1901-2018



Sources: BlackRock Investment Institute and IMF, August 2019. Notes: The charts shows the historical breakdown of different holders of DM government bonds and overall DM debt-to-GDP.

1 As Bernanke said then: "In practice, the effectiveness of anti-deflation policy could be significantly enhanced by cooperation between the monetary and fiscal authorities.... A money-financed tax cut is essentially equivalent to Milton Friedman's famous 'helicopter drop' of money."

2 Former UK Financial Services Authority Chairman Adair Turner was one of the first in the post-crisis period to propose helicopter money because monetary stimulus had failed to generate adequate demand. One remaining risk with helicopter money is that people might be so concerned about the central bank printing money in such a way that they save rather than spend it, preventing the desired demand boost to the economy. In his 1916 book, Economist Silvio Gesell came up with the concept of "stamped money" as a way of getting around this problem – that new money would be "stamped", or taxed, each month to encourage spending over saving.



‘We will do, quote, whatever it takes’

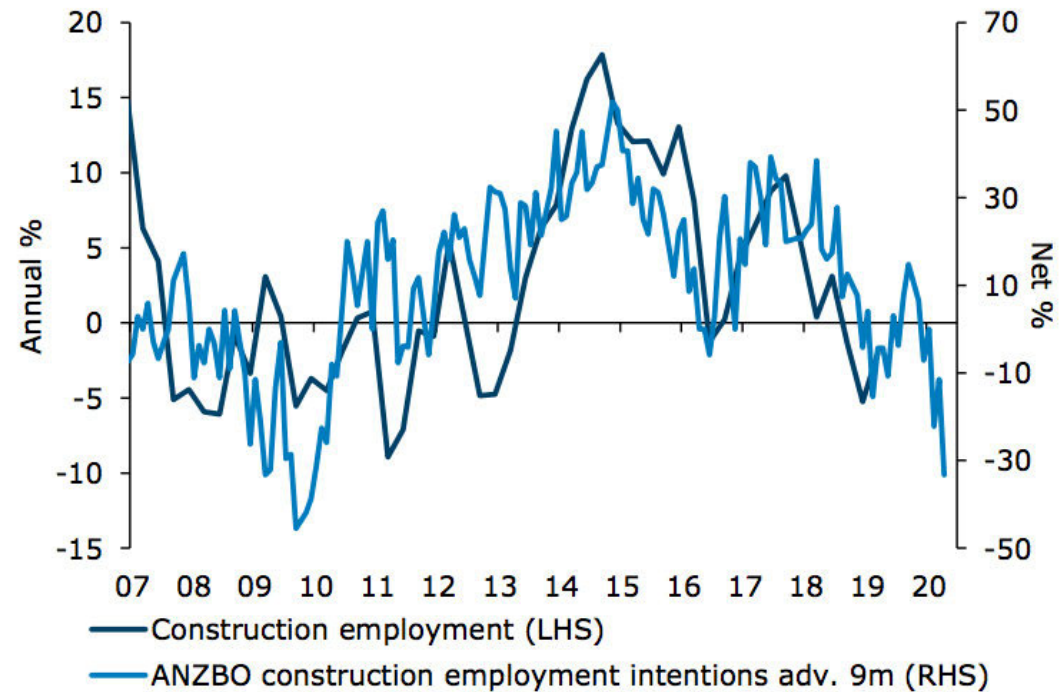


# There's got to be a better way



# Fill the infrastructure hole

**Figure 2: Construction sector employment intentions and construction sector employment**

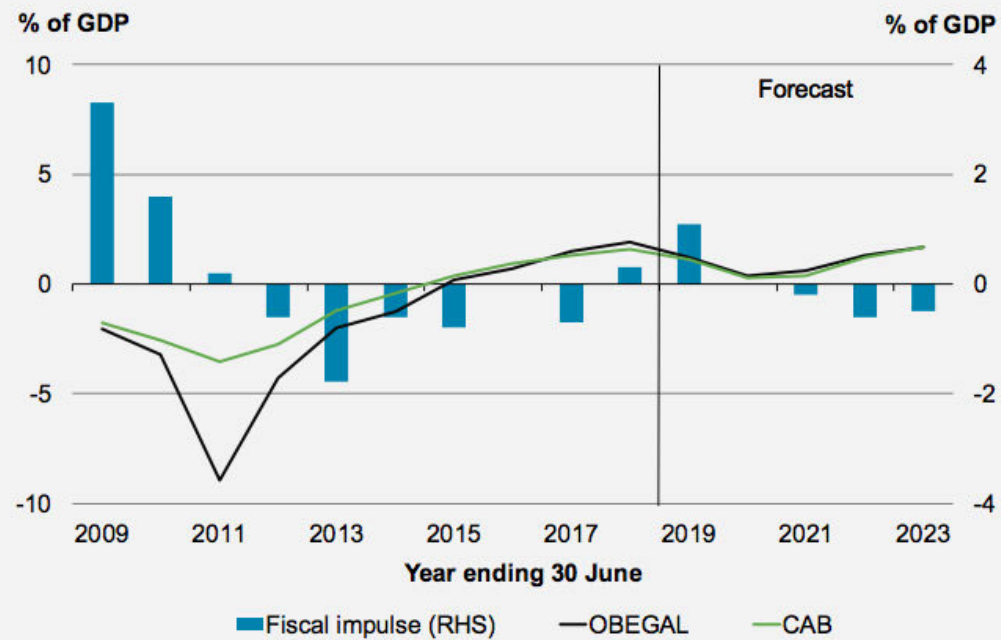


Source: Statistics NZ, ANZ Research



# Not much of a monetary policy mate

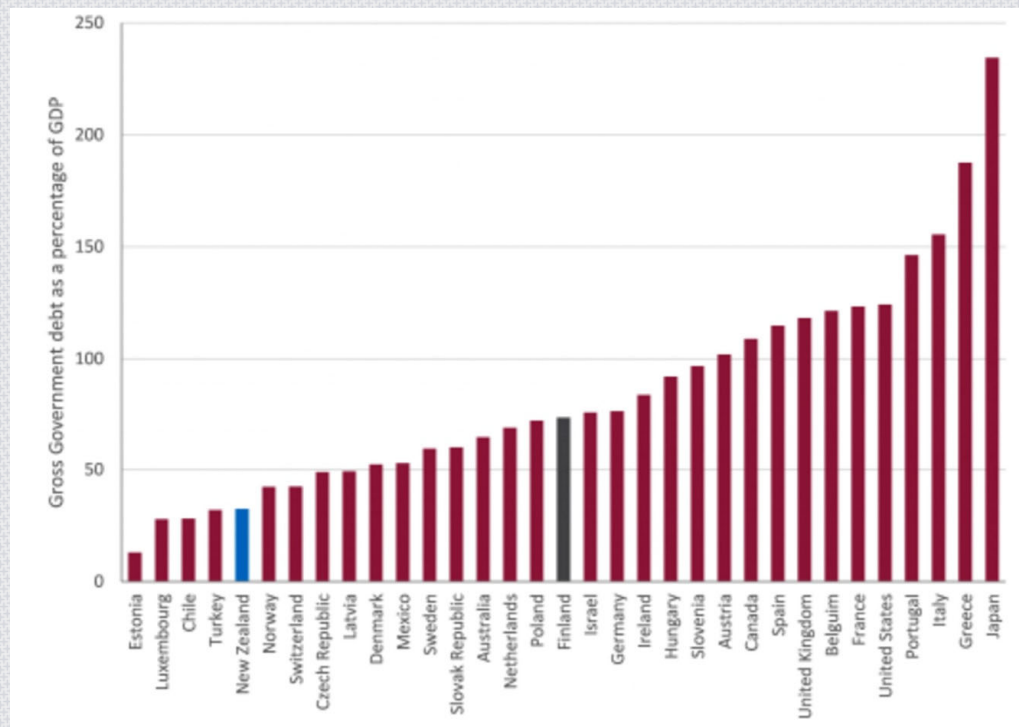
**Figure 2.9** – Operating balance indicators and fiscal impulse



Source: The Treasury

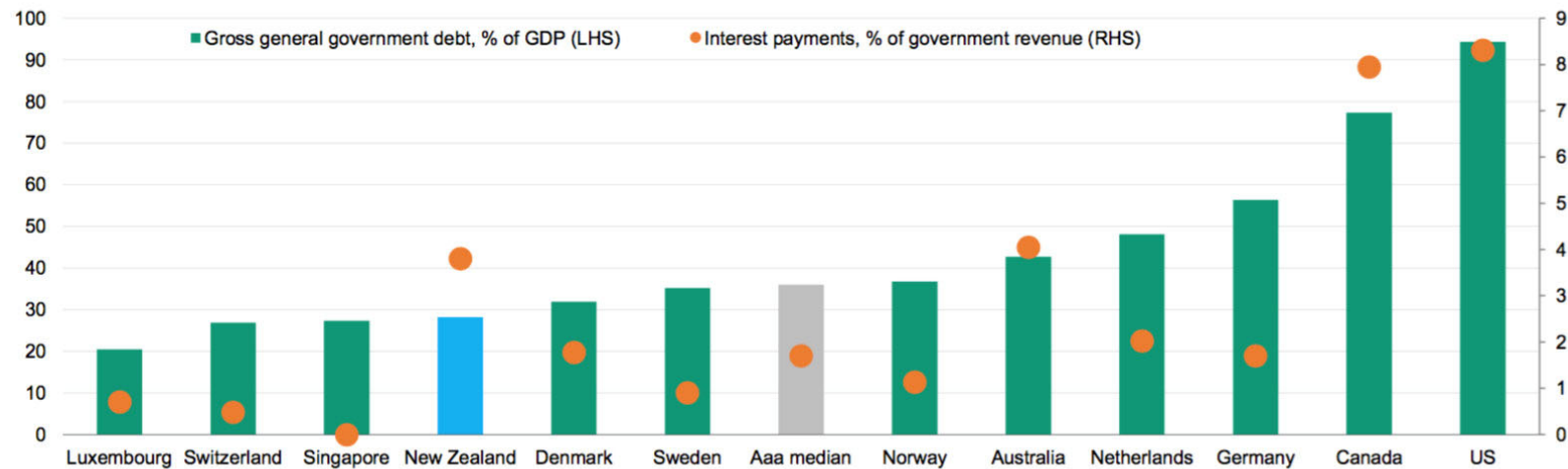


# Our debt much lower than the rest



# Even lower than our AAA peers

**New Zealand maintains a stronger fiscal position than many Aaa-rated sovereigns**  
(Key fiscal metrics, average over 2019 and 2020)



Sources: National authorities, IMF, Moody's Investors Service forecasts



- Borrow to invest now in infrastructure
- Infrastructure finance is broken
- Milldale a small experiment that's not scalable at speed across NZ
- Legislation still pending on bonds
- No GST sharing. PGF style fund?
- Growth doesn't pay for growth
- Yet Treasury and FinMin still thinks so
- Voting ratepayers didn't agree to very fast pop'n growth. They're saying no



- Monetary policy needs mates
- OCR at minus 0.5% by 2020 election?
- Banks unlikely to pass it all on
- Then what?
- Money printing?
- To buy what? Hardly any bonds.
- Buy mortgage bonds? Property?
- QE for the people another option
- QE to build infrastructure?
- But let's not let it get to that



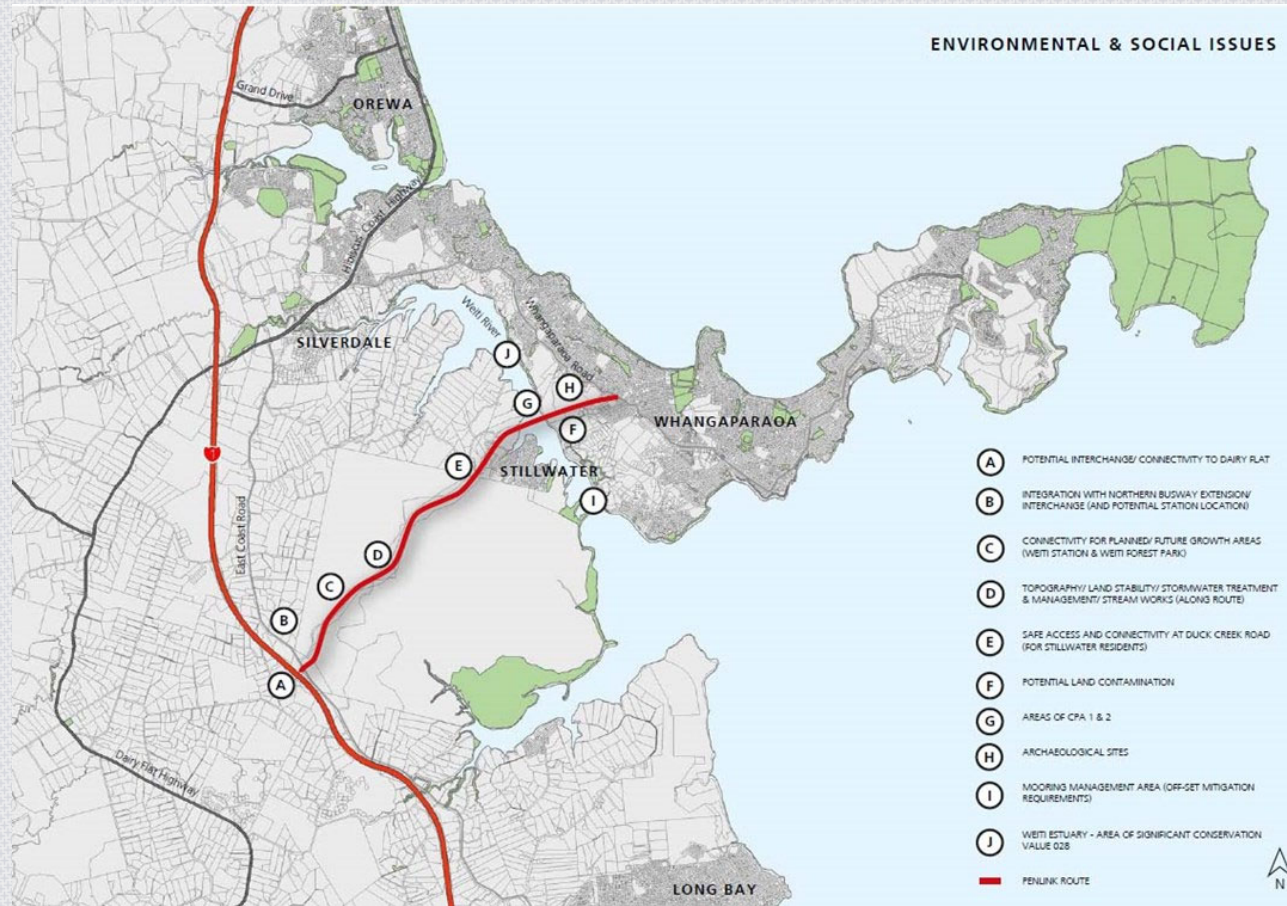
# Could this man give permission?



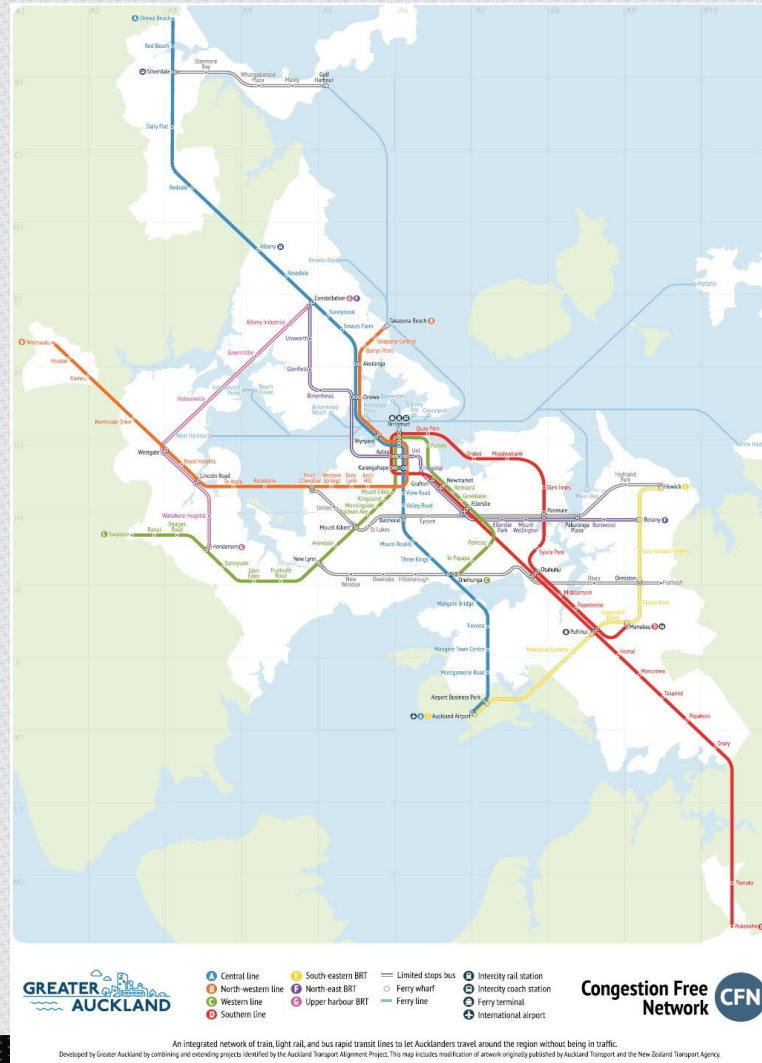
- National's economic discussion paper
- Decision not to set debt target
- “We will need to wait until next year before determining our debt target, as conditions are changing rapidly. We will not hesitate to borrow to invest in quality infrastructure, particularly when money is cheap.”
- New council funding option too?



# Penlink?



# Just get on with it





**BUSINESS UPDATE**

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