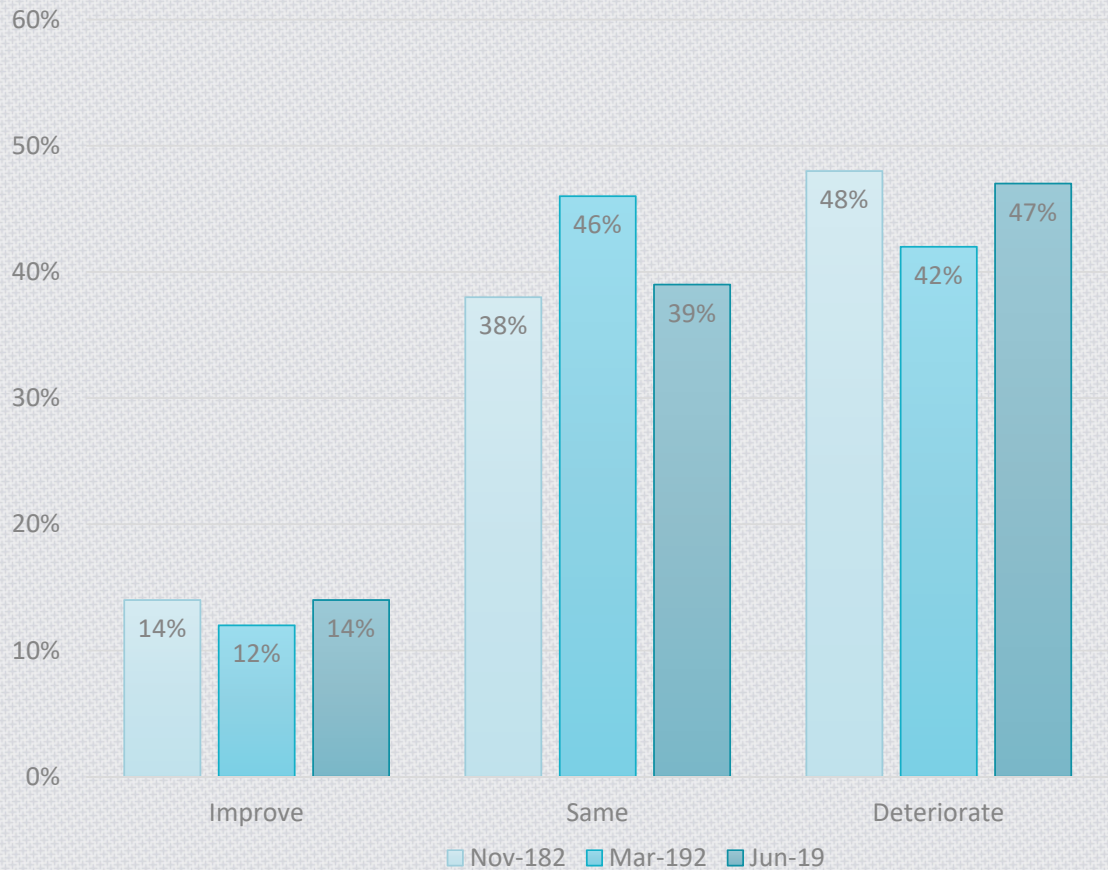




**MICHAEL BARNETT**

**CEO AUCKLAND CHAMBER**

# GENERAL BUSINESS SITUATION IN NZ



**JUNE 2019**

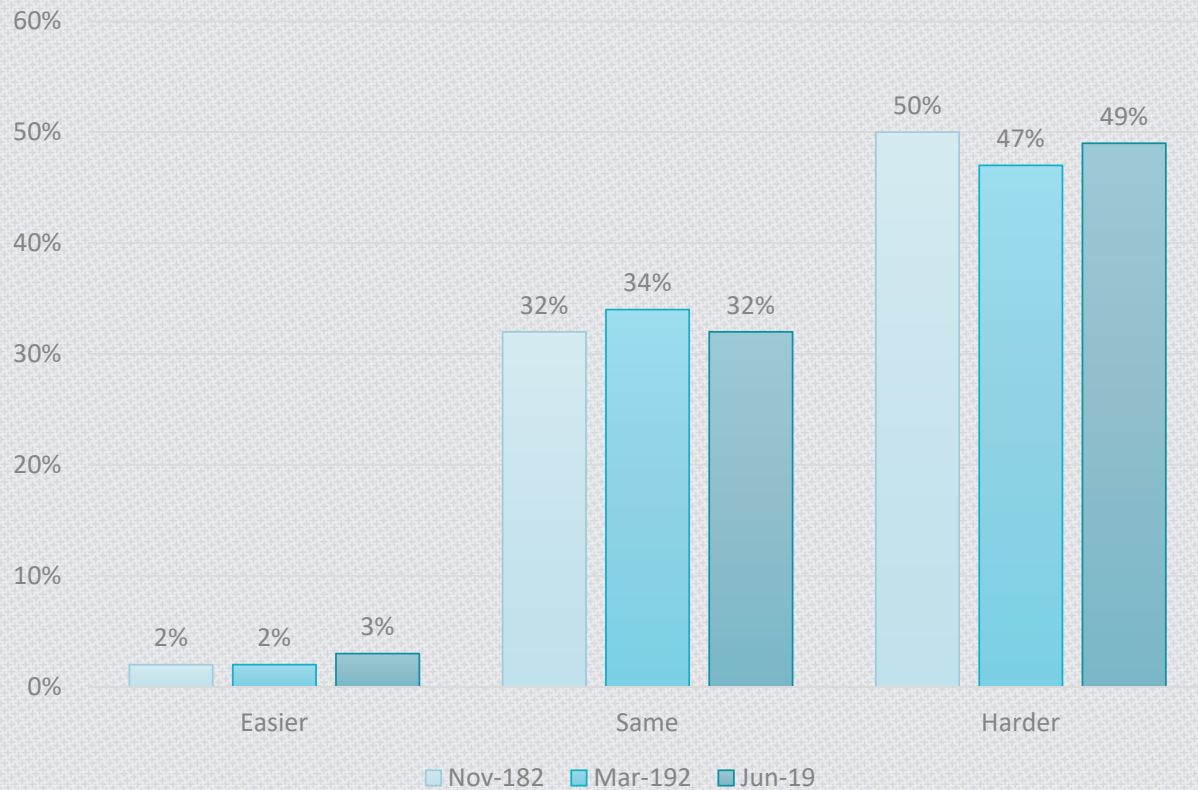
**14%** IMPROVE

**39%** SAME

**47%** DETERIORATE



# FINDING SKILLED STAFF



**JUNE 2019**

**3%** EASIER

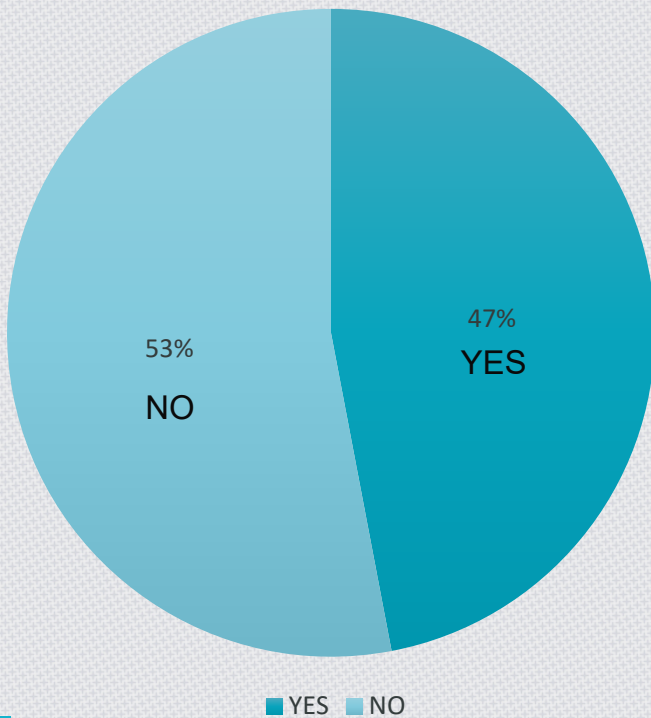
**32%** SAME

**49%** HARDER

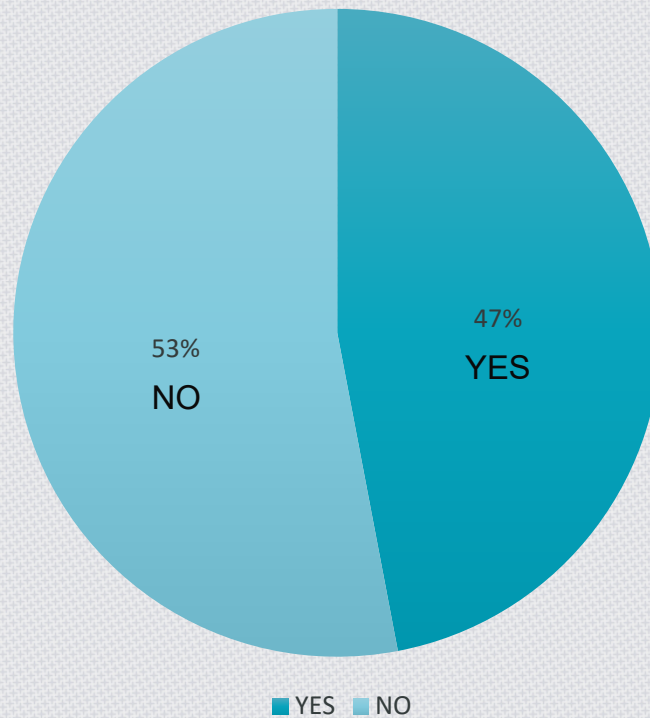


# RECRUITING NOW

Nov-18



Mar-19



JUNE 2019

**46%** YES

**54%** NO



**BERNARD HICKEY**

**newsroom.pro**

# The tide is turning



Auckland Chamber, June 6, Auckland, Bernard Hickey

- Fed Chair Jerome Powell changes his tune
- Now potential for US rate cuts this year
- Slowing global economy
- Slowing global trade
- Disrupted supply chains & geopolitical tension
- New US tariffs for Mexico, India, Turkey
- Possible US car import tariffs too
- China eyes 'unreliables' list
- China blocks rare earth exports to America
- China warns against tourism to America

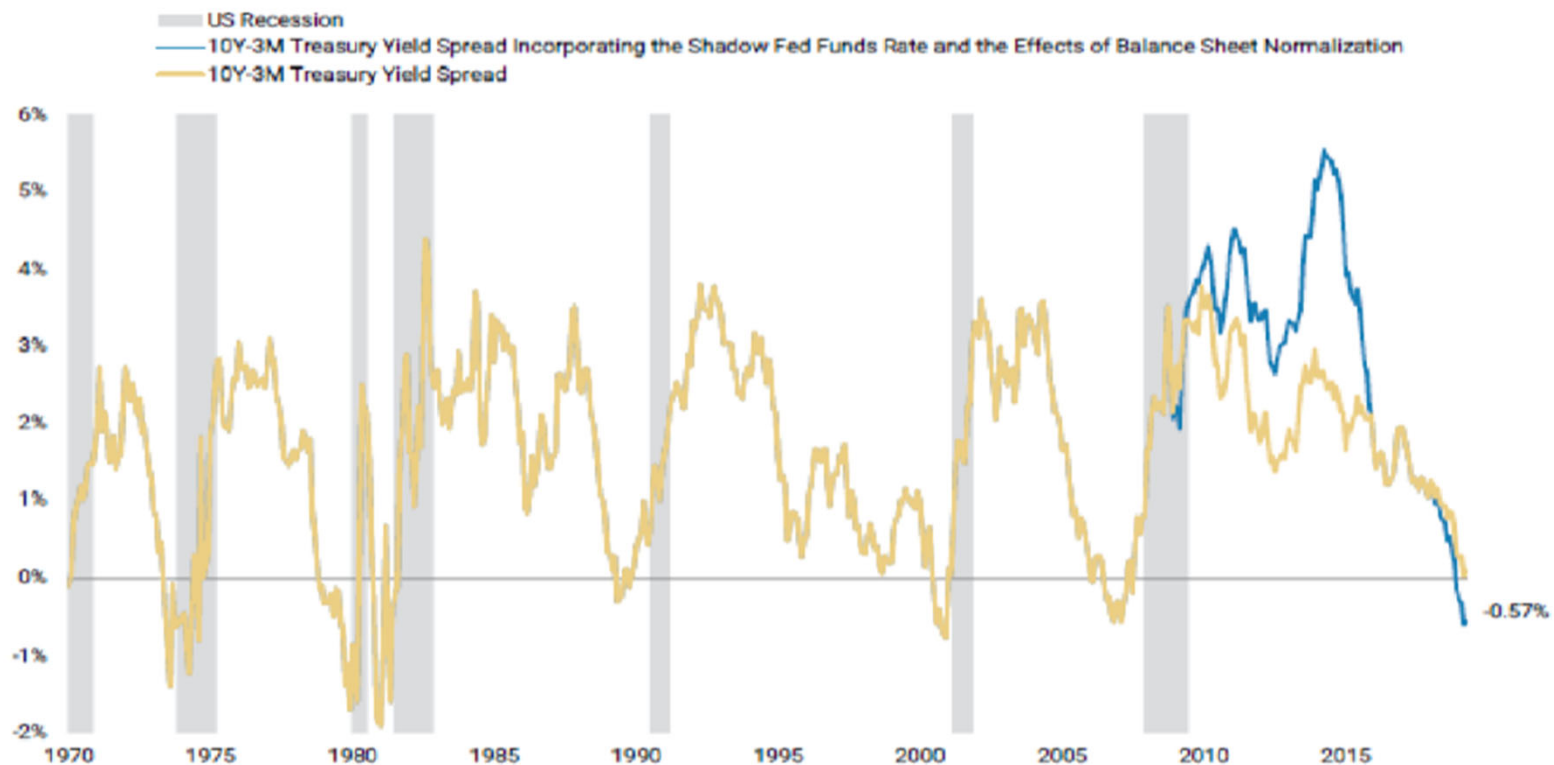
# Interest rates are falling



Auckland Chamber, June 6, Auckland, Bernard Hickey

# Yield curves are inverting

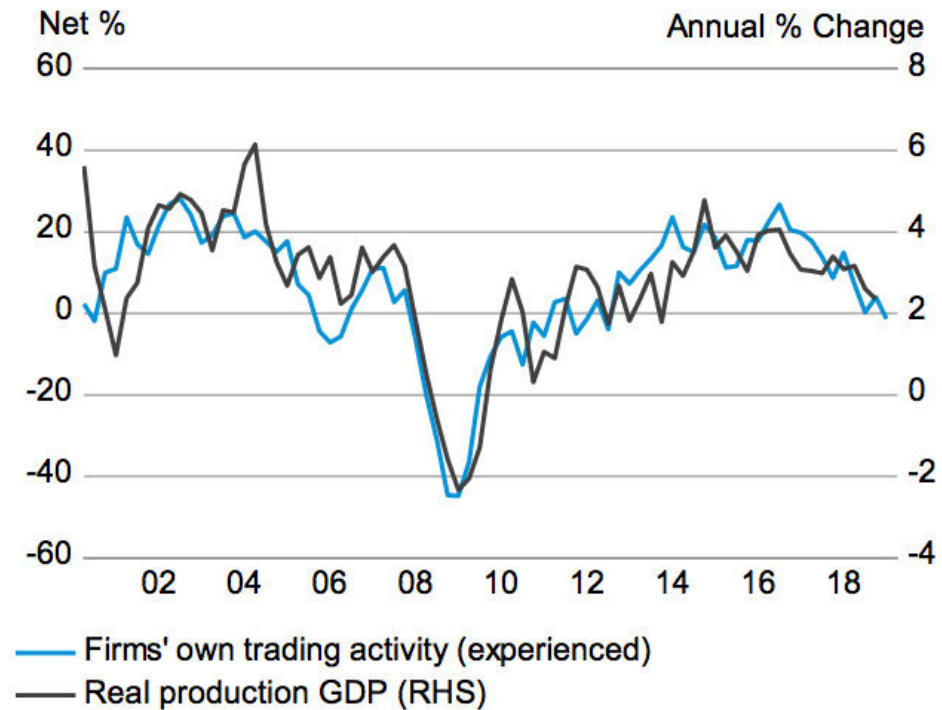
**Exhibit 3:** Adjusted Yield Curve for QE and QT Suggests the Clock Is Ticking



Source: Morgan Stanley Research as of April 30, 2019. Note: Shadow Fed Funds rate from Atlanta Fed replaces 3M yield from 2009-2015. Starting October 2017, 3M yield is adjusted for effects of Fed balance sheet reduction—every \$200B that rolls off balance sheet equates to roughly a 0.25% rate hike based on estimates from various Fed officials. Note that this is an approximation.

# NZ growth is slowing

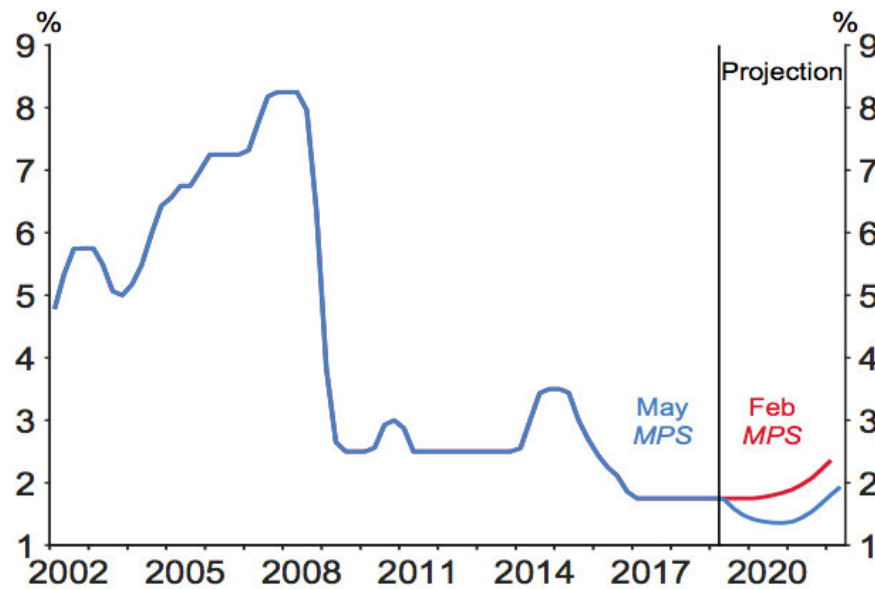
Figure 1: Business sentiment and GDP growth



Sources: NZIER and StatsNZ

# Our OCR was cut

**Figure 2.6**  
**Official Cash Rate**  
*(quarterly average)*



Source: RBNZ estimates.

- NZ OCR cut from 1.75% to 1.5%
- Seen cut to 1.0% by end 2019
- Could be zero point something in 2020
- Australian rate cut on Tuesday to 1.25%
- Australian rate seen nearer 0.5% by next year
- What do we do at 0%?
- Negative rates?
- Quantitative Easing?
- Helicopter money?
- Will be in the hands of Adrian Orr. For now.

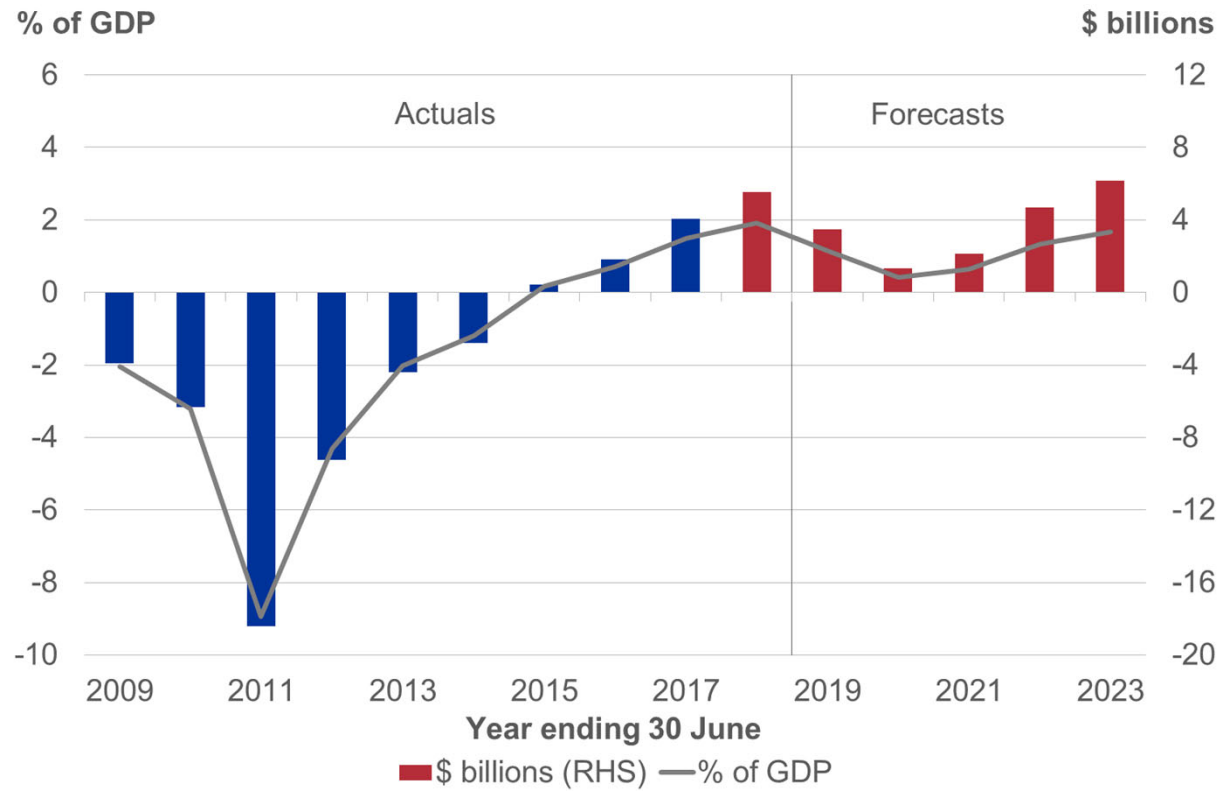
# America vs China = ugly



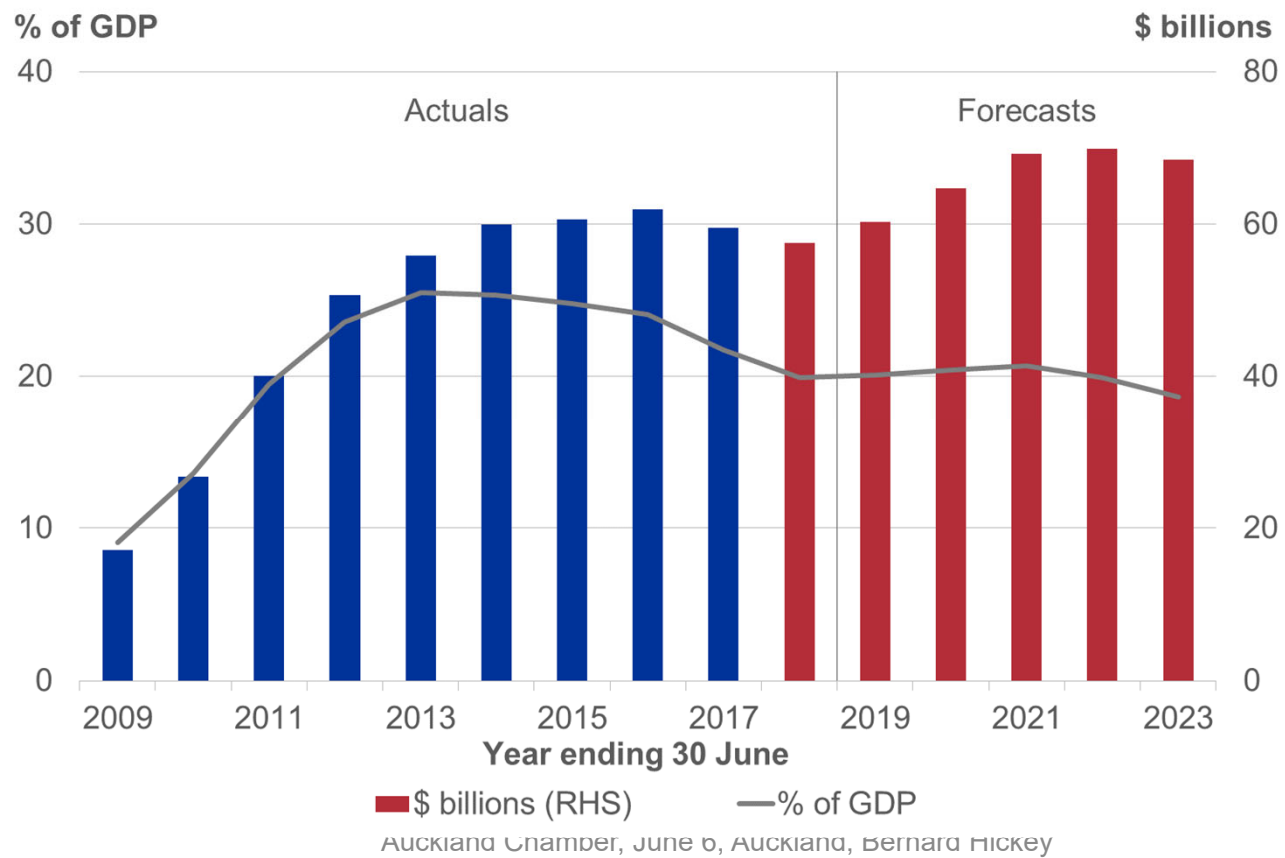
Auckland Chamber, June 6, Auckland, Bernard Hickey

- NZ tip-toeing between super-powers
- ‘When the elephants dance, the grass gets crushed’
- A2 Milk hit as China champions locals
- Air NZ complains over \$100m losses in China
- Fonterra losing NZ\$1 billion in China
- Our Huawei decision depends on UK moves
- US threatened UK over Five Eyes and Huawei
- Both America, China abandoning WTO rules
- NZ facing bifurcated trading and tech world
- China our biggest trading partner
- America/UK/Australia/Canada security partner

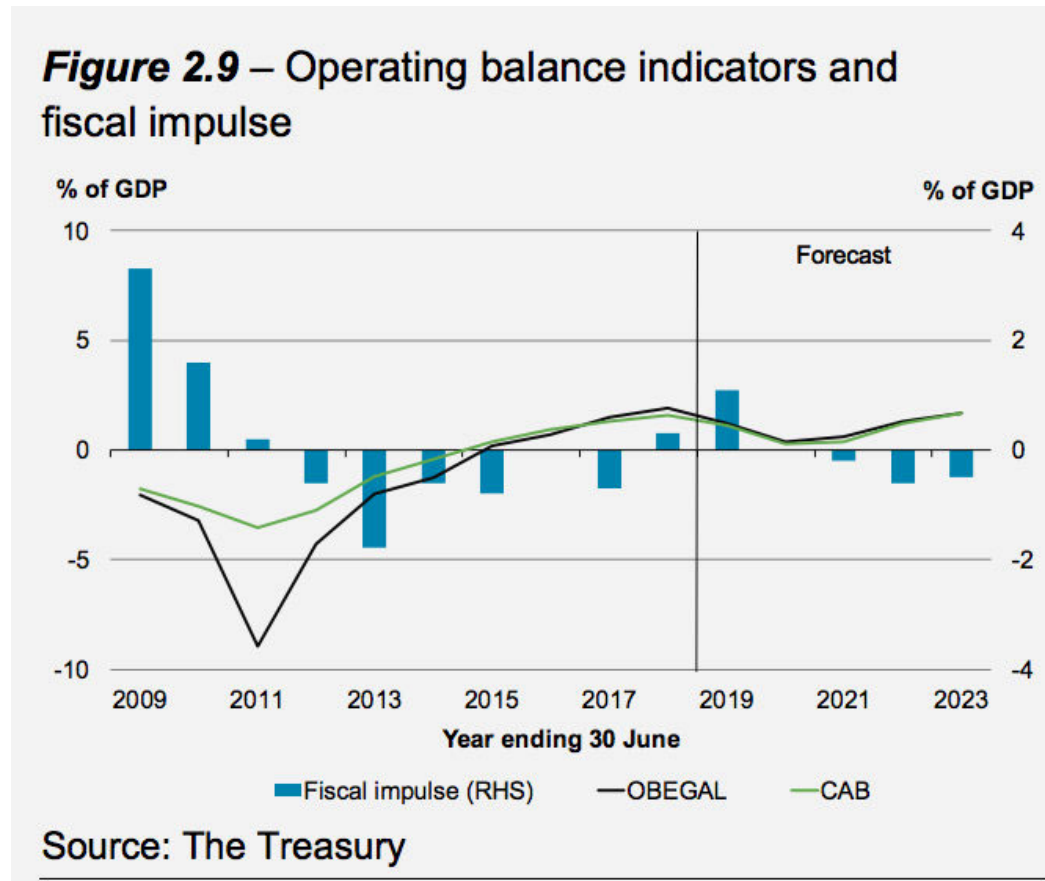
# So what do we do? Run surpluses?



# While net debt falls below 20% of GDP



# Not much of a monetary policy mate



- A strengthening Labour leader...
- ...without a mandate for change
- But Jacinda may get that in 2020
- If Winston can't revive NZ First
- And National falls below 40%
- Possibly with a new leader
- What new mandate does PM want?
- Not a capital gains tax
- But maybe a higher debt target
- For big infrastructure, housing & transport
- And some serious Zero Carbon moves

Keep an eye on this guy too



Auckland Chamber, June 6, Auckland, Bernard Hickey

- A proposed doubling of bank capital levels
- An increase of \$20 bln over five years
- Banks say it will cost \$1.8 bln per year
- Because profits/dividends can't/won't be cut
- Adrian Orr sees big 4 accepting lower ROEs
- We'll see
- Campaign being waged to water it down
- Banks, farmers, Opposition vs RBNZ
- Could hurt farmers, businesses
- As banks pivot into more home lending

