

# Capacity Constrained

Doug Steel – Senior Economist

June 2017

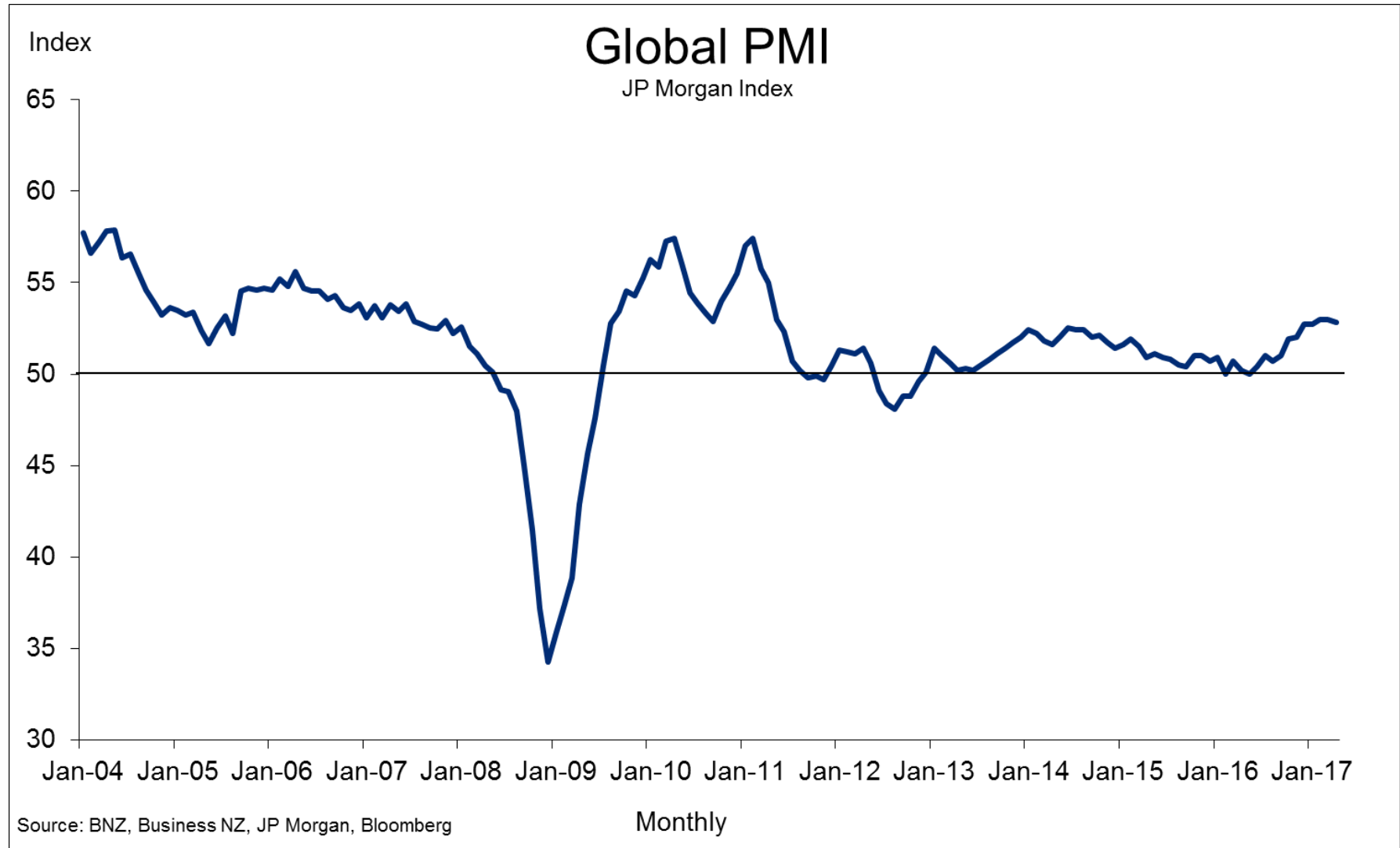


# Let's Talk About

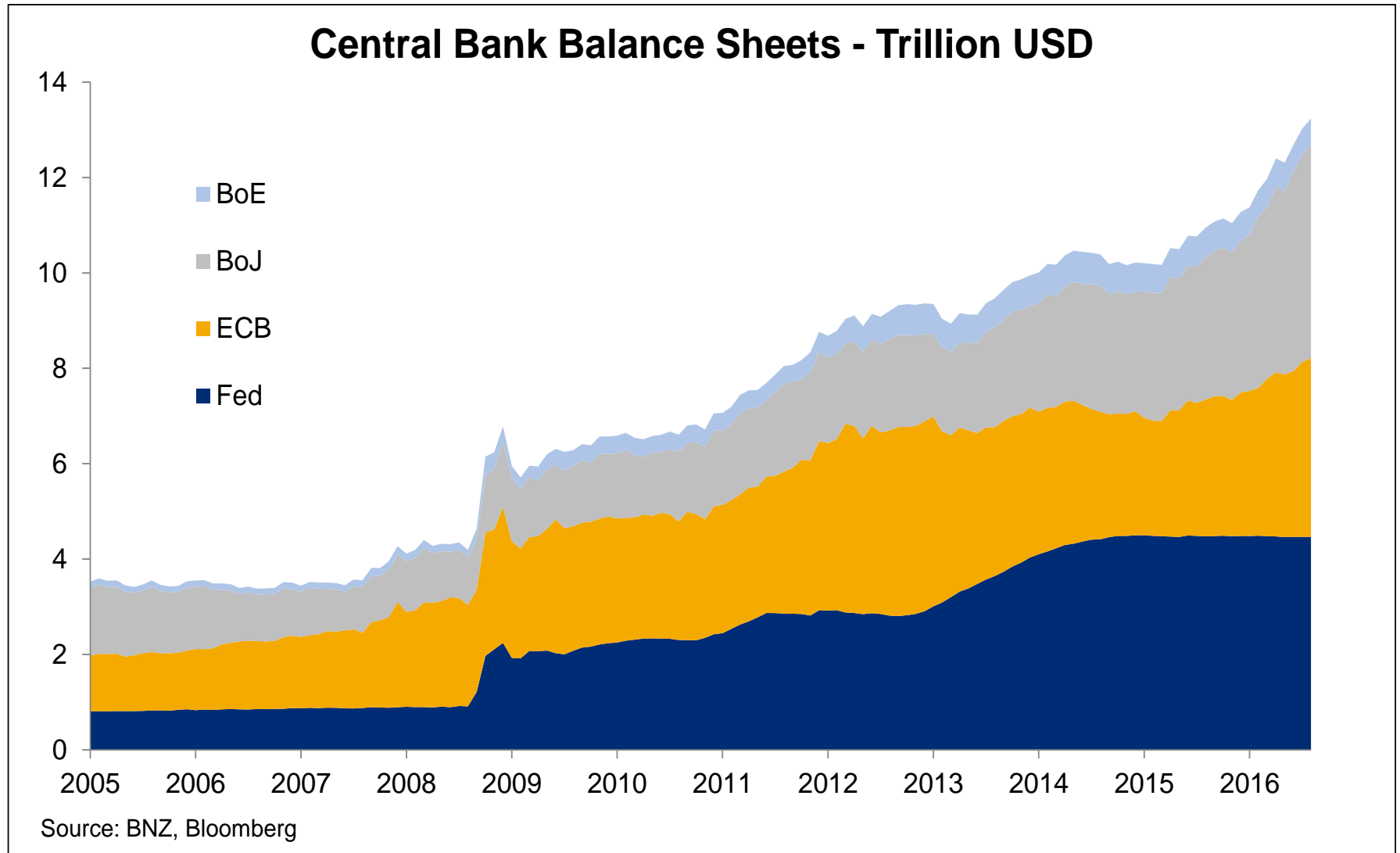
---

- The world – plenty of risks, but doing better
- NZ economy – growing well, but peaking?
- Capacity constraints everywhere!
- The terms of trade to hit an all-time high
- Interest rates and exchange rates

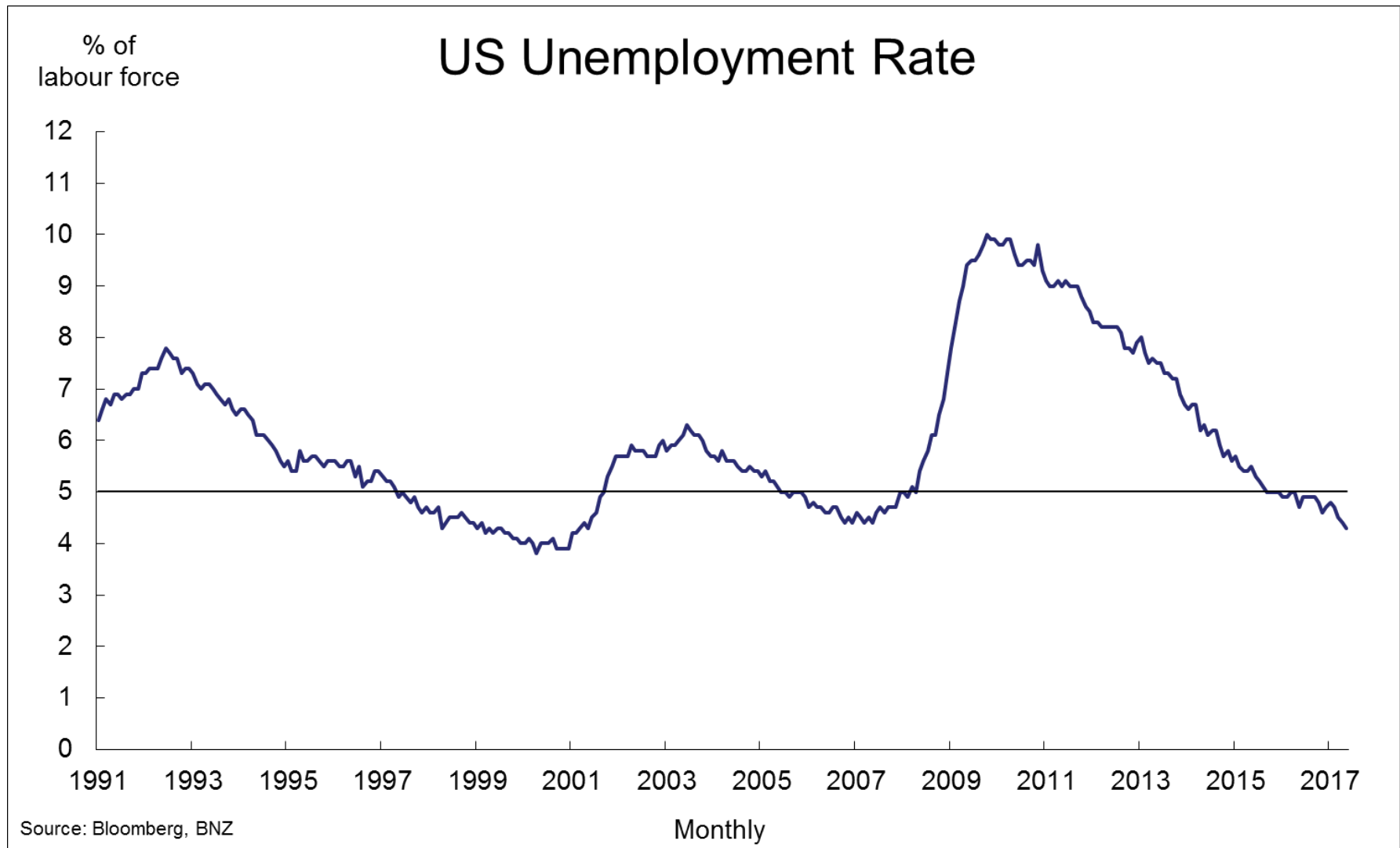
# World Growth Accelerates; Watching Politics



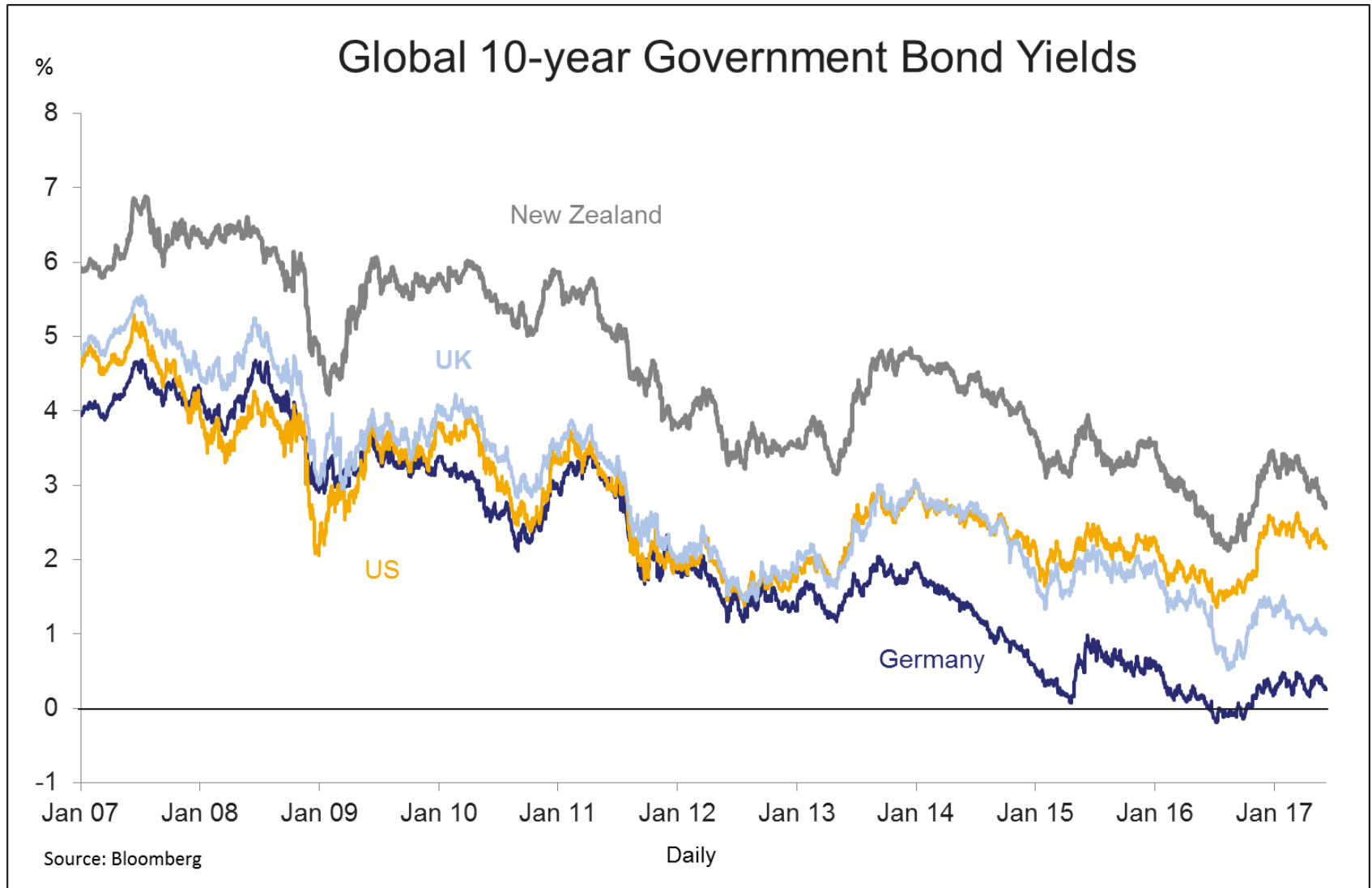
# Finally Something To Show For This



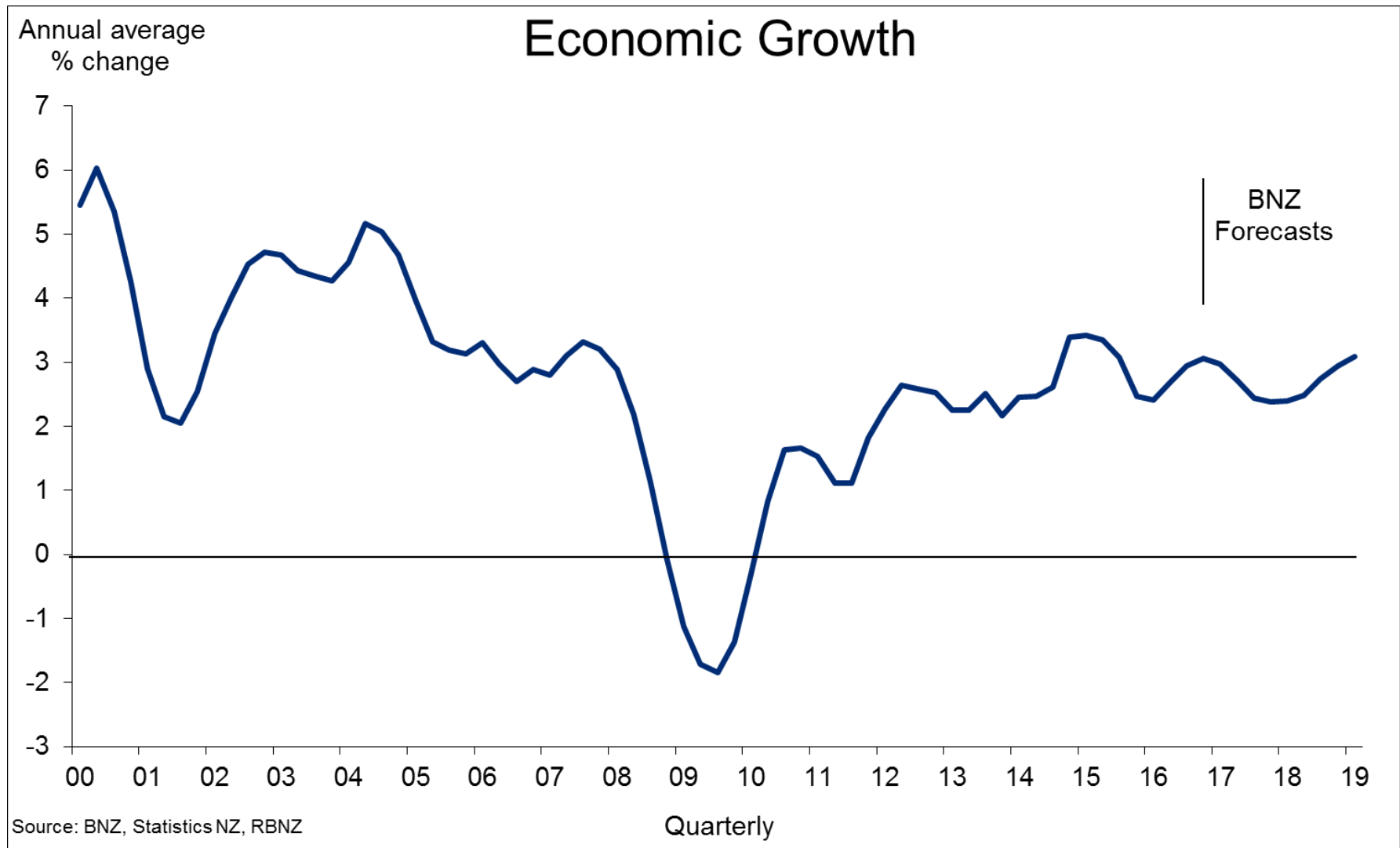
# US Recovered – Fed Hiking Interest Rates



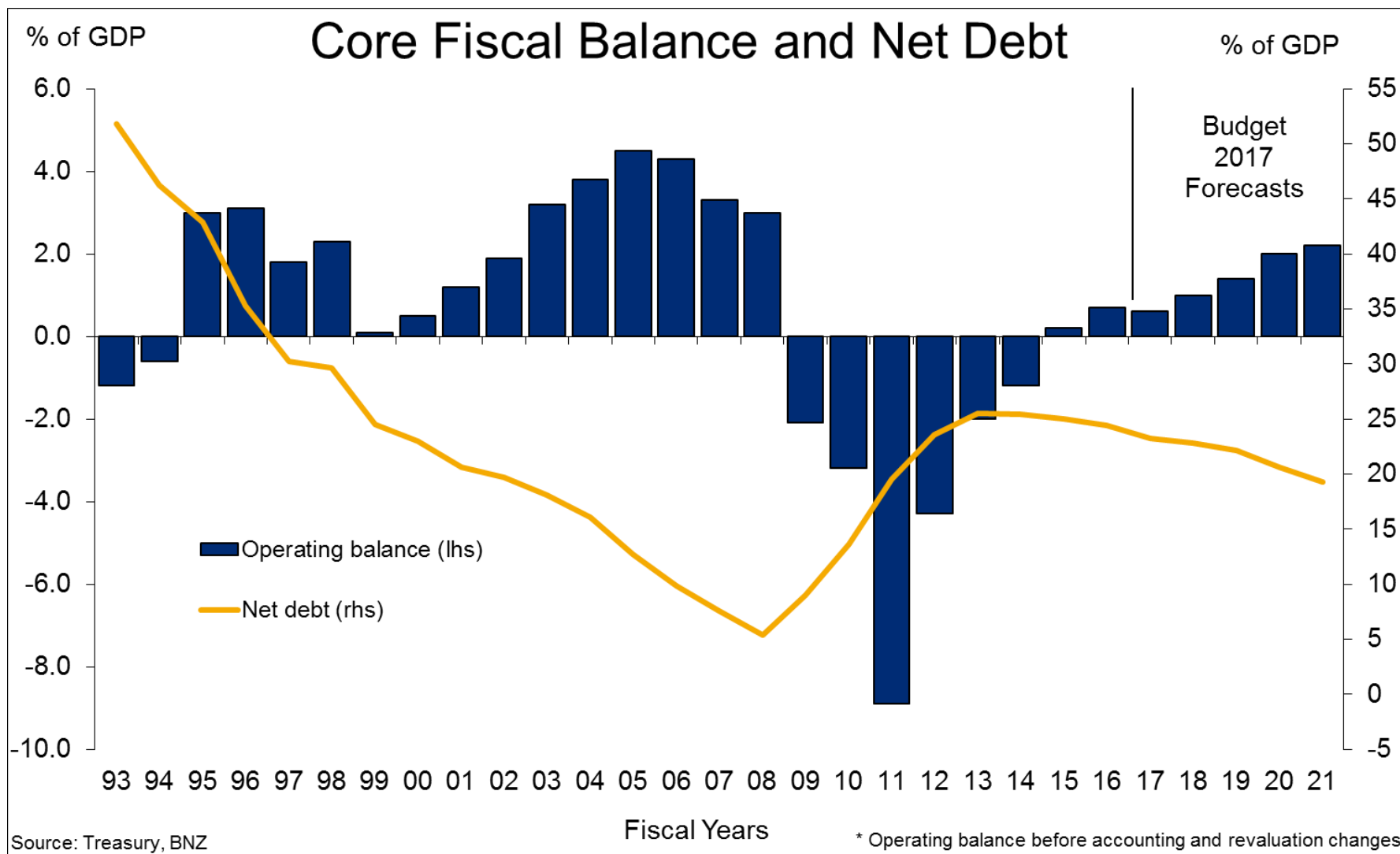
# Trump Enthusiasm Fades



# NZ Growth Robust



# Fiscal Surpluses To Grow From Current Year





# NZ Macro Metrics Look Good; Standout Globally

---

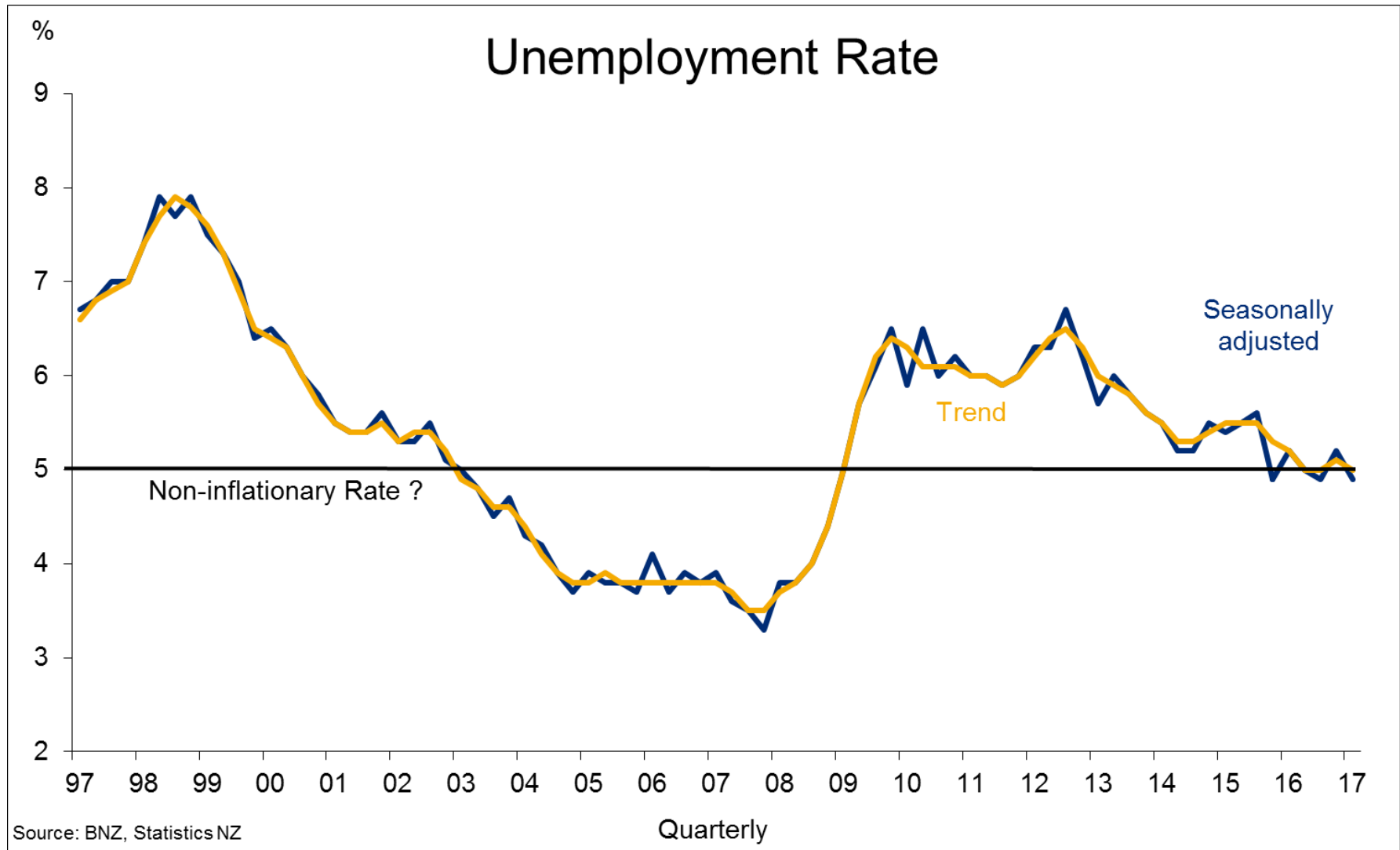
- Latest readings (vs 10 year average):
- GDP annual growth: 3.1% (1.9%)
- Employment growth: 5.7% (1.5%)
- Unemployment rate: 4.9% (5.3%)
- Current account balance (% of GDP): -2.7% (-4.1%)
- Fiscal balance (% of GDP): +0.7% (-1.5%)
- CPI annual inflation: +2.2% (+1.9%)

# Recent Growth Drivers

---

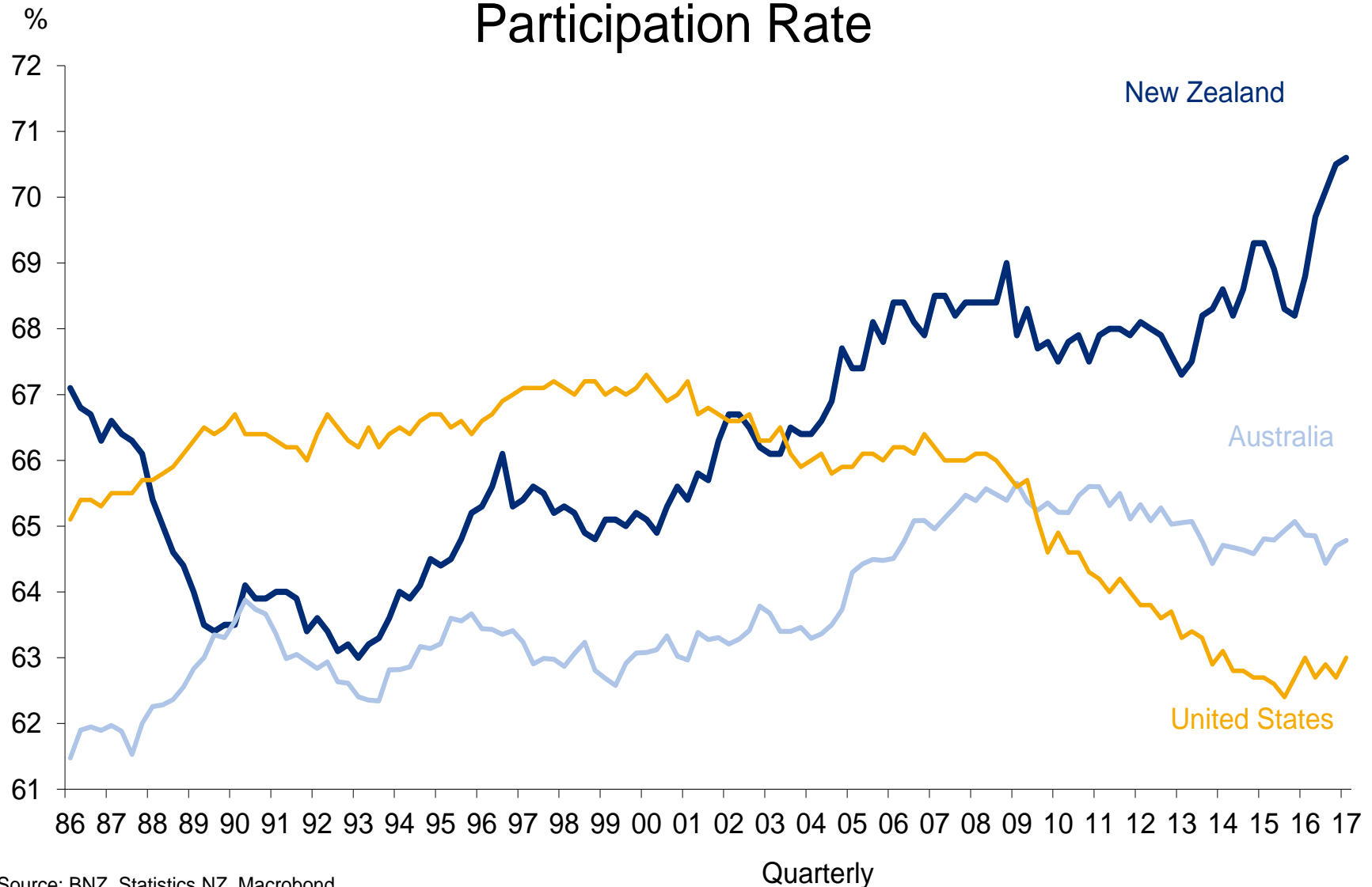
- Construction
- Housing
- Tourism
- Service sector expansion
- Parts of agriculture – kiwifruit, beef, apples, wine
- Net Immigration
- Very strong employment growth
- Real wage increases
- Low interest rates
- Low oil prices
- Elevated terms of trade
- Soaking up spare capacity

# Labour Market Tightening



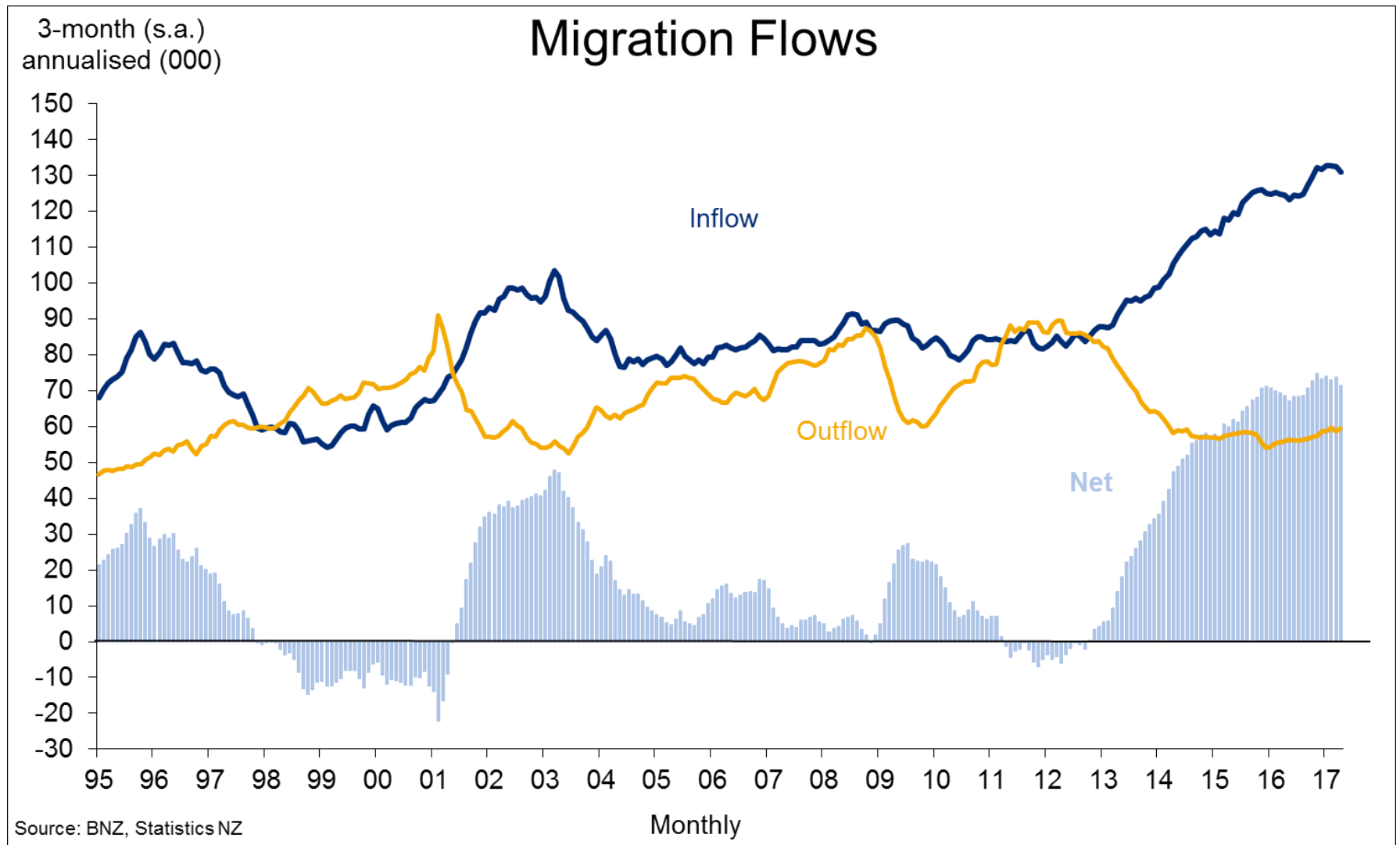
# Another Sign

## Participation Rate

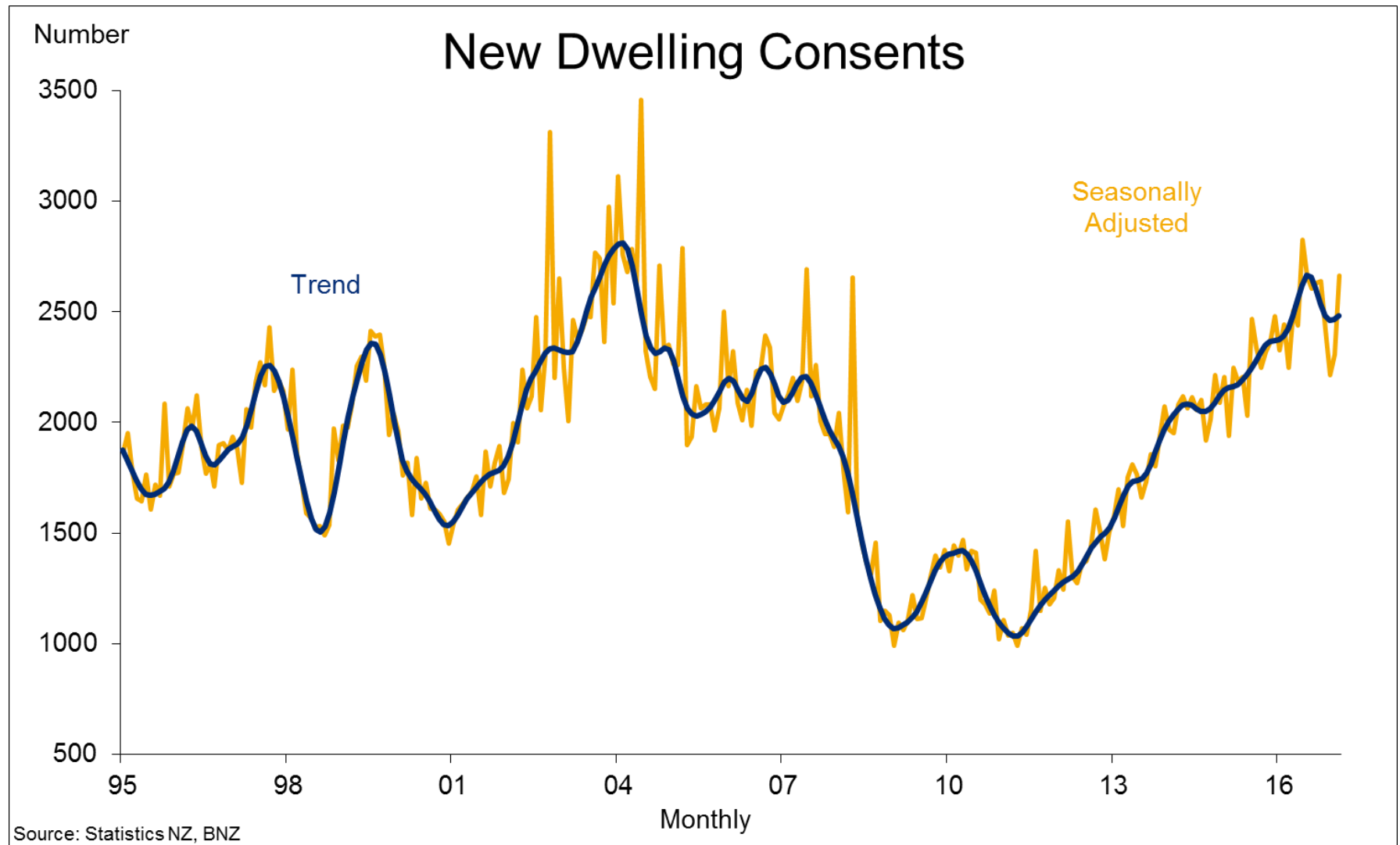


Source: BNZ, Statistics NZ, Macrobond

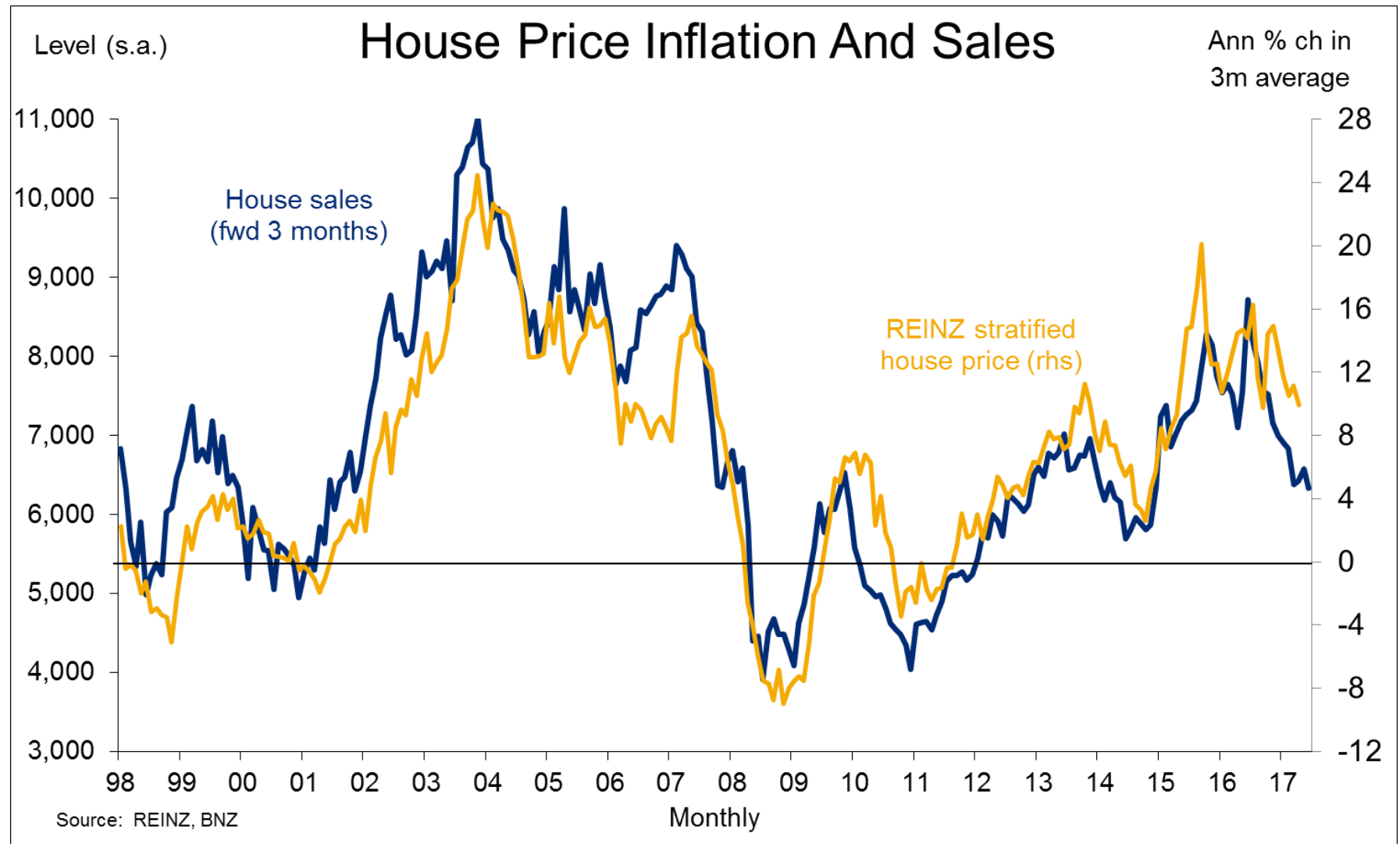
# Net Migration Massive



# Construction Elevated

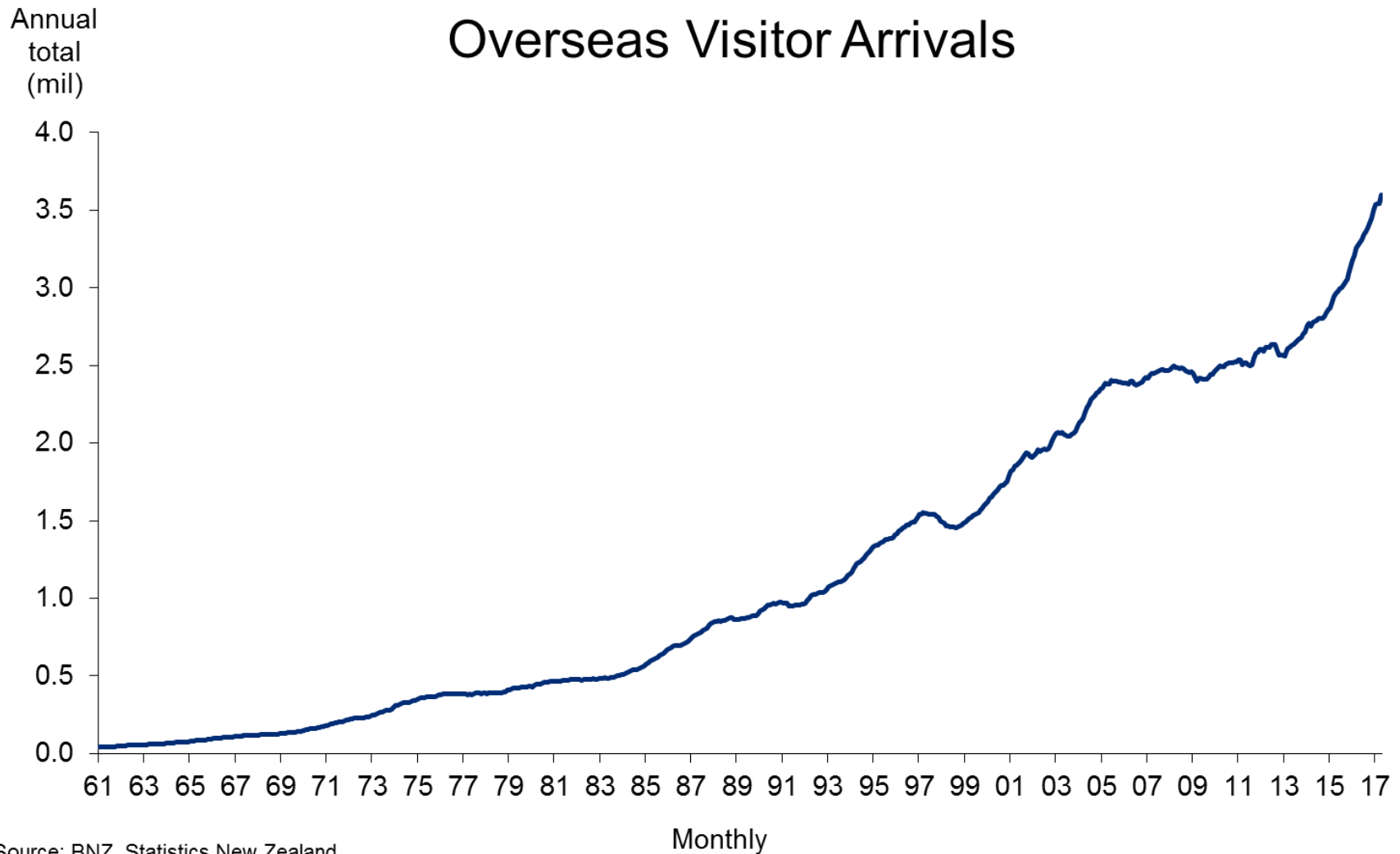


# Slowing Signs In Housing: LVR, Rates



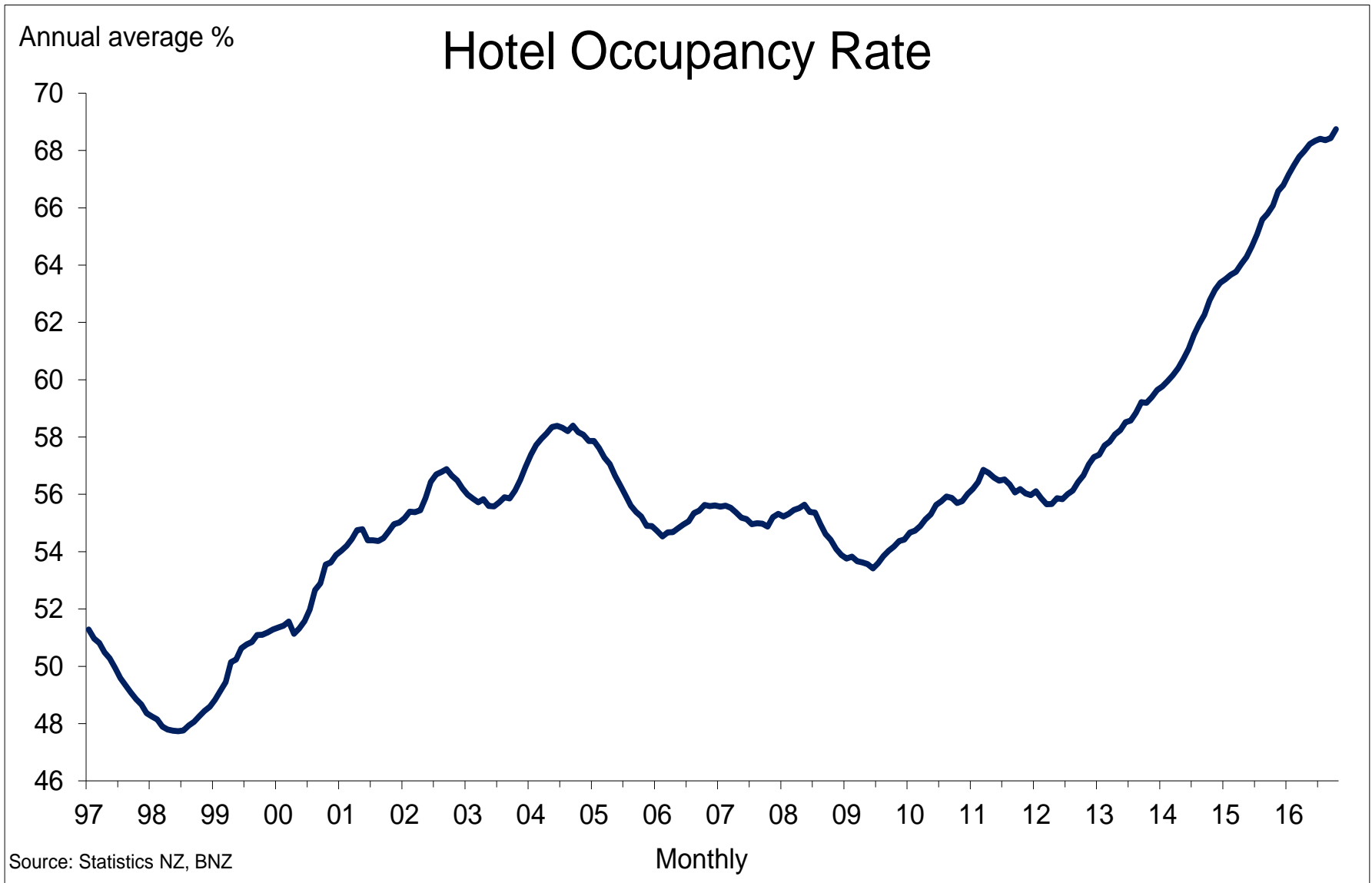
# Tourism Booming

## Overseas Visitor Arrivals





# No Room At The Inn

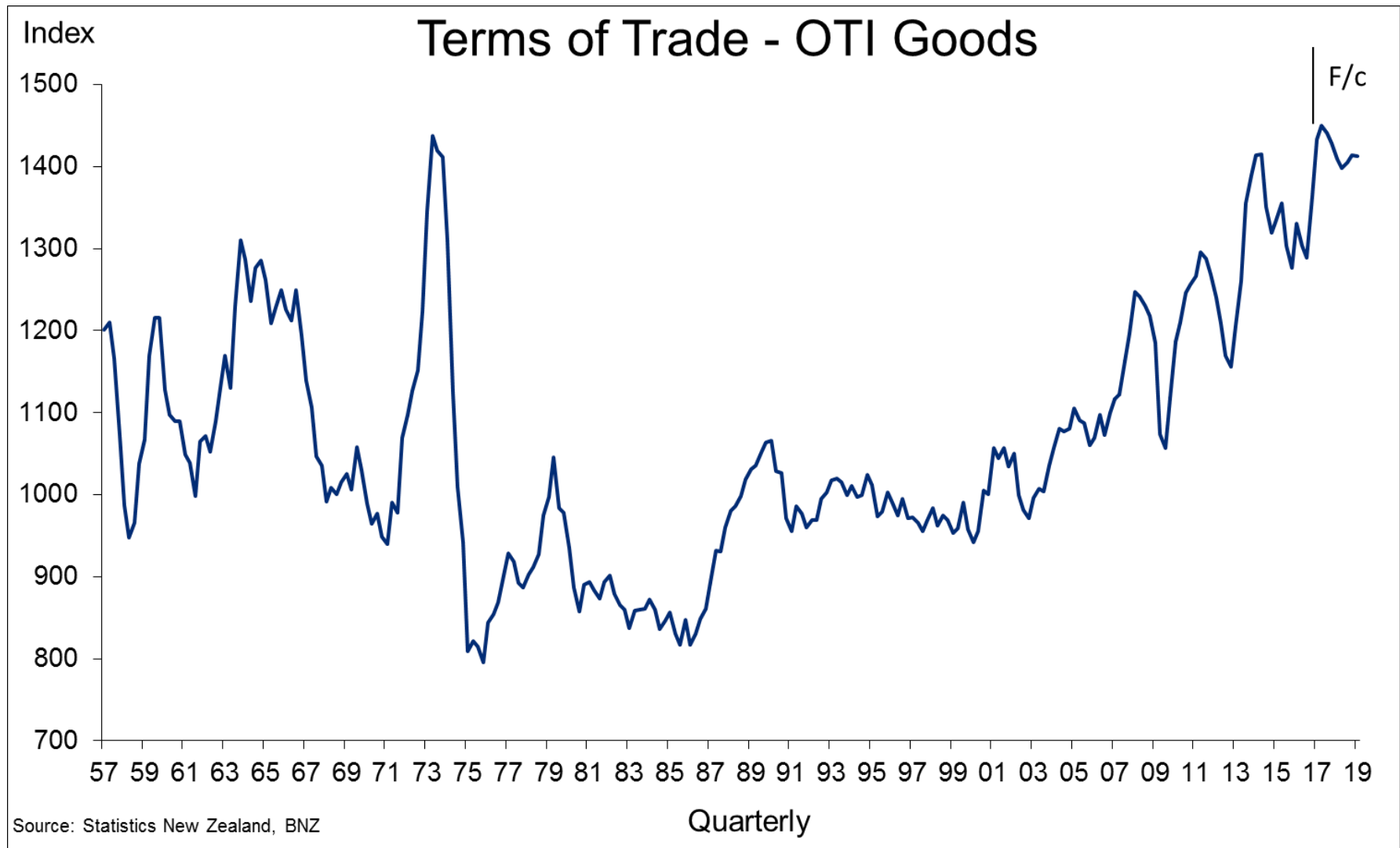


# Capacity Constraints

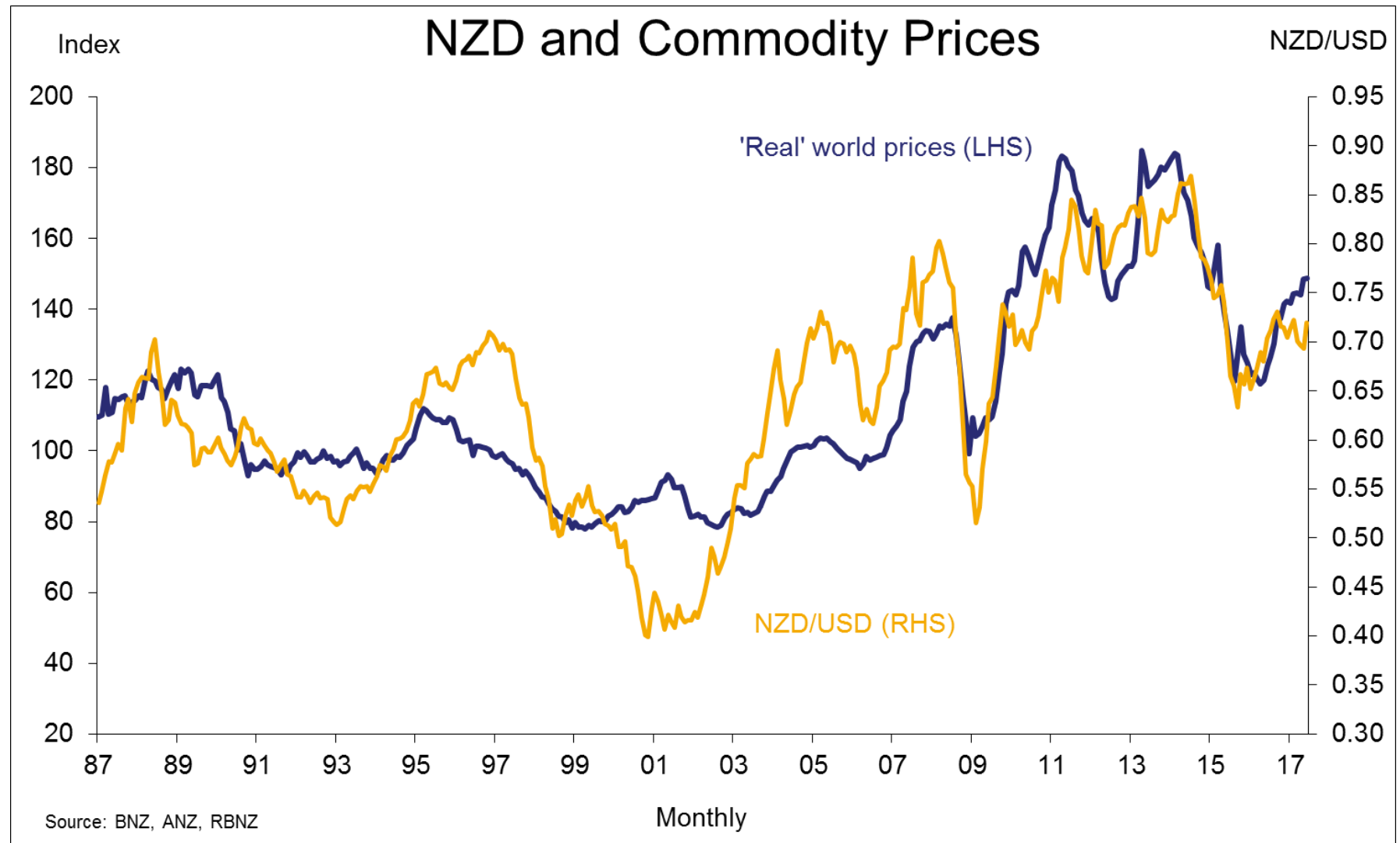
---

- Labour scarce
- Capacity variables stretched
- Construction activity thwarted
- Tourism facilities packed
- Hotels full
- Commercial vacancy rates very low
- Dairy environmentally challenged
- Infrastructure creaking
- Credit constraints
- Debt levels elevated

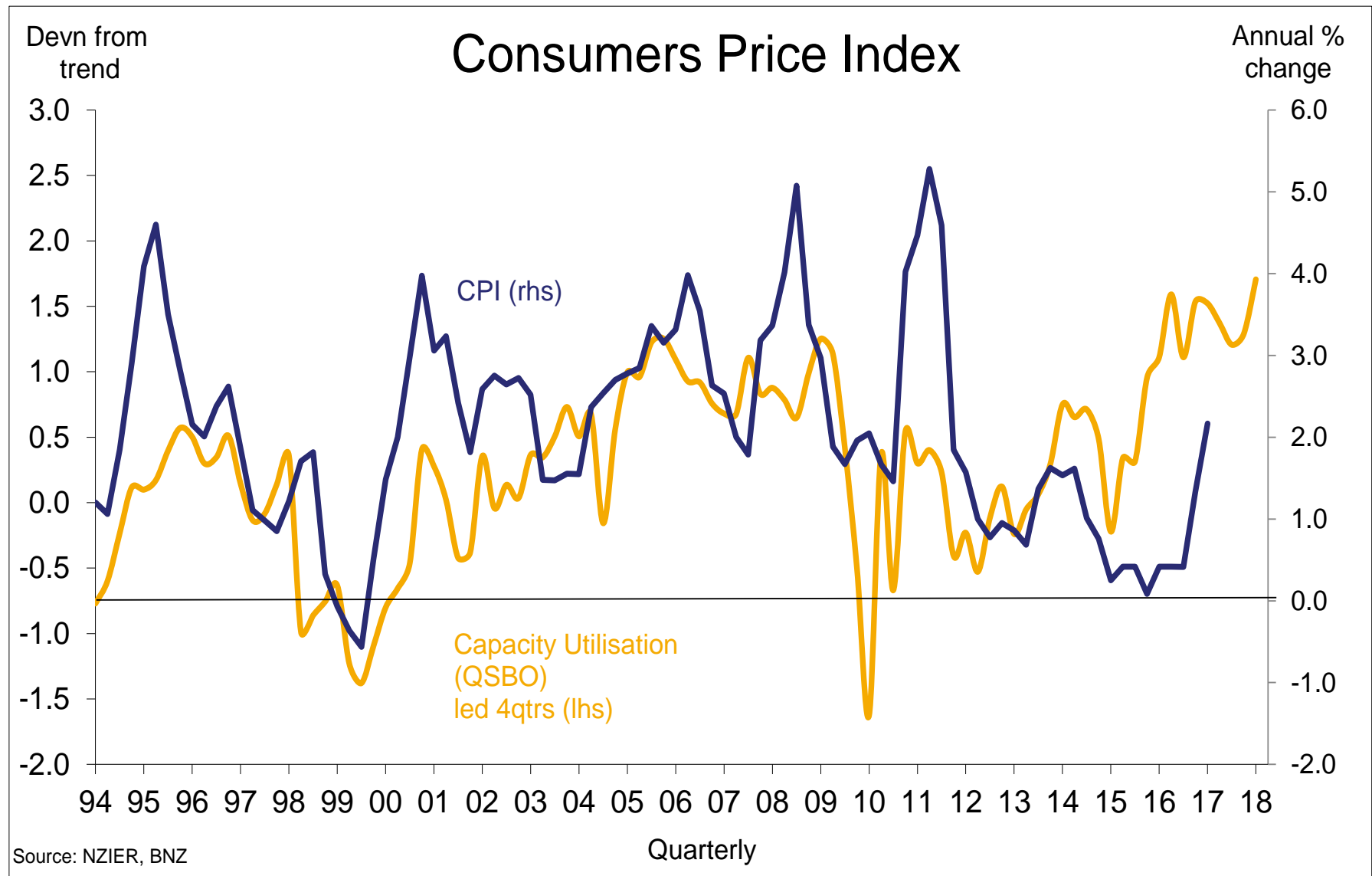
# Terms of Trade – More Purchasing Power



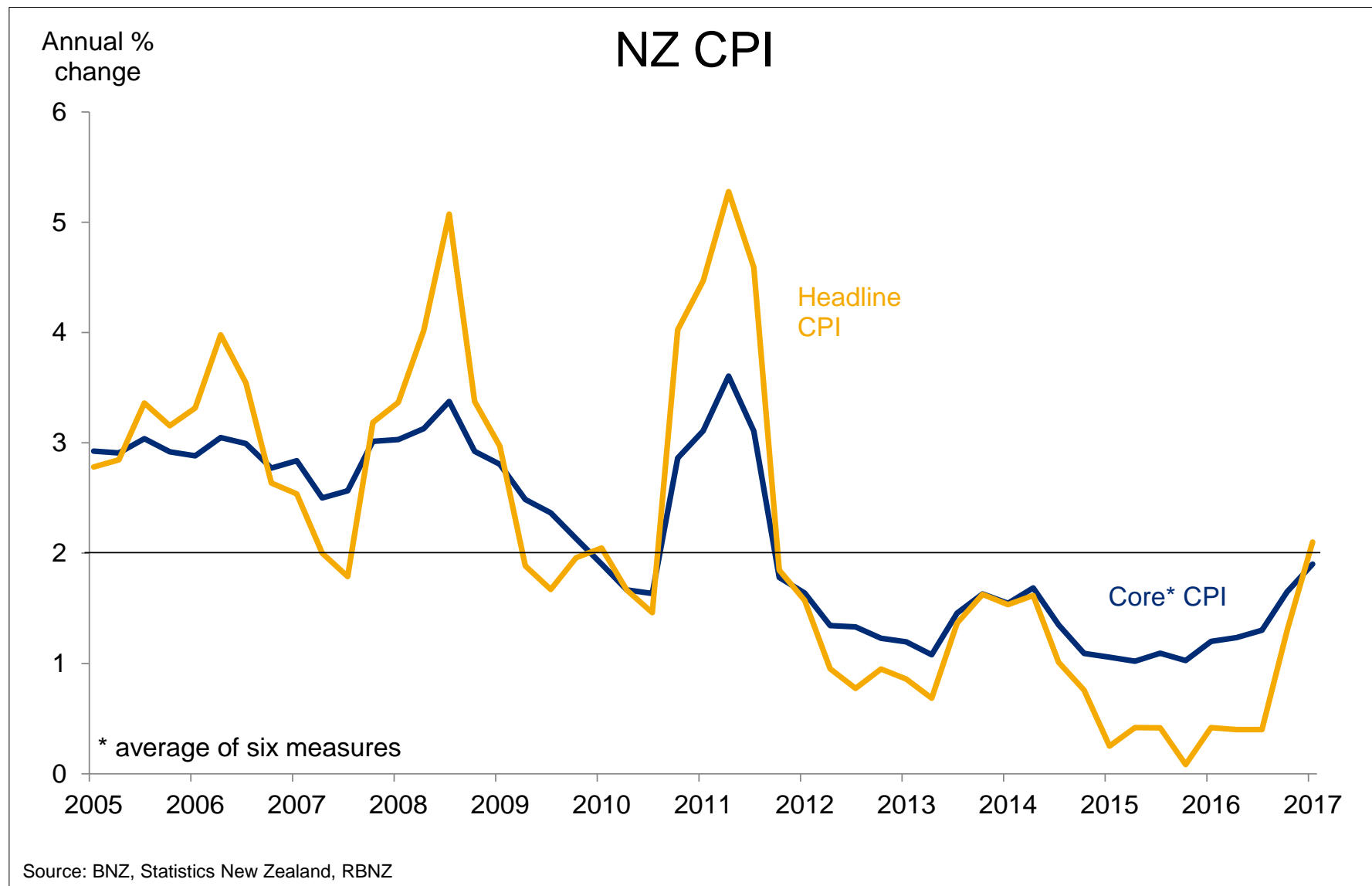
# Supportive of NZD



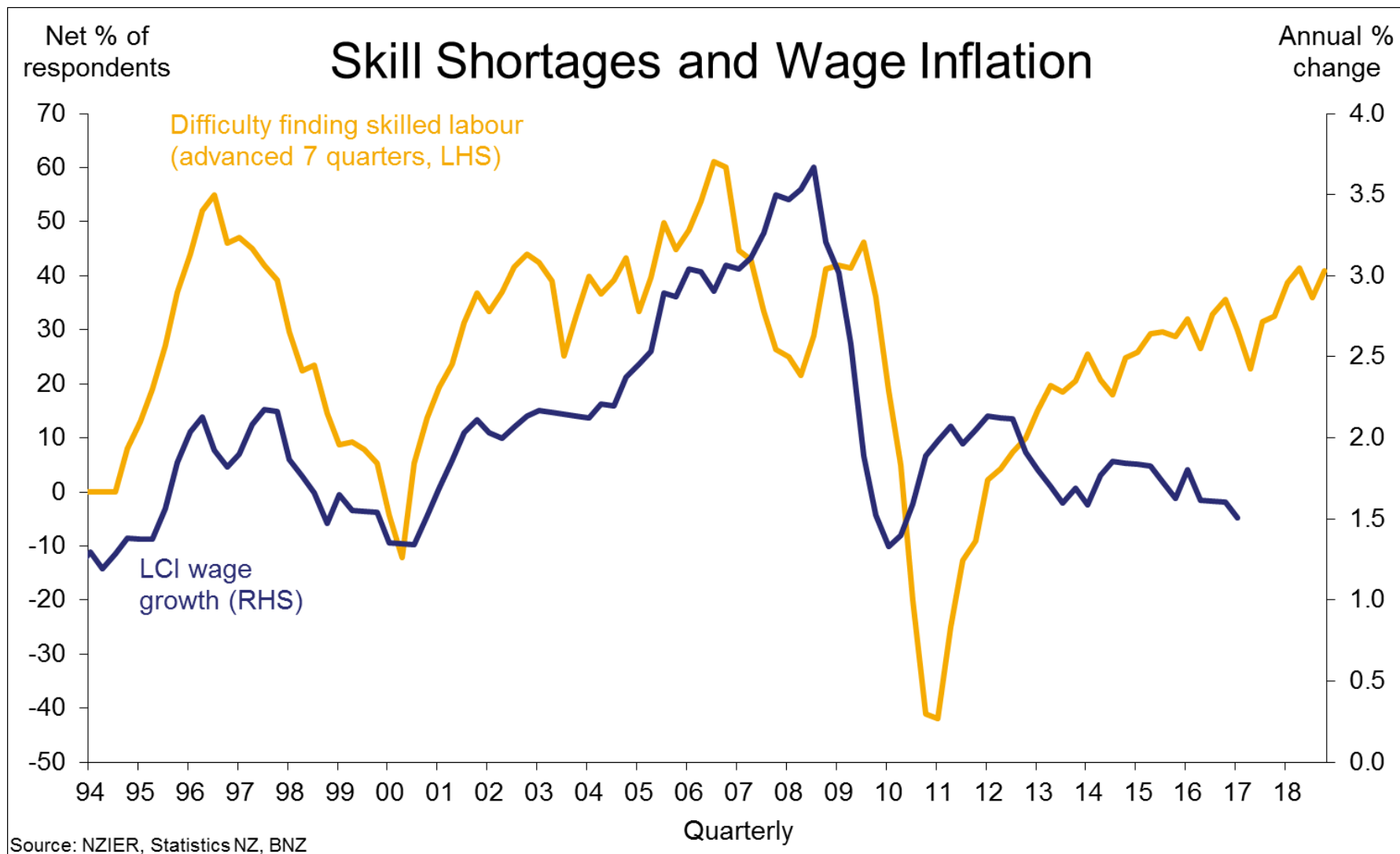
# Capacity Pressures Impact?



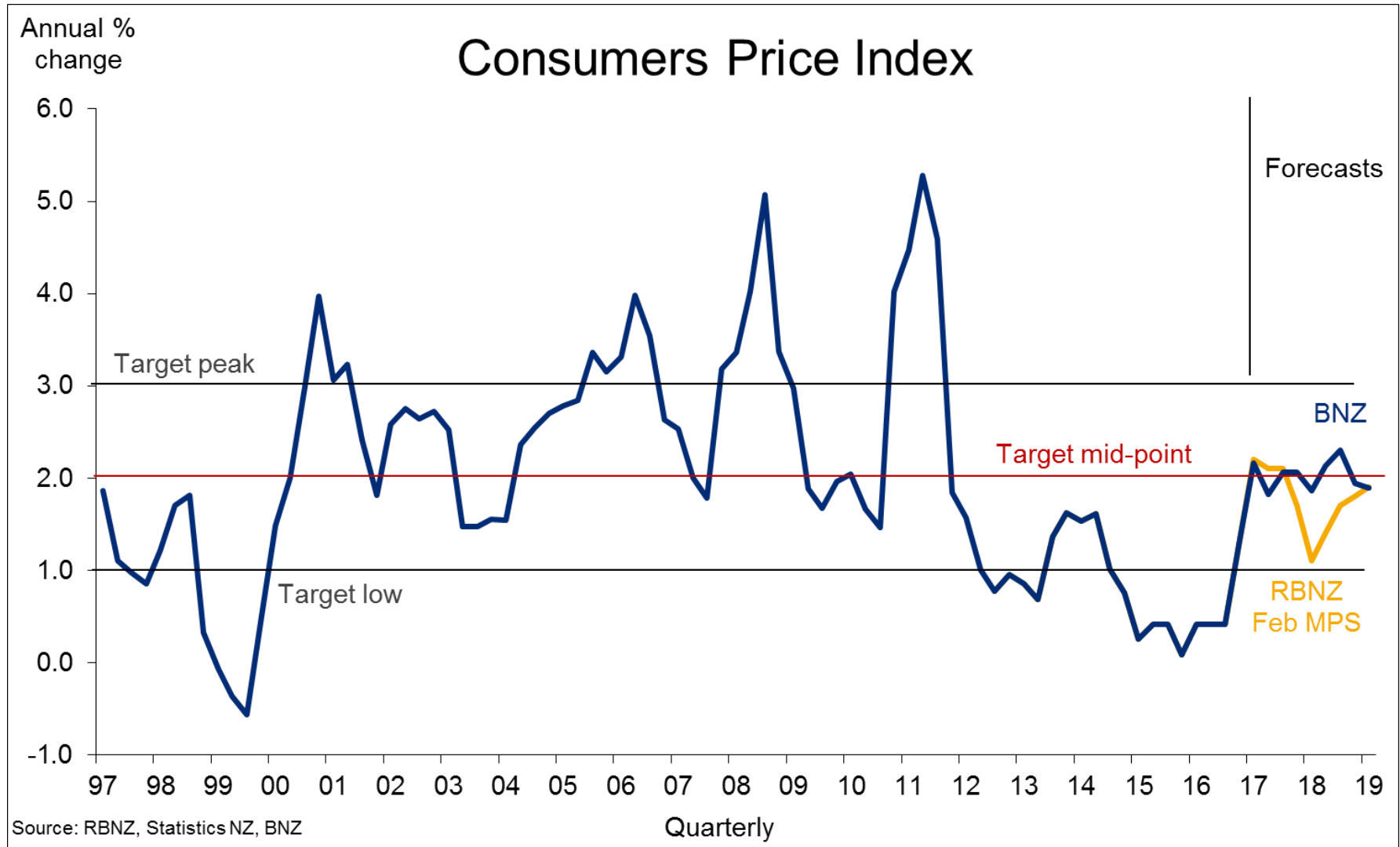
# Core Inflation Looks Up Too



# Nominal Wages The Missing Link

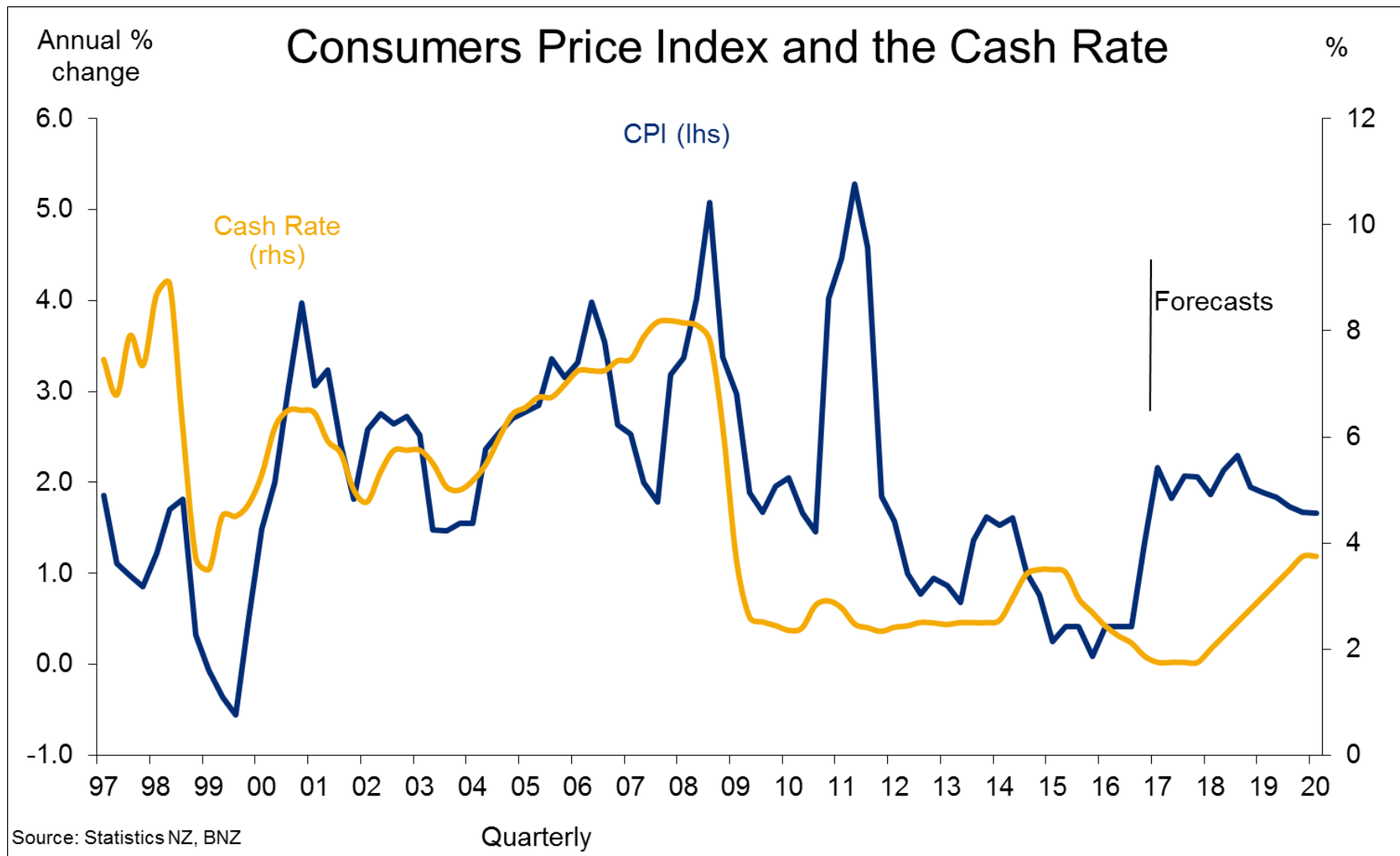


# Inflation (of sorts) Returns

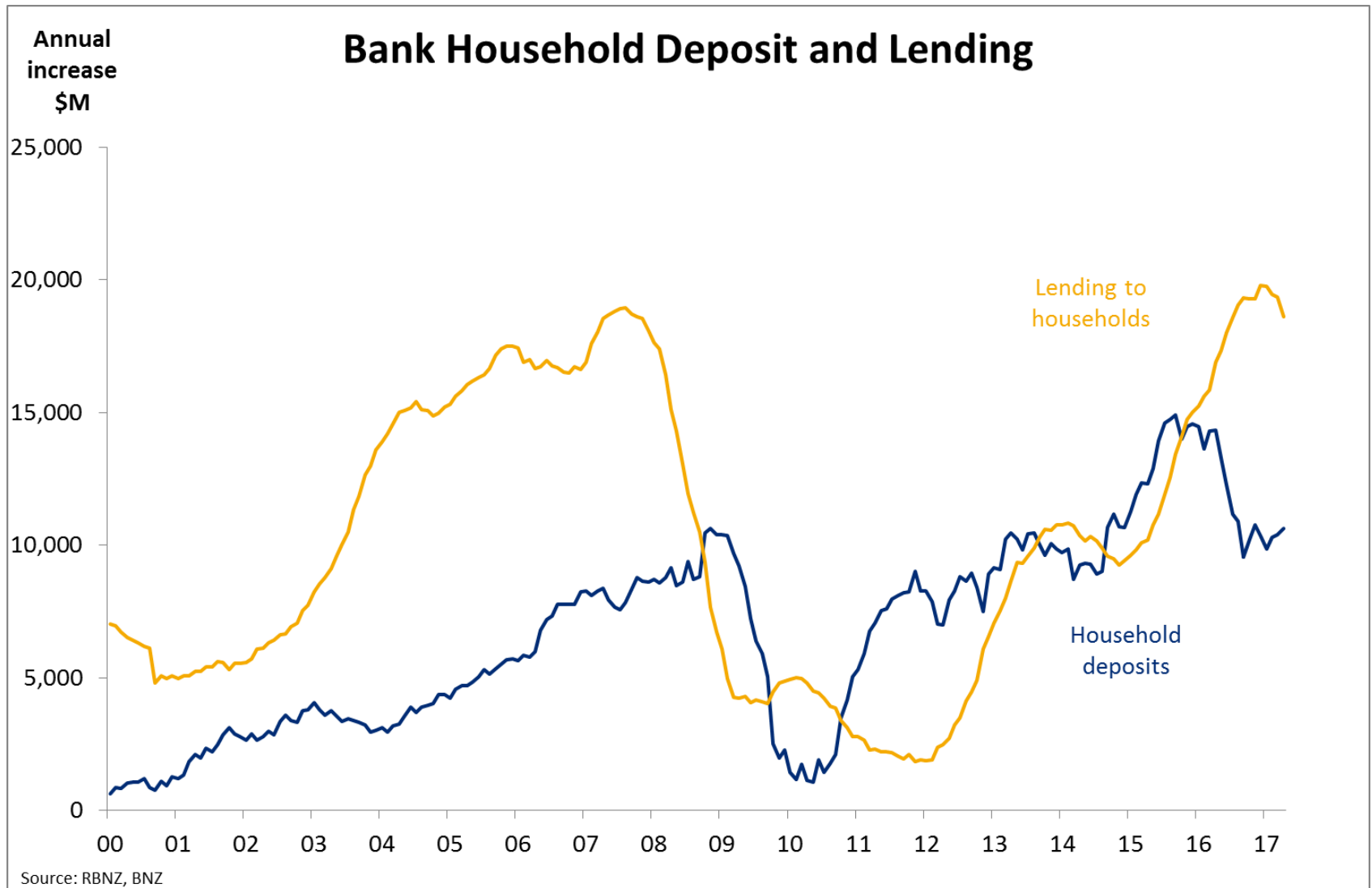




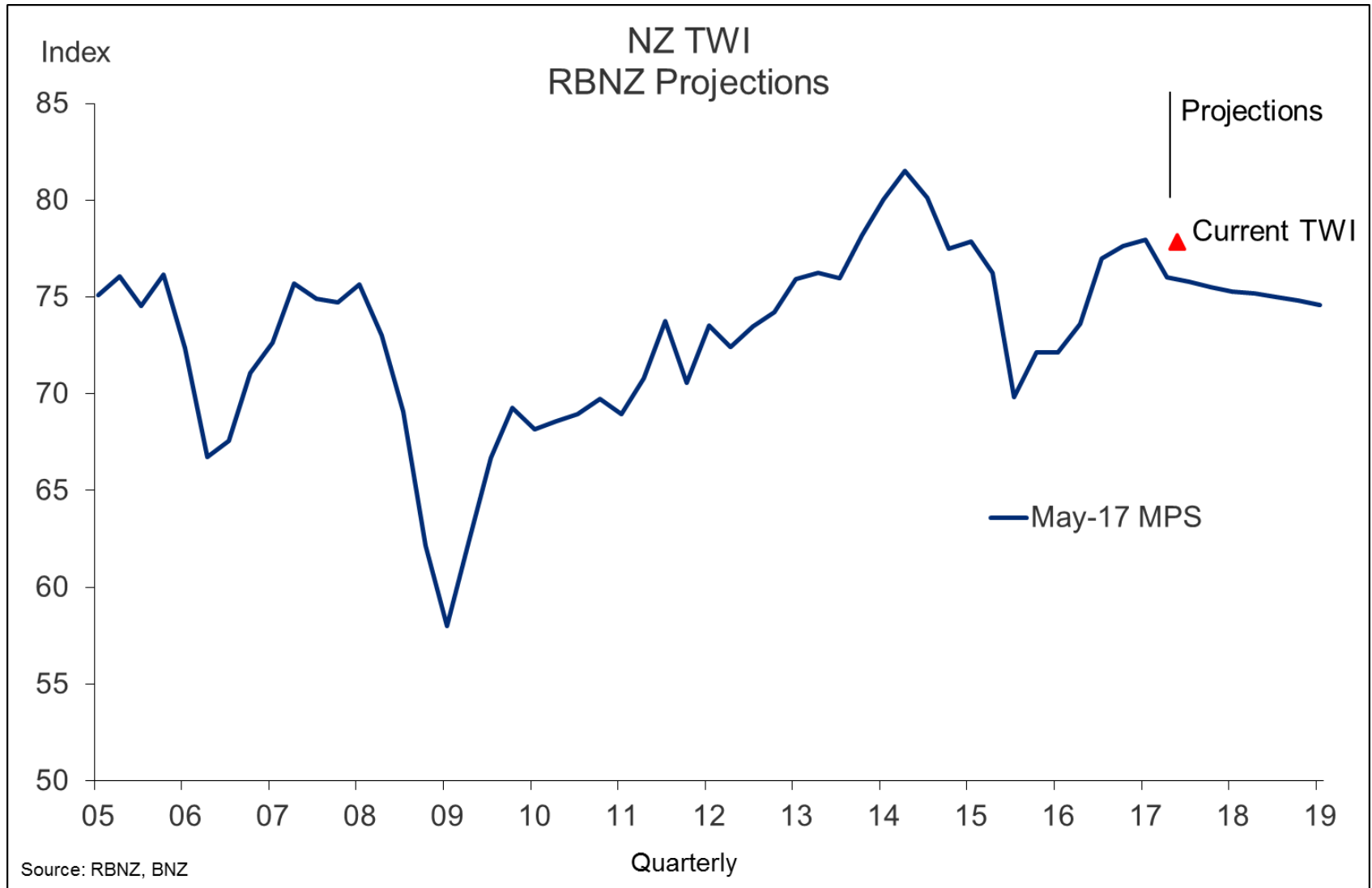
# Rates To Eventually Head Higher



# Credit and Deposit Growth Matters Too



# NZD Higher Than RBNZ Anticipated



# Summary

---

- NZ growth outlook positive
- Pressure on existing capacity, including labour market
- Terms of trade to hit record high in 2017
- Inflation pressures rising, but inflation contained
- Macro metrics look good; housing a risk
- OCR at record low; RBNZ neutral; rates to rise eventually
- Global long term interest rates to push higher; US policy important
- Global influences critical for NZD
- Risks aplenty – US policy, monetary experiments, asset prices, inflation trajectory, oil, net migration, Chinese debt, Europe, actual Brexit, trade agenda, politics, and geo-political tensions... yet financial market volatility indicators are low

# Disclaimer

This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.