

➤ Economic Update November 2017



Peter Flannery CFP AFA

“If you have one economist on your team it’s likely that you have one more than you’ll need.”

Warren Buffett

The Global Economy



SUPPLIED
Prime Minister Jacinda Ardern as Mona Lisa, which won an art gallery competition in Mangaweka as the top forgery.
Winston Peters won the election, with the help of Jacinda Mona Lisa Ardern.

Political change in New Zealand is meaningful for Kiwi’s, as well as some exporters, some importers and some businesses and possibly property investors, among others. However, the global view is that National and Labour sit either side of the centre and therefore, this election is of little interest to most of the world.

The TPP Trade Pact has been agreed in principle by 11 nations, however Canada blindsided the meeting by not turning up. It looks as though there is more work to be done here. Also, it is likely that the outcome will not please everyone.

Donald Trump undertook his Asian tour, where he reminded Kim Jong Un and North Korea (as if they needed reminding!) not to underestimate America. He also, let the world know that America will be looking after itself when it comes to international trade. Let’s face it, Donald Trump is pro-business, pro-growth

and pro-America. Okay, he might be other things too!

However, as he rightly pointed out at one point, America will be looking for deals that are favourable to America, just as every other country will be looking for deals that are favourable to them.

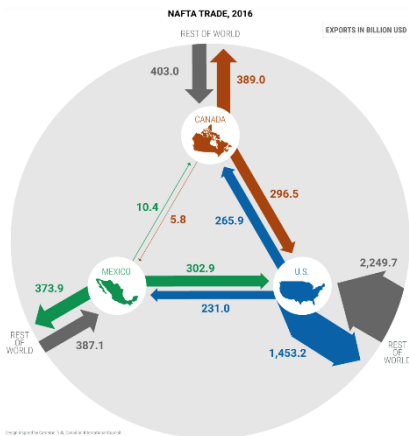
Dare I say it, that statement is consistent with his underlying modus operandi and quite simply, the truth.

Elsewhere, the global economy generally appears to be stable at the moment. The powerplay in the Middle East, with prominent individuals being placed under arrest looks interesting. Let’s wait and see how this unfolds.

The elections in New Zealand have been and gone, with perhaps a surprising result but one that is consistent with MMP. We will likely get a better understanding of how things will work out over 2018. It’s a bit early just yet. Anyway, economic stability reigns for now.

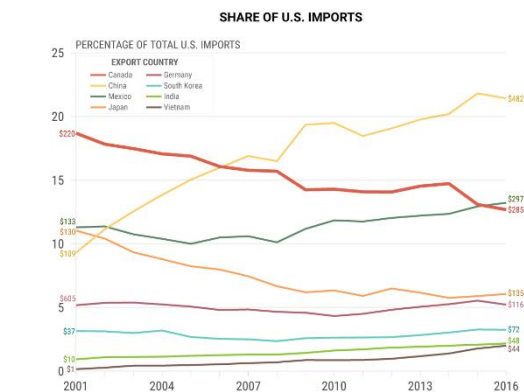


The United States of America



The above chart shows the trading relationship between the US, Canada and Mexico. Because of its sheer size and scale, it appears that the US, to a large degree, still has the upper hand.

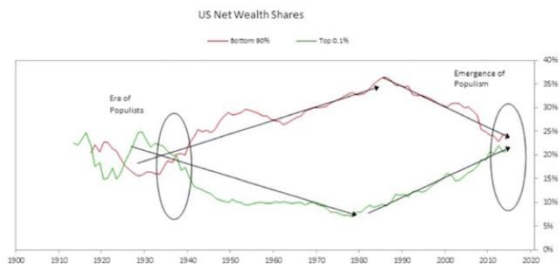
The North American Free Trade Agreement (NAFTA) is an agreement signed by the US, Canada and Mexico and was initiated in January 1994. The fourth round of NAFTA negotiation just ended, with US President, Donald Trump, threatening to strike a new deal just with Canada only. Long story short, there are economic realities and commercial interests that led to the formation of this agreement originally and at this stage, it appears that those incentives for co-operation remain in place. However, it is always wise to wait and see exactly what Donald Trump does get up to!



The above chart outlines where US imports come from. Note: a decrease from Canada (the red line) and an increase from China (the yellow line).

Donald Trump has made no secret of his ambition to rebalance what he believes is unequal and unfair trading imbalances, particularly between the US and China. After his recent visit to Beijing, Donald Trump made it clear that he will not allow the US to be taken advantage of anymore, when it comes to trade. He pledged to always, "put America first." So, unless it is not obvious to the world, Donald Trump is making it clear of his intention to restore America's financial position (ie he is 'gung-ho' growth and cutting cost at home) and on the world stage, will look to initiate trade

deals that favour America. Although we will have to wait and see, the implications could be significant for global trade and the global economy.



The red line is the share of US wealth owned by the bottom 90% of the US population. The green line is the share held by the top 0.1%

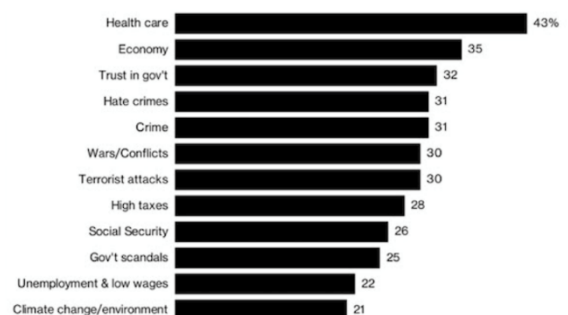
The rich get richer and the poor stay poor. The reality is that in any society, there are always those who are better off than others. Although there is more to it than this, the fact is that some people want more out of life than others and they are willing to go after it. Some have generated a moderate amount of wealth through luck, however hanging on to that wealth, takes more than just luck.

In America, the wealthiest 0.1% has been increasing its share of wealth since the 1980s, while the bottom 90% has continued to lose ground. If we look back in history, there was a similar pattern in the 1920s. Interestingly, this trend reversed in the following 10 years. Then, there was about 50 years of where the masses became better off and the wealthy lost ground. Franklin D Roosevelt (FDR) however was elected on the back of populism and the masses feeling dissatisfied. In short, the masses could see that the economy was not working for them and voted for FDR, a similar scenario with the election of Donald Trump as President last year. Obviously, two very different Presidents, however both the result of angry voters, looking for change.

Editor's note: Some readers may recall my public seminars many years ago. One of the sections of the seminar on economics highlighted severely changing economic conditions, approximately every 70 years or so. That is right, it means that we are overdue for another one anytime now. Who knows for sure? Anyway, if you would like more reading about this, Google "thefourthturning."

What issues are causing Americans stress?

(Hint: There's a lot.)



American Psychological Association, Stress in America Survey 2017

Bloomberg

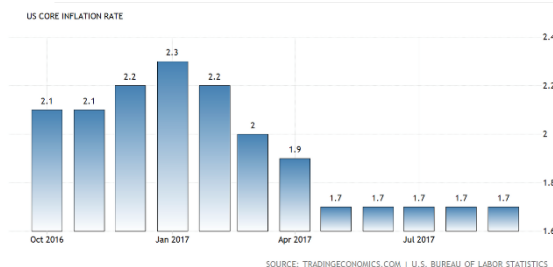
Ironically, American's live in arguably the wealthiest economy on the planet and yet, they still worry a lot about a lot of things.

Healthcare is the number one concern in the US followed quite a way back by the state of the American economy. Interestingly, trust in Government comes in next and then there is hate crimes. As a point of interest, New Zealanders, I believe, underestimate the future underfunding of healthcare here in New Zealand. The issue in the US, despite Barack Obama's best efforts, is still not an easy one in America. I suspect by the time Donald Trump is finished, there will be many Americans who will simply be without proper healthcare because they cannot afford it and because it will not be available from the Government. For similar reasons, New Zealand, I believe, is heading down a similar path.



Interest rates are slowly heading in an upward direction, held back, in my opinion, by the clutches of deflationary funk.

The Federal Reserve left the target range for its federal funds rate unchanged at 1% to 1.25% during its November 2017 meeting as expected.



Core inflation remains steady at 1.7%.



Unemployment remains low, however the corresponding jump in economic growth, has yet to emerge.



Wages growth in the United States averages 6.22% from 1960 until 2017. Currently, it sits at around 3.22%, which is lower than where everyone would like it.



Economic growth is stable but fragile, sitting at around 2.3%.

The US economy remains relatively stable and whilst Donald Trump is an unusual President, it looks as though he might be positive for the US economy, if he can succeed in "putting America first."

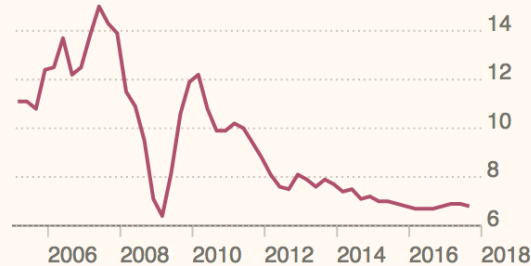
China



Growth

China's real GDP growth

Annual % growth, quarterly



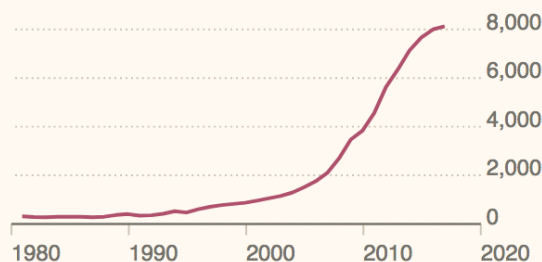
Source: CEIC Generate. 19 Oct 2017

Economic growth in China remains stable.

Per person

GDP per capita

\$



Source: CEIC Generate. 28 Aug 2017

As the chart above shows, the improvement in living standards for Chinese citizens has been staggering over the last 25 years.

China's National Bureau of Statistics (NBS), on October 19, 2017, showed that China's GDP grew at 6.8%. Although the growth was slightly below that of the second quarter, it is still within the Chinese Government's growth target range.

China is looking for growth of 6.5% this year. Interestingly, Zhou Xiaochuan, China's Central Bank Governor, mentioned recently that China's

economy could grow by 7% in the second half of this year.

Zhou, aged 69, is expected to retire soon and has issued a series of quite clear warnings in recent weeks about China's overall financial set-up.

He sees potential problems that could be triggered by the high leverage of the Chinese economy, where the Government has continued to borrow money to fund growth.

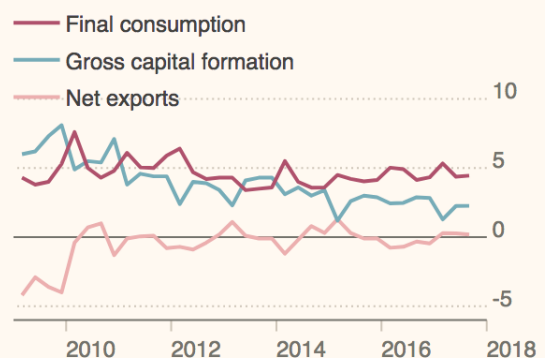
It looks as though one of the real risks here is that by some estimates, it is taking somewhere between \$2 and \$4 of debt to generate \$1 of growth. That is okay if things are managed properly, however so-called 'black swan' events can suddenly erupt. They are difficult because they are significant, random and usually unexpected, whilst the so-called 'grey rhino' risk is a threat that everyone sees coming (eg the shadow banking industry in China) but fails to address.

Zhou also points to problems with liquidity in the finance sector in China, as well as determined criminals who seek to take advantage of the system for their own gains. Organised crime in China, it seems, is alive and well, although it is not something that we hear much about.

Components of GDP growth

Sources of China's growth

Percentage points



Source: CEIC, National Bureau of Statistics. 20 Oct 2017

The Chinese Government continues to drive reforms and to shift the economy toward a consumption based services economy, away from capital and debt hungry initiatives required to keep the economy growing.

Business activity

China's official PMIs



Source: CEIC. 31 Oct 2017

Business activity remains in expansion mode in China.

Rebalancing the Chinese economy through reform is partly about reducing China's reliance on State-owned enterprises, that are inefficient, as well as reliance on areas of over-capacity, such as steel processing and coal mining.

The Chinese Government is looking for a consumer based economy, which is a move away from an investment and export-led economy, however Chinese households prefer to save rather than spend (unlike their western counterparts!).

Average loan rate

Weighted-average bank loan rate %



Source: CEIC/People's Bank of China. 11 Aug 2017

The above chart shows interest rates sitting at a bit under 6% in China.

The People's Bank of China sets the one year benchmark lending rate, which it has cut six times since 2014. The availability of money in China is also influenced by the Reserve's term deposit ratio, which the Central Bank in China has been lowering. This represents a loosening of monetary policy.

At the same time, the Government has been selling off its dollar reserves and buying up

renminbi (Chinese currency) , which has the effect of shrinking the domestic money supply.

Inflation

Chinese inflation

Year-on-year % change



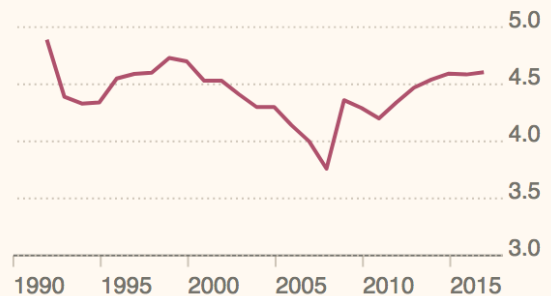
Source: CEIC. 09 Nov 2017

Inflation in China sits at a shade under 2%.

Unemployment

China's unemployment rate

% of labour force

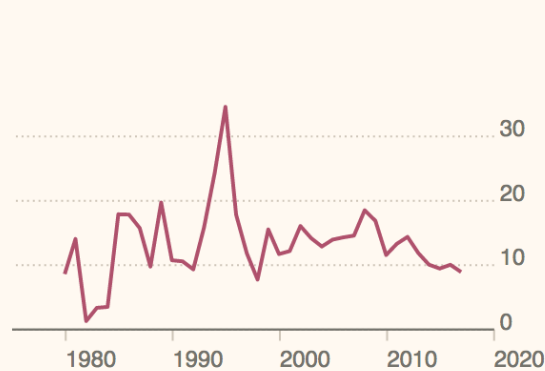


Source: CEIC. 18 Apr 2017

Unemployment officially sits at a bit over 4.5% - at least that is the official number.

Wages

China's average annual wages Year-on-year % change



Source: CEIC/National Bureau of Statistics. 27 May 2017

Wages growth is running at a shade under 10%, reflecting a modest slow down or more likely, over-capacity in some sectors.

The chart above shows that wages are increasing at a decent rate, which is a good thing, however by some reports, there is discontent lurking below the surface in China. For example, the official unemployment number does not take into account migrant workers who are forced to move back to the countryside or other workers who may find themselves unable to collect wages owed by bosses in shrinking sectors. Strikes in China are illegal, however strikes according to the China labour bulletin doubled for 2014 to 2015. The Chinese Government, in my view, will be challenged, maintaining a satisfied workforce as the economy shifts to a consumption based economy and many workers are caught up in sectors of over-capacity that are shrinking, where their job are no longer required.



China's trade balance remains in good shape, as both charts above show. However, what is good for China, is not necessarily good for America.

China still runs a healthy trade surplus, which his not all to do with trade with America but nonetheless, the trade imbalance with America is an item that Donald Trump is very focused on. China's reforms and the ongoing push toward a consumption based economy could be part of a solution in the future. However, such a transition takes time and as I mentioned earlier, Chinese citizens love saving money and are less inclined to spend.

House prices

Property price growth in China Annual % change



Source: Thomson Reuters Datastream, February 2016

Property price rises are quite variable, with overall property prices estimated to be growing at somewhere around 5%.

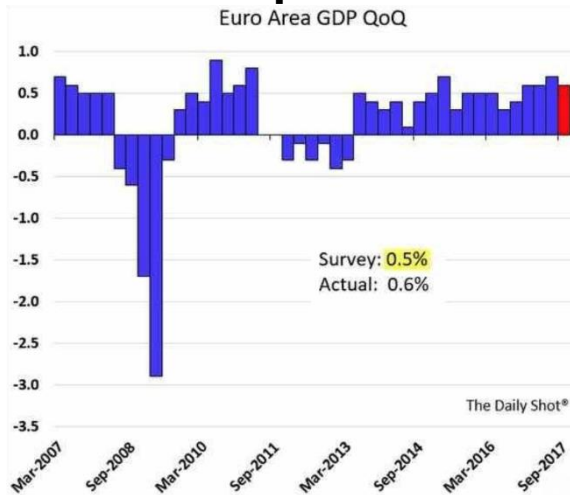
China is a bit of a mixed bag with property.

On the one hand, demand has been created with workers migrating from the country into the city, creating demand. On the other hand, there may be some localized property bubbles, such as in Shenzhen, which has an average price to income ratio of around 18. Hong Kong is another area, which could be in bubble territory, with a price to income ratio of around 16. London's price to income ratio sits at around 10, which is considered to be excessive. New Zealand's price to income ratio also sits at around 9 in Auckland.

Some teachers, for example, are moving out of Auckland because they cannot afford to service the loans they need, in some instances, at current house price levels. In short, house prices are expensive and out of line with historical norms, not only in New Zealand, Australia and London but also, in China too in some areas.

China's economy, like any economy, is not without its challenges. The Chinese Government, however, is very focused on managing and controlling the economy and therefore, the Chinese economy remains stable. This is good for China and therefore, good for the global economy too – at least for now.

Europe



Growth in the Europe area remains on track.

Economic growth in Europe remains on track, with 18 uninterrupted quarters of positive growth. However, whilst unemployment is declining, it is still too high and wages growth remains absent. This means that ongoing growth in the European economy remains dependent on policy support (Central Bank intervention) and so-called 'printed money.' The European Central Bank is maintaining an accommodative stance with interest rates, whereas other central bankers around the world, are starting to raise interest rates.



Wages growth at 2% is positive but low and slow.



Inflation is tracking around 1.4%, which is not bad but below where the Central Bank would like it to be.

The European economy remains stable, is growing, although at a slow pace, which remains underpinned by lower oil prices, low interest rates, Central Bank intervention and an overall global environment that is also stable.

United Kingdom

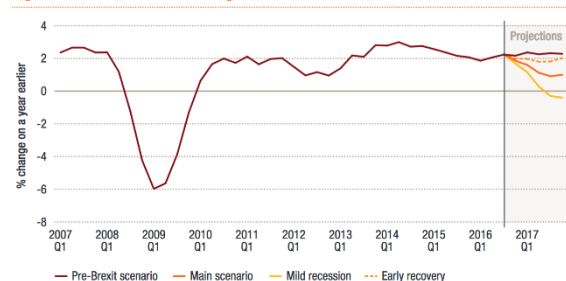


Unemployment continues to decline, however we are not there yet. Unemployment still remains too high.

As the European economy expands and grows, although perhaps at a slow pace, jobs have been created. Unemployment continues to improve, reaching its lowest level since 2009, as those participating in employment climb to a record high.

Unemployment is expected to average around 9.1% this year and to further decrease to possibly 8.5% in 2018 and 7.9% in 2019. Better but still too high.

Figure 1.1 – Alternative UK GDP growth scenarios



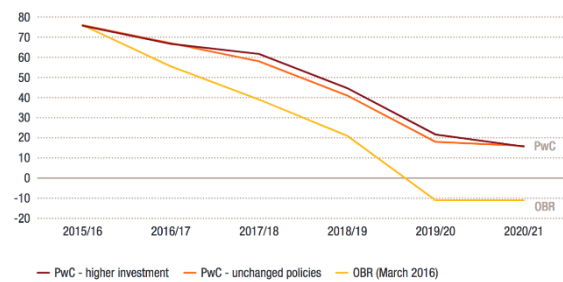
Source: ONS, PwC

Although it is too early to know for sure, the chart above offers some suggestions as to future growth expectations in the UK.

Not unlike other economies around the world, Britain's economy is supported by Central Bank intervention. The impact of this is that by some estimates, ongoing borrowing could overshoot by around GBP100 billion by 2020/21 when compared to March forecasts.



Figure 1.2 – Alternative public borrowing projections vs OBR's pre-Brexit forecasts (£bn)

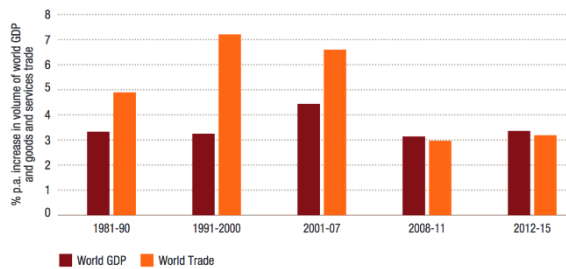


Source: ONS, OBR, PwC

The above chart outlines possible borrowing scenarios for Britain.

Based on PWC's projections, assuming an additional GBP20 billion of net public investments, spread over the period between 2017/18 and 2019/20, they estimate that the public debt to GDP ratio would still be on a downward trend from 2018/19 onwards, as well as retaining a current budget surplus of around GBP16 billion in 2019/2020.

Figure 1.3 – World GDP and trade growth

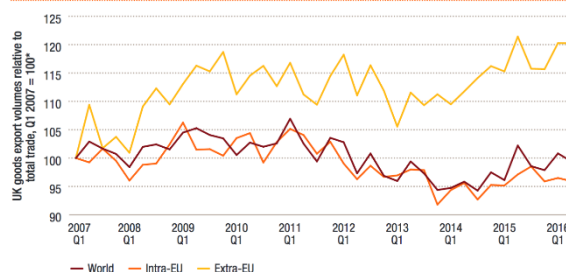


Source: IMF World Economic Outlook, October 2016

Britain's trading relationship with Europe post-Brexit is obviously important. The above chart shows the backdrop of global economic growth and more specifically (the orange bar), how global trade has slowed down since the global financial crisis in 2008.

Interestingly, global trade growth has slowed relative to global economic growth (as measured by GDP) since the global financial crisis. Weaker growth in emerging markets, along with the commodity trade cycle, has contributed to this slow down.

Figure 1.4 – UK relative trade performance since 2007



Source: PwC calculations based on data from World Trade Organisation and ONS

Note: UK total exports relative to total world imports and UK intra-EU and extra-EU exports relative to EU totals

Britains trade outside of the Euro area has been growing more strongly than trade within the Euro area, as the chart above demonstrates.

United Kingdom | Economic Indicators

Overview	Last	Reference	Previous	Range	Frequency
GDP Growth Rate	0.4 %	Sep/17	0.3	-2.7 : 5	Quarterly
Unemployment Rate	4.3 %	Aug/17	4.3	3.4 : 12	Monthly
Inflation Rate	3 %	Sep/17	2.9	-0.1 : 8.5	Monthly
Interest Rate	0.5 %	Nov/17	0.25	0.25 : 17	Daily
Balance of Trade	-2754 GBP Million	Sep/17	-3455	-6345 : 2946	Monthly
Government Debt to GDP	89.3 %	Dec/16	89	31.3 : 89.3	Yearly

Markets	Last	Reference	Previous	Range	Frequency
Currency	1.32	Nov/17	1.31	1.05 : 2.86	Daily
Stock Market	7433 points	Nov/17	7484	428 : 7562	Daily
Government Bond 10Y	1.34 %	Nov/17	1.27	0.52 : 16.09	Daily

GDP	Last	Reference	Previous	Range	Frequency
GDP Growth Rate	0.4 %	Sep/17	0.3	-2.7 : 5	Quarterly
GDP Annual Growth Rate	1.5 %	Sep/17	1.5	-5.9 : 9.7	Quarterly
GDP	2619 USD Billion	Dec/16	2861	72.33 : 3063	Yearly
GDP Constant Prices	488862 GBP Million	Sep/17	486914	109967 : 488862	Quarterly
Gross National Product	495902 GBP Million	Jun/17	493891	4755 : 495902	Quarterly
Gross Fixed Capital Formation	81183 GBP Million	Jun/17	80715	13824 : 81183	Quarterly
GDP per capita	41603 USD	Dec/16	41184	13869 : 41603	Yearly
GDP per capita PPP	38901 USD	Dec/16	38509	26388 : 38901	Yearly
GDP From Agriculture	2667 GBP Million	Sep/17	3116	2350 : 3267	Quarterly
GDP From Construction	27275 GBP Million	Sep/17	28503	20035 : 27275	Quarterly
GDP From Manufacturing	43756 GBP Million	Sep/17	41480	37451 : 43756	Quarterly
GDP From Mining	5120 GBP Million	Sep/17	7450	5120 : 16722	Quarterly
GDP From Public Administration	19582 GBP Million	Sep/17	18905	18888 : 22274	Quarterly
GDP From Services	348613 GBP Million	Sep/17	339153	171542 : 348613	Quarterly

Note GDP from services (down the bottom of the chart) that shows services have been increasing strongly. This is beneficial for Britain as a financial services based economy, perhaps reducing some reliance on the Euro area for trade. However, some bank head offices are choosing to leave Britain.



SOURCE: TRADINGECONOMICS.COM | OFFICE FOR NATIONAL STATISTICS

Wages growth in the UK, not unlike Europe, is tracking at around 2.2%, which is OK but too slow.

Britain's economy is expected to show slowing economic growth over the next couple of years, as the uncertainty of Brexit continues to undermine consumer and business confidence. The Bank of England is expected to maintain a supportive policy stance to maintain economic stability and help support growth. The population in Britain continues to steadily rise, which will help underpin economic activity, although property prices in some areas of London have plateaued out and are declining in others. The uncertainty of Brexit remains a headwind for Britain and will likely mean slowing economic growth. However, Britain's economy remains relatively stable.

Japan

Japan Economy Data

	2012	2013	2014	2015	2016
Population (million)	128	127	127	127	127
GDP per capita (USD)	48,746	40,110	38,346	34,425	39,089
GDP (USD bn)	6,218	5,107	4,875	4,371	4,960
Economic Growth (GDP, annual variation in %)	1.5	2.0	0.3	1.1	1.0
Domestic Demand (annual variation in %)	2.3	2.4	0.3	0.7	0.4
Consumption (annual variation in %)	2.1	2.4	-0.9	-0.4	0.4
Investment (annual variation in %)	3.5	5.0	2.7	0.1	1.0
Exports (G&S, annual variation in %)	-0.1	0.7	9.3	3.0	1.1
Imports (G&S, annual variation in %)	5.5	3.2	8.3	0.7	-2.3
Industrial Production (annual variation in %)	0.2	-0.6	2.1	-1.2	-0.2
Retail Sales (annual variation in %)	1.8	1.0	1.7	-0.4	-0.6
Unemployment Rate	4.3	4.0	3.6	3.4	3.1
Fiscal Balance (% of GDP)	-9.0	-8.5	-6.2	-5.4	-
Public Debt (% of GDP)	201	202	200	197	199
Money (annual variation in %)	2.6	4.2	3.6	3.1	3.9
Inflation Rate (CPI, annual variation in %, eop)	-0.2	1.7	2.4	0.1	0.3
Inflation Rate (CPI, annual variation in %)	-0.1	0.4	2.8	0.8	-0.1
Inflation (PPI, annual variation in %)	-0.9	1.2	3.2	-	-
Policy Interest Rate (%)	0.10	0.10	0.10	0.10	-0.10
Stock Market (annual variation in %)	22.9	56.7	7.1	9.1	0.4
Exchange Rate (vs USD)	86.75	105.3	119.7	120.3	116.9
Exchange Rate (vs USD, aop)	79.84	97.63	105.9	121.1	108.8
Current Account (% of GDP)	1.0	0.9	0.8	3.1	3.8
Current Account Balance (USD bn)	59.6	45.8	37.1	134	187
Trade Balance (USD billion)	-87.3	-117.5	-122.4	-23.3	37.0

Despite significant debt, Japan's economy remains stable. Note the stagnant population (see the top of the chart). Generally, this is bad news for future economic growth.

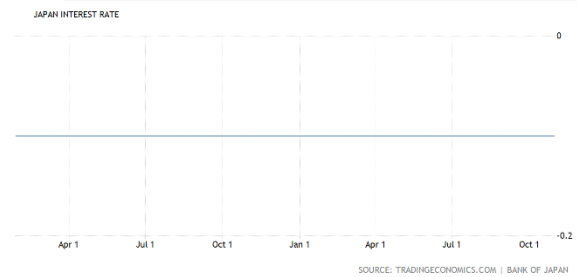
Japan's economic growth over the next 12 months may decelerate somewhat as the recent tailwinds fade away. Ongoing geopolitical tensions may also add pressure on the Yen, which is considered to be a safe haven currency during times of uncertainty. This is could cause the currency to rise, making the export sector of the Japanese economy face more difficult times.



Economic growth has improved over the last two years, with growth sitting at around 1.4%. Not ideal but not bad for an economy stuck in deflationary funk for over 25 years.

Japan's Prime Minister, Shinso Abe, remains one of the longest serving Prime Ministers in recent times and appears to be having some success dragging the Japanese economy out of a deep and protracted deflationary environment. The escape is far from over because of the significant debt created to help stabilize and move the economy forward.

Industrial production in Japan declined slightly over September, however consumer confidence remains at its highest level in four years.



Interest rates remain negative in Japan (see the zero number above the line in the top right corner).

The Bank of Japan kept its monetary policy programme unchanged at its October meeting, which is pretty much what everyone expected. The Bank, not surprisingly, decided to continue with its stimulus programme for as long as necessary, to achieve the 2% inflation target.

Although accelerating slightly in recent months, inflation still remains weak, due in part to a now well-entrenched Japanese 'deflationary mindset.'



Unsurprisingly, wages growth in Japan remains subdued, although slightly positive.

Japan's economy remains, in my opinion, firmly entrenched in what I call 'deflationary funk' which is not helped by demographic problems both now and in the future. Population growth is basically flat, which hinders economic activity and growth.

Further, the significant debt Japan has accumulated, which continues to grow rapidly, makes Japan one of the biggest debtor nations on earth.

On an ever so slightly more positive note, at least from an economic perspective, the Governor of the Bank of Japan, at this stage, plans to continue moving ahead with the implementation of the controversial sales tax hike in 2019.

This is important, if it can be achieved, because it helps raise tax revenue to at the very least support year to year spending in Japan, although I doubt it will be enough to begin paying down the huge amount of debt anytime soon. Nonetheless, that sales tax is a step in the right direction, in my opinion.

Australia

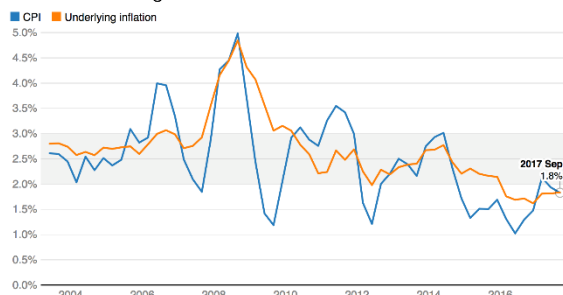
Australia Economy Data

	2012	2013	2014	2015	2016
Population (million)	22.9	23.3	23.6	23.9	24.3
GDP per capita (USD)	68,108	64,857	61,362	51,363	51,878
GDP (USD bn)	1,561	1,510	1,449	1,230	1,260
Economic Growth (GDP, annual variation in %)	3.6	2.1	2.8	2.4	2.5
Consumption (annual variation in %)	2.3	1.7	2.8	2.7	2.6
Investment (annual variation in %)	9.1	-1.6	-1.6	-3.0	-2.6
Exports (G&S, annual variation in %)	5.7	5.8	6.9	6.0	7.9
Imports (G&S, annual variation in %)	5.5	-2.2	-1.1	2.0	0.2
Industrial Production (annual variation in %)	2.8	1.1	4.0	1.2	1.0
Retail Sales (annual variation in %)	3.4	3.2	5.5	4.5	3.7
Unemployment Rate	5.2	5.7	6.1	6.1	5.7
Fiscal Balance (% of GDP)	-2.2	-1.9	-2.8	-2.2	-2.1
Public Debt (% of GDP)	27.8	30.8	34.2	37.6	41.1
Money (annual variation in %)	-4.6	8.7	6.3	10.9	6.5
Inflation Rate (CPI, annual variation in %, eop)	2.2	2.8	1.7	1.7	1.5
Inflation Rate (CPI, annual variation in %)	1.8	2.5	2.5	1.5	1.3
Inflation (PPI, annual variation in %)	1.2	1.6	1.7	1.4	0.9
Policy Interest Rate (%)	3.00	2.50	2.50	2.00	1.50
Stock Market (annual variation in %)	13.5	14.8	0.7	-0.8	7.0
Exchange Rate (vs USD)	1.04	0.89	0.82	0.73	0.72
Exchange Rate (vs USD, aop)	1.04	0.97	0.90	0.75	0.74
Current Account (% of GDP)	-4.1	-3.2	-3.0	-4.8	-2.6
Current Account Balance (USD bn)	-64.5	-48.2	-43.7	-59.4	-33.4
Trade Balance (USD billion)	6.1	20.3	11.9	-13.1	3.1

Australia's population is growing slowly but steadily, helping underpin economic activity, however inflation appears to be on the decline, which is not what the Reserve Bank of Australia wants.

The Australian economy is performing relatively well overall, although wages growth remains slow and inflation appears to be on the decline, which is not ideal. Australia has implemented some regulatory changes this year, with regards to household borrowing under the Prudential Regulation Authority (APRA), which appear to be tightening credit conditions and should help control household debt moving forward.

Annual inflation growth



Source: ABS 6401.0, Table 8, derived - Get the data - Created with Datawrapper

Declining inflation will be a concern for the Governor of the Reserve Bank of Australia.

Low inflation should be no surprise to anyone with the global economy still firmly in the grip of deflationary funk. Inflation in Australia has been declining and slipping further away from the Reserve Bank's target for inflation of between 2% and 3%. In the last three years, only one quarter have seen the CPI within that band.



SOURCE: TRADINGECONOMICS.COM | RESERVE BANK OF AUSTRALIA

Interest rates remain on hold in Australia. Deflationary funk is not over yet.

Interest rates in Australia remain at an all-time low of 1.50%, where it has been since August 2016. The dip in inflation is one of the drivers of the Central Bank Governor's decision, along with an appreciating Australian dollar and weak labour costs. Both consumer and business sentiment are in positive territory, while the unemployment rate has dropped in September. At the same time, a tighter labour market has yet to feed through into higher wage growth.



SOURCE: TRADINGECONOMICS.COM | AUSTRALIAN BUREAU OF STATISTICS

Wages growth in Australia is low and slow at 1.9% annual growth.

Wage growth in Australia averaged 3.38% from 1998 to 2016, reaching an all-time high of 4.30% in the second quarter of 2008 and a record low of 1.90% in the third quarter of 2016. Wages growth is seen by many as an indication of emerging economic growth, providing a sustainable platform for ongoing growth in the future. Interestingly, 'the Philips Curve' is an economic model that basically suggests low unemployment should lead to wages growth. What is interesting is that so far, around the world, unemployment has declined in many countries, however wages growth has stubbornly yet to emerge.

Capital city home value changes

Capital city	Weekly change	Monthly change	Yr to date change	12 mth change
Sydney	-0.1%	-0.4%	5.0%	8.5%
Melbourne	0.1%	0.6%	8.4%	11.2%
Brisbane	0.0%	0.3%	2.2%	2.7%
Adelaide	0.0%	0.0%	2.7%	4.9%
Perth	-0.1%	0.1%	-2.4%	-2.8%
Combined 5 capitals	0.0%	0.1%	4.9%	7.4%

*The monthly change is the change over the past 28 days.

Source: CoreLogic

Property prices in Australia have continued to rise across the board, although price rises are slowing.

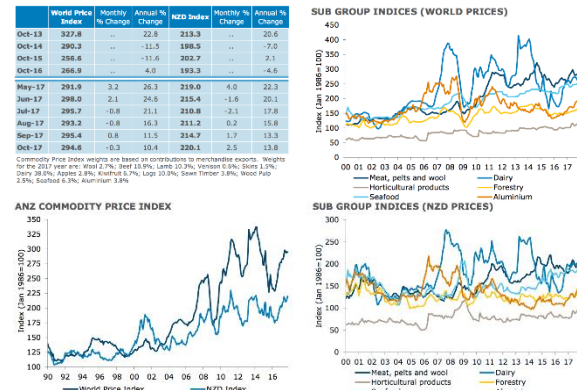
Property prices in Australia, across the country, have grown by an average of 7.4% over the last 12 months, in average weighted terms, which of course is quite a bit below the double digit level seen only a few months ago. The two factors at play appear to be reduced affordability, particularly



in Australia's largest cities, along with attempts from the Australian Banking Regulator (APRA) to curb investor activity in the housing market across Australia. Whilst some commentators in Australia (just like New Zealand, China and other economies) have suggested a property price collapse is on the cards, whilst it is possible, in my view, this is an unlikely scenario all things equal. Sure, a so-called 'black swan' event could create a decline in house prices, however those type of events are rare. Anyway, stepping outside of the academics of price declines for a moment, lower prices mean better buying (assuming we are in the position to take advantage of low prices and are not mortgaged to the hilt, so to speak).

Australia's economy is tracking at a modest pace of growth, with inflation and wages growth stubbornly low and slow right now.

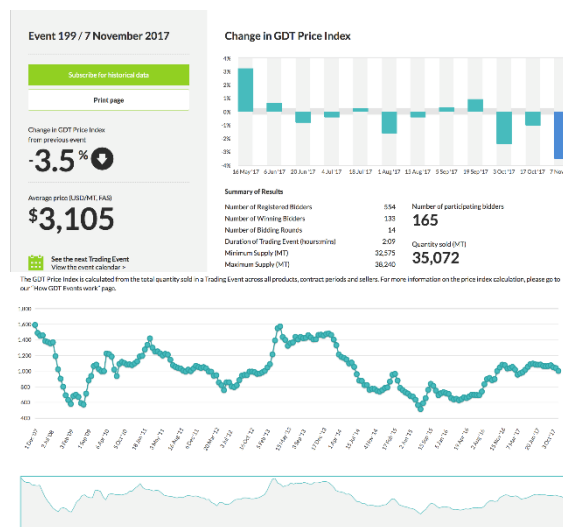
Chinese demand has remained reasonably solid with the Middle East and South East Asian buyers taking up some slack, but their price has been a bit less than Chinese buyers.



Source: ANZ

There is a lot to take in with these charts. Note the high level of volatility with commodities (evidenced by jagged line graphs).

New Zealand



Explanatory Notes

All information published on this page may be reproduced, provided the user acknowledges Global Dairy Trade as the source.

Quantity sold is the total quantity sold in a Trading Event across all products, contract periods and sellers. The quantity sold may be less than the minimum supply if the quantity sold or a product in the first bidding round was less than the minimum supply.

Minimum supply and maximum supply are the lower and upper bounds on the quantity the sellers wish to sell in the Trading Event. The maximum supply is also sometimes referred to as the sellers' offer quantity.

Number of participating bidders is the number of bidders who entered a bid in the first round of the Trading Event.

Average winning price is the quantity-weighted average of winning prices at the Trading Event. "na" for the winning price means that no prices were available for that contract period and therefore no average price was applicable.

"na" for the percentage change in GDTP Price Index means that no product was offered or sold, or no price was published for the last event, or on both of the two previous events. i.e. average in GDTP Price Index is only shown if there is a price available for the last event AND for at least one of the two previous events.

NZ: New Zealand, AU: Australia, US: United States, IN: India, EU: Europe, DE: Germany, PL: Poland, SE: Sweden, UK: United Kingdom, DK: Denmark

Note the decline in the price, however we are still above the all-important \$3,000 average price, that helps keep farmers profitable (and sane).

Dairy prices were 3.1% month over month softer, due to rising milk supply in Europe and the US. There appear to be a number of factors contributing to the decline. Butter prices fell 6.5% as the supply/demand balance improved in Europe. Better farm gate prices and improved weather conditions set the scene for increased milk generation out of Europe. Add to this somewhat higher retail prices, slowing consumption and somewhat low demand. This has seen butter prices come off record highs.

Skimmed milk powder prices have also been affected by similar dynamics, along with Europe's intervention scheme closing in September and the uncertainty on future settings during next year's seasonal peak.

Elsewhere in the commodity sector, other prices ranged from moderate increase to healthy increases, resulting in the overall commodity index dipping by 0.3% month over month in October but up to 10% over the last 12 months. Also, most local exporters enjoyed the benefits of a declining New Zealand dollar. The New Zealand dollar price index was up 2.5% month over month (14% over the last 12 months).

New Zealand | Economic Indicators

Overview	Last	Reference	Previous	Range	Frequency
GDP Growth Rate	0.8 %	Jun/17	0.5	-2.4 : 2.8	Quarterly
Unemployment Rate	4.6 %	Sep/17	4.8	3.3 : 11.2	Quarterly
Inflation Rate	1.9 %	Sep/17	1.7	-15.3 : 4.4	Quarterly
Interest Rate	1.75 %	Nov/17	1.75	1.75 : 67.32	Daily
Balance of Trade	-1143 NZD Million	Sep/17	-1179	-1388 : 1158	Monthly
Government Debt to GDP	24.6 %	Dec/16	25.1	4.4 : 54.8	Yearly

Markets	Last	Reference	Previous	Range	Frequency
Currency	0.69	Nov/17	0.69	0.39 : 1.49	Daily
Stock Market	7974 points	Nov/17	8021	3202 : 8166	Daily
Government Bond 10Y	2.93 %	Nov/17	2.93	2.12 : 19.2	Daily

GDP	Last	Reference	Previous	Range	Frequency
GDP Growth Rate	0.8 %	Jun/17	0.5	-2.4 : 2.8	Quarterly
GDP Annual Growth Rate	2.5 %	Jun/17	2.5	-2.5 : 7.3	Quarterly
GDP	185 USD Billion	Dec/16	176	0 : 201	Yearly
GDP Constant Prices	58802 NZD Million	Jun/17	58022	26766 : 58802	Quarterly
Gross National Product	60997 NZD Million	Jun/17	61169	25099 : 61169	Quarterly
Gross Fixed Capital Formation	14396 NZD Million	Jun/17	14531	4071 : 14531	Quarterly
GDP per capita	36842 USD	Dec/16	36192	21506 : 36842	Yearly
GDP per capita PPP	35269 USD	Dec/16	34646	22768 : 35269	Yearly
GDP From Agriculture	3207 NZD Million	Jun/17	3219	1804 : 3266	Quarterly
GDP From Construction	3446 NZD Million	Jun/17	3489	1107 : 3575	Quarterly
GDP From Manufacturing	5916 NZD Million	Jun/17	5809	3968 : 6266	Quarterly
GDP From Mining	729 NZD Million	Jun/17	774	437 : 1187	Quarterly
GDP From Public Administration	2535 NZD Million	Jun/17	2493	1311 : 2535	Quarterly
GDP From Services	39055 NZD Million	Jun/17	38669	16867 : 39055	Quarterly
GDP From Transport	2485 NZD Million	Jun/17	2395	941 : 2485	Quarterly
GDP From Utilities	1656 NZD Million	Jun/17	1652	1040 : 1656	Quarterly

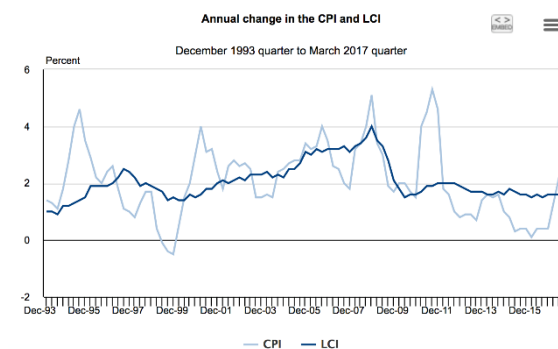
The balance of trade is not too flash, however otherwise, the New Zealand economy is in reasonable shape generally but as always subject to global economic conditions.



Interest rates remain on hold and inflation stubbornly low. That is deflation for you.

The Reserve Bank of New Zealand (RBNZ) kept the official cash rate at 1.75% where it has been since November 2016. This decision came after the statistical institute revealed that inflation had increased in the third quarter slightly toward the mid-point of the Reserve Bank's 1.0% to 3.0% target range. However, the third quarter's inflation number may have been artificially boosted by a new payment settlement for healthcare workers in the retirement home industry.

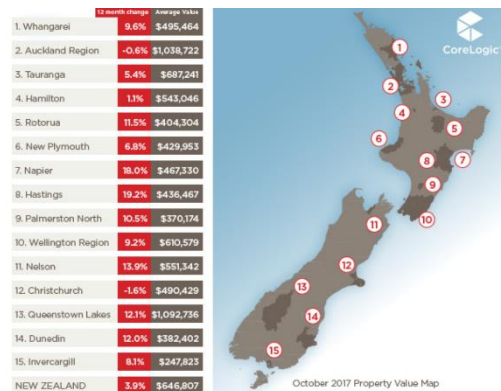
At this stage, the Central Bank does not have any concerns around an overheating economy. Like many other economies, even though unemployment dipped a bit in the third quarter, wages growth remains subdued. It is likely that the Reserve Bank will remain accommodative with interest rates until such time as the inflation number rises closer to the top half of the inflation target range. Although we will need to wait and see, it is possible that the new Labour Government could be somewhat inflationary, which could in turn cause interest rates to gradually increase toward the end of 2018 or over 2019. One estimate suggests that the official cash rate could reach 1.92% by the end of 2018 and 2.43% by the end of 2019.



Like numerous other economics (apart from China), wages growth remains subdued in New Zealand.

Average ordinary time hourly earnings increased 1.5% over the year compared with 2.4% for the March 2016 year. This measure shows changes in the average hourly wage bill across all jobs in surveyed industries and allows for

compositional adjustments between and within industries. The subdued growth was partly due to more filled jobs and paid hours in the accommodation and food services industry, which is the industry group with the lowest average hourly earnings.



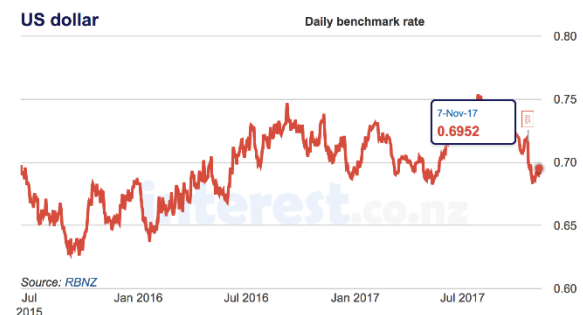
*The statistical data shown is calculated based on a sample set of data that is less than the recommended minimum. These results should be used with caution. Those showing N/A had too few sales to generate an index.

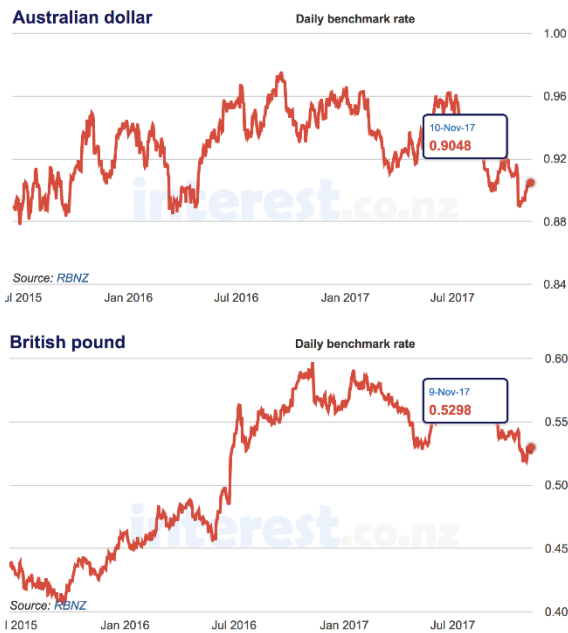
A bit like last month, price increases across New Zealand have slowed, with this month the Auckland region joining Christchurch for a negative result.

Immigration and low interest rates continue to support residential property prices, however it appears that some buyers developed election jitters and also the introduction of increased equity requirements for investors may have slowed things down a bit as well.

Although it is too early to know (which is why I have excluded much commentary about the New Zealand elections), I did hear Winston Peters back off somewhat on his immigration demands which suggests that **possibly** the Government's crackdown on immigration may not be as punitive as Winston Peters was originally aiming for (maybe he got what he wanted anyway!)

To be clear, residential property in New Zealand and other countries has enjoyed ideal conditions conducive to pushing prices up – strong tail winds for decades. We therefore have a unique set of circumstances that have combined together (the liquidity bubble), that will change at some point. Interest rates along with immigration policy, might be two things to watch. Perhaps a third item to consider might be the introduction of other regulator conditions for landlords making residential property less appealing as an investment for some in the future.





events, I see a global economic environment offering more of what we have seen over the last 12 months, for the foreseeable future. Dare I say it ... steady as we go for now.

"An economist is a man who knows 100 ways of making love but doesn't know any women."

Art Buchwald

To Summarise ...

The recent elections in New Zealand have yet to give us solid evidence of what lies ahead, although the Transpacific Partnership (TPP) arrangement was interesting to observe, in terms of our new Prime Minister 'strutting her stuff' so to speak.

Property investors might want to watch immigration policy, interest rates that may rise, although probably not anytime soon, as well as new regulations for landlords, all of which could create headwinds in the future for property owners and investors.

It will be interesting also to observe how National perform in opposition over the next three years, as well as what Labour has inherited from the National Party moving forward, as the economy unfolds. The New Zealand economy is in reasonably good shape overall but of course, subject to global economic conditions. A *black swan* event could make things difficult for the Labour party and in particular, Jacinda Ardern, who appears to be riding high and is popular at the moment.

Donald Trump continues to strongly pursue his aim of putting America first. In addition to leaving no doubts about his feelings toward Kim Jong Un and North Korea, he has made it clear that when it comes to trade negotiations, America will be number one. The implications of that could be far reaching and will be interesting to watch.

The global economy remains stable due to significant Central Bank intervention around the world and accommodative monetary conditions, along with low oil prices. Although unexpected 'black swan' events are always possible, they are unusual but certainly get noticed when they suddenly erupt. They are notoriously difficult to predict. Looking ahead then, except for black swan