

Economic Update June 2017

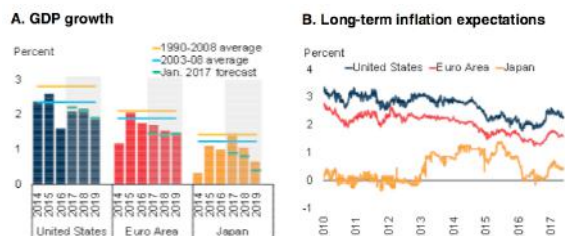


peter flannery

"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



Sources: Bloomberg, World Bank.

A. Shaded areas indicate forecasts.

B. Long-term inflation expectations are derived from 5-year/5-year forward swap rates. Last observation is May 24, 2017.

Although slow, synchronised economic growth continues, supported by emerging inflation.

Growth in the United States is expected to continue to recover over 2017. Forecasts for Europe and Japan have also been revised upward. Although last year there were minimal signs of it, this year inflation has emerged in both the Euro area and Japan.

Okay – the global economy is functioning on a foundation of debt and a fiscal stimulus as central banks have intervened in order to stabilise the global economy. Central bank intervention doesn't make the headlines anymore but is alive and well. Japan for example continues to add billions of dollars to their economy in order to maintain stability as well as an attempt to stimulate economic growth. Whilst the game is not over yet, so far this has not generated any tangible results. What has been achieved is a massive pile of debt.

The liquidity bubble is also alive and well (low interest rates, central bank intervention, significant and growing debt, reasonably easy money conditions) which means the global economy, whilst stable, is far from undergoing a sustainable recovery. However, the global economy is stable and growth (whilst supported by fiscal stimulus and central bank intervention etc) is emerging along with some inflation. I mention the liquidity bubble again because whilst 10 years ago it was news, now it is a "normal" disposition that the world has all too easily learnt to live with and accept.

China's economy remains reasonably stable however debt continues to rise. Moody's the rating agency recently downgraded China's credit ratings for the first time in almost 30 years suggesting that it expects the financial strength of the Chinese economy to potentially erode in the future as growth slows and debt continues to rise (an unhealthy combination).

The Euro area remains stable and is also growing slowly due significantly to central bank intervention which remains ongoing and significant. Donald Trump's emerging protectionist trade policies could be an issue for future European economic growth because the United States is the largest destination of Euro area exports. To me this is a contingent risk to be watched rather than an immediate threat to worry about. Of course, Europe is large enough that in a worst case scenario, strong protectionist policies out of the US would likely restrict and

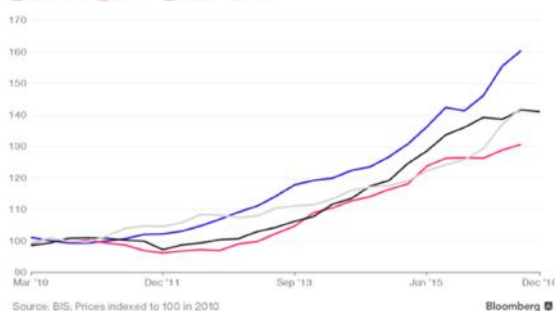
potentially eliminate economic growth which, because of the size of the Euro area could flow on elsewhere around the world. As I said, something to watch but nothing to worry about just yet.

Japan continues to struggle along with some pickup in economic growth supported by exports and business investment, which has gained some momentum of late. Interestingly, machinery orders have shifted from foreign demand to domestic demand recently. Then there is the 2020 Tokyo Olympics which may provide additional internal activity for the Japanese economy in the lead up to the Olympics in 2020. Although quite low, inflation has perked up a bit in Japan which is very unusual but very welcome at the same time. Indeed, inflation expectations remain low despite the ongoing significant quantitative easing that remains in place.

Bust Ahead?

G-10 housing markets at risk of overheating

■ New Zealand ■ Australia ■ Sweden ■ Canada



Residential property remains expensive by a number of measures with New Zealand continuing to lead the charge ...

Expensive housing, a shortage of housing in some countries such as New Zealand has seen housing become a political issue. It appears that some expect the government to wave a magic wand and build new houses to help meet the demand. Clearly, more houses would help to moderate house price increases. However, the market determines the price not the government.

Longer term, the fundamentals and the prices line up (revert to the mean), which in the case of New Zealand would need to see ongoing significant economic growth, rising rents and declining property prices, which are being predicted by some commentators.

Unless there is a significant unexpected event I believe it is unlikely that New Zealanders will run away from residential property any time soon. We could see a plateauing of prices with the recent measures introduced by the Reserve Bank.

Further, in my opinion the introduction of the debt to income ratio (DTI) I believe could cause a price correction. Unfortunately, whilst a price correction in my view is a good thing, that policy hurts the very people that need help to get into homes. A plateauing of prices for some time in

my view is a more likely scenario which allows time for the fundamentals (economic activity and growth and therefore rents and other costs) to catch up to what can only be considered very expensive prices for residential property here in New Zealand and in some other countries.

Australia continues to grow and whilst some parts of Australia are faring better than others, overall economic growth continues to roll on. Some estimates suggest that the Australian economy will be growing by around 3% by 2018. The obvious drag on economic growth from the declining resource sector will eventually fade although a recovery in that area would likely be fragile at first and uneven. Australia's economy though is much broader than many people realise which is partly why it has continued to grow throughout the Global Financial Crisis. Like New Zealand, house prices in Australia continue to rise and rise ...

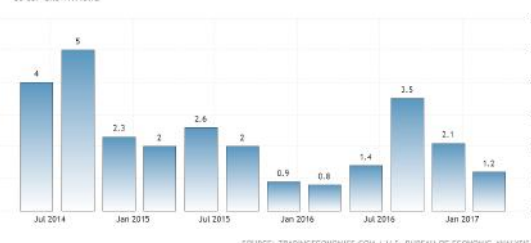
New Zealand also continues to grow with our economy looking strong for the foreseeable future. That of course is partly why our exchange rate continues to ride high compared to other currencies and might continue to do so for a while yet.

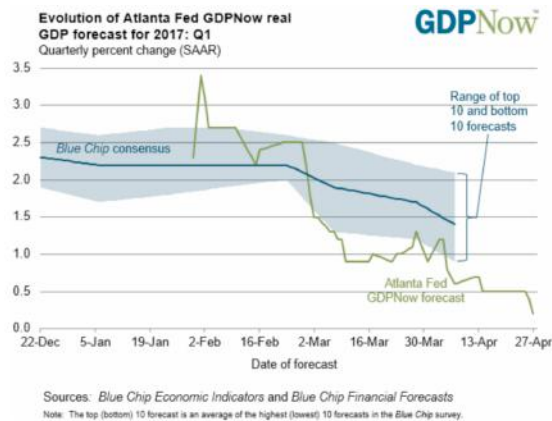
Things are going well for New Zealand but let's not forget that New Zealand is a narrow economy relying on agriculture and tourism. With both of those areas performing well, New Zealand's economy is looking good however negative surprises from the global economy cannot be ruled out (e.g. Donald Trump protectionist trade policies) however things are going well for the New Zealand economy even though some will argue that the wealth is not evenly spread.

As eluded to earlier, I see housing in New Zealand as a contingent (possible) risk but not an inevitable threat. Although I would be happy to see house prices decline by 10% or 15% or more, at this stage this looks unlikely in my opinion. Let's keep an eye on the elections coming up in September ...

The United States of America

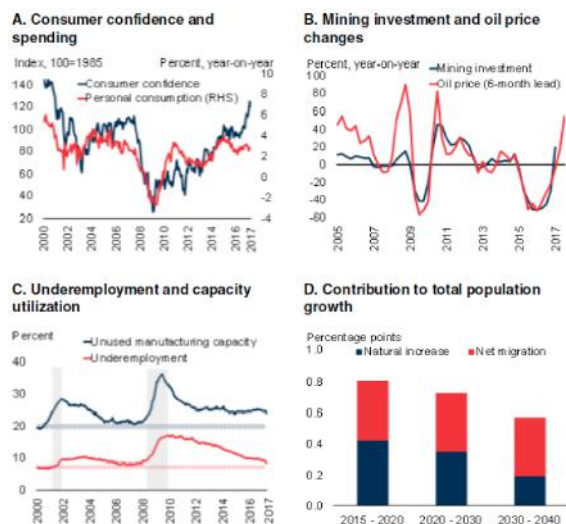
US GDP GROWTH RATE





Whilst economic growth is underway, the rate of growth could be declining which would be less than ideal.

Economic growth in America appeared to grind to a halt in the first quarter of this year but as data has emerged, the US economy has expanded at an annualised rate of 1.2% for the quarter, which was better than the previous estimate of 0.7% growth and also beat market expectations of 0.9% growth. It is the lowest growth rate in a year. Interestingly, although consumer sentiment in America is running high, consumer spending which accounts for over 60% of economic activity in the US was unexpectedly weak. At this stage one weak quarter does not appear to be an immediate threat to economic growth but is certainly something to watch to see whether or not the decline in growth develops into a trend.



Sources: Board of Governors of the Federal Reserve System, Haver Analytics, U.S. Bureau of Labor Statistics, U.S. Census Bureau, World Bank.
A. Last observation is April 2017 for consumer confidence and March for real personal consumption.
B. Last observation is 2017Q1.
C. Underemployment is the sum of unemployed, people marginally attached to the labor market, and involuntary part-time workers, in percent of the labor force. Ranges denote values of each data series at cycle peaks. Shaded areas denote U.S. recessions. Last observation is April 2017.
D. Net migration includes the international migration of both native and foreign-born populations. Based on the 2014 U.S. Census Bureau population projections.

Chart A above shows the gap between consumer confidence which is rising high and personal consumption which appears to have stalled somewhat over the first quarter of 2017.

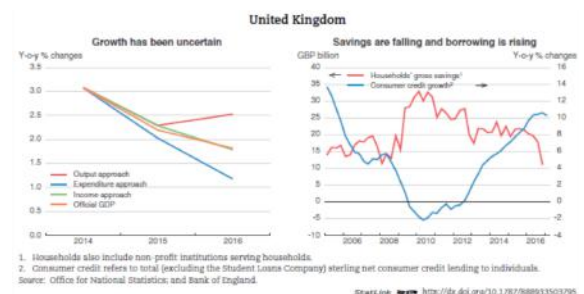
Elsewhere in the American economy the labour market continues to improve over 2017 with unemployment continuing to reduce however

wage and productivity growth remains sluggish. Wages growth and productivity growth are key ingredients and indeed key indicators of sustainable economic growth. Not enough happening in the US economy just yet.

Home values in America rose a comfortable 6.9% compared with April 2016 according a recent report from Core Logic. However, those gains appear to be easing back from the 7.1% annual gain in March and from the 7% gain in February. Core Logic is also lowering its predictions for annual gains to 5.1% in April 2018. To me this sounds about right. Property price rises are not too hot and not too cold – what could be better? Interestingly, there appears to be a significant lack of homes for sale, especially at the low end of the market. In some states, the supply of houses for sale is near record lows.

At this stage “Trumponomics” has had a positive impact on the US markets although there are now questions being raised as to whether or not Donald Trump can actually implement some of the promised policies. Interestingly though, his suggestion of a \$1 trillion spend up on infrastructure in the US sounds quite good but by some estimates, \$3 trillion of infrastructure spend is required – making the \$1 trillion suggestion by Donald Trump seem a bit lame, certainly not radical! Anyway, as we can all see, the US economy is a system and a strong one at that which will continue regardless of Donald Trump.

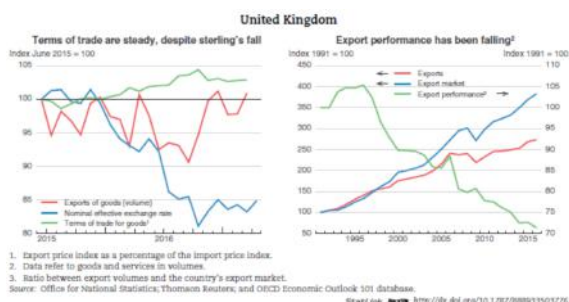
The United Kingdom



Economic growth in Britain has been strong over the last few years but of late has been tapering off. The unhealthy combination of falling savings and rising borrowings is also emerging.

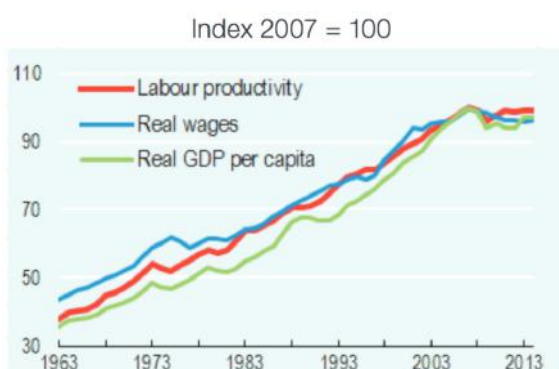
Britain's economy is projected to slow down over 2017 and 2018 because of the uncertainty around the outcome of Brexit negotiations. Whilst Brexit in my view will be a slow burn over many years, it is difficult to calculate the impact of Brexit as we have seen since the vote took place last year. The dire predictions of economic catastrophe in Britain have simply failed to materialise. Fiscal policy has so far supported economic stability including confidence and consumption. However some reports suggest that household spending may ease in light of a weakening labour market and higher inflation, which reduces real wage growth.

Inflation in Britain has exceeded the target of 2% which is a reflection of the recent exchange rate depreciation due to Brexit. On the other hand, a lower exchange rate does make for a positive environment for exporters out of the UK. Like many other economies, the United Kingdom is exposed to the risk of global protectionism, which could have the impact of lowering incomes and raising inequality.



Britain's economy has been steady despite the deteriorating export performance which could change with a lower pound in the future possibly.

Britain's economy has expanded on the back of domestic policies designed to boost growth. The sustainability of economic expansion and further progress and the living standards of UK citizens appears to rest on stimulating productivity and growth. That will likely require some structural reforms.



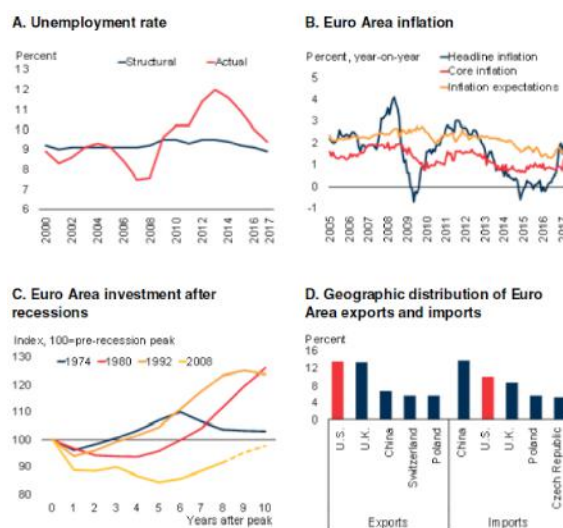
Productivity is the key to supporting economic growth.

The reality is that wages and economic growth (GDP per capita) reflect weak productivity. Strong productivity and wages growth will help to underpin economic growth in Britain in the future and help to offset some effects of Brexit.

Britain's recent elections resulted in a hung parliament which has meant uncertainty for the economy and in particular for businesses. The business community are very keen for the politicians to change their focus over to preparing for the Brexit talks, the need for skilled workers and issues of access to European and other markets in the future. Some are calling for a delay to the Brexit talks because the government is now a coalition and can arguably be considered a less united and less decisive government. Some point to concerns over the preparedness of the new government to have

clear goals and objectives and therefore inability to be effective in the upcoming Brexit negotiations. These negotiations by the way at the time of writing are scheduled for June 19 2017. Whilst the pound predictably dropped, as we know, this is a market sentiment driven movement and is actually not all bad because a lower pound will help UK exporters. Without doubt though, this election outcome is another surprise hard on the heels of the Brexit poll and one that will require careful management so that the UK economy can continue to grow. To be clear, whilst supporting policy, Britain's economy could be in a different place (much slower growth).

Euro Area



Sources: Bloomberg, European Commission, Eurostat, Haver Analytics, World Bank.
A. Structural unemployment is the non-accelerating wage inflation rate of unemployment (NAWRU) estimated by the European Commission.
B. Long-term inflation expectations are derived from 5-year/5-year forward swap rates. Last observation is April 2017.
D. Share of extra-Euro Area exports and imports in 2016.

Unemployment is declining however the Euro area needs more investment to help stimulate economic growth.

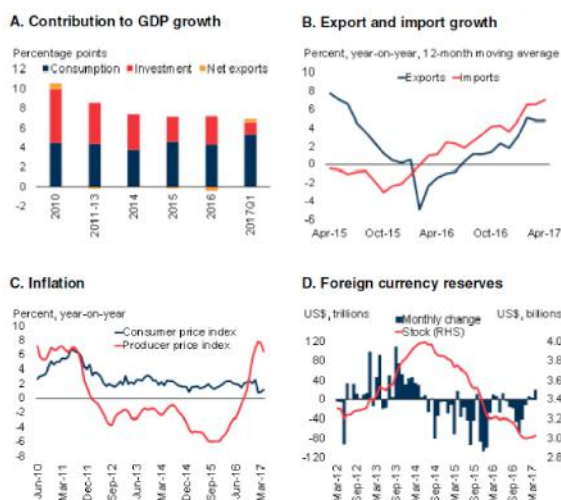
The Euro area has seen some positives emerge which include a falling unemployment rate, a rise in inflation and an emerging growth in the economy. Unemployment however remains still too high and economic growth still very sluggish, however economic stability prevails. Investment activity (see chart C above) is low as we can see by the chart above when compared to investment after previous recessions.

Economic stability in the Euro area is good however there may be some bad news too ... Interestingly the Euro area exports significantly to both the US and the UK which of course is a problem given the upcoming Brexit talks and also Donald Trump's potential protectionist policies that may emerge soon.

Manufacturing activity and exporting have improved as global trading activity has increased along with investment. The unemployment rate dropped below 9.5% in the first quarter of 2017

which whilst not enough is definitely heading in the right direction.

China



Sources: China National Bureau of Statistics, Haver Analytics, World Bank.

A. Investment refers to gross capital formation, which includes change in inventories.

B-D. Last observation is April 2017.

Consumption continues to overtake exporting as a contributor to economic growth (see chart A above).

China's economic growth has remained reasonably stable but is expected to decline in the future. The concern is around the impact of any economic slowdown in China and the spinoff effect onto other economies around the world. The Chinese government believes that ratings agencies who have concerns around economic direction in China are under-estimating the Chinese government's ability to manage structural reform in China which in turn will expand demand for goods and services in the Chinese economy. Specifically, growth is projected to slow to around 6.5% in 2017. From there growth is expected to moderate to 6.3% on average in 2018 to 2019 as stimulative policies are slowly withdrawn.

Like other economies around the world, China would not be immune to protectionist policies from the US that could escalate as other economies attempt to protect their economies. Whilst China has a growing domestic demand, it nonetheless still relies on exports to other economies to help support economic growth.

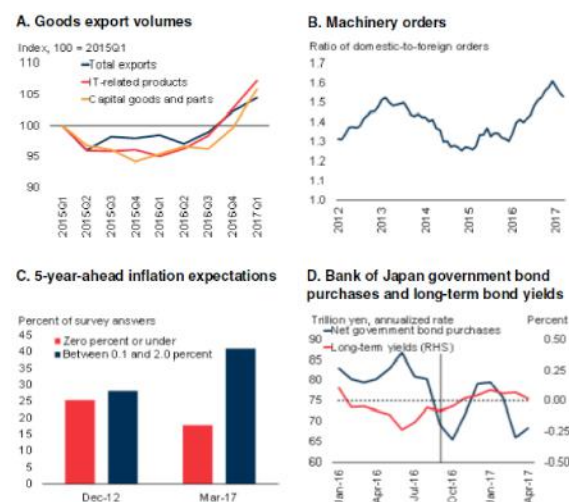
Moody's ratings agency also pointed out recently that where ongoing progress on reforms is likely to transform the economy and financial system over time, it is not likely to prevent a further material rise in economy wide debt and the consequent increase in contingent liabilities for the government. Whilst the recent downgrade has the impact of slightly increasing the cost of borrowing for the Chinese government and its state owned enterprises, it remains comfortably within the investment grade rating range. Interestingly, Moody's has Japan at the same A1 rating China is now on.

However, some argue that China is more resilient than ratings agencies give credit for because China has its own unique system which involves a closed capital account and strong government control over all import sectors. This translates into what is arguably greater tolerance for a higher level of debt.

The slowdown in the Chinese economy could move towards 5% of GDP in coming years and will no doubt be gradual and modified by fiscal stimulus. China's finance ministry says that "China's government debt risks will not change dramatically in the period of 2018-2020 from 2016". Government led stimulus has been a major driver of growth in the recent past but of course has also been accompanied by a significant increase in credit growth which has created significant debt. By some measures total debt now stands at nearly 300% of GDP. By any measure, that is a significant amount of debt but nonetheless manageable by China at the moment.

Moody's ratings agency has said that it expects the government's direct debt burden to rise gradually towards 40% of GDP by 2018 and closer to 45% by the end of the decade. That is not bad when you consider other major economies are over the 100% mark. However, a growing number of economists believe that a massive bank bailout may be inevitable in China as bad loans continue to mount.

Japan



Sources: Bank of Japan, Haver Analytics, Japan Cabinet Office, World Bank.

A. Last observation is 2017Q1.

B. Data represent a 12-month moving average. Last observation is March 2017.

C. Percent of surveyed households.

D. Data for asset purchases are 3-month moving averages. Last observation is April 2017. The vertical line denotes the start of the Bank of Japan policy of adjusting asset purchases to stabilize 10-year government bond yields at zero.

Exports have improved out of Japan helping to support economic activity.

Economic growth has picked up in 2017 supported by a recovery in exports. It appears that exports have improved, especially in the area of information technology related products and capital goods (see chart above).

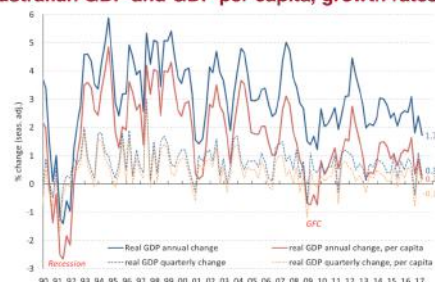
Business investment has also gained some momentum as reflected by the gradual shift from foreign to domestic machinery orders. Increasing corporate profits as well as the preparations for the 2020 Tokyo Olympics have helped support capital spending in Japan.

Economic growth is expected to edge up to 1.5% in 2017 which, if you follow the progress of Japan over several years represents a significant upgrade from previous forecasts. However, growth is expected to moderate to 1% in 2018.

In 2019, the Government intends to implement a planned consumption tax hike (like GST) and it will be interesting to see what impact this has on economic growth. Japan's economy has improved quite a bit recently but still remains sluggish as it struggles to escape the grip of deflation.

Australia

Australian GDP and GDP per capita, growth rates to Q1 2017



Source: ABS, National Accounts

The Australian economy has been resilient throughout the Global Financial Crisis however it is showing signs of slowing down of late.

Economic growth in Australia has measured by real GDP growth slowed to 0.3% over the first quarter of 2017 which is an annualised rate of 1.7% (inflation adjusted and seasonally adjusted). This was the slowest annual growth since the third quarter of 2009. In per capita terms, real economic growth shrank by 0.1% in the first quarter of this year, to finish up just 0.2% over the year. Output (goods produced and services generated etc) and export volumes were weaker, possibly disrupted by Cyclone Debbie. This may underscore the vulnerability of the Australian economy to small shocks and regular disruptions. Interestingly too, housing investment declined by 4.4% over the first quarter of this year (down in all states except Victoria) while engineering and construction increased 4.3% over the quarter. The question is whether this signals a possible peak in the housing cycle and may be a possible turning point for engineering related investment and for business investment generally?

Perhaps more importantly for the Australian economy household consumption remains slow, with growth reducing to 0.5% (2.3% per annum), despite a further reduction in the level of savings

ratio to 4.7% from 5.1% in the last quarter of 2016 (less savings can mean more spending). However, despite the disruption to export volumes in the first quarter of this year, stronger commodity prices meant that export earnings have actually increased.

Table 1: Australian GDP key aggregates, Q1 2017

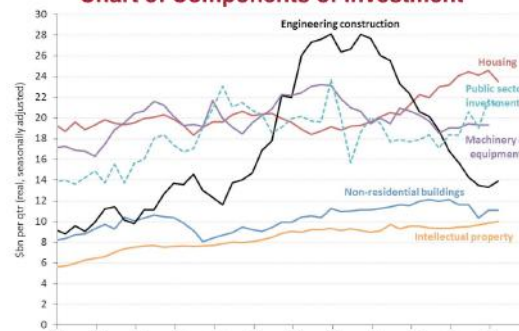
Real GDP (expenditure), seasonally adjusted	% q/q	% p.a.	q/q ppt contribution
Household consumption	0.5	2.3	0.3
General government consumption	1.0	2.9	0.2
Total investment	-0.6	-0.4	-0.1
Dwelling investment	-4.4	-2.5	-0.3
Private business investment	1.3	-5.3	0.2
New building	0.2	-4.6	0.0
New engineering construction	4.3	-11.4	0.1
New machinery and equipment	-2.2	-0.6	-0.1
Intellectual property investment	1.9	6.1	0.0
Public (government) investment	-2.7	15.3	-0.1
Domestic final demand	0.3	1.7	0.3
Change in inventories	na	na	0.4
Exports	-1.6	5.6	-0.4
Imports	1.6	7.9	-0.3
Net exports	-3.2	-2.3	-0.7
Terms of trade	6.6	24.8	
Real gross domestic income	1.7	6.5	
Real net national disposable income	1.2	5.6	
Real GDP	0.3	1.7	0.3
Nominal GDP (income)	2.3	7.7	
Compensation of employees (wages & incomes)	1.0	1.6	
Private profits – total	6.2	22.6	
Private profits financial corporations	2.3	6.8	
Private profits non-financial corporations	7.8	30.5	

Source: ABS, National Accounts

The above chart shows the contributors to economic growth in Australia for the first quarter of 2017.

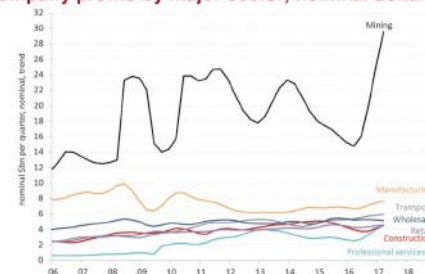
So, economic growth in Australia appears to be slowing however it remains to be seen whether or not this is a trend. What is interesting to observe is when we break down the contribution to economic growth and look specifically at the investment component of GDP, the mining sector appears to be on the rebound.

Chart 3: Components of investment



Source: ABS, National Accounts

Company profits by major sector, nominal dollars per quarter



Source: ABS, Business Indicators

Note the profits being achieved in the mining sector currently.

The mining sector is not exactly undergoing a sustainable boom but is nonetheless recovering quite strongly from the lows of the last few years. It is worth remembering too that mining is

notoriously cyclical. Understandable though because mining is based on commodities and the demand for those commodities is what determines the pricing, particularly in the short term.

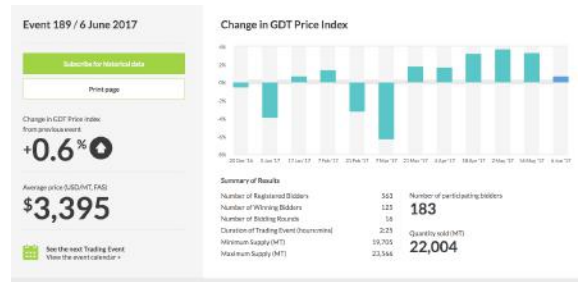


Note the increase in house prices over the five years to December 2016 and the increase in wages over the same time.

Although the above chart is a few months old, it clearly demonstrates a long standing trend applicable not only to New Zealand and Australia but other countries around the world as well whereby house prices have exceeded wage increases, in some locations spectacularly so. The bottomline here is that whilst there may not be a cataclysmic crash in housing, there are consequences and at some point the fundamentals matter. Just ask teachers in Auckland! Anyway, the point here is that we already know that Australia's economy whilst broadly based and robust, is nonetheless susceptible to even small economic imbalances or events that emerge (e.g. cyclones) from time to time. The government in Australia has moved on housing and the banks are playing ball. We can see this with higher interest rates now being charged on interest only loans and other measures having been introduced over the last year or two. Similarly, measures in New Zealand are also being adopted in a proactive approach attempting to circumvent economic difficulties that could emerge from a significant correction in housing.

New Zealand

Dairy auction price



Products



The shaded disks indicate the proportion of each product group sold versus total quantity sold during the previous 12 months, with a 3-month lag. Figures within the disks represent the percentage change in GDT Price Index and the weighted average price. All information published on this page may be reproduced provided the user acknowledges Global Dairy Trade as the source. See Explanatory Notes below for more detailed definitions.

GDT Price Index over 10 years



Explanatory Notes

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

Minimum supply and maximum supply are the lower and upper bounds on the quantities the sellers wish to sell in the Trading Event. The maximum supply is also sometimes referred to as the seller's 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. "N/A" for this winning price means that no prices were available for that contract period and therefore no average price was applicable.

"N/A" for the percentage change in GDT Price Index means that no product was offered or sold, or no price was available for the last event, or on both of the two previous events. I.e. a change in GDT 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.

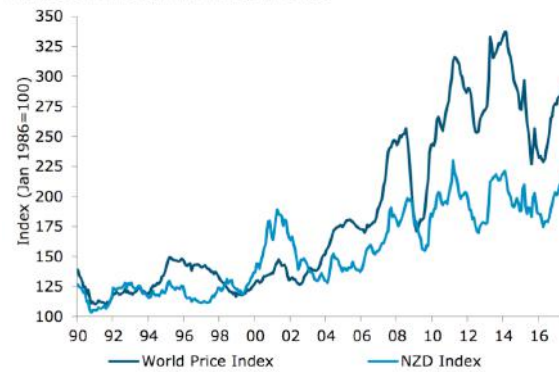
Auction prices have stabilised above the all important breakeven \$3,000 average price threshold. Good news for dairy farmers and others too.

Global dairy prices have stabilised above the \$3,000 threshold which means everyone can breathe a sigh of relief – at least for now. Remember though, the dairy industry is based on a commodity and the price of any commodity will be based on notoriously volatile supply and demand factors.

Things appear to be back on a roll though with the ANZ commodity price index lifting in May, climbing 3.2% over the month to be 26% higher than this time last year. Although the strength was reasonably broad based across many components, the horticulture sector led the charge rising 12.1% over the month as more new season fruit became available to the markets.

Dairy prices increased 3.8% over the month of May and are more than 50% above where they were this time last year. That's commodities for you! Global prices were supported by lower peak milk flows from Europe's major producing countries such as Germany and France. Also ongoing demand from China and other Asian economies continue to help boost prices.

ANZ COMMODITY PRICE INDEX

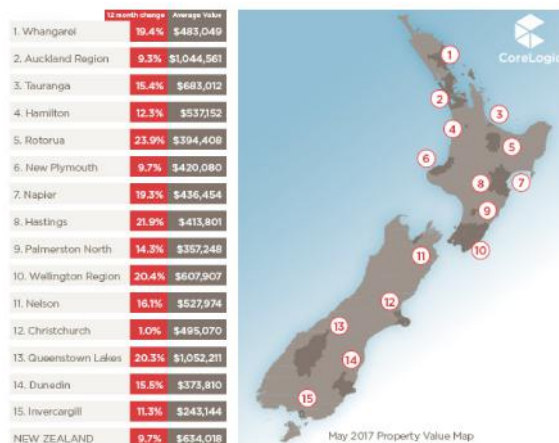


Source: ANZ

The chart above highlights the recent strength in commodity prices and also the highly volatile nature of commodities.

Elsewhere in commodity price meat prices continue their strong performance up 1.9% for the month, aluminium prices were stable after climbing 22.7% over last year, wood pulp and log prices increased 0.8% over April, horticulture prices grew strongly by 12.1% over the month as new season southern hemisphere fruit hit the markets.

Residential property



Strong year-on-year gains continue except perhaps for Christchurch however growth appears to be slowing in other centres too.

By any number of measures, residential property in New Zealand is expensive whether it be the rental yield for those that invest in residential property, the price of the average house compared to the average income or other measures, houses are expensive. Low interest rates, easy money conditions (although tightening) along with market driven beliefs about residential property being an infallible risk free investment that cannot lose help to underpin property prices and indeed have pushed them well beyond fundamental norms. Markets determine the price and until such time as market sentiment around property changes, residential property prices in New Zealand and in other countries will remain expensive, regardless of the fundamentals.

Interest rates



The Central Bank maintains a hold position with interest rates.

Interest rates are likely to rise as the US Federal Reserve continues to hike the Fed funds rate in the US which in turn can make borrowing more expensive for other economies. We have already seen in Australia where the Reserve Bank has held interest rates for some time and yet interest rates have increased. We will likely see here in New Zealand a similar pattern because, the banks are having to fund part of their lending from offshore markets which are more expensive – hence the increase in interest rates even though the Reserve Bank is holding the official cash rate. This trend will likely continue although at this stage it is likely to be at a slow and measured pace. This highlights the deflationary forces that the global economy is battling with, as the liquidity bubble continued to grow over several decades. The key point here is that economic productivity has been sluggish in the global economy for several decades however asset prices have continued to rise and rise. What we now have is a world where asset prices are expensive by a number of measures although I would argue, providing the fiscal stimulus and support structure from central banks remains in place, asset prices are not a bubble about to burst any time soon. The point here is that asset prices and economic productivity are linked – at some point.

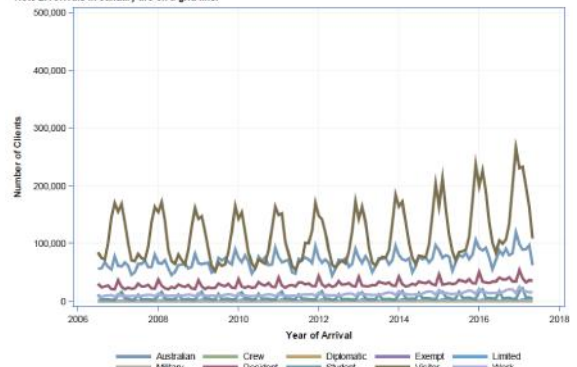
Arrivals by Visa Type.

Data for period: Date of arrival between 1 July 2006 and 31 May 2017

Report prepared: 3 June 2017

Note 1: Arrivals for the selected visa types, excluding those who are not issued a visa at the border (mostly New Zealand nationals) and those who are refused entry.

Note 2: Arrivals in January are on a grid line.



Healthy immigration numbers continue to underpin the New Zealand economy.

Immigration is without doubt helping to support New Zealand's economic expansion although not

everyone likes the idea. The bottomline is that there will be growing pains as New Zealand's economy grows and of course there is plenty of room for growth. Anyway, New Zealand's economy is ticking along nicely and by some estimates may expand by somewhere between 3% and 3.5% over the next 12 months – not bad in a global economy that is struggling to escape the clutches of deflation. Although some will argue that wealth is not as evenly spread as it could be, nonetheless the New Zealand economy is ticking along okay and looks sustainable for now, at least in the absence of severe protectionist policies out of the US or other threats that can emerge at any time in the global village. That said, whilst there are a number of contingent risks worth watching, I am not concerned about any particular risk right now. One real dilemma, more from an investment perspective, is that as a result of the liquidity bubble and the markets' willingness to pay more than the fundamentals suggest is appropriate for assets, it remains difficult to secure good investments at useful prices.



To Summarise ...

The world economy is continuing to grow although at a sluggish pace and that so-called "economic recovery" is fragile (with a capital F). It won't take much to destabilise the global economy should an unexpected event occur which by the way is quite possible at any time. Sometimes those events are obvious however

sometimes they come from outside our peripheral vision.

The world is awash with debt and the global economy is supported by central bank intervention which has helped to stabilise the global economy. We are now seeing some evidence of some growth in the likes of the US, Europe and possibly even Japan. Also we are seeing some evidence of inflation emerging too. 12 months ago inflation was a word not often seen in the popular media when talking about economies. Now it is becoming more prevalent as inflationary pressures begin to emerge.

The housing story is one played out not only in New Zealand but in other countries as well (e.g. Canada, Australia, the US etc) where supply in some areas is limited, causing prices to rise.

At the risk of restating some old news from way back, back in the day dads could go out to work while mums stayed at home and looked after the family. These days mums and dads need to work in order to not only survive but fund a useful lifestyle. In simple terms the real buying power of wages has declined significantly over the last 40 years or so. People do not notice it because it is so subtle however it is one reason why for some things are "not easy".

I have alluded to the disappearing middle-class on a number of occasions over the last 10 years or so. It is now an old story. It is still relevant today. Indeed, the middle-class can be divided into those who will position themselves to be financially secure and finish up in the top 10% of wealthy families in New Zealand (this applies to other developed economies as well). On the other hand the vast majority of the middle-class are gradually slipping onto the so-called financial "scrap heap" of dependency, anxiety and for many, ongoing hardship – particularly later in life. Also, there is the increasing cost and availability of health care as the explosion in health sciences makes more and more options available to us as we grow older.

The point here is that being unaware of the disappearing middle-class and not positioning is what can cause families to slip into financial insecurity and difficulty - not the economy.

Ironically, one of the challenges investors now face is the stable economy locking in assets at high prices making it difficult for us to locate good assets at favourable prices.

From an economic perspective then, it is still ... steady as we go for now.

The economy depends on the economists as much as the weather depends on meteorologists.
(Anonymous)