



# Quarterly Economic Update May 2017



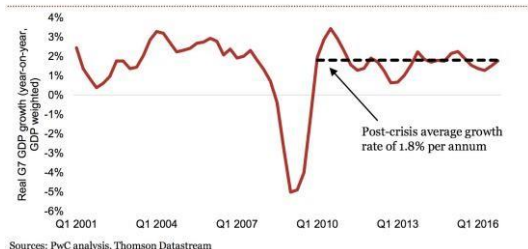
peter flannery

***"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

Fig 1: Recently there has been a gradual uptick in G7 economic activity



The G7 consist of Canada, France, Germany, Italy, Japan, the United States of America and Britain. This group meet annually to discuss a variety of issues affecting the global economy. As the chart above shows they appear to be showing slow but steady economic progress.

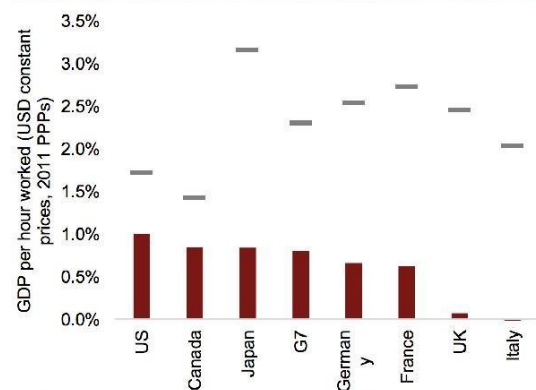
### Slow steady economic growth appears

to have returned to the G7 however the real question is whether or not it is sustainable in the future? Many commentators point to the broad based synchronised growth.

### The bottomline is that productivity is key.

You see, growth can be manufactured by all kinds of stimulatory measures and we have seen lots and lots of that over several decades, particularly over the last 15 to 20 years.

Fig 2: The G7 post crisis productivity growth rate has been disappointing



Bars show 2008-2015/6 per annum average productivity growth rates

Horizontal lines show 1971-2007 per annum average productivity growth rate

Note: This measure of productivity has been calculated in Purchasing Power Parity (PPP) terms and so is sensitive to exchange rates. As such, it does not take into account of structural differences between economies, such as labour market flexibility. This feature, for example, gives the UK a lower relative figure.

Sources: PwC analysis, OECD

**Productivity growth** is really key to sustainable economic growth. Whilst there are a number of measures of productivity, a common one is defined as GDP per hour worked, which by the way has slowed.

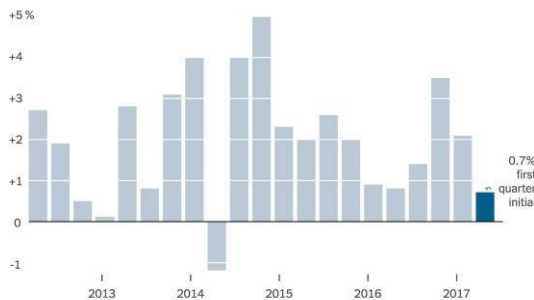
*Declining rates of productivity is a serious issue for sustainable economic recovery long term.*

**Global economic Armageddon** is in my opinion a highly unlikely scenario for a variety of reasons. However, the liquidity bubble (declining interest rates, increasing use of debt, central bank intervention, easing money conditions and the like) have been useful in terms of stabilising the global economy but are not a substitute for fundamental economic productivity.

**So, what we have currently** is slow but synchronised economic growth with a relatively stable global economy even though we have seen cruise missiles flying and the uncertainty of the French elections (this is important because France is one of the largest economies in the world). Although conditions are less than ideal, we have stability and engineered economic growth although at a pace that is lower than we are going to need longer term.

## The United States of America

The rate of change in the gross domestic product, based on quarterly figures adjusted for inflation and seasonal fluctuations.



Source: Commerce Department | By The New York Times

The blue bar chart on the right highlights a surprisingly slow first quarter for the US.

**Weak consumer spending** appears to be the main culprit for the anemic growth although unemployment remains low at 4.5% and otherwise the American economy remains stable.

US FED FUNDS RATE



SOURCE: WWW.TRADINGECONOMICS.COM | FEDERAL RESERVE

Interest rates are still accommodative but appear to be on the way up.

**Janet Yellen, the US Federal Reserve governor, is sounding more bullish of late** and has downplayed that first weak quarter of economic growth. She emphasised the strength of the labour market with unemployment down at 4.5% as a sign that also it could begin tightening monetary policy again as early as June this year – that is not far away. The US Federal Reserve view the slow first quarter economic growth in the US as a transitory phase. In other words it is a short term glitch that they do not see as ongoing.

US INFLATION RATE



SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Despite the recent drop in inflation in March, overall inflation appears to be tracking in an upward direction.

**Deflation is the absolute enemy of economic growth and indeed the whole banking system** however we appear to have moved a couple of steps back from the deflationary cliff. Whilst too much inflation is a bad idea, current levels of inflation are supporting economic activity and growth which is useful.

US NONFARM LABOUR PRODUCTIVITY



SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Although somewhat volatile, productivity appears to be trending up.

**Productivity is a key driver of economic stability** and ongoing sustainable growth. Nonfarm business sector labour productivity in the United States (measuring hourly output per worker) decreased at a seasonally adjusted annual rate of 0.6% during the first quarter of 2017. Productivity in the United States averaged 62.34 index points from 1950 until 2016, reaching an all-time high of 107.50 index points in the fourth quarter of 2016 and a record low of 27.60 index points in the first quarter of 1950. Productivity continues to improve in the United States of America.

**By the way, Donald Trump** has had little time to have much of an impact on the US economy although the markets generally view Trump's presidency as positive. The sharemarket is up over 10% since his election. As we know (as Value Investors) this tells us little about what is really

going on but indeed is a useful measure of market sentiment generally.

**Warren Buffett restated recently** that he is a stuck record on the American economy as he believes it is a sustainable machine that will continue to grow and improve upon what is already a good lifestyle for the average American. Sure, there is lots of debt which remains a problem. However, what I have often termed as America's unique "package" is a real positive for the American economy in the future. No economy grows in a straight line and there will always be issues. However for the American economy, as we have seen already over several decades, it takes a lot to seriously and permanently damage the American economy.

Steady as we go for now.

## China



*Economic growth in China is stable and improving slightly.*

**Economic growth in China appears to be improving slightly on the back of fiscal stimulus**, I imagine. The Chinese government expects the economy in China to grow by around 6.5% compared to 6.7% expansion in 2016. The growth in 2016 by the way was the slowest in 26 years. Annual economic growth rate in China averaged 9.74% from 1989 until 2017, reaching an all-time high of 15.40% in the first quarter of 1993 and a record low of 3.80% in the fourth quarter of 1990.

**The recent improvement in economic growth** is supported by faster rises in industrial output, retail sales and fixed asset investment, with a real surge in fiscal spending.

**Drilling down into further details we can see** that industrial production increased by 7.6% year on year compared to 6.3% in January 2017. Retail sales rose by 10.9% year on year in March 2017 following a 9.5% increase in the previous period which is slightly higher than expected. Also exports increased by 16.4% year on year in

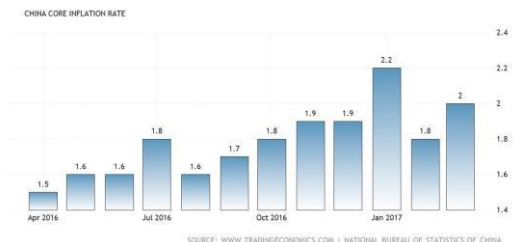
March 2017, rebounding from a 1.3% drop in the prior month and also quite a bit higher than market estimates of a 3.2% rise. When looking at the first three months of 2017 interestingly enough consumption accounted for 77% of the Chinese economy. Investment contributed to 18.3% of growth and net exports accounted for 4.5% of the GDP.

**Property investment in China** has been considered somewhat speculative as house prices have surged over 2012, and then over 2013 and 2014 prices declined with resurgence once again from 2015.



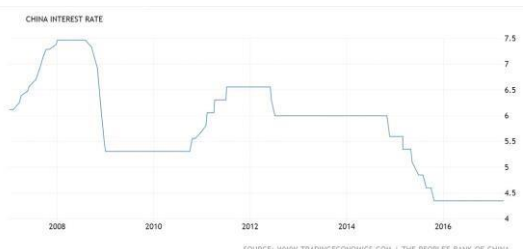
*House prices have been somewhat volatile in China and continue to trend up.*

**Although it varies from one province to another**, property deposits in China range between 20% up to 40% in some areas. Like New Zealand and other countries around the world, residential property is seen not only as a stable investment but also by some as a more speculative way to make money.



*Core inflation in China (which excludes some volatile components) is running at around 2% currently.*

**China's inflation appears** in hand providing some support to economic growth.



*Like a number of other countries, interest rates in China have declined over the last few years.*

**Interest rates in China** has been one of the many instruments used by the Chinese government to

prop up the Chinese economy. Although it is not shown in the chart above, interest rates have increased very slightly over the last few months.

**Economic reform in China remains key.** The state council in April issued guidelines on China's economic reform in 2017 and regards supply side structural reform as key. Basically they are looking to continue cutting excess capacity in steel, coal, coal power and other industries, and are hoping to reduce real estate inventory. They want to reduce leverage ratios in state owned enterprises and also they want to see a number of measures to be implemented that help lower business costs which includes taxes and administrative fees.

**Further**, pricing reform will continue for agricultural irrigation, railway transportation, aviation, electricity and gas. The bottomline here is that reform remains key to China's success in the future and so far the Chinese government appears to be continuing to press forward with these reforms.

**Although the Chinese shadow banking** problem remains large, so far there has been no fall out. More warnings from China's senior bankers and policy makers have been issued recently about the dangers of shadow banking to the Chinese economy. The problem of course is that the sheer size of this banking industry is significant enough to derail the Chinese economy in a serious way. The real problem here is that the quality of these loans is average to poor and could be a real challenge for China if problems escalate out of control.

**Otherwise**, the Chinese economy remains stable and growing at what is considered to be a spectacular rate of growth which at this stage appears manageable.

## The Eurozone



*European economic growth remains slow but stable and on the right side of the ledger – positive.*

**The Euro area economy expanded 1.7% year on year** in the first quarter of 2017. GDP annual growth in the Euro area averaged 1.63% from 1995 until 2017, reaching an alltime high of 5% in the first quarter of 1995 and a record low of -5.50% in the first quarter of 2009. Indeed, the European economy has come a long way since the dark days of the Global Financial Crisis but is far from out of the woods yet.

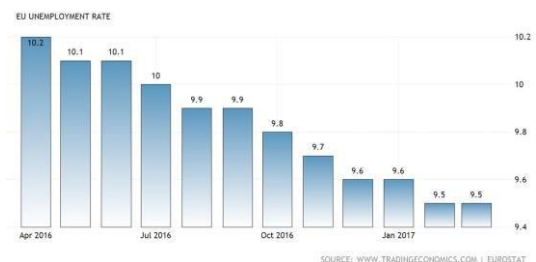
**The Euro area is the second largest economy in the world including 19 states:** Germany (29% of total GDP), France (21%), Italy (16%) and Spain (11%).

**On the expenditure side, household consumption** is the main component of economic growth in this area and accounts for 56% of its total use followed by government expenditure (31%) and fixed capital investments (20%).



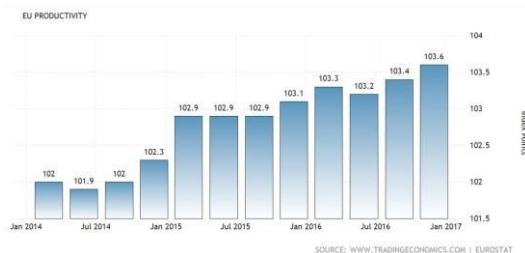
*Interest rates remain at zero, highlighting the challenges that the European economy continues to face.*

**Interest rates remain at all-time lows, which of course highlights the challenges that Europe as an economy continues to face.** Economic growth however appears to be underway even if it is slow and fragile.



*Unemployment slowly tracks downward.*

**Unemployment sitting at 9.5% is a definite improvement over the last couple of years but nowhere close to where it needs to be.** Other economies such as the US and New Zealand for example have unemployment rates of below 5%. Unemployment in the Euro zone will need to continue to improve in order to support sustainable economic growth in the future.



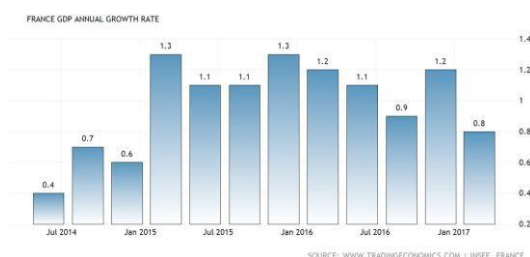
Economic productivity in Europe continues to improve.

As mentioned previously, productivity is key to economic success long term and Europe appears to be heading in the right direction.



The Macron victory is a relief for Europe (Frexit avoided).

France is one of the five or six largest economies in the world which is why elections in France matter. At the risk of stating the obvious, a left leaning or socialist win in the elections would further worsen economic conditions for France which although a steady economy is really heading in the wrong direction longer term. A right leaning win in the elections however could be a game changer for France and therefore the European economy.



Economic growth in France is low and fragile.

Whilst France's economy is large, economic growth is low and there appears minimal political appetite to improve things although we will need to wait and see what Macron can achieve.

The bottom-line for Europe and many other economies is that fiscal stimulus including low interest rates, low oil prices and globally stable economic conditions appear to be supporting economic stability and a fragile economic recovery. There remains a long way to go yet for the Euro area.

## United Kingdom

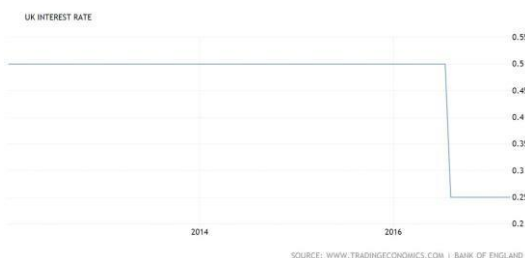


Economic growth has slowed over the last couple of years.

Economic growth in the United Kingdom has slowed over the last couple of years which is not ideal given the potential impacts of Brexit. Although in my view the impact of Brexit is likely to be a slow burn rather than anything immediate, nonetheless on top of slow economic growth Brexit is not likely to be helpful.

The British economy grew 2.1% according to preliminary estimates. Total production increased further, boosted mainly by manufacturing; while output grew at a slower pace for both services and construction.

The surprisingly resilient UK economy which performed well throughout the Global Financial Crisis interestingly, is slowing down at a time when other economies are stabilising and improving. It is too early yet for Brexit to have had a major impact although a lack of confidence may be starting to impact in some areas.



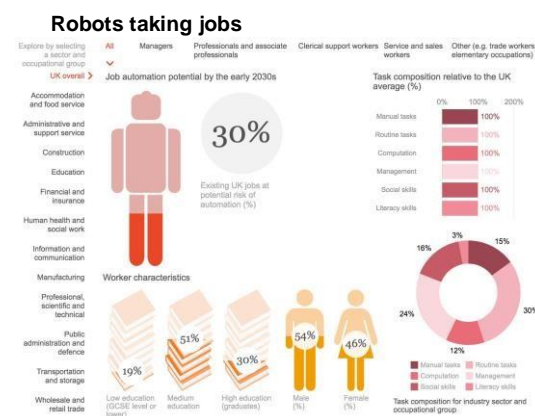
Interest rates remain at all-time lows.

An interesting combination with a slowing economy and interest rates at all-time lows, not an ideal situation although, the central bank in the UK has numerous other macro-prudential tools that it

can apply should it need to – as it is doing already now.

**Some predictions suggest that consumer spending growth may slow** from around 2% in 2017 to 1.7% in 2018, reflecting the impact of a weaker pound and the resulting increase in import prices. This squeezes the real spending power of households.

**Like other economies, questions around whether or not robots will steal jobs in the United Kingdom** have been raised and by some estimates 30% of jobs could be at high risk of automation by the early 20s and 30s. These risks appear highest in the likes of transportation and storage, manufacturing, wholesale and retail.



*The above chart shows some possibilities although it remains to be seen.*



*Unemployment remains relatively low.*

**Although economic growth appears to be slowing**, unemployment, at least at the moment is low which helps underpin economic activity. Whilst automation is actually nothing new (think motor vehicles 100 years ago for example), it can cause disruption and a change in employment structures. Simply, higher education levels are required as those carrying out manual tasks are replaced by the machines.

**Britain's economy** has slowed which is not ideal but remains stable due no doubt

to the significant fiscal stimulus initiated about 10 years ago.

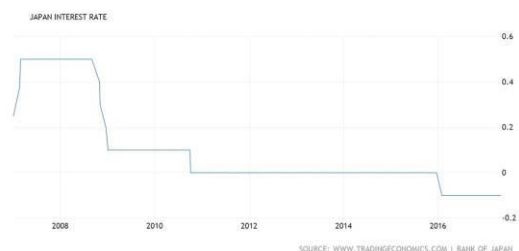
## Japan



*Economic growth although slow and fragile is underway.*

**Economic growth in Japan has been positive** since mid-way through 2015 and whilst fragile, it remains in place. Although at one time Japan's economy was the second largest in the world it has been superseded by others and is by some measures the fourth largest economy in the world now.

**Economic growth in Japan expanded 1.6% in the fourth quarter of 2016.** Economic expansion in Japan averaged 2.03% from 1981 until 2016, reaching an all-time high of 9.40% in the first quarter of 1988 and a record low of 8.80% in the first quarter of 2009.



*Note interest rates remain negative (below zero).*

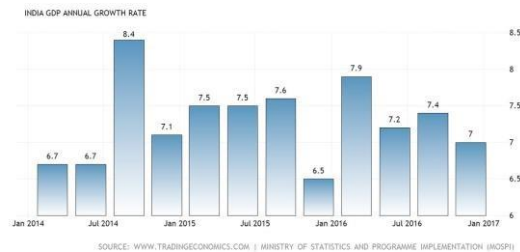
**The Bank of Japan left the key interest rate unchanged at -0.1% in its April 2017 meeting as widely expected.** Obviously this is a symptom of extreme deflationary pressures over what is now coming up for three decades. Can Japan ever get out of it?



*Ongoing deflation throughout part of 2016 was a real concern for the Japanese economy.*

Although not shown here, inflation charts show the pressures of deflation from around the mid 1980s onward with inflation remaining subdued or negative over most of that time.

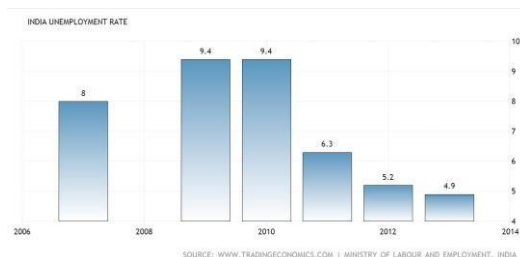
## India



India's economic growth remains strong.

**India's economy grew by 7% year on year over the last three months of 2016.**

Expansion was mainly driven by a surge in public spending and agriculture. Expectations are for economic activity to grow at around 7.1% in the fiscal year ending March 2017.



Unemployment in India appears volatile and currently at a low level.

**Unemployment in India** is low because of India's fast growing economy and for now looks reasonably sustainable. Indeed, India is one of the stars of the global economy at the moment.

## The Emerging Markets

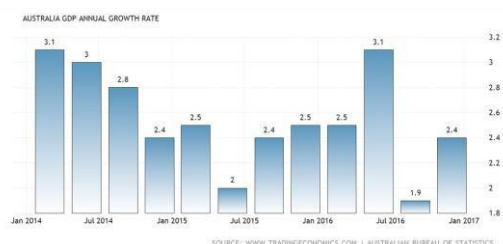
China's growth picks up in Q1  
Inflation in India edging higher  
Russia's economy grew in Q4  
Brazilian central bank cuts rates

Key Indicators	GDP (Y-o-Y % Change)	CPI (Y-o-Y % Change)	Exchange Rate** (per \$)
China	Q1 6.9	Mar 0.9	6.90
India	Q4 7.0	Mar 3.8	64.27
Russia	Q4 0.3	Mar 4.3	56.73
Brazil	Q4 -2.5	Mar 4.6	3.18
South Africa	Q4 0.7	Mar 6.1	13.25
Mexico	Q4 2.4	Mar 5.4	19.00
Turkey	Q4 3.1	Mar 11.3	3.54

The above chart highlights emerging markets as a mixed bag.

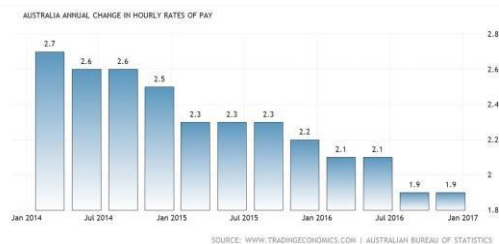
**Emerging market economies are a disparate bunch** but nonetheless offer support to economic growth globally for the foreseeable future. Brazil for example has had a rough ride over the last year or so but appears to be getting back on track. India on the other hand is undergoing strong growth. Those emerging economies relying on cheap money to fund deficits will increasingly find things difficult as interest rates rise progressively in the future.

## Australia



Economic growth in the lucky country is patchy but still okay.

**Construction and manufacturing as well as household services** have reported improvement although retail remains weak. The elections in Australia in 2016 may have been responsible for some of the slow down however that appears to have passed. Economic growth in Australia came out at a disappointing 2.4% over 2016. Not bad but not enough.



*Wages' growth remains stubbornly low in Australia.*

**The unemployment rate in Australia remains steady but too high at 5.9% as of March 2017, the same as the previous month. At the same time wages' growth remains stubbornly low, not helping economic growth in Australia. As I have mentioned previously, wages' growth is a fundamental indicator and a driver of sustainable economic growth.**



*Productivity in Australia has not improved much of late but made good ground since 1980.*

**Productivity** is the real value of output produced by a unit of labour during a specific period of time. At least that is the definition. For example productivity per hour is a common measure. I mention it because it is also a key driver of sustainable economic growth long term. Although there has been little change of late, productivity in Australia averaged 82.76 index points from 1968 until 2016, reaching an all-time high of 104.21 in the fourth quarter of 1976 and a record low of 58.20 index points in the third quarter of 1978. Although not bad, improvement in productivity is a key driver that will help Australia to remain "the lucky country".



*Interest rates in Australia remain on hold.*



*Inflation appears to be rising.*

**Interesting to see interest rates remain on hold** and inflation rising. Should the inflation trend continue inevitably interest rates will rise in Australia. The most recent interest rate announcement by Philip Lowe, governor of the Reserve Bank of Australia, was May 2 2017, leaving interest rates unchanged at 1.50%. He notes the rise in commodity prices that benefits Australia due to the synchronised global economic improvement that has taken place recently. Inflation rates in Australia and a number of other countries have also increased. However he points out core inflation still remains low.

**Interest rates in the United States of America have been increasing**, supporting reflation in a number of developed economies. He notes the drag of the decline in the mining boom is still a factor that he is taking into account as he considers interest rate reviews.

**He also notes the variability of the housing market around Australia.** House prices in Perth have declined recently. In Eastern cities there is additional supply of apartments also scheduled to come on stream over the next couple of years. Rent increases are the slowest in Australia for over 20 years and the growth in housing debt has out-paced the slow growth in household incomes. Just like New Zealand, household debt remains high and a risk to be watched.

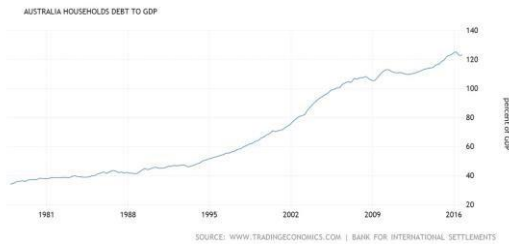
Index results as at March 31, 2017

Region	Change in dwelling values			Total gross returns	Median dwelling price
	Month	Qtr	YOY		
Sydney	1.4%	5.0%	18.9%	22.6%	\$805,000
Melbourne	1.9%	4.2%	15.9%	19.4%	\$605,000
Brisbane	0.2%	0.0%	3.7%	8.1%	\$480,000
Adelaide	0.4%	1.6%	3.4%	7.7%	\$439,000
Perth	1.0%	-1.3%	-4.7%	-1.0%	\$475,000
Hobart	3.1%	5.6%	10.2%	16.1%	\$355,000
Darwin	3.1%	-3.1%	-4.4%	0.4%	\$490,000
Canberra	1.4%	5.1%	12.8%	17.5%	\$588,500
Combined capitals	1.4%	3.5%	12.9%	16.7%	\$585,000
Rest of State*	0.8%	1.4%	4.0%		\$380,000

\* Rest of state change in values are for houses only to end of February 2017

Source: CoreLogic

*House prices whilst mixed are generally continuing to rise in Australia.*



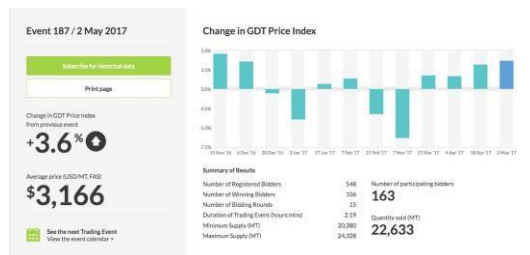
Household debt continues to rise in Australia.

**Household debt in Australia remains a problem and a contingent risk** being watched closely by the Reserve Bank of Australia. Whilst the level of debt to economic growth (GDP) declined somewhat recently, the trend remains in an upward direction. This is a concern if not in the immediate future, certainly at some point down the track. At the moment though, levels of debt compared to economic growth remain manageable but less than ideal.

**Australia's economy has recently picked up** somewhat on the back of synchronised global economic growth and a recovery in commodity prices. Other factors such as high levels of debt, a still too high unemployment rate and lack of wages' growth continue to hamper sustainable economic expansion. However it is steady as we go for now for the Australian economy.

## New Zealand

### Dairy auction price



#### GDT Price Index over 10 years

The GDT Price Index is calculated from the total quantity sold in a Trading Event across all products, contract periods and sellers. For more information on the price index calculation, please go to our "How GDT Events work" page.



#### 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 bid on 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 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 the winning price means that no prices were available for that contract period and therefore no average price was applicable.

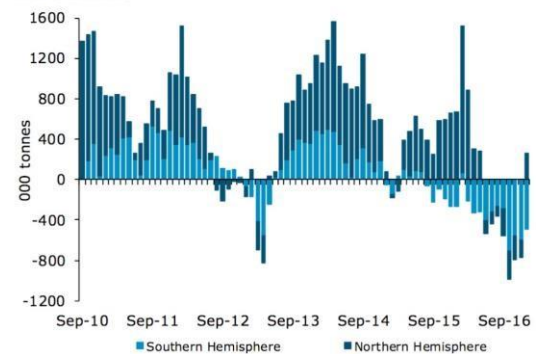
"N/A" for the percentage change in GDT Price Index means that no product was offered or sold, or no price was published for the last event, or on both of the two previous events. "N/A" for the change in GDT Price Index is only shown if there is a price available for the last event AND for at least one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

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

Dairy prices continue to move in the right direction.

**The cycle in dairy markets continues** to be a function of supply conditions. This relates specifically to the US, New Zealand and Europe. Indicators suggest increased milk flow towards the middle of this year.

**FIGURE 1. MILK PRODUCTION GROWTH FOR MAJOR EXPORTERS**



Source: ANZ, Dairy Australia, DCANZ, CLAL, Datum, USDA

Productivity looks set to increase.

**It appears that the main competitive threat is Europe** especially for milk fats and for whole milk powder. Export pressure therefore is set to increase over the next six months as seasonal milk flows increase. This is supported by improved farm gate returns (roughly in line with the five year average and a bit above last year), lower feed prices than last year and a low Euro.

### US supply also looks set to accelerate

although domestic demand continues to soak up increasing production. Also the high US dollar has had an impact on exports out of the US too.

**Interestingly, since early 2016 US consumers, driven by** a swing towards healthy alternatives have moved back to consumption of butter. Those highly cynical of margarine products contend that they are basically one step away from plastic. The reality is the product is not unhealthy however it appears that the process of manufacture using certain chemicals is actually what makes margarine a less healthy option than butter.

TABLE 1: NEW ZEALAND DAIRY EXPORTS – JANUARY 2017

MILK POWDER			MILK FAT			OTHER		
Country	Last 12 months	% y/y	Country	Last 12 months	% y/y	Country	Last 12 months	% y/y
China	1,764	4%	China	546	10%	US	699	-19%
Algeria	649	48%	Australia	416	23%	China	524	18%
UAE	348	-25%	Japan	303	-6%	Mexico	321	29%
Malaysia	299	-23%	Indonesia	133	13%	Philippines	226	5%
Sri Lanka	235	9%	Egypt	119	-23%	Japan	125	-18%
Thailand	210	-15%	Korea	119	30%	Netherlands	123	-31%
Indonesia	209	10%	Saudi Arabia	107	-9%	Egypt	116	0%
Vietnam	172	-20%	US	98	-10%	Thailand	98	-9%
Singapore	170	-19%	Taiwan	94	3%	Indonesia	92	5%
Bangladesh	158	12%	Philippines	91	5%	Malaysia	88	3%
Philippines	153	-9%	Iran	86	-9%	Russia	70	147%
Saudi Arabia	151	-31%	Malaysia	70	-1%	Australia	68	-3%
Taiwan	147	-19%	Morocco	58	17%	Saudi Arabia	68	-20%
Nigeria	141	-14%	UAE	57	-23%	Vietnam	68	3%
Egypt	127	0%	Russia	56	172%	Singapore	42	-48%
Libya	65	58%	Hong Kong	51	17%	Taiwan	41	3%
Sudan	61	16%	Chile	50	16%	Korea	38	-17%
Venezuela	58	-79%	Azerbaijan	42	-29%	Algeria	35	22%
Oman	50	-20%	Singapore	38	-15%	UAE	30	-4%
Australia	49	-8%	Turkey	37	-37%	Germany	30	-21%

Source: ANZ, Statistics NZ

## The ANZ truckometer

As you may know, the ANZ truckometer is a set of two economic indicators derived using traffic volume data from around the country. Because a large amount of freight is moved by road, traffic flows can be considered a real time and real world proxy for economic activity. The ANZ heavy traffic index shows a strong relationship to economic growth while the ANZ light traffic index appears to have a six month lead on activity as measured by GDP.

GDP AND THE ANZ HEAVY TRAFFIC INDEX 3-MONTH AVERAGE



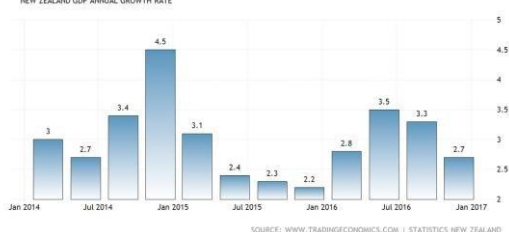
GDP AND THE ANZ LIGHT TRAFFIC INDEX 3-MONTH AVERAGE



Source: ANZ, NZ Transport Agency, Statistics NZ

<sup>1</sup> The Kaikoura earthquake has seen a change in pattern of container freight at North Island ports, which has increased heavy traffic flows on State Highway 2. These impacts are likely to last for some time. We therefore make a statistical adjustment for this (2 sites).

NEW ZEALAND GDP ANNUAL GROWTH RATE



Source: WWW.TRADINGECONOMICS.COM | STATISTICS NEW ZEALAND

Economic growth although somewhat volatile remains on track.

NEW ZEALAND PRODUCTIVITY



SOURCE: WWW.TRADINGECONOMICS.COM | STATISTICS NEW ZEALAND

The long term trend for productivity in New Zealand continues to improve.

With unemployment sitting at around 4.9% and productivity continuing to improve, New Zealand is reasonably well placed at least by those two measures for continued economic growth.

NEW ZEALAND INTEREST RATE



SOURCE: WWW.TRADINGECONOMICS.COM | RESERVE BANK OF NEW ZEALAND

The Reserve Bank continues to maintain a hold on interest rates although nonetheless rates have increased for borrowers.

So far in 2017 the Reserve Bank governor here in New Zealand has maintained a no change scenario, keeping the official cash rate at 1.75%. As you may have noticed if you borrow money, interest rates have nonetheless crept up which is as a result of the increased costs for the banks as they fund mortgages for New Zealanders from offshore. With interest rates in the US rising among other factors, the cost of borrowing offshore is increasing. Of course, the banks pass these costs onto borrowers.

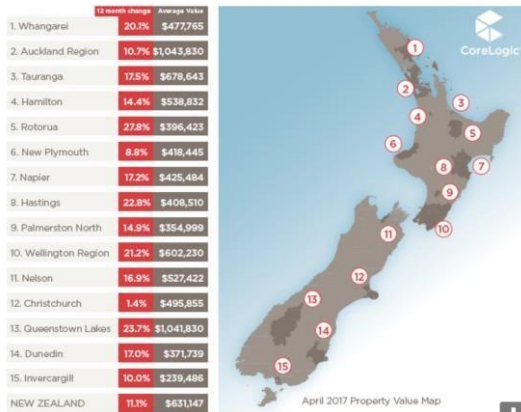
### Official Cash Rate (OCR) decisions and current rate

The Reserve Bank uses monetary policy to maintain price stability as defined in the Policy Targets Agreement (PTA). The current PTA requires the Bank to keep inflation between 1 and 3 percent on average over the medium term, with a focus on keeping future average inflation near the 2 percent target midpoint. The Bank implements monetary policy by setting the Official Cash Rate (OCR), which is reviewed eight times a year.

Date	Change in OCR	OCR
(Links are to news releases)		
23 March 2017	No change	1.75
9 February 2017	No change	1.75
10 November 2016	-0.25	1.75
22 September 2016	No change	2.00
11 August 2016	-0.25	2.00
9 June 2016	No change	2.25
28 April 2016	No change	2.25
10 March 2016	-0.25	2.25
28 January 2016	No change	2.50

The Reserve Bank governor Graeme Wheeler will be pleased that inflation is rising once again closer to its target band but continues to watch international risks that can weigh heavily on New

Zealand's economy. Whilst our economy continues to perform well, particularly compared to many other economies around the world, nonetheless our economy is fragile and has a narrow economic base around agriculture and tourism.



Historical growth remains high however recent data suggests the levelling off of price growth – about time.

**Prices continue to rise for residential properties around New Zealand although at a slower pace.** The regulatory “speed bumps” implemented in 2016 along with a slight rise in interest rate costs are undoubtedly starting to have some impact although not meaningful at this stage.

New Zealand's Migration Gains (Losses) to July of each year

Year:	Effect of Migration on New Zealand's Population
2016	+69,000
2015	+59,600
2014	+41,000
2013	+10,600
2012	-3,800
2011	+2,900
2010	+15,200
2009	+14,500
2008	+5,200
2007	+9,000
2006	+12,100
2005	+6,900
2004	+20,600
2003	+42,100
2002	+34,600
2001	-6,800
2000	-10,000
1999	-10,000
1998	-7,000
1997	+10,000
1996	+25,000
1995	+25,000
1994	+19,000
1993	+11,000

**Where do they come from?**

Country	Long Term Gain 2016
India	11,300
China	10,100
Philippines	4,900
United Kingdom	4,400
South Africa	3,200

Country	Long Term Gain 2015
India	12,600
China	8,200
Philippines	4,500
United Kingdom	4,000
Germany	2,800

Country	Long Term Gain 2014
India	7,700
China	6,600
United Kingdom	5,500
Philippines	3,100
Germany	2,300

Country	Long Term Gain 2013
United Kingdom	6,400
China	5,400
India	5,200
Philippines	2,100
Germany	1,900

Country	Long Term Gain 2012
United Kingdom	5,500
China	5,100
India	5,100
Philippines	2,000
Germany	1,600

**Immigration is becoming a topical issue** with a growing chorus of New Zealanders raising concerns about the impact it is having on their lives. Without doubt, more people living in New Zealand will change the way we live. There are growing pains and these are unlikely to go away any time soon. Some, for reasons of their own, dislike a multi-cultural society whereas others embrace it. From an economic perspective a growing population in New Zealand is generally positive, and without doubt is helping support the ongoing strength of economic activity. Imagine for a moment if immigration was stopped what that might do to residential property prices and the flow on effect of that, not to mention the slowdown in economic activity and the flow on effects of that – frankly it does not bear thinking about.

**The New Zealand economy** is having a reasonable run but remains fragile in a volatile “global economic village” that has big issues to deal with on a daily basis. New Zealand has been fortunate so far to navigate its way through the challenges and complexities of the global village in which it exists. So too are we.

## To Summarise ...

**The global economy** is undergoing a phase of synchronised growth.

**Most economies around the world** are enjoying various degrees of stability and growth which of course is supported by significant central bank intervention, low interest rates, low oil prices and an economic back drop accommodative to maintaining economic stability and engineering economic growth.

**It remains difficult to calculate** the implications of a nuclear missile event. Practically, I tend to think about it, attempt to calculate it and then put it to one side again, coming up with nothing of any real use. Initially, the implications for trade would be significant however in time the shocks and the damage could be repaired. We humans are adaptable and can pick ourselves up and get on with things when we really need to – a concept that is overlooked by those who are unduly defensive and worry a lot.

Whether we are talking residential property prices, commercial and industrial property prices, the trading price of shares, across the board things are expensive. This does not mean a correction is automatic however when unexpected news hits, fragile markets (those with a different agenda to you and I, those who worry a lot) run for cover. If you and I are smart, that is our cue to take advantage of lower prices and a better entry point.

Although boring, and without question, there will be something to upset the markets in due course, however at the moment it really is steady as we go.

The central bankers' plans we have to say are working. I know... nothing is fixed. Debt is huge. Inequalities are growing and not everyone enjoys the living standard afforded to those in the middle class or the rich elite.

Nonetheless we have stability and hopefully the activity that continues will drive economic growth and ongoing prosperity.

However it won't be in a straight line and it won't be without upsets from time to time. As I said  
though, steady as we go for now ...

*"Life is 10% what happens to you and 90%  
how you react to it."*

Charles Swindoll