

# THE INFLATION BOGEYMAN IS HERE

- 31 March 2022
- The event will start soon...



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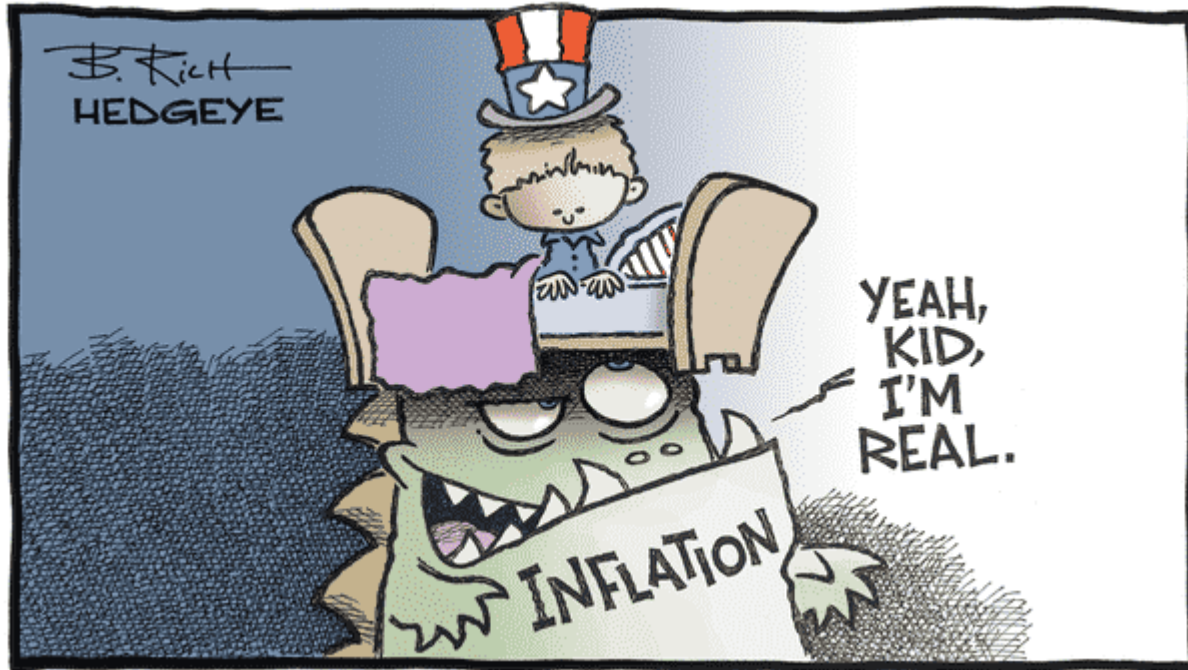
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# The inflation bogeyman is here

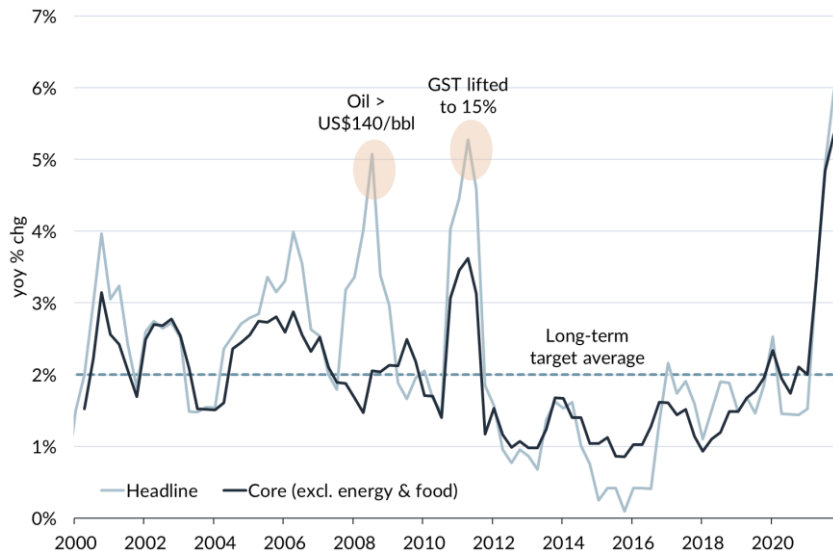
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Source: Hedgeye

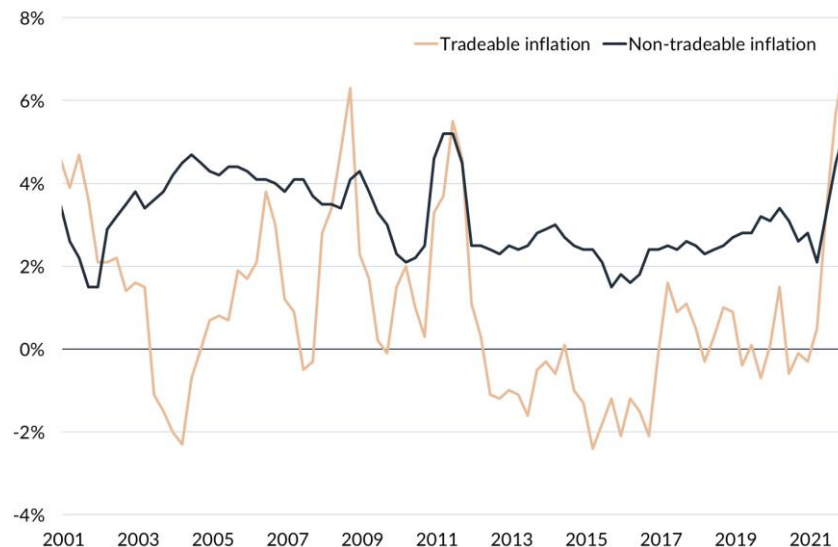
# Core inflation hasn't been this high since the early 1990s

## NZ inflation



Source: Statistics NZ, Forsyth Barr analysis

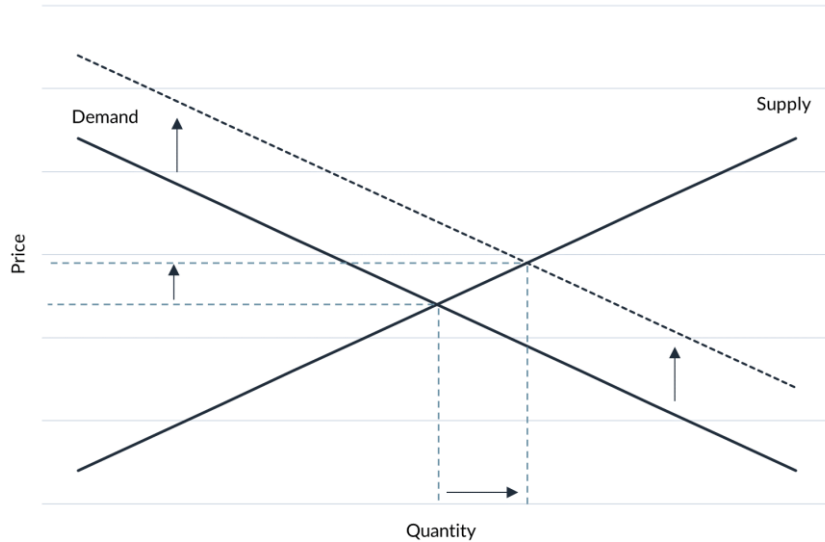
## NZ tradeable and non-tradeable inflation



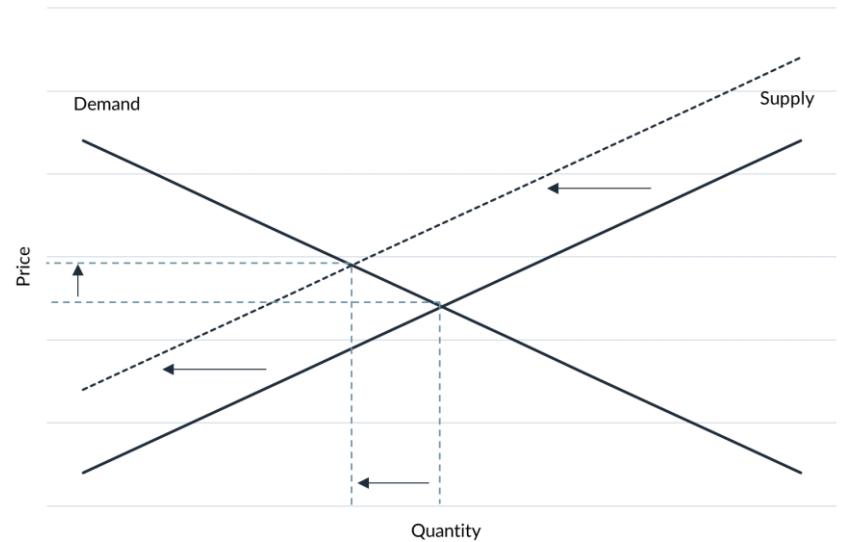
Source: Statistics NZ, Forsyth Barr analysis

# Economics 101

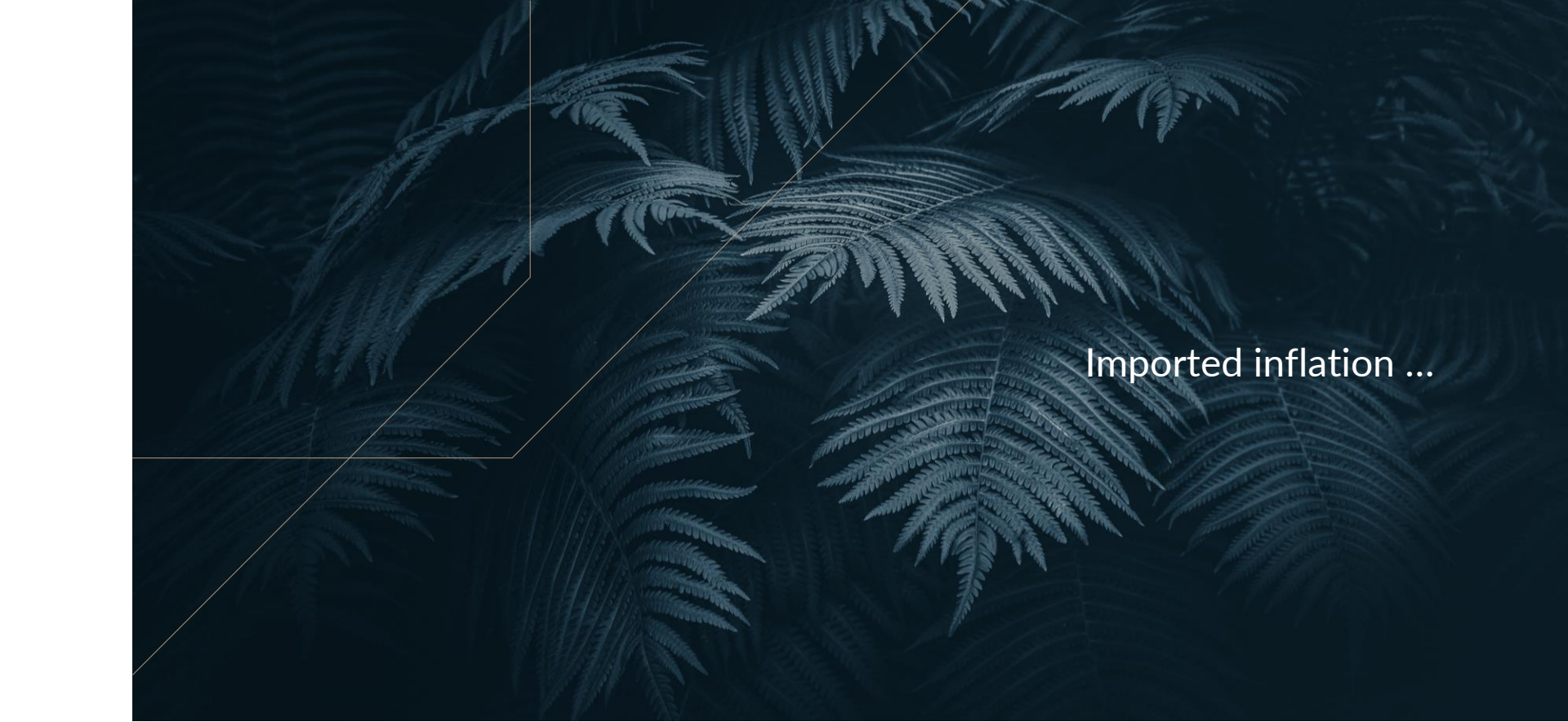
(All else equal) if demand increases ...



... or supply falls, then prices rise



Source: Forsyth Barr analysis



Imported inflation ...

## A Black Swan\* hit



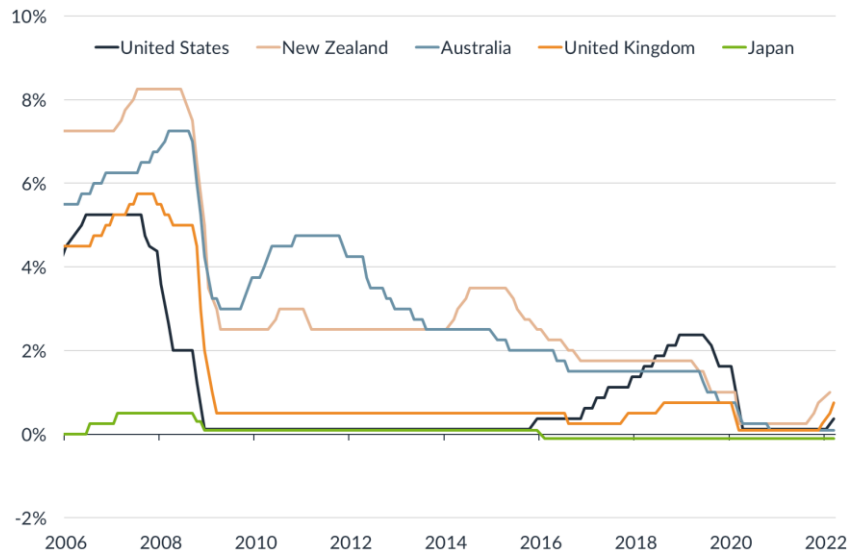
Source: Hedgeye

\* An unpredictable or unforeseen event, typically one with extreme consequences



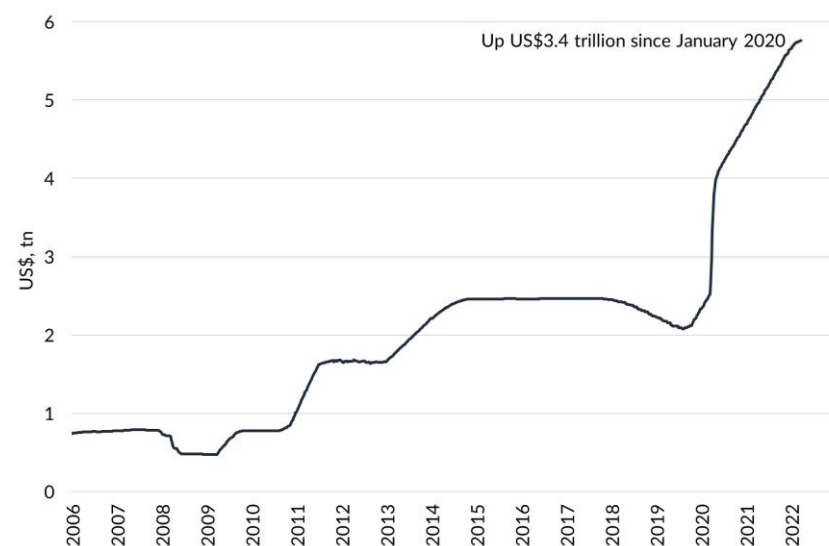
# Massive central bank reaction

## Central banks cash rates



Source: Thomson Reuters, Forsyth Barr analysis

## United States Treasuries on Fed balance sheet



Source: St. Louis Federal Reserve, Forsyth Barr analysis

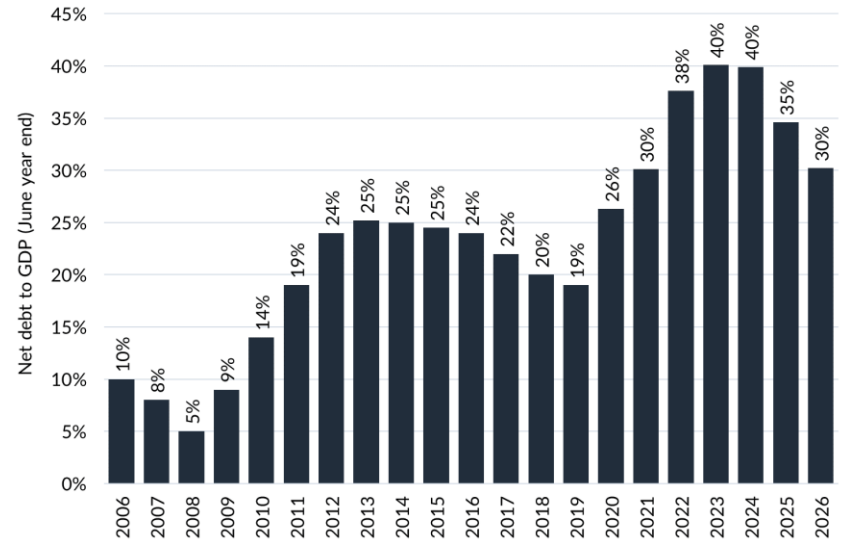
# Unprecedented government response

## Fiscal stimulus



Source: IMF, Brookings, BCA

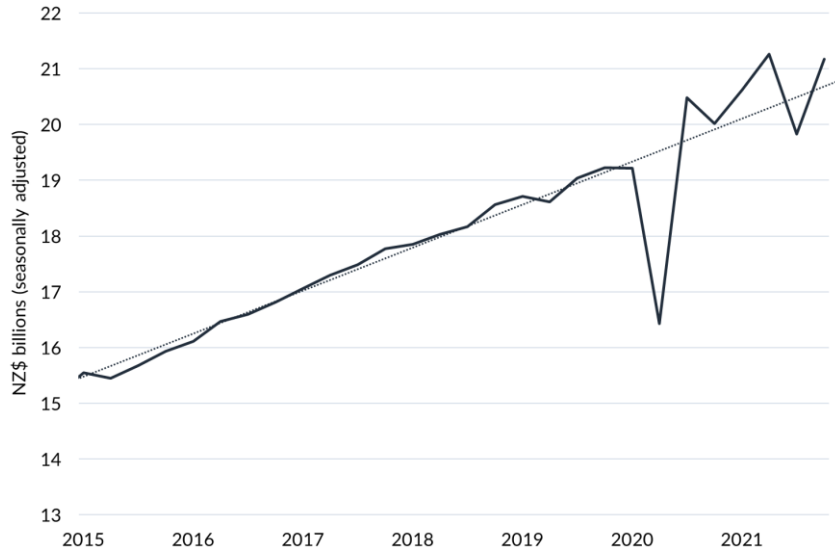
## New Zealand government debt to GDP



Source: NZ Treasury, Forsyth Barr analysis

# Drove a bounce in activity ...

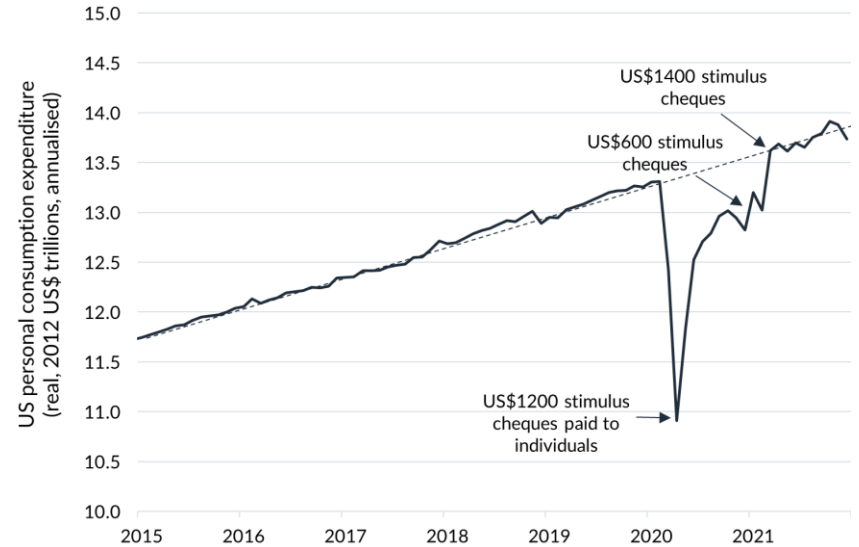
## New Zealand core retail sales\*



\* Core retail sales excludes fuel and vehicle sales

Source: Statistics NZ, Forsyth Barr analysis

## United States retail sales



Source: US Census Bureau, Forsyth Barr analysis

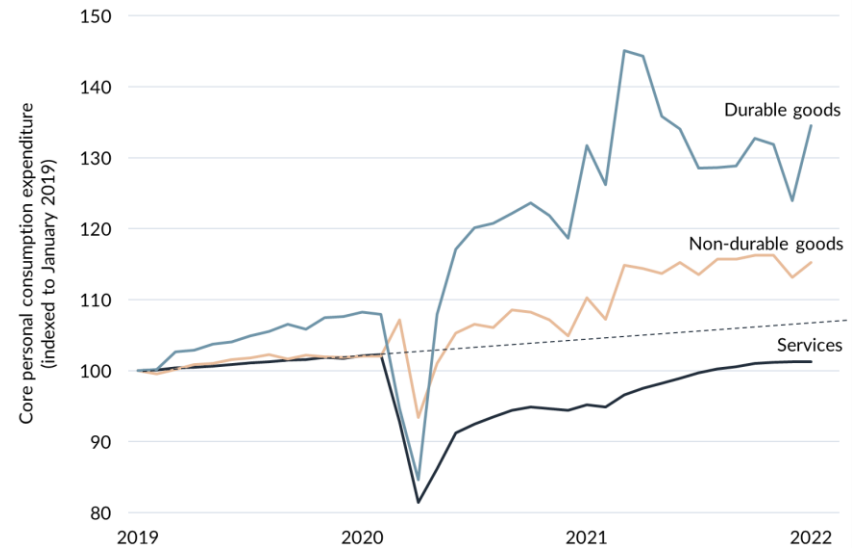
## ... but bounce uneven: Durable goods demand booming, services trailing

### NZ retail sales



Source: Stats NZ, Forsyth Barr analysis

### US retail sales



Source: US Census Bureau, Forsyth Barr analysis

## Supply chains have struggled to respond ... 'Containergeddon'

### Container shipping rates



Source: Freightos, Baltic Exchange, Forsyth Barr analysis

**Ningbo: Global supply fears as China partly shuts major port**

**After causing chaos in the UK, truck driver shortages could soon hit the rest of Europe**

**Container Ships Headed for U.S. Poised to Worsen Port Bottleneck**

**Cargo ships line up at Port of Tauranga as supply chain issues bite**

# Disruption flows through the global supply chain

## Why the Chip Shortage Drags On and On ... and On

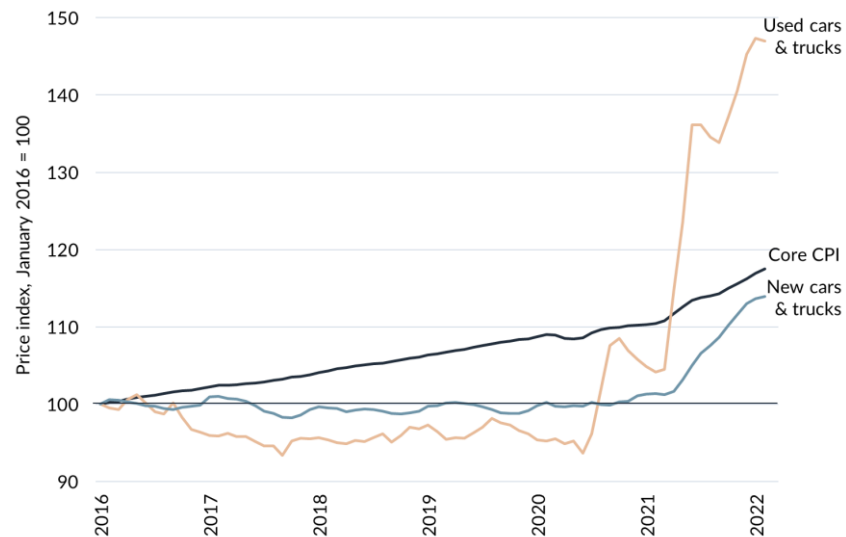
**Toyota to cut production 40% in October because of the chip shortage.**

## Auto Makers Warn Chip Shortage Will Continue to Impact Vehicle Production

Used Car Pricing Will Remain Inflated Until Microchips Arrive

## Covid-19: Vehicle shortage pushes price of used cars higher on Trade Me

US CPI (consumer price inflation)



Source: Refinitiv, Forsyth Barr analysis

## Goods shortages



Source: Boston University

## Pandemic Bike Shortage

**Supply chain issues leading to shortage of artificial Christmas trees**

**Shortage of Lawnmowers and Tractors**

**Supply chain issues causing snow tire shortage**

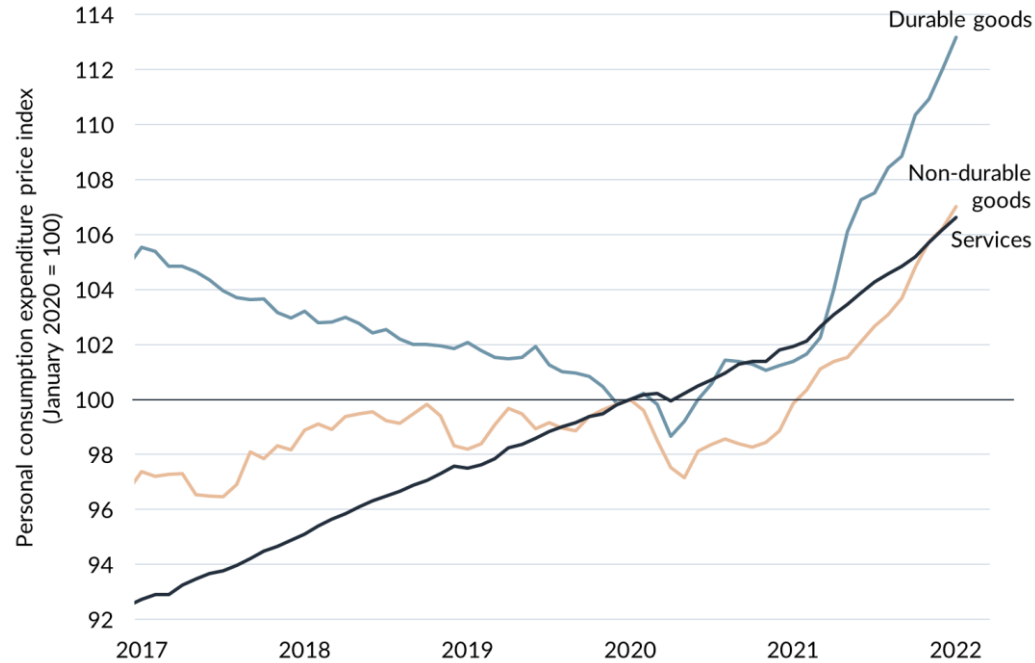
**Nike and Costco warn of product shortages and delays**

**Homeowners face long delays for kitchen and bathroom fitters**

**Just 180 More Days Until Your Oven Arrives: Appliance Delays Cause Havoc**

# Demand for durable goods driving inflation

## US inflation





## Inflationary pressures compounded by Ukraine shock

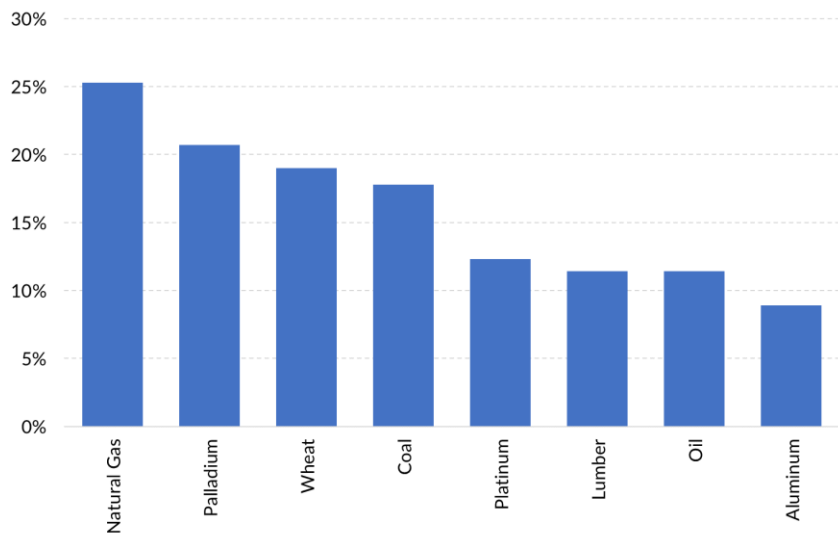
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Source: [interest.co.nz](https://www.interest.co.nz)

# Russia and Ukraine are commodities heavyweights

## Russia share of global exports



Source: BP, AFR, Financial Times, WSJ, Refinitiv, Forsyth Barr analysis

## Oil price



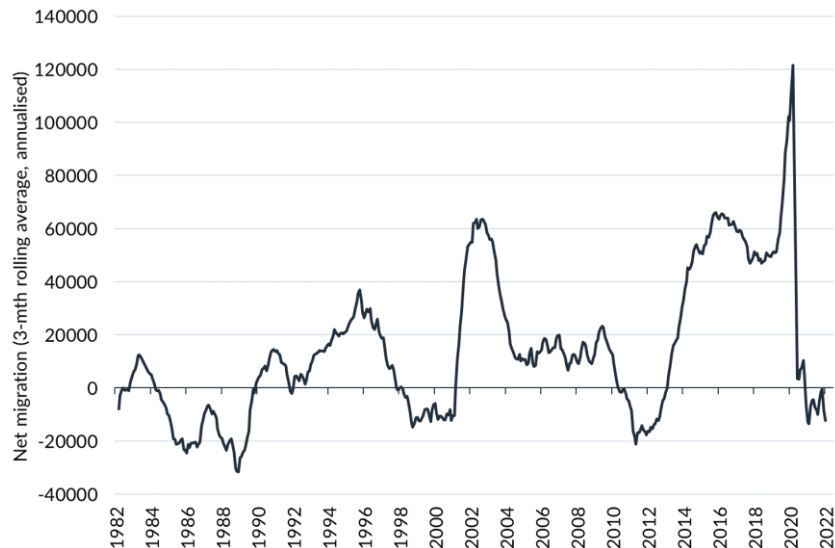
Source: Refinitiv, Forsyth Barr analysis



... and growing our own

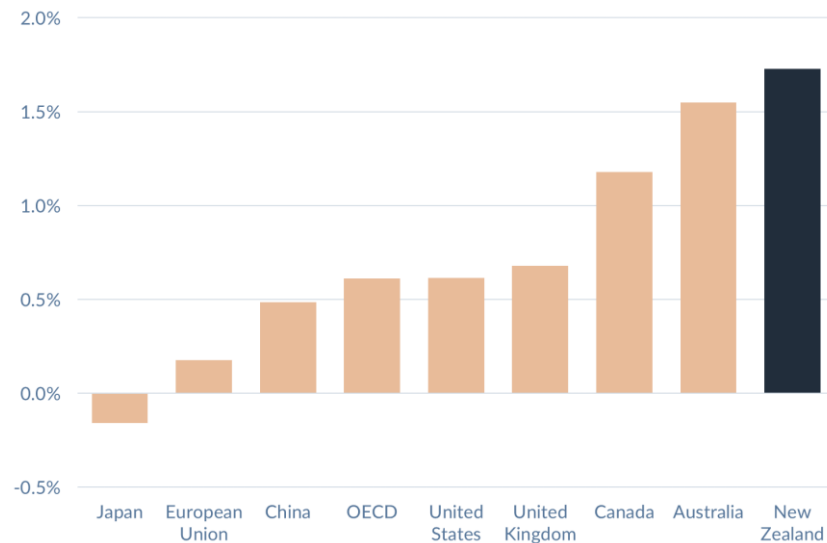
# “World leading” migration ...

## New Zealand net migration



Source: Stats NZ, Forsyth Barr analysis

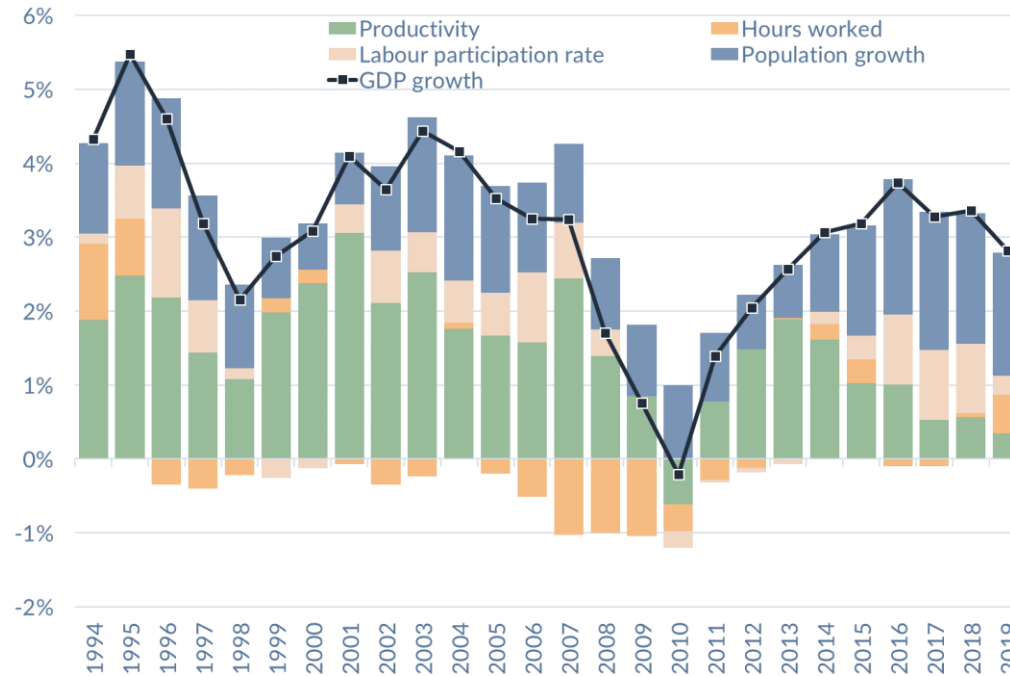
## Population growth – 5 years to 2019



Source: World Bank, Forsyth Barr analysis

... has been the principle driver of our economy

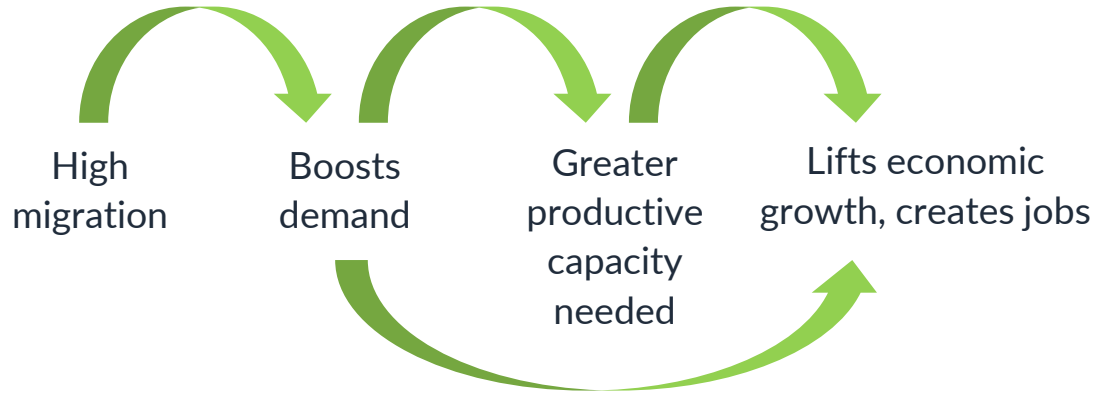
New Zealand GDP growth (3-year rolling average)



# The Ponzi economy built on migration

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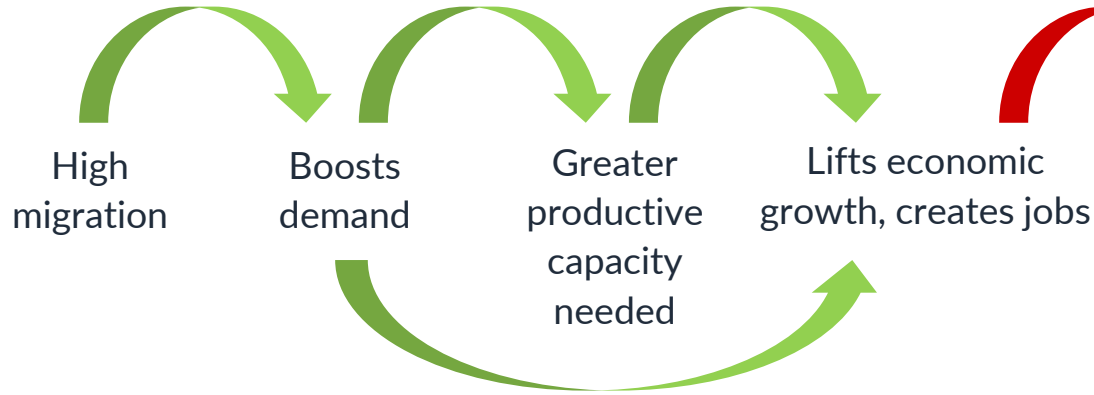
The positive side to migration ...



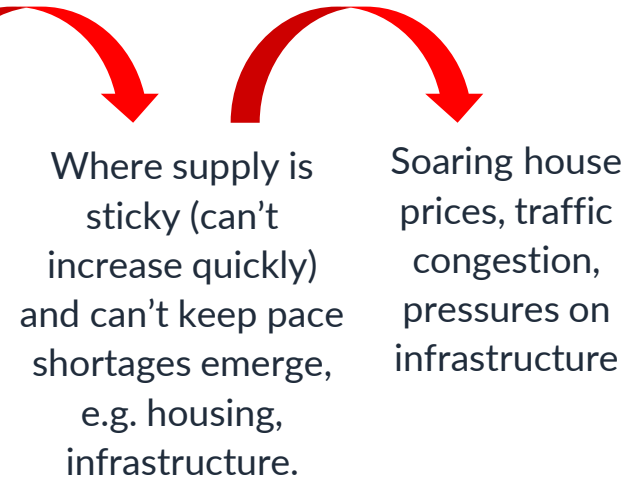
# The Ponzi economy built on migration

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## The positive side to migration ...

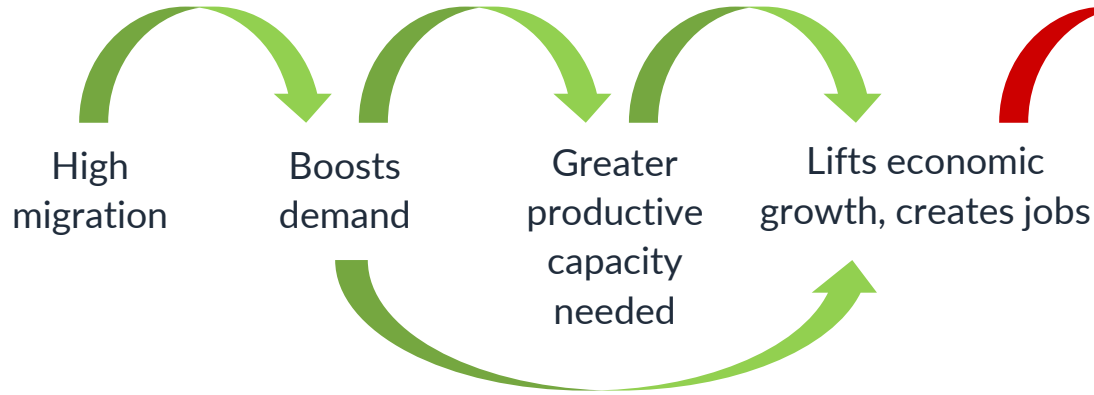


## But there's a cost ...

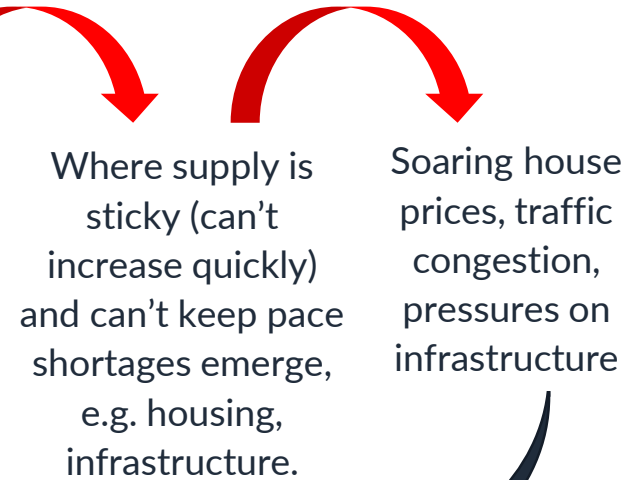


# The Ponzi economy built on migration

## The positive side to migration ...



## But there's a cost ...



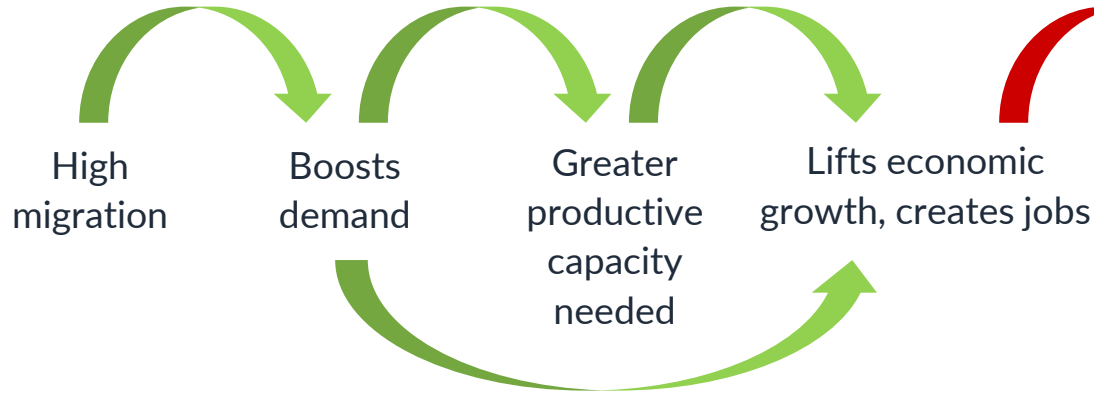
What's been our solution?



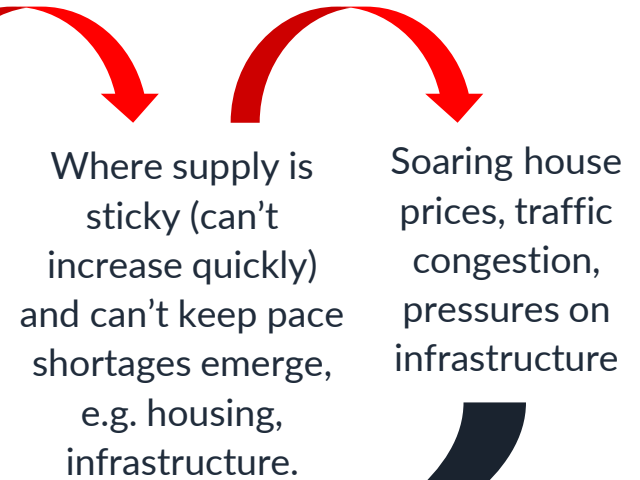


# The Ponzi economy built on migration

The positive side to migration ...



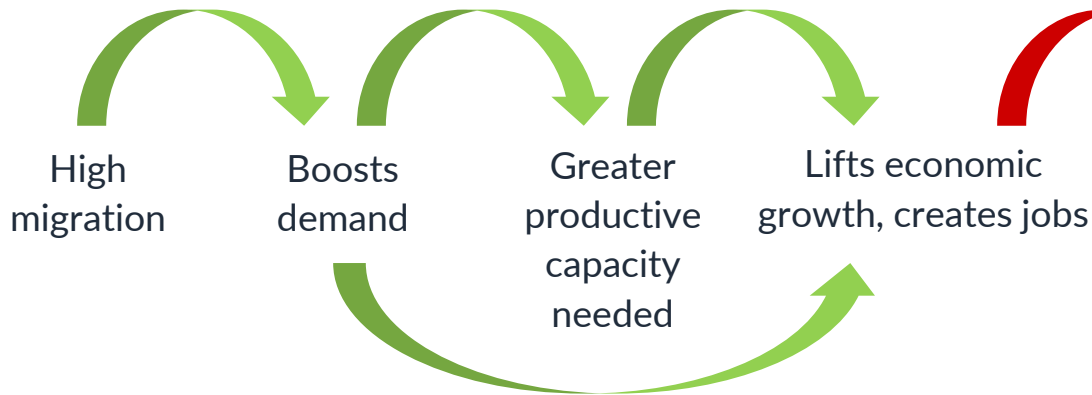
But there's a cost ...



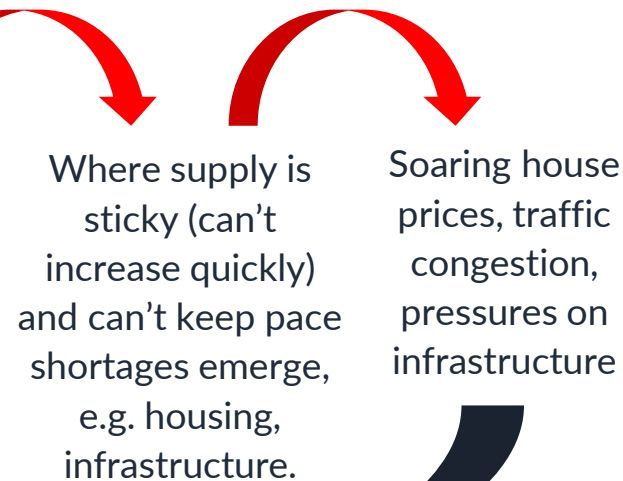
More migration!

# The Ponzi economy built on migration ... but the door is now shut

## The positive side to migration ...



## But there's a cost ...



## Housing the most obvious example

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No migration ...

... population growth

0.6% per year (max!)

... houses required

12,000-13,000 **4x**

12 months to June 2020

2.3% per year

43,000-47,000

**= New Zealand: The struggle to find a 'decent home'**

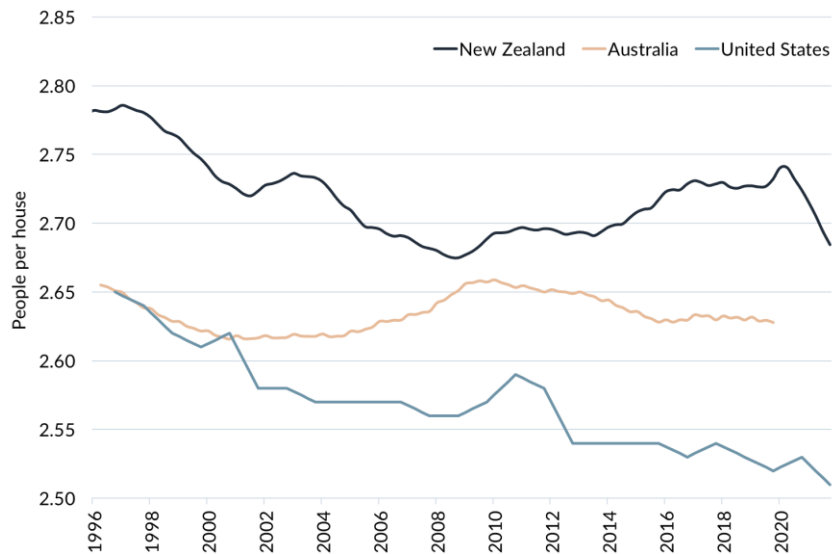
**NZ SHORT BY NEARLY 40,000 HOUSES**

**UN Declares New Zealand's Housing Crisis A Breach Of Human Rights**

Source: Forsyth Barr analysis

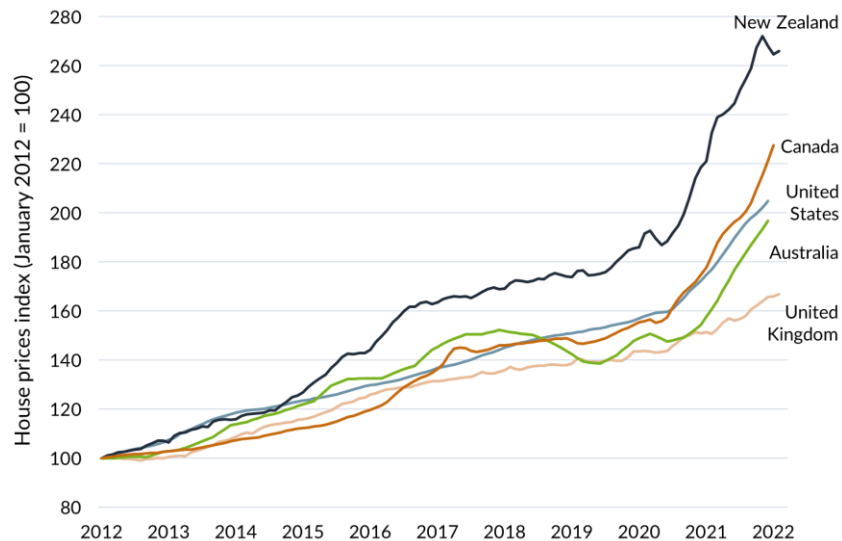
# New Zealand's acute housing shortage

## People per house



Source: Stats NZ, realestate.co.nz, ABS, Forsyth Barr analysis

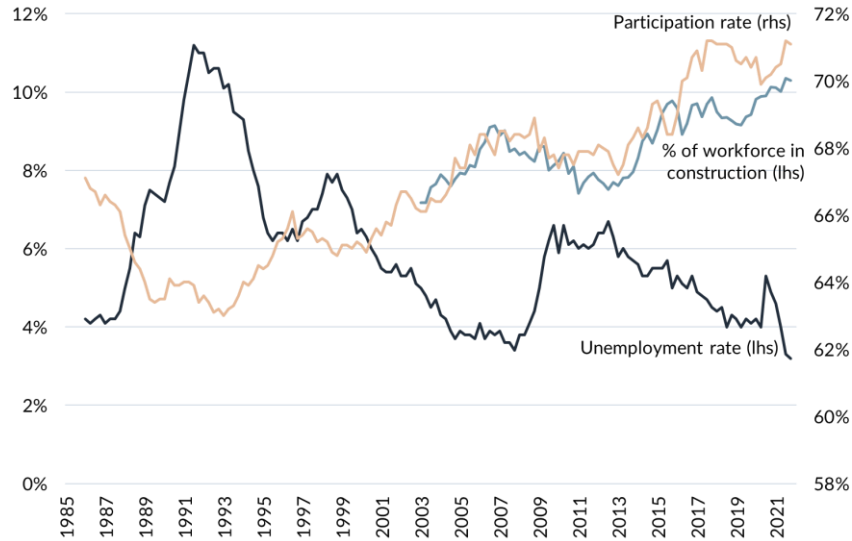
## International house prices



Source: Refinitiv, REINZ, Forsyth Barr analysis

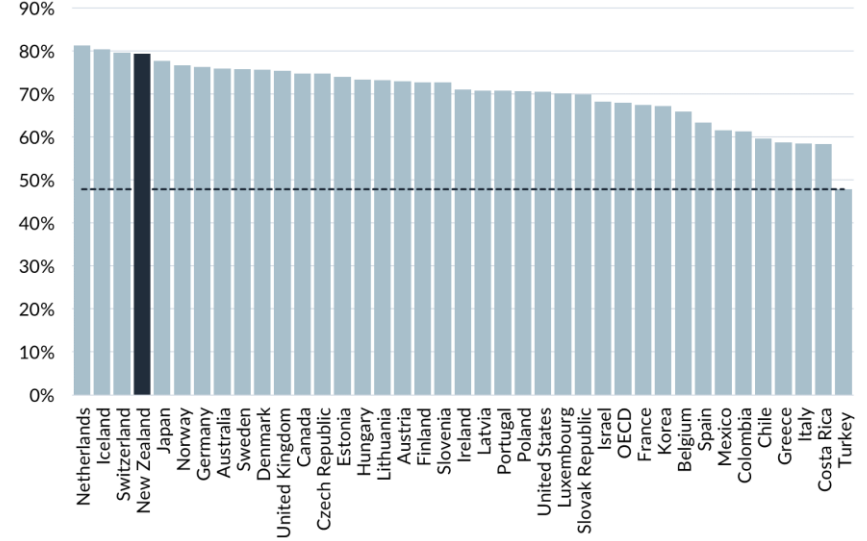
# New Zealand's tight labour market

## Unemployment and participation rate



Source: Stats NZ, realestate.co.nz, ABS, Forsyth Barr analysis

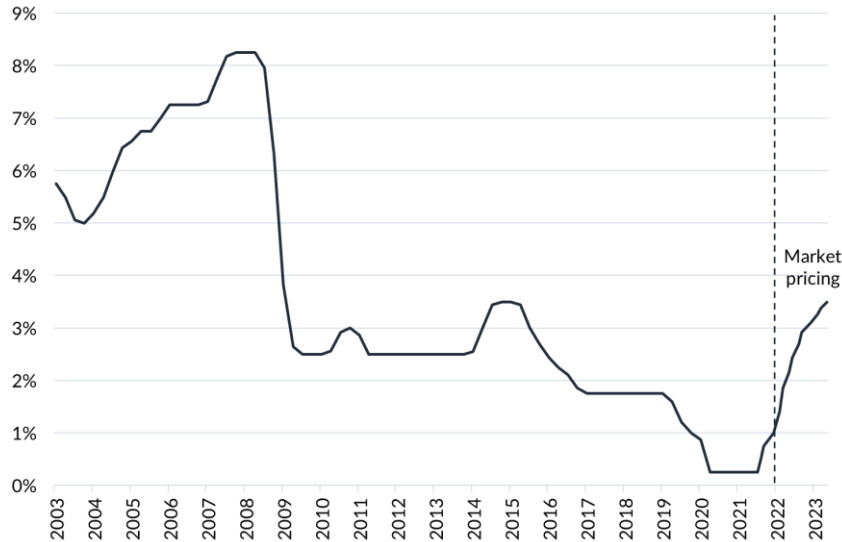
## Employment rate (OECD, 15-64 year olds)



Source: Stats NZ, Forsyth Barr analysis

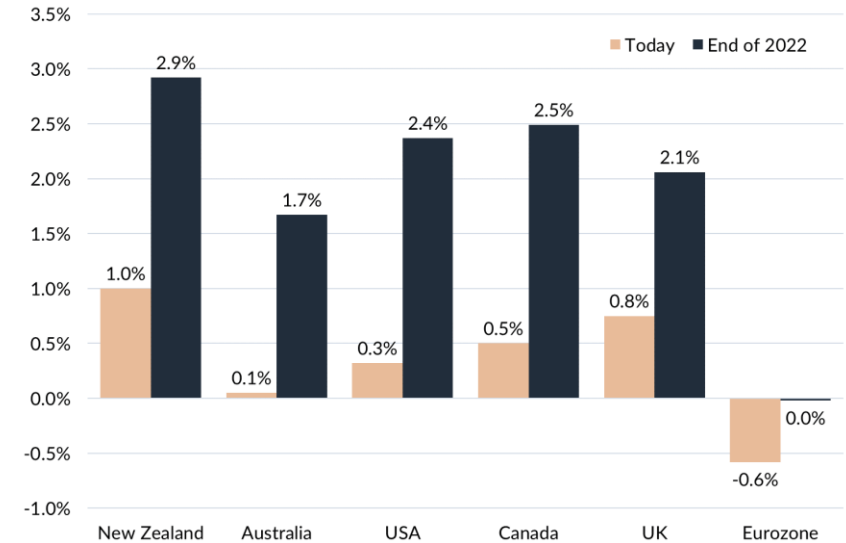
# What does it mean? ... the first meaningful rate hike cycle in 15 years

## New Zealand cash rate (OCR)



Source: RBNZ, Bloomberg, Forsyth Barr analysis

## Global cash rates (market pricing)



Source: ANZ, Forsyth Barr analysis

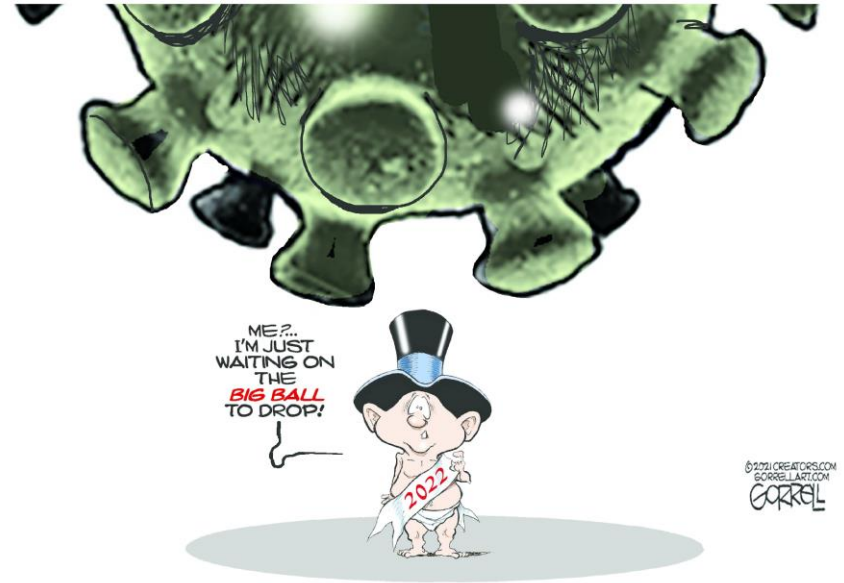
## But a lot of uncertainty on the horizon ...

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- “No-one knows what the outcome of this pandemic will be, in say 3–5 years’ time.”

*Covid-19 Public Health Advisory Group (NZ)*

- How long does the vaccine last?
- How will the virus mutate?
- Will vaccines be effective against new variants?

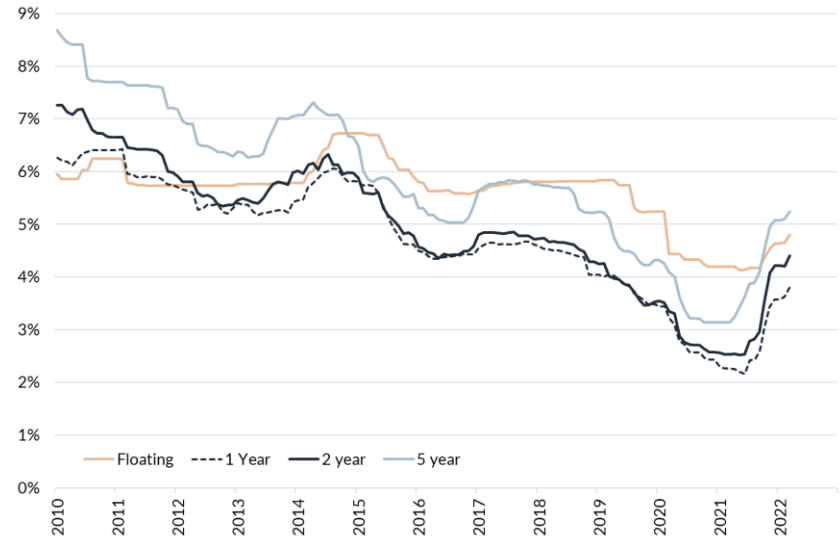


Source: The Week

## ... and not just with COVID

- How will our highly indebted households and overinflated house prices respond to rising mortgage rates?
- To what extent will governments continue to support economies?
- How quickly will supply chains readjust?
- Will New Zealand once again welcome new migrants in droves? And will they want to come?
- How long will the Russia-Ukraine conflict last?
- Will Cold War II devolve?

### New Zealand mortgage rates

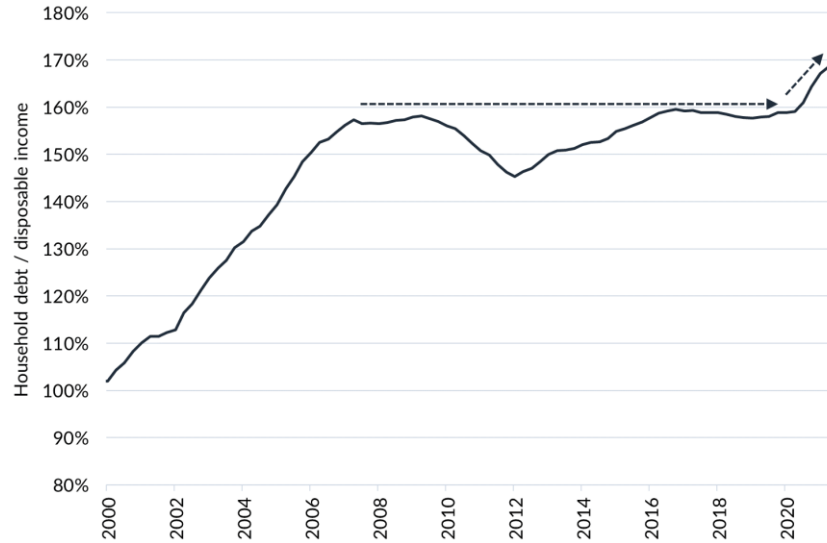


Source: RBNZ, interest.co.nz, Forsyth Barr analysis



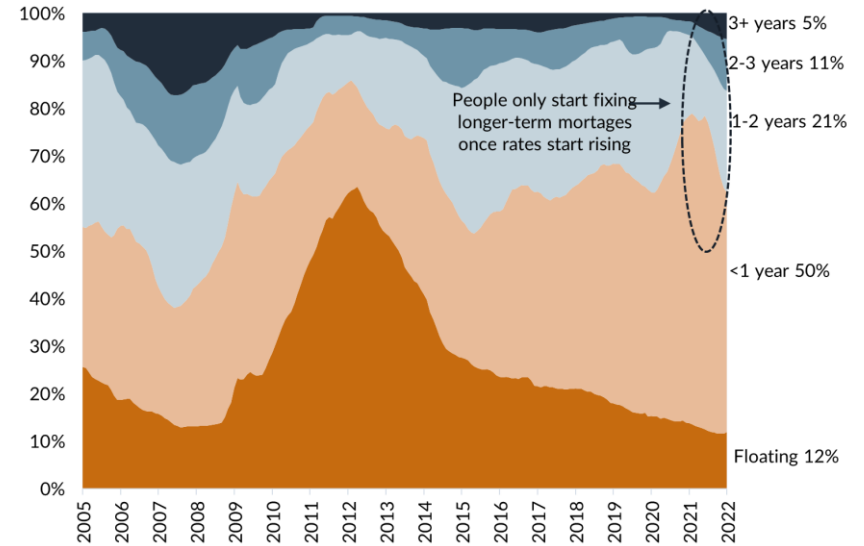
# New Zealand consumers are vulnerable ...

## New Zealand household debt (vs. income)



Source: RBNZ, Forsyth Barr analysis

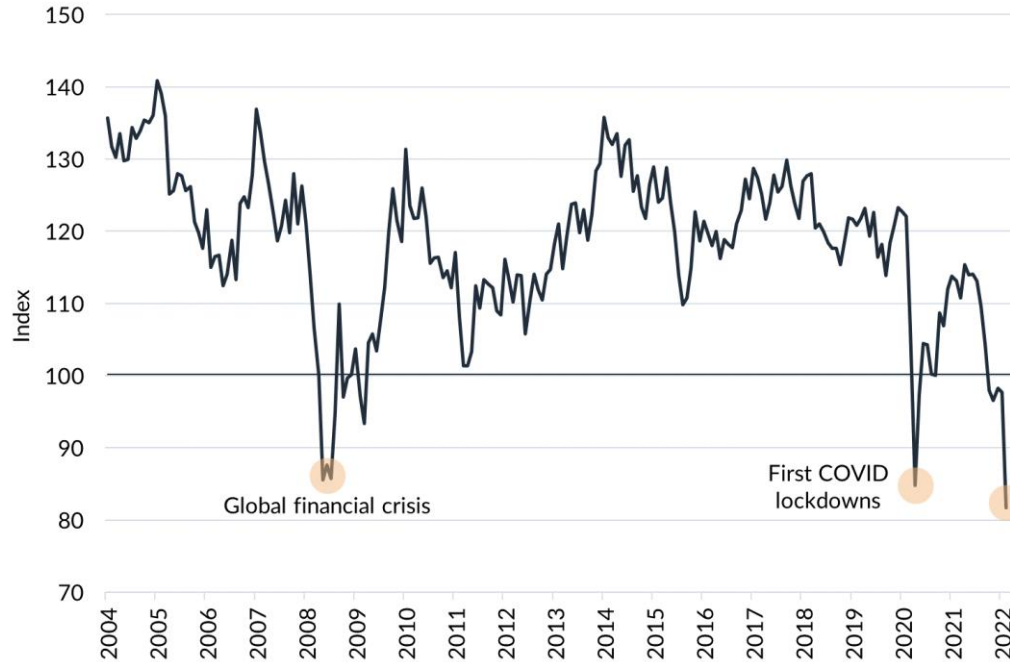
## New Zealand mortgage tenures



Source: RBNZ, Forsyth Barr analysis

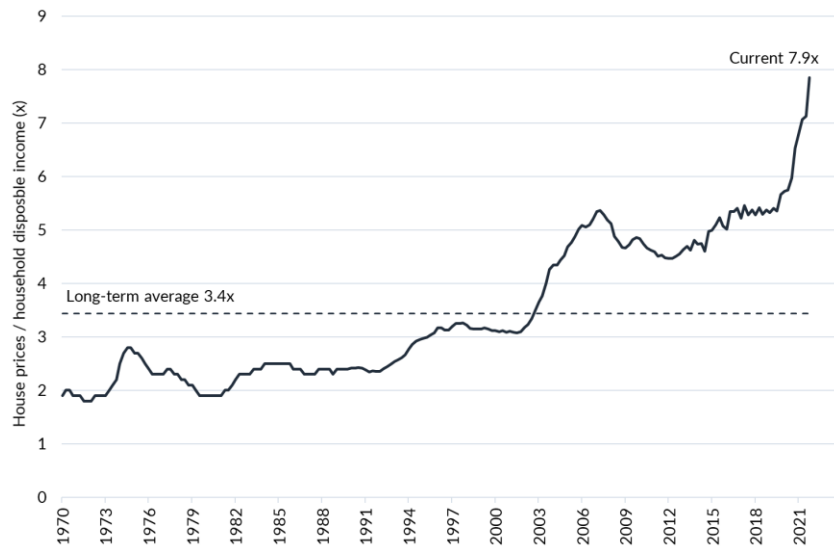
## ... and already feeling more glum than the GFC

New Zealand consumer confidence



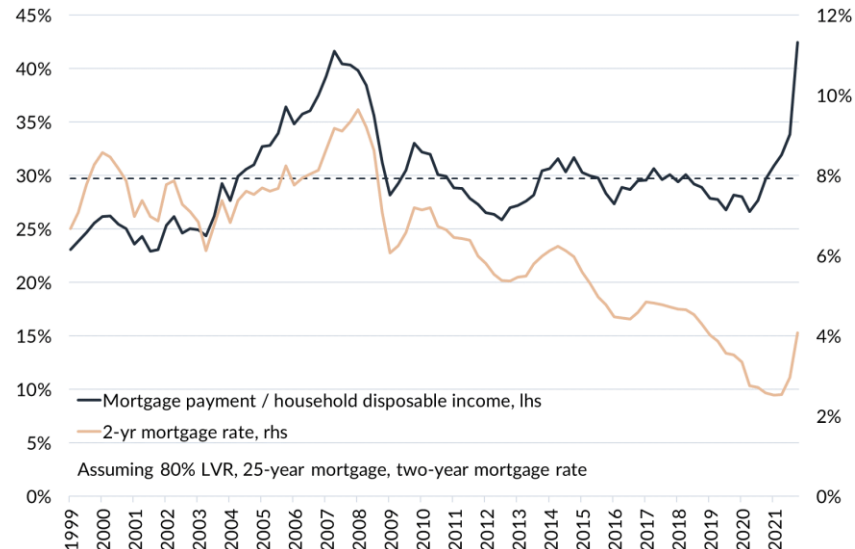
# Housing unaffordability is really starting to bite

## New Zealand house prices vs. household income



Source: REINZ, RBNZ, Forsyth Barr analysis

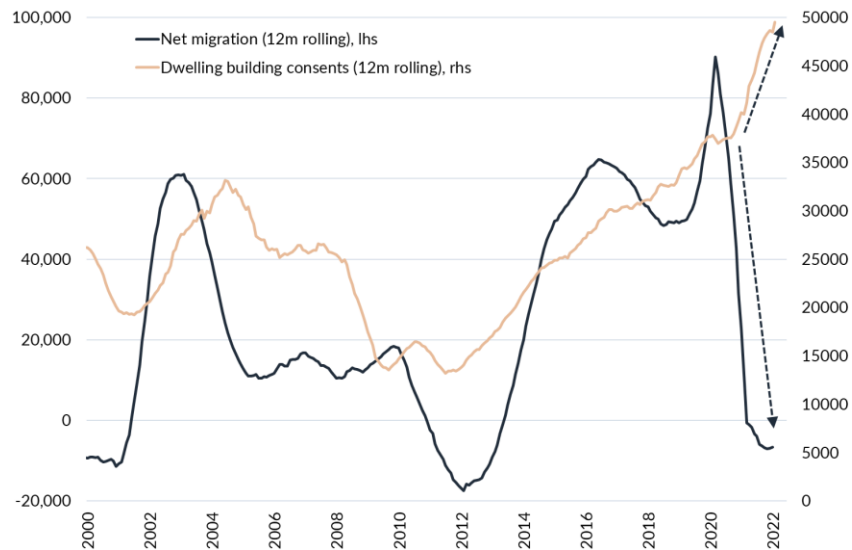
## Cost of servicing a mortgage (% of income)



Source: REINZ, RBNZ, interest.co.nz, Forsyth Barr analysis

# ... and we're finally building enough houses

## New dwelling consents vs. migration



Source: Stats NZ, Forsyth Barr analysis

## House sales vs. available listings



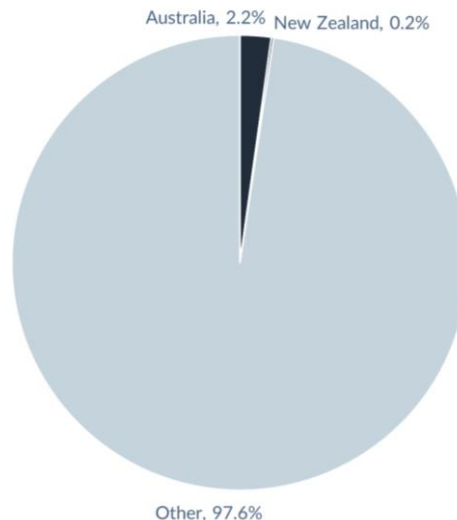
Source: REINZ, realestate.co.nz, Forsyth Barr analysis

## A few investing reminders ...

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1. The New Zealand share market is not the New Zealand economy
2. The world is a big place
3. Higher interest rates mean you get better future returns on defensive investments, e.g. bonds

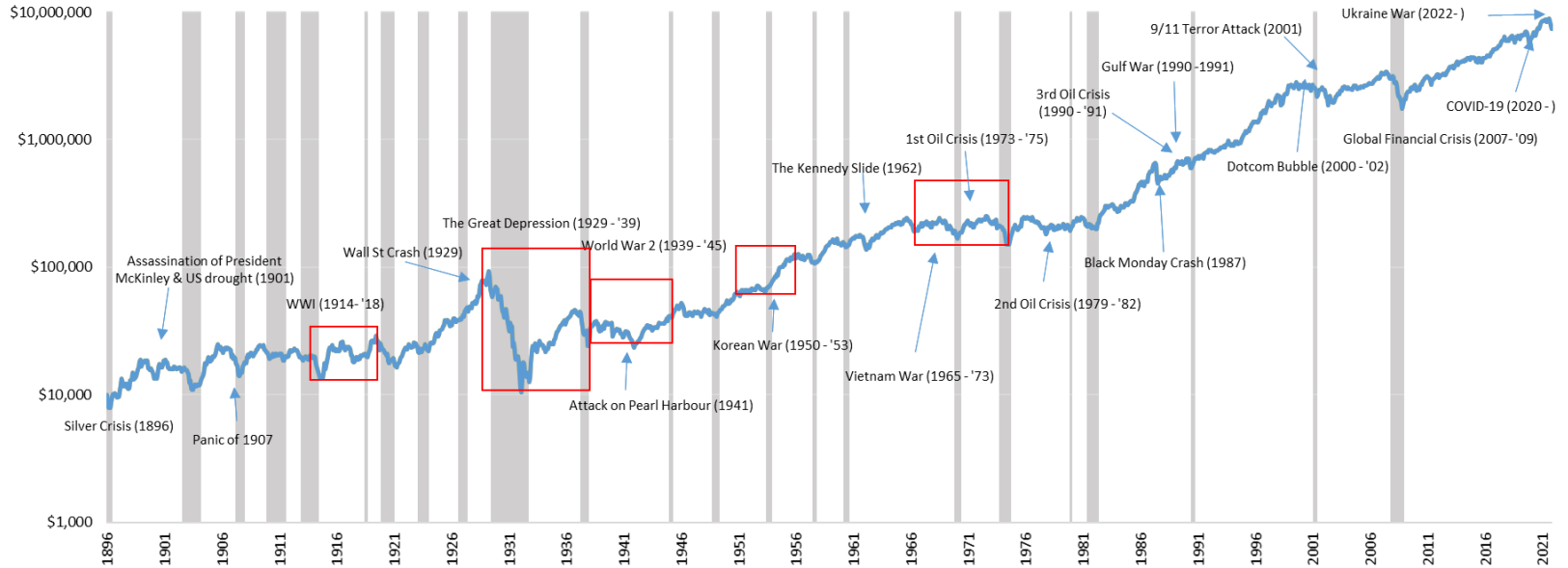
### Share of global listed companies



Source: NZX, ASX, Statista, Forsyth Barr analysis

... an over the long-term stock markets have navigated every type of crisis

## Dow Jones Industrial Average



Source: Refinitiv, NBER. Dow Jones Industrial Average Capital Index, Forsyth Barr analysis

# THANK YOU

