

February 2018

As good as it gets

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Chief Economist

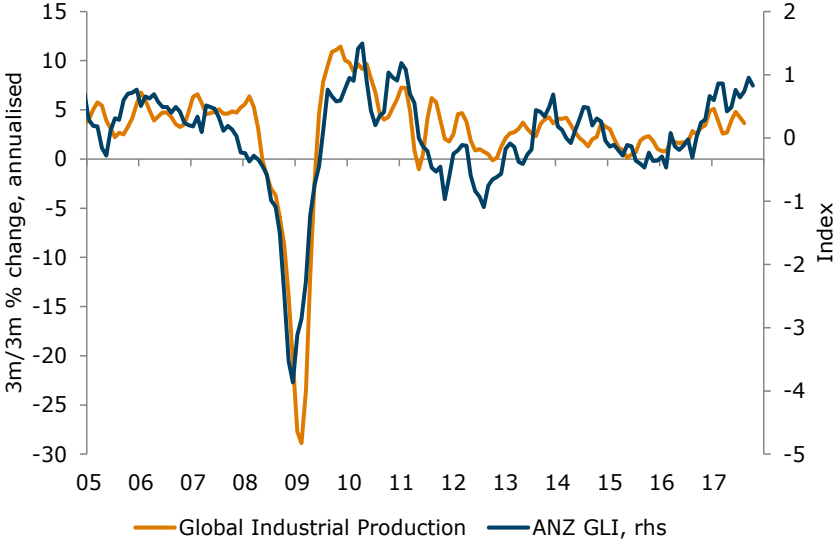
Public



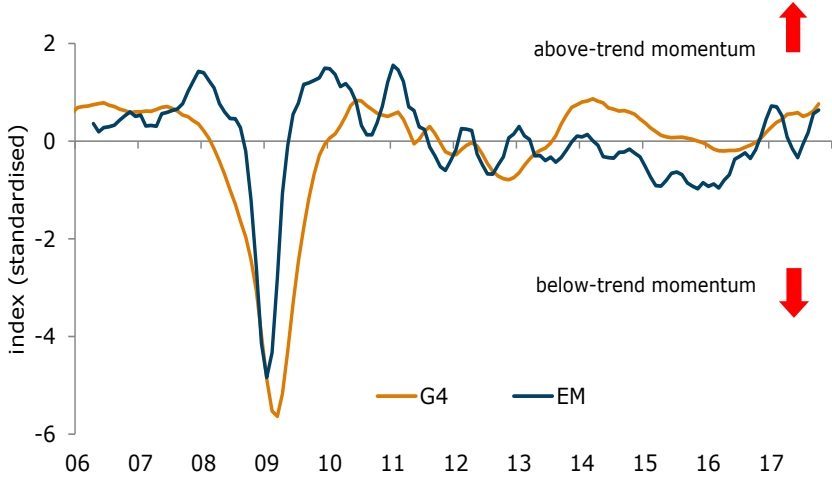
Global

Global growth is broad-based and above trend

ANZ Global Lead Index and world IP



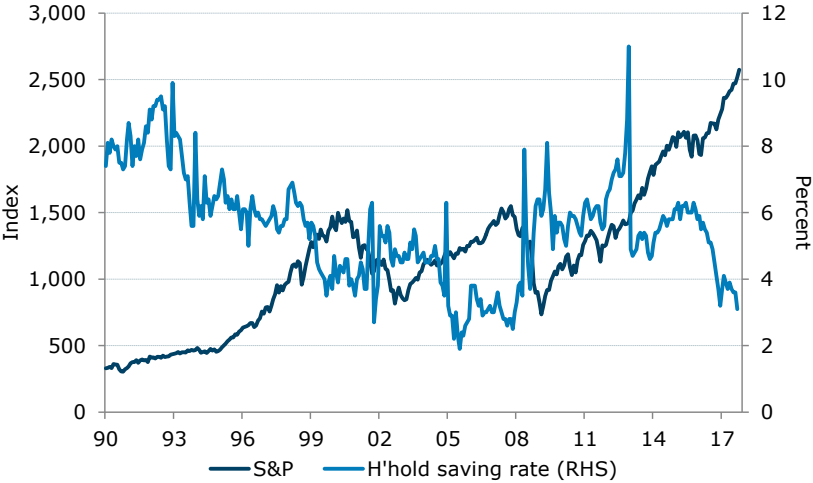
ANZ Growth Trackers suggest global GDP growth is broad-based and above trend



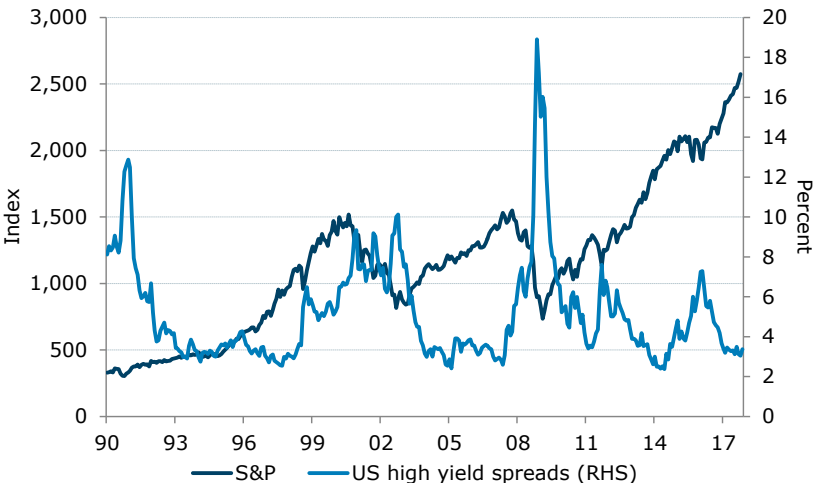
Source: Bloomberg, Markit, ANZ Research

US household saving is back to 2007 levels

US household saving and the equity market



The equity market and high yield



Can households continue to reduce their saving rate as risky assets weaken?

What happened in 2017?

We ran out
of risks

Marie Le Pen was
not elected
French President

Trump hasn't
caused a global
trade calamity

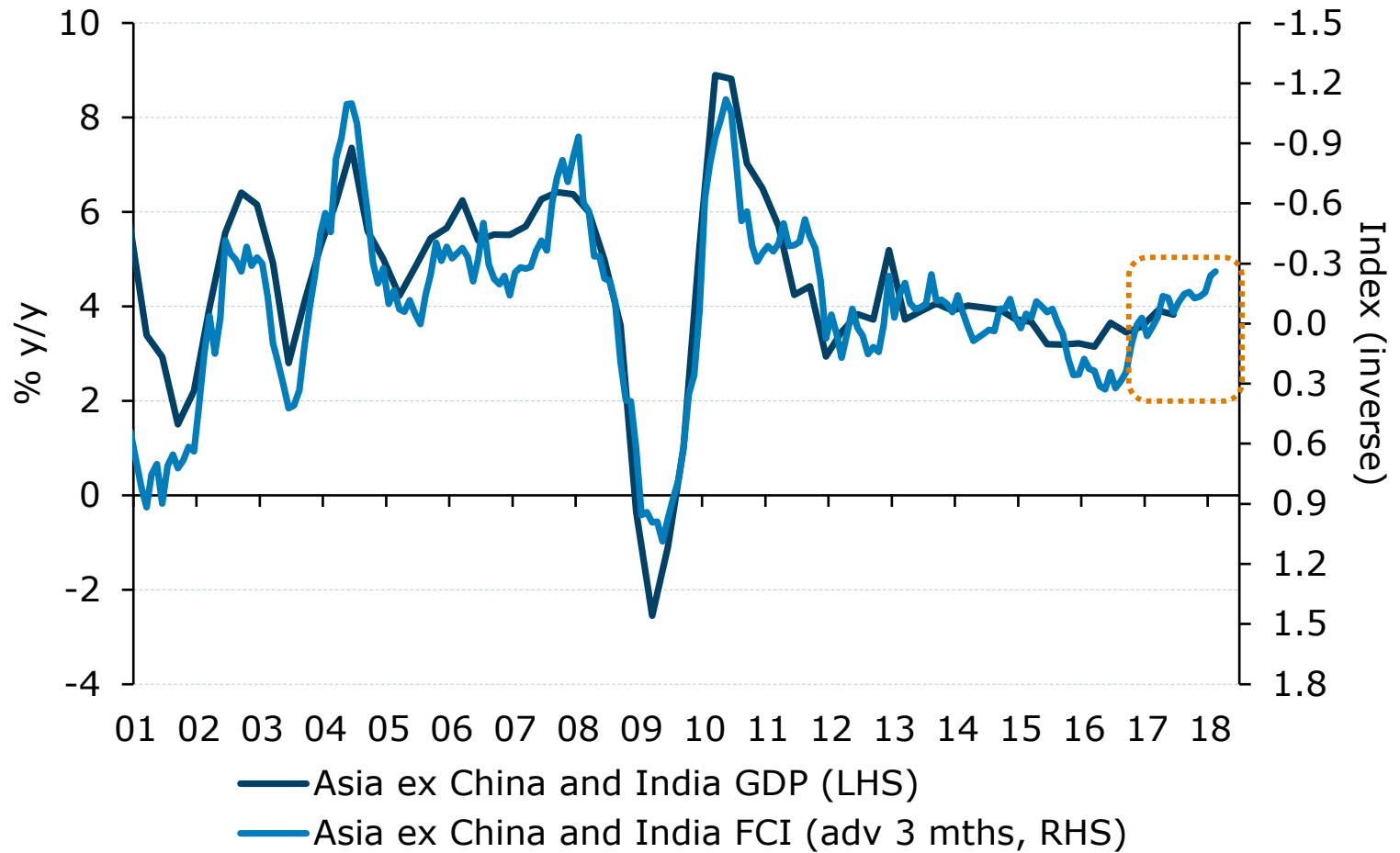
Brexit hasn't
collapsed UK
growth, at least
not yet

China's debt
build-up hasn't
reached a
crescendo



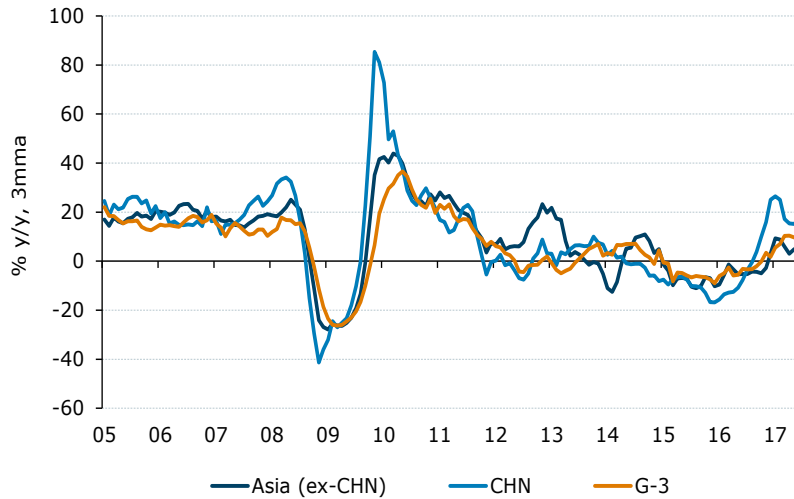
Asia

ANZ's Asia financial conditions index is positive

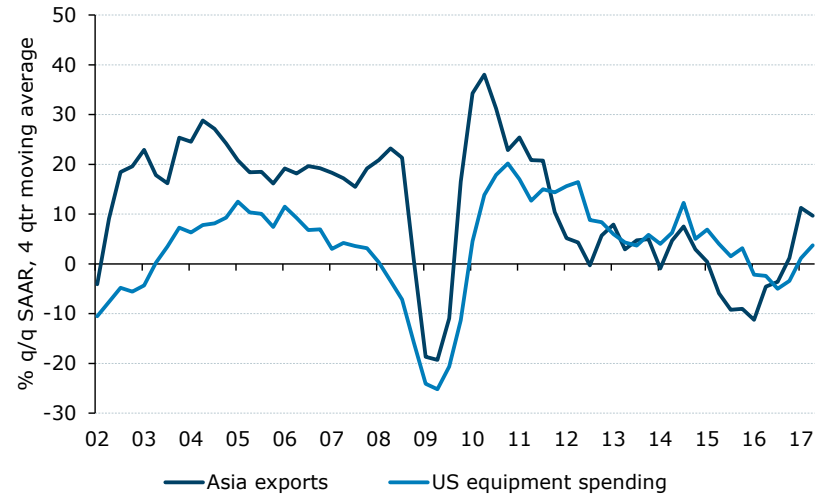


Trade improvement more entrenched

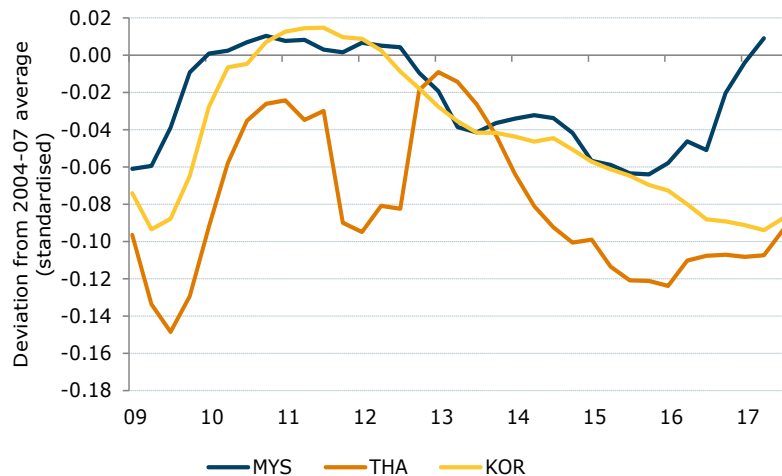
Global demand



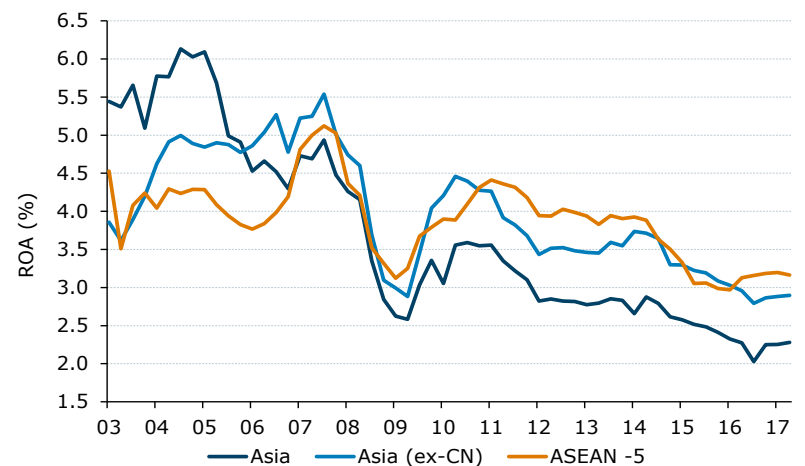
US investment demand



Improving but still sub-optimal capacity utilisation

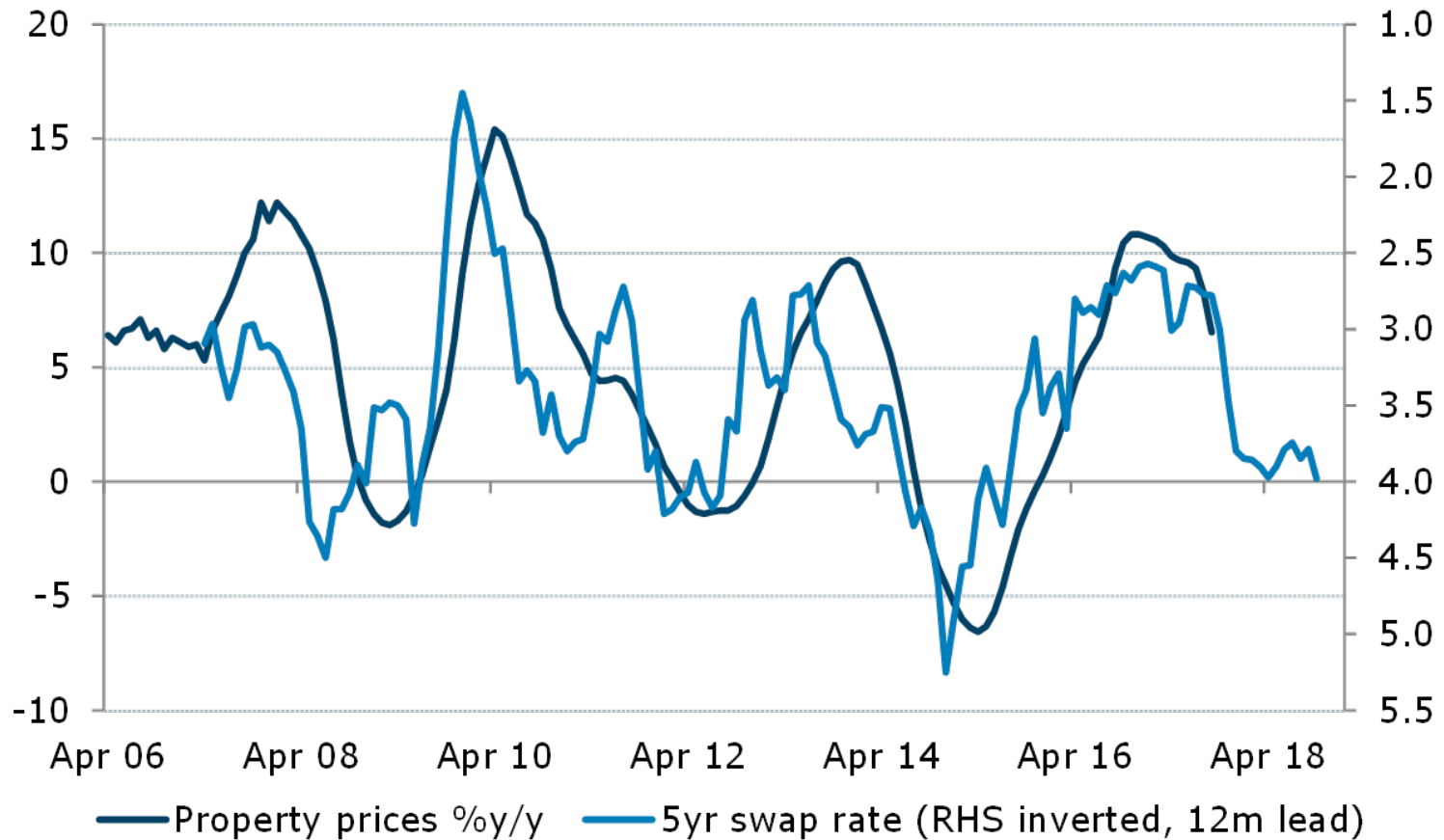


Profitability – starting to turn?



2018 is the real test for China

A levered system is driven by monetary policy



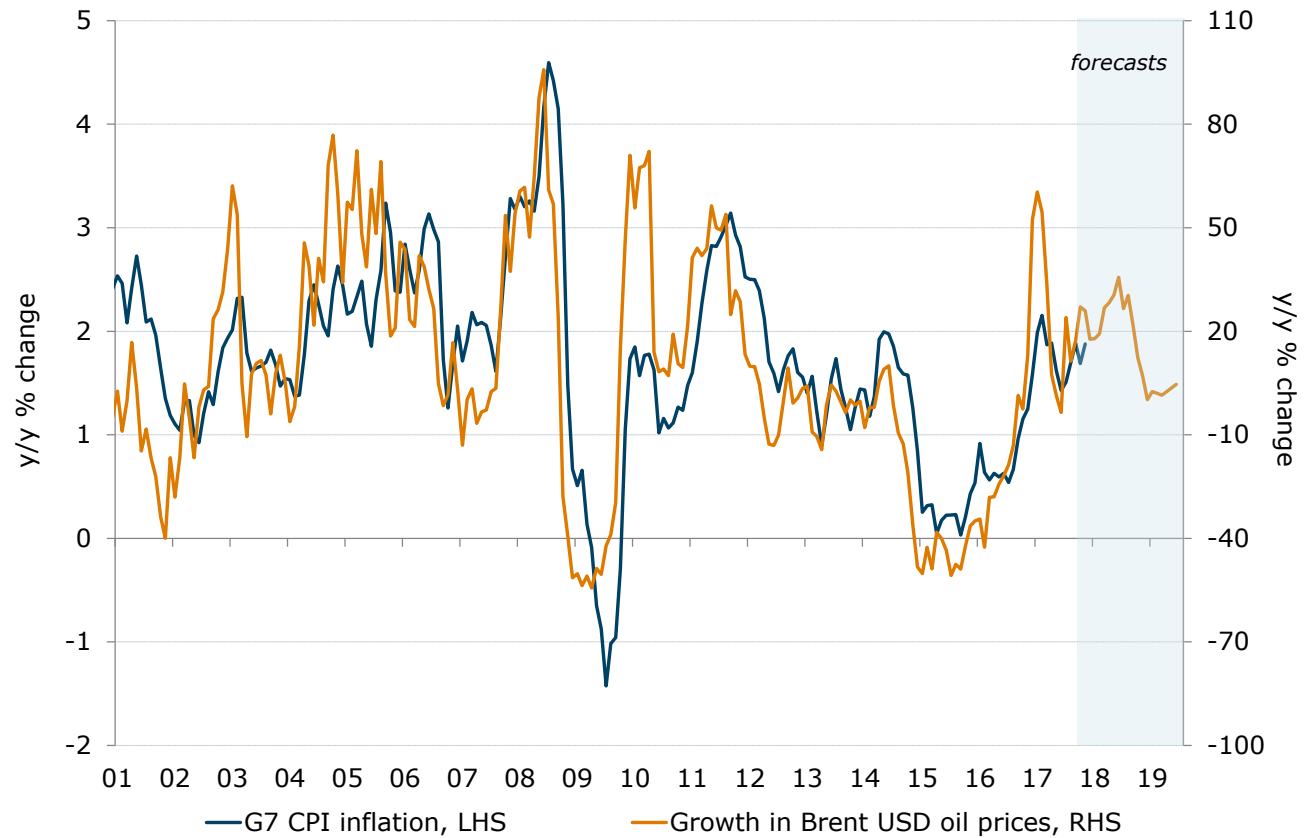
Inflation

Commodities will contribute positively into 2018

Commodity trends are the inflation cycle



G7 inflation and oil prices



Commodities: a bull market is not so fanciful

The case for a bull market is not yet clear

But it's no longer unrealistic

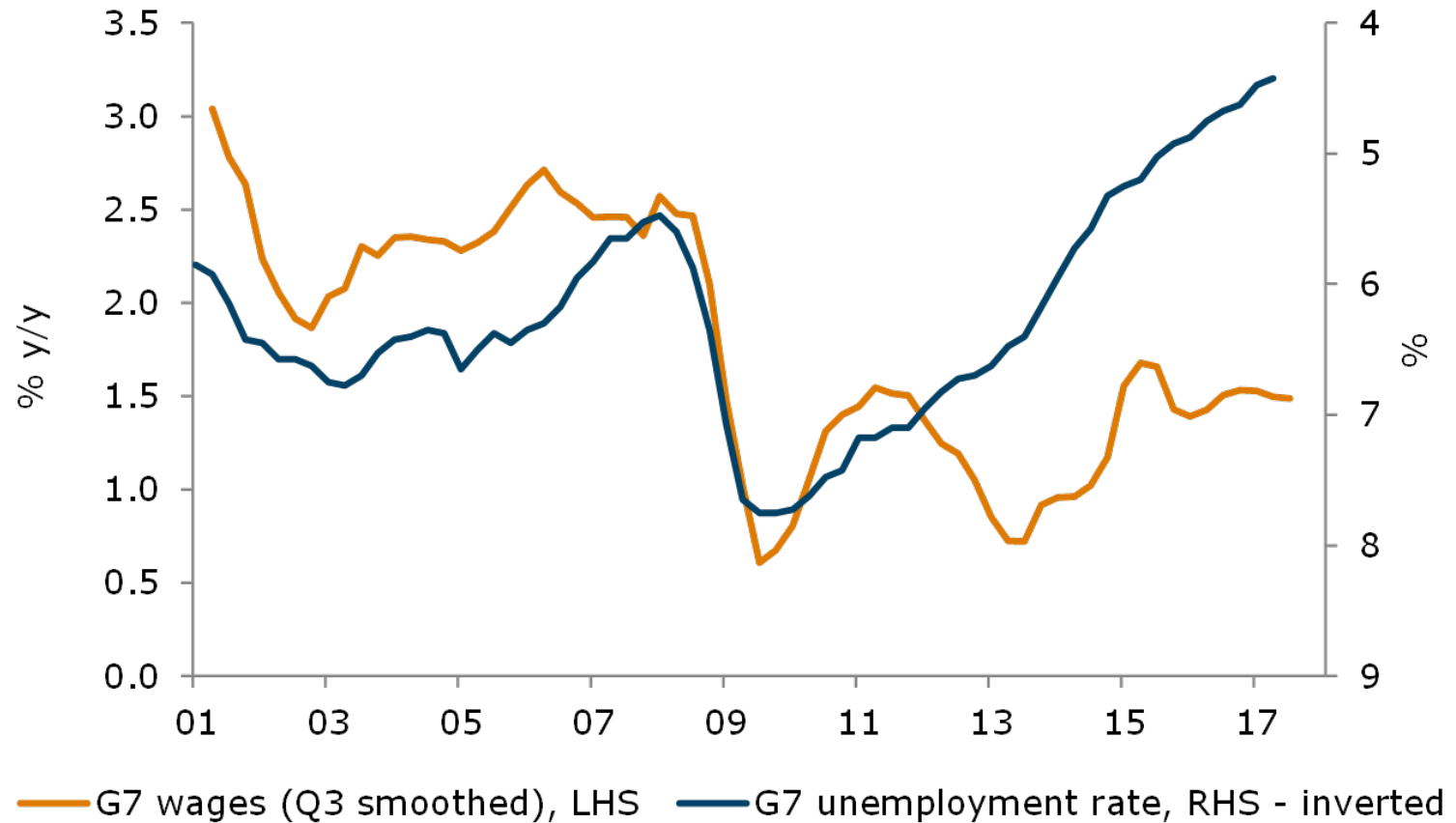
- Tight liquidity in China will keep bulk prices contained. But elsewhere...
- Demand has broadened, particularly for high-quality product
- A (modest) G3 investment cycle is feasible
- Supply remains constrained, particularly in China

ANZ China Commodity Index



There is little choice for central banks but to be **reactive**

G7 wages and the unemployment rate



The reality of forecasts

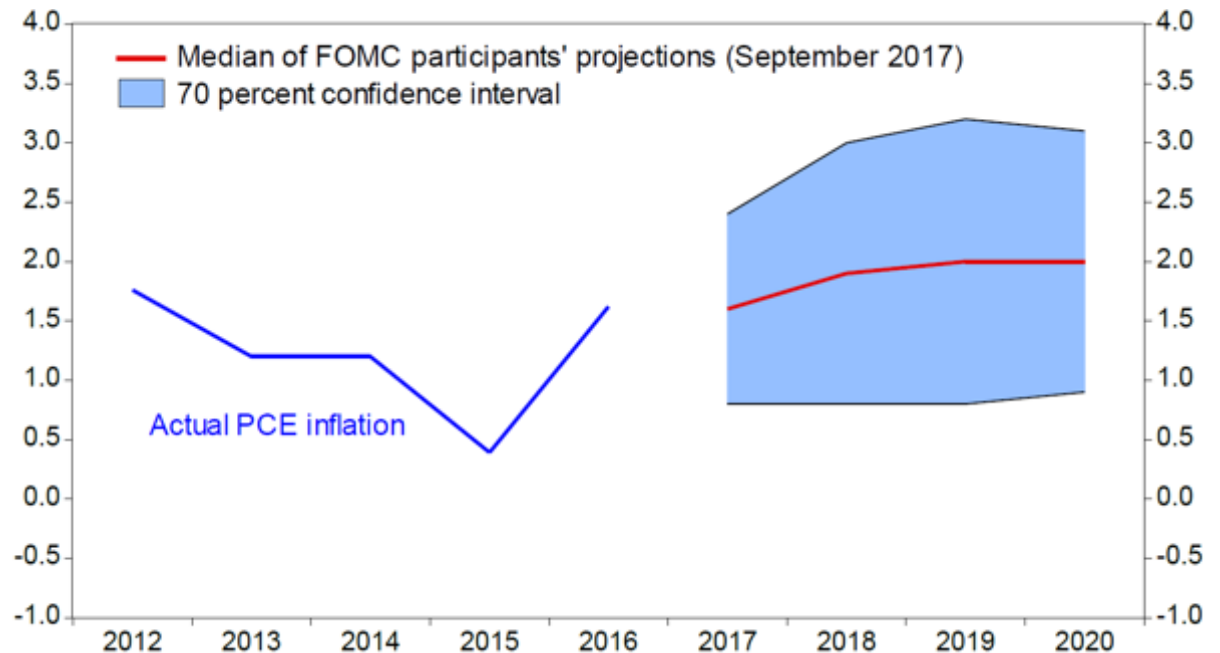
FOMC Chair Yellen 26 September 2017

Based on the average accuracy of inflation projections made by private and government forecasters over the past 20 years, there is a 30% probability that inflation could be greater than 3% or less than 1% next year.

Inflation forecasting

A questionable track record

Inflation forecast uncertainty

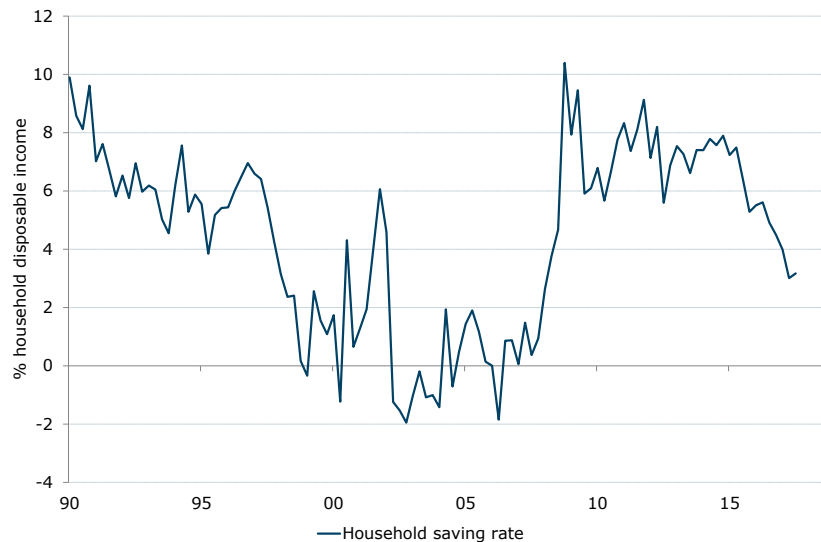


Australia

Further falls in the household saving rate seems unsustainable

Australia saving ratios are back to 2008 levels

Saving is now below 4%



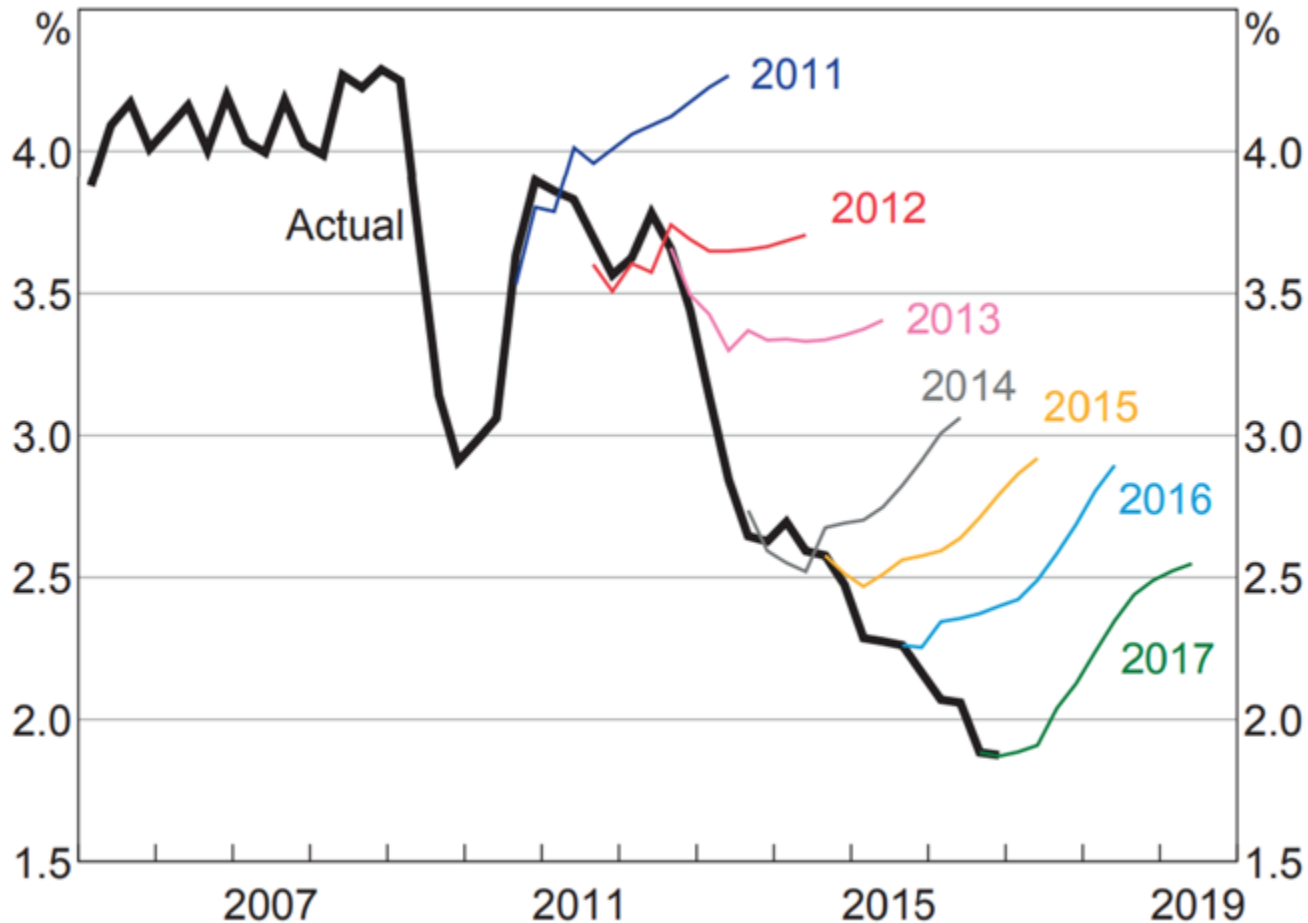
Household debt will reach 200% in 2018



Just to stabilise the debt to income ratio, credit growth needs to be half income growth

Australia: The RBA's wage forecasts show a long-lived problem

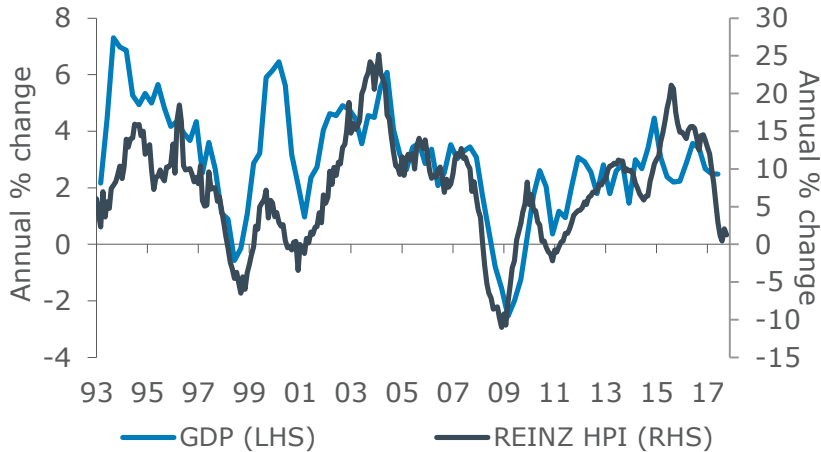
Wage Price Index forecasts (taken every February)



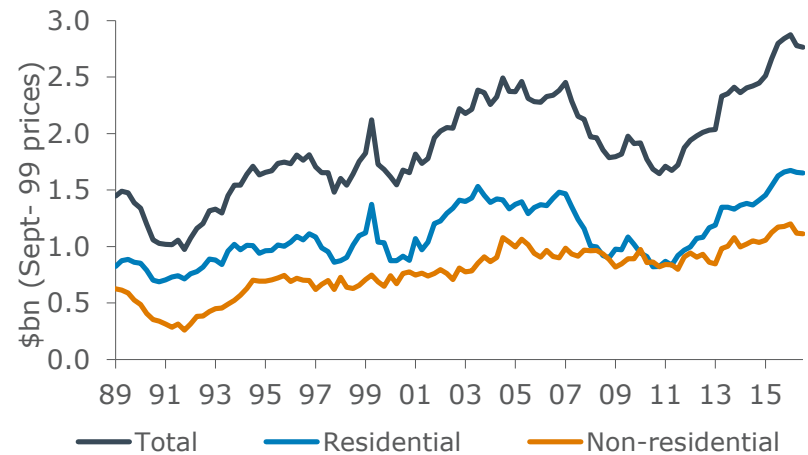
New Zealand

Headwinds

House prices and real GDP growth – history has taught us to be mindful



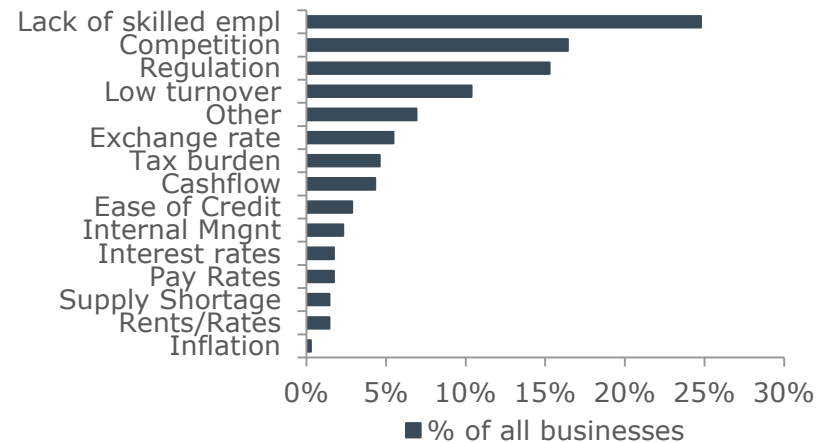
We appear to be at “peak” construction as capacity constraints bite



An extended period of policy/political uncertainty creates additional risks

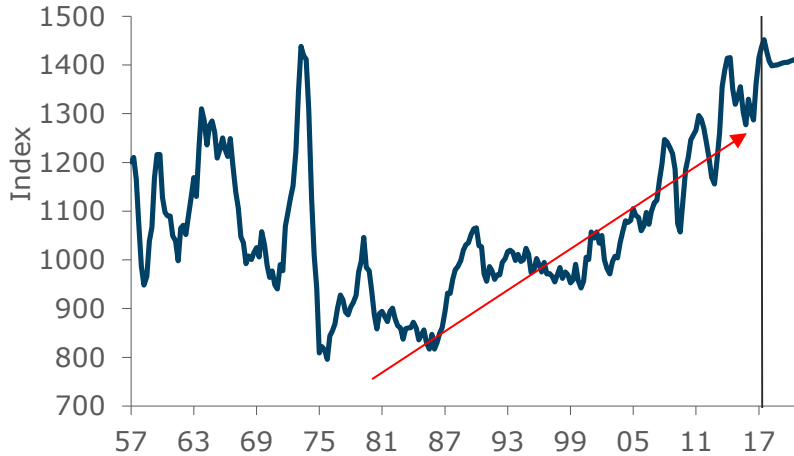


Skilled labour the biggest constraint

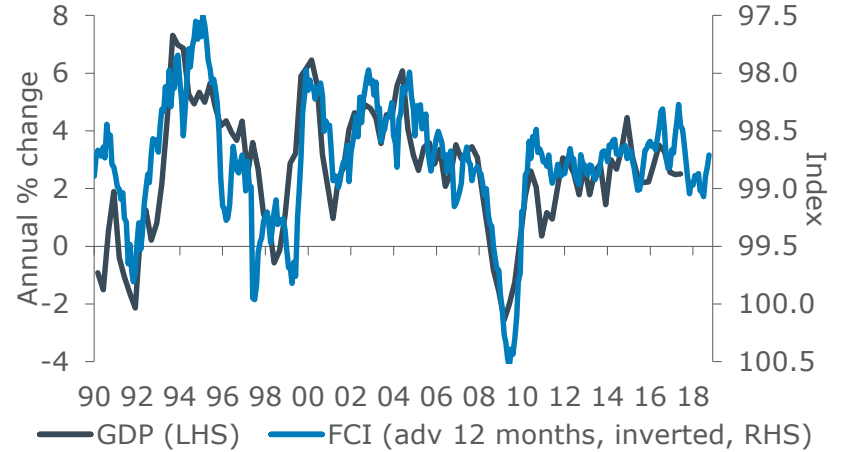


Still reasonably constructive on medium-term outlook

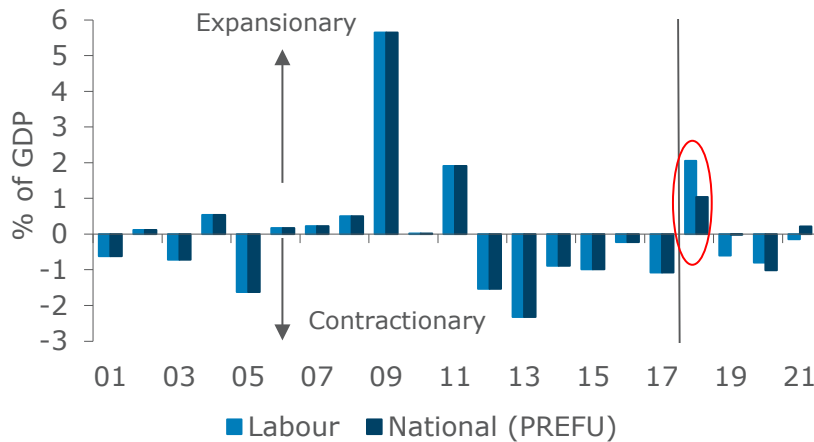
Terms of trade effectively at all-time highs – a huge purchasing power gain for the economy



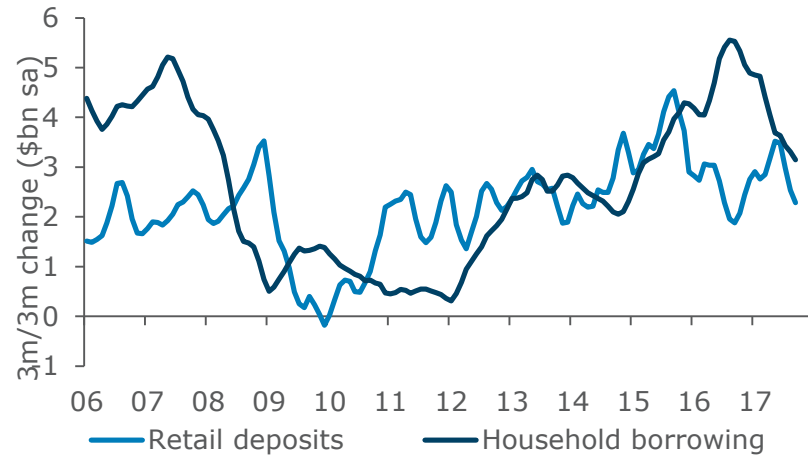
Financial conditions have eased recently as the NZD has fallen



Change in core Crown residual cash balance - fiscal policy set to turn far more expansionary



Banks have rationed credit, but with a funding 'gap' now closed, headwinds should ease



THANK YOU



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