

# Amazing prices



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## Growth without inflation

Why the world is awash  
with money and GDP is  
growing, but inflation and  
interest rates are low.

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# A Chinese century of deflationary steam engines

What the new middle  
classes and the smart  
phone revolution mean

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Lung washing in the  
land of the long white  
cloud and blue skies:  
clean air, great food  
and long rubber bands

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- Solid growth + no inflation
- Falling NZ interest rates
- The China deflation shock
- The tech deflation shock
- The dairy shock (& the rest)
- What it means for all NZ's economies and Govt spending

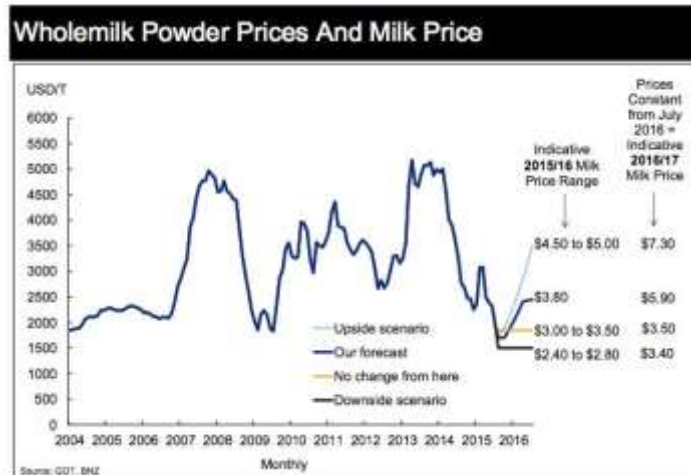
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Women of Algiers =  
US\$179.4 mln



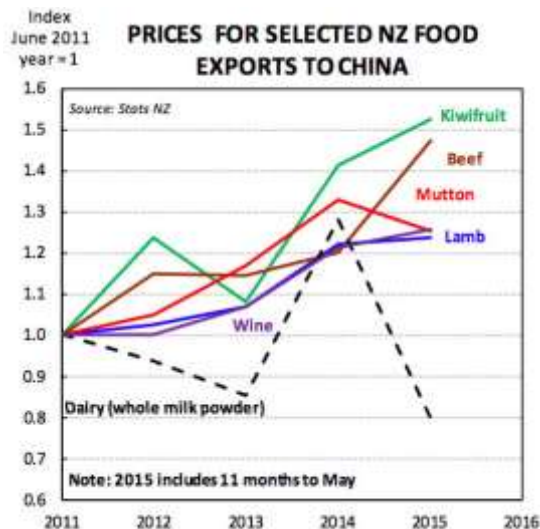
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# An elephant (cow) in the room



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# And other farmers are doing OK



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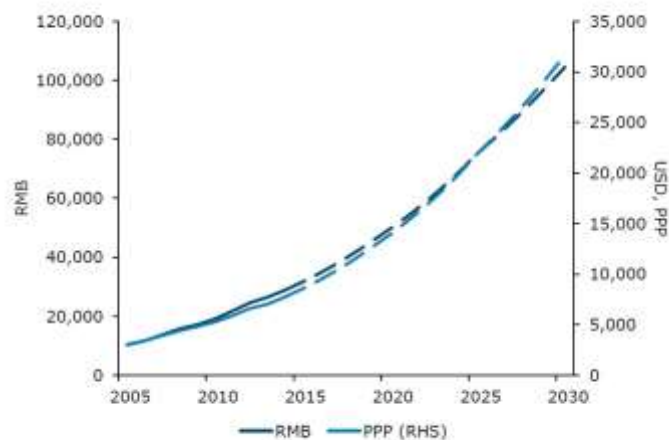
# An emerging middle class



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## Driven by China

FIGURE 2. CHINA URBAN DISPOSABLE INCOME PER CAPITA

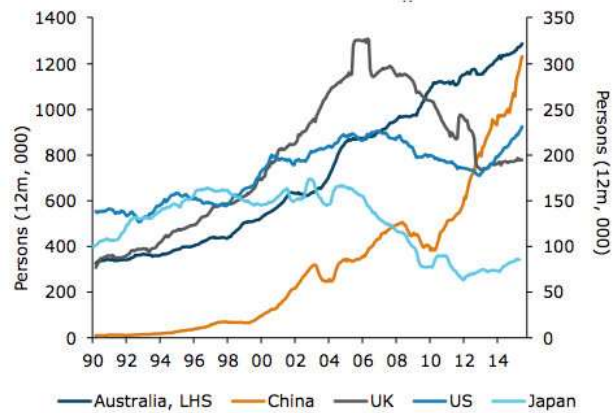


Source: CEIC, ANZ Research

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# Tourism surges past dairy

**VISITOR ARRIVALS BY COUNTRY**

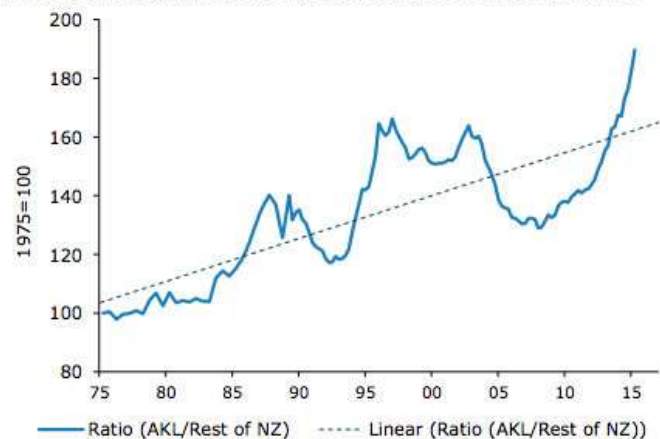


Source: ANZ, Statistics NZ

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# Cheer for the Blues. Seriously

**FIGURE 1. AUCKLAND HOUSE PRICES RELATIVE TO THE REST OF NZ**

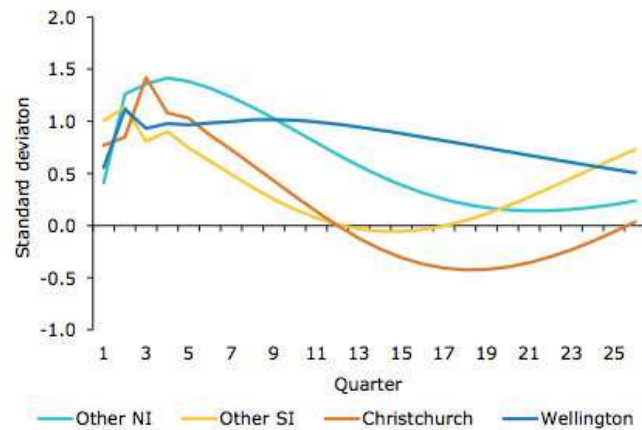


Source: ANZ, Statistics NZ

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# I'm really not kidding

FIGURE 4. IMPULSE RESPONSES – IMPACT OF AUCKLAND HOUSE PRICES  
Regional model

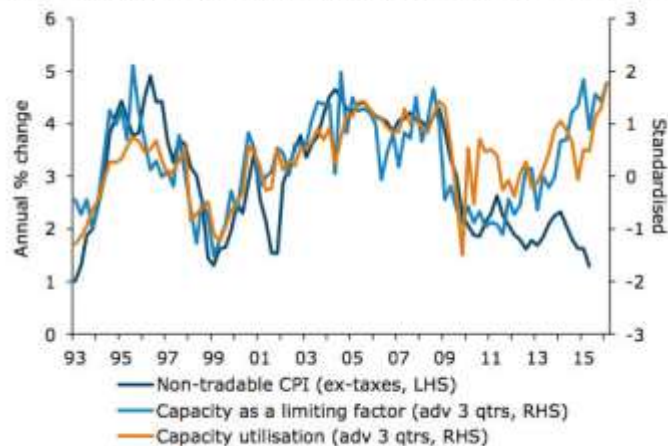


Source: ANZ, REINZ, Statistics NZ

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## Where's the inflation?

NON-TRADABLE INFLATION VS. NZIER CAPACITY MEASURES



Source: Statistics NZ, NZ Institute of Economic Research, ANZ Research

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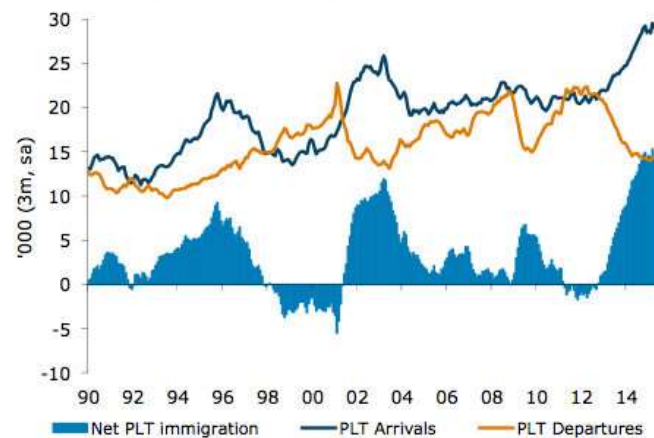
# NZ job growth > wage growth



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## It's about migration

**FIGURE 5. PLT MIGRATION**



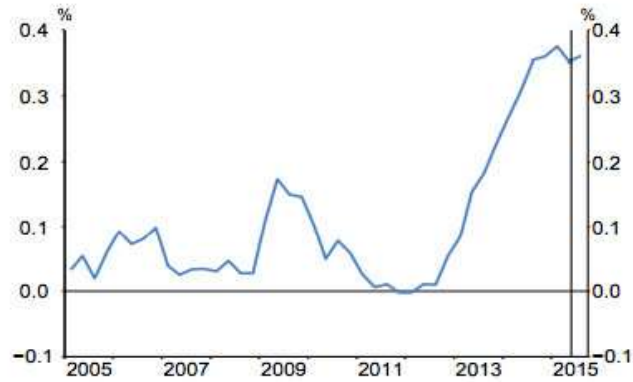
Source: Statistics NZ, ANZ

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# A shockingly big jump

**Figure 4.6**  
**Net**  
**immigration**



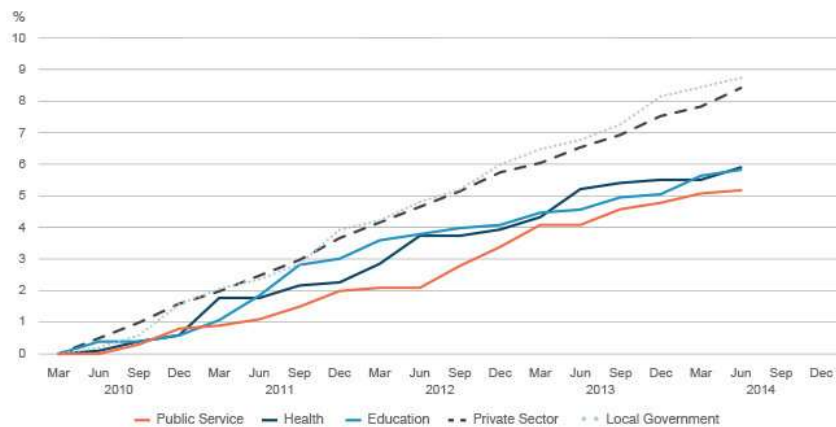
Source: Statistics New Zealand, RBNZ estimates.

Note: Share of working-age population, s.a. The figures are for net permanent and long-term working-age migration flows.

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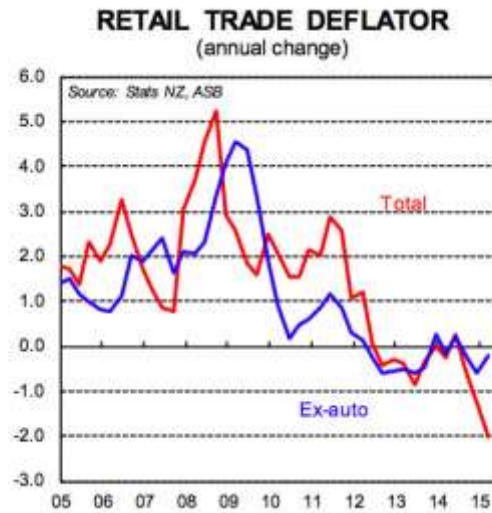
# Mind the gap

**Figure 7: Public and private sector wage movements, 2010-2014**



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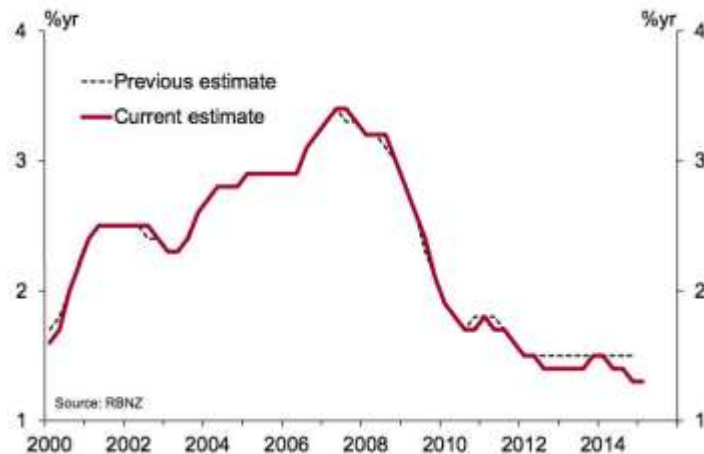
# Retail prices down for 4 years



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# Inflation below RBNZ target

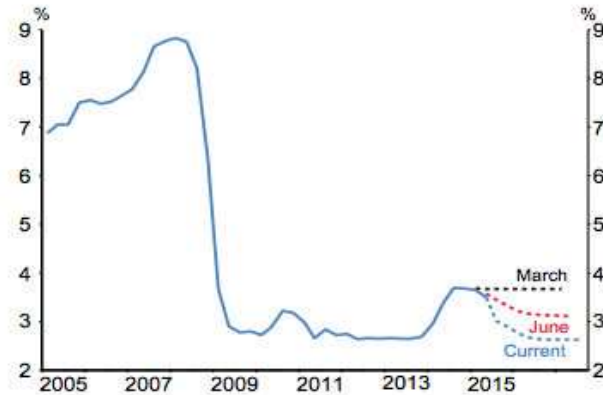
Figure 12: RBNZ sectoral factor model of core inflation



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# Another lowering of OCR

**Figure A.2**  
90-day  
interest rate



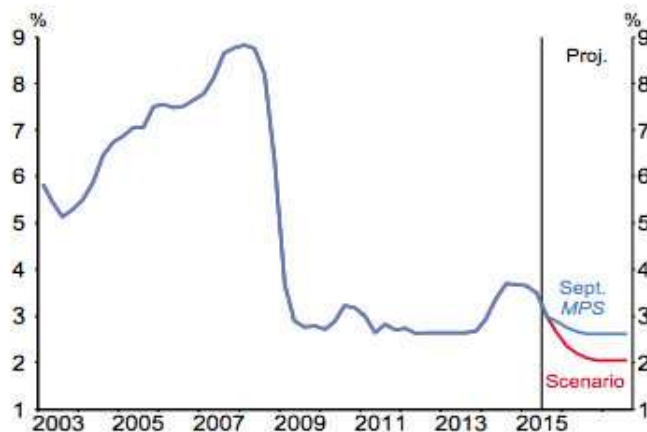
Source: RBNZ estimates.

Note: Dotted lines indicate projections.

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## Maybe more to come

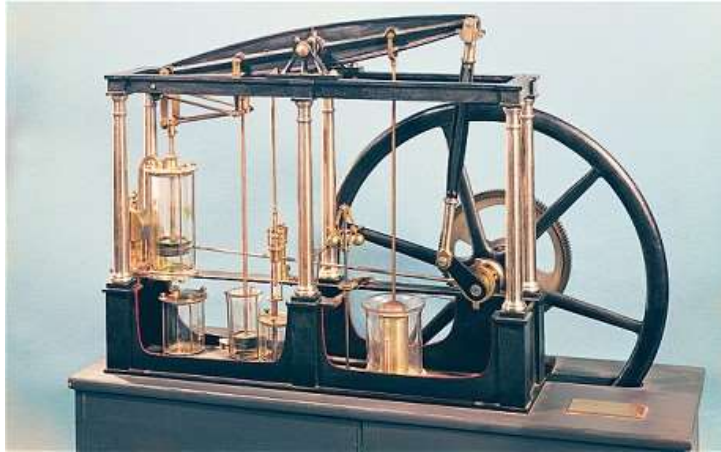
**Figure D.2**  
90-day  
interest rate



Source: RBNZ estimates.

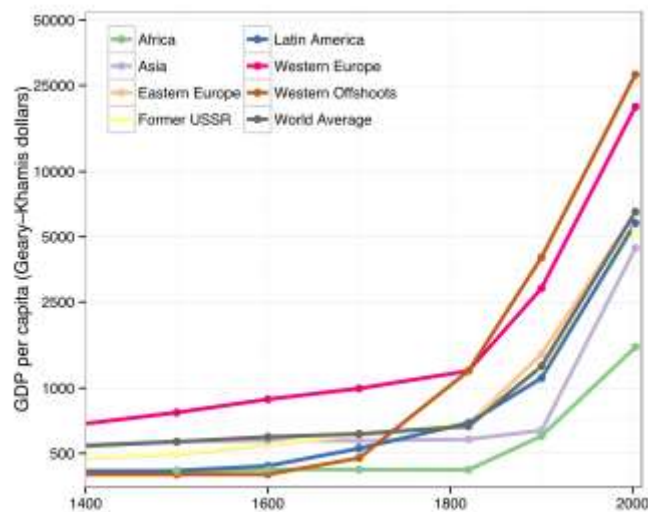
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# An amazing machine



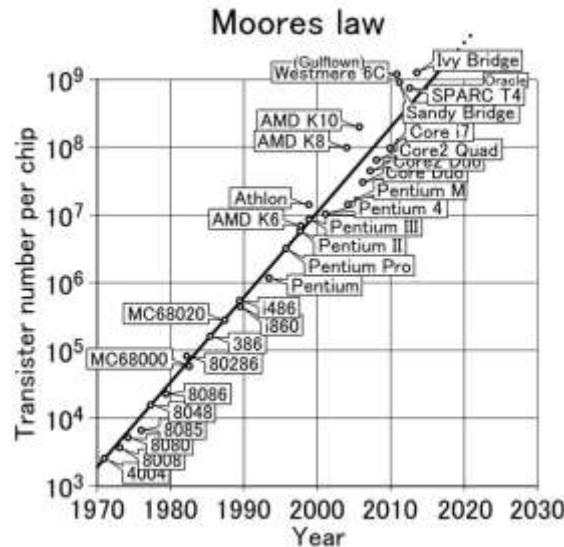
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# Watt's steam engine



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# Moore's law turns 50



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- Second half of chessboard
- 1971 chip Intel 4004 chip
- 2015 Core i5 chip
- 3,500 times faster
- 90,000 X energy efficient
- 60,000 times cheaper
- If 71 Beetle improved as much
- 300,000 mph and 2 mln mpg

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# An epic machine



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# The tear down



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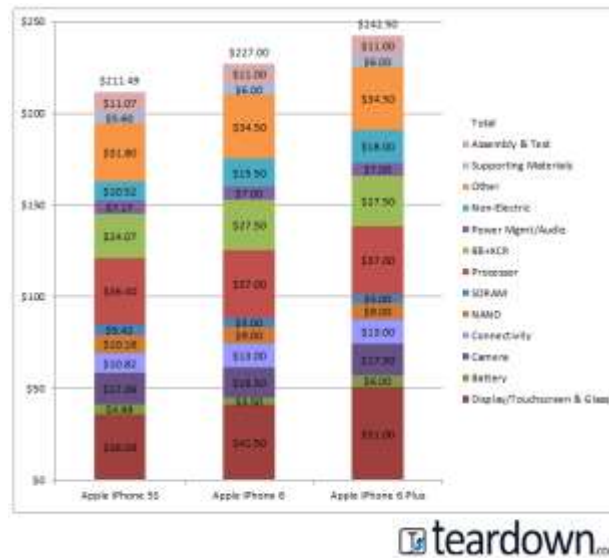
- 4.7/5.5' touch HD screen
- Dual core 1.4 Gig processor
- M8 motion co-processor
- Altitude barometer
- Accelerometer, gyroscope, digital compass, GPS chip NFC chip, iBeacon

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- Proximity, light and touch sensors
- Two cameras with image stabiliser & facial recognition
- WiFi chip, 4G antenna
- Bluetooth chip
- Stereo speaker and jack

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# All for US\$242.50



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- iPhone launch weekend
- 25 times more computing power shipped in two days
- Than existed in all computers on earth in 1995
- More powerful than Cray 2
- Had a car-sized cooling unit

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# A deflationary engine



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# Music deflation



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# Pay TV deflation



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# Taxi deflation



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# Telco deflation



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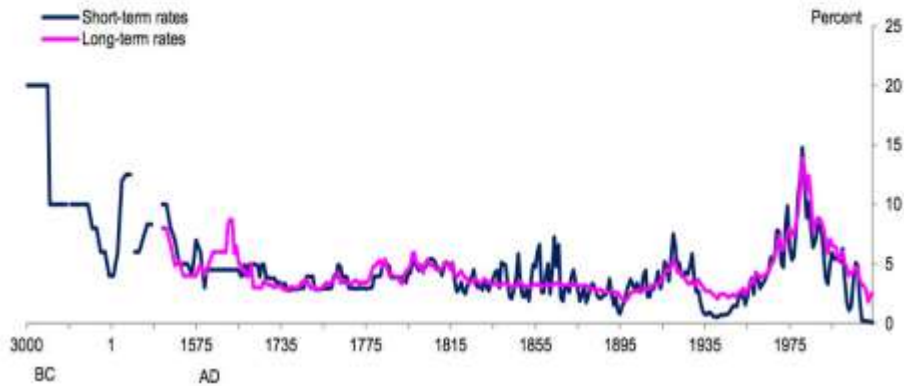
# Hotel deflation



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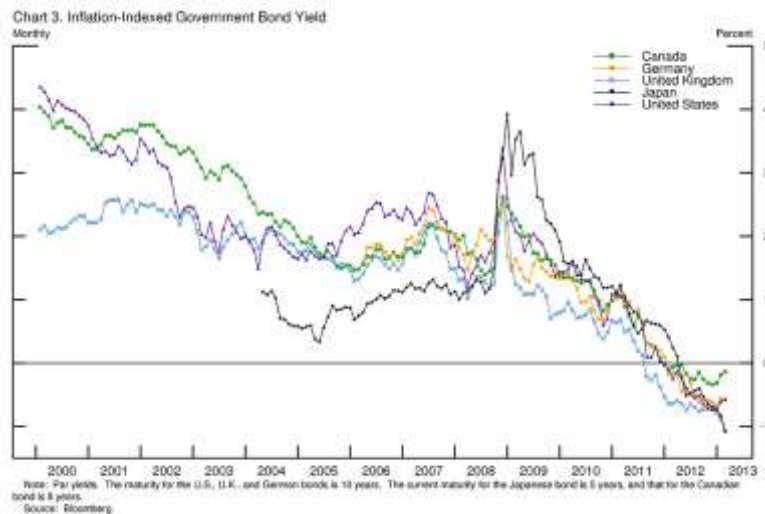
# A very long view

Chart 5: Short and long-term interest rates



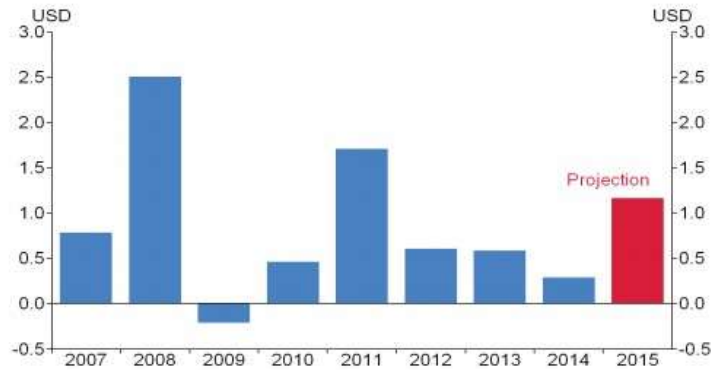
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# The wisdom of crowds



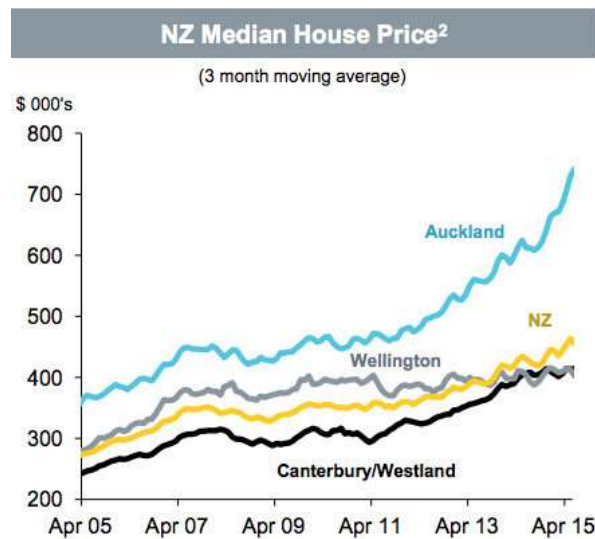
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# Printing up a storm



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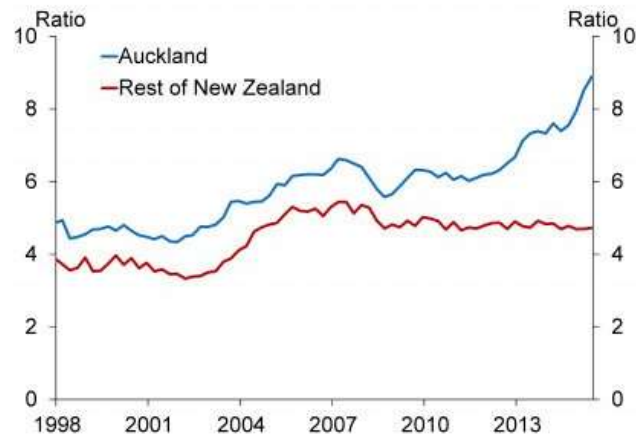
## If only the Blues were this good



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# On planet Auckland

House price-to-income ratios

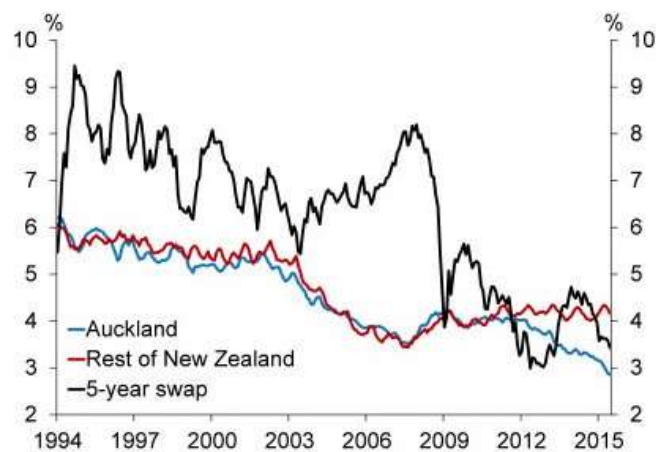


Source: REINZ, QV, Statistics New Zealand.

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## Look familiar?

Gross rental yields and 5-year swap rate



Source: MBIE, REINZ, QV.

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# Another planet

FIGURE 5. HOUSE PRICE TO RENTS RATIO



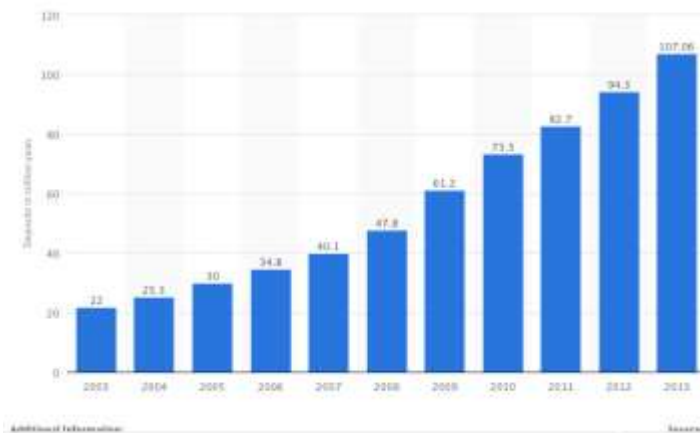
Source: ANZ, MoBIE, REINZ

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# US\$21 trln in deposits

Bank deposits in China from 2003 to 2013 (in trillion yuan)

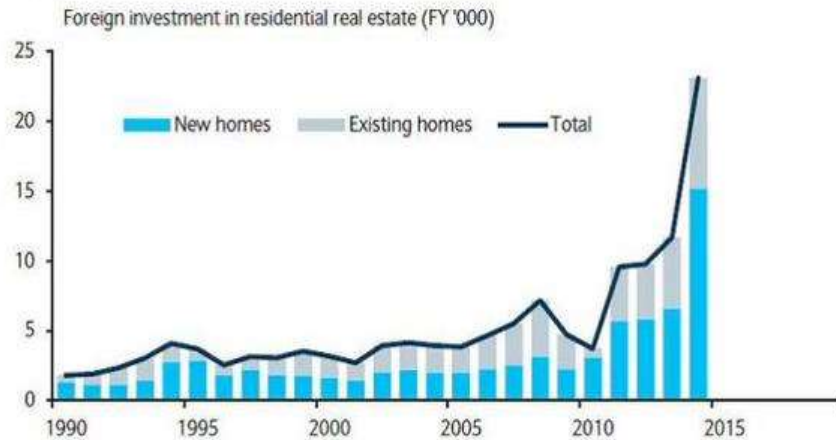
This statistic shows the bank deposits in China from 2003 to 2013. In 2005, the total amount of bank deposits in China was approximately 30 trillion yuan.



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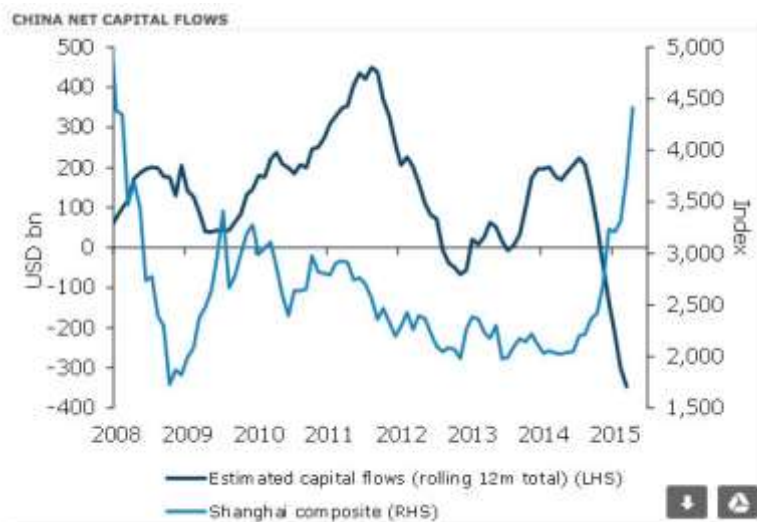
# Overseas buyers in Australia

Foreign buying of homes has roughly doubled in the past year



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# Capital flowing out of China



Source: Bloomberg, ANZ Research

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# What art sales are doing



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## Amazing prices



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# A deflationary engine



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- Thank you
- Questions
- Challenges

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