

Economic Climate & Climate Change

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SENSE PARTNERS

DATA LOGIC ACTION

Some big ideas



Persistent social issues

Distribution

Division



Regime change

Consensus breakdown

Not smooth, no clear ideology



Interventionist policy

Fiscal

Policy/Regulations



Consequences

Reacting to crises

Co-ordination & coherence risks



Covid

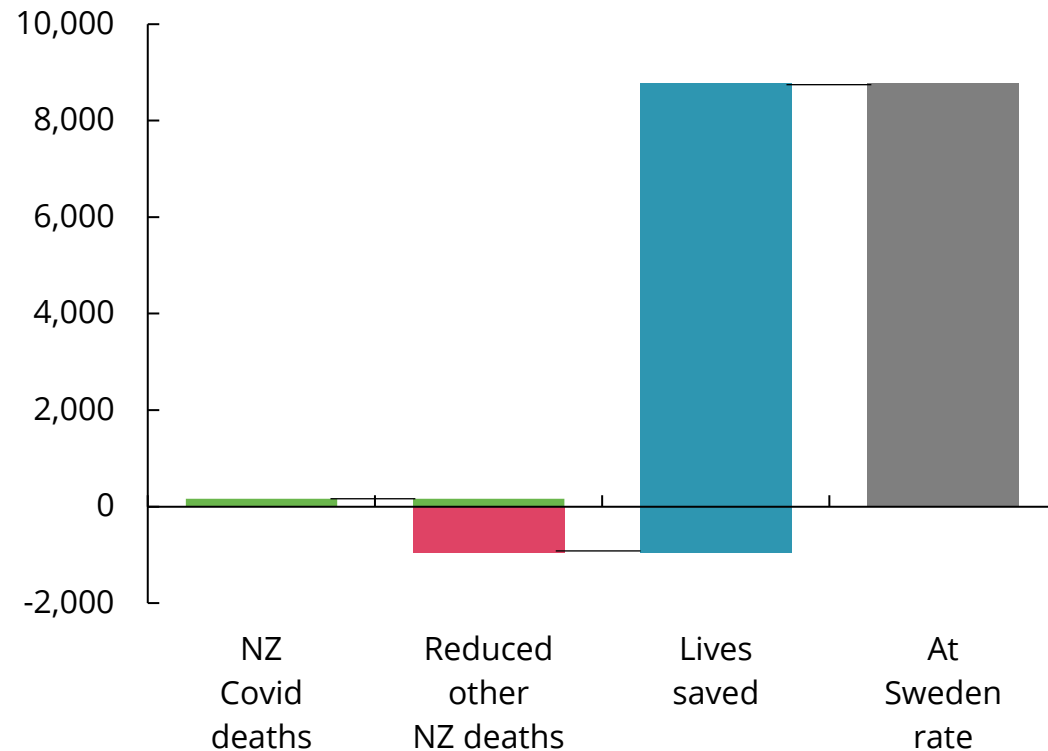
Beyond public health response

Past pandemic success. 10k lives saved; \$10b GDP gained.



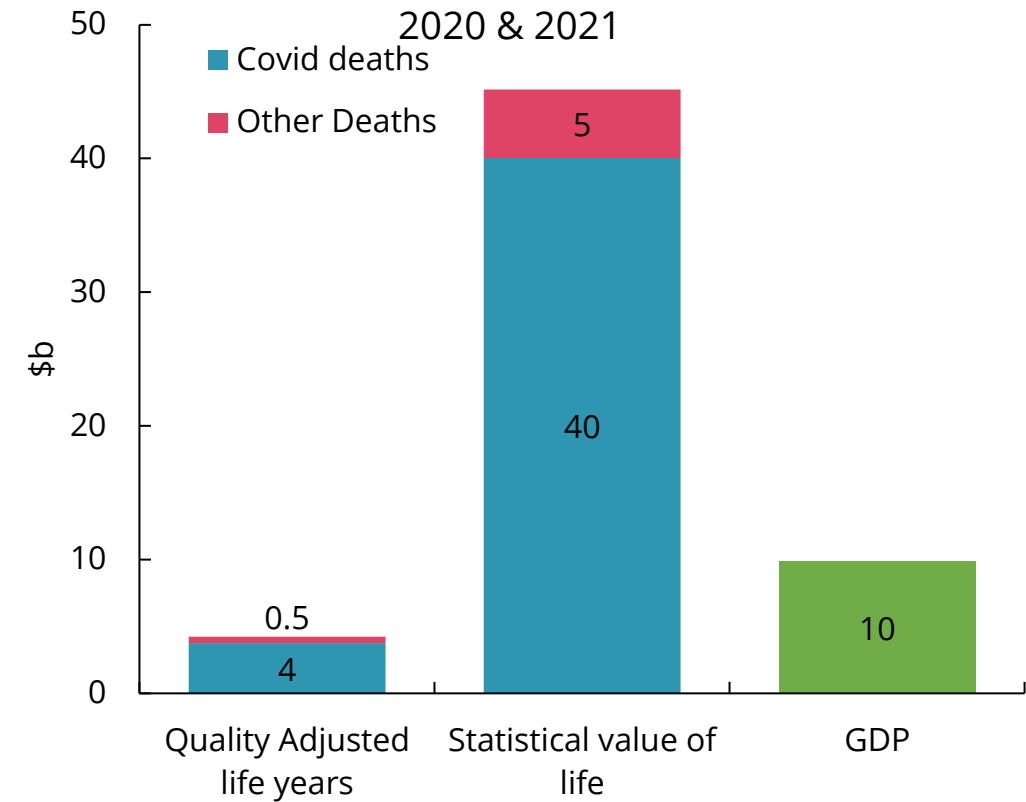
NZ Covid Death Toll vs Sweden

2020 & 2021



Value of Covid Response vs Sweden

2020 & 2021



Source: Sense Partners calculations



Key insights from pandemic

- Public policy can be large and effective...
- ...for clear & present danger (hyperbolic discounting)
- Social license and cohesion are big factors

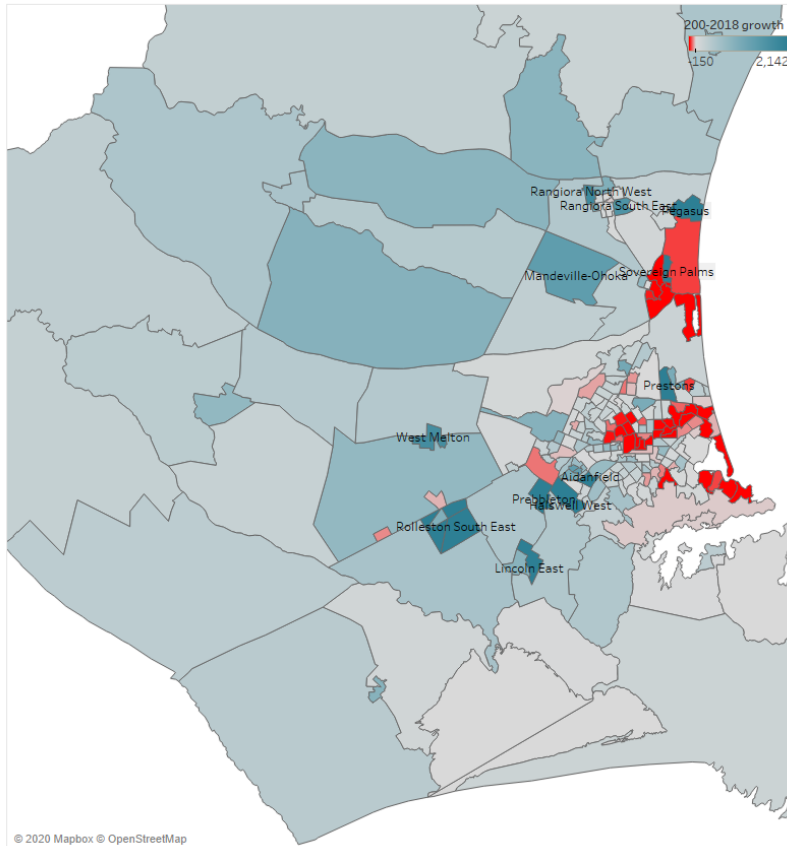
- Public policy can make mistakes
- Public policy mistakes are not always fixed

- Politics is a critical force
- Our understanding of the economy is uncertain

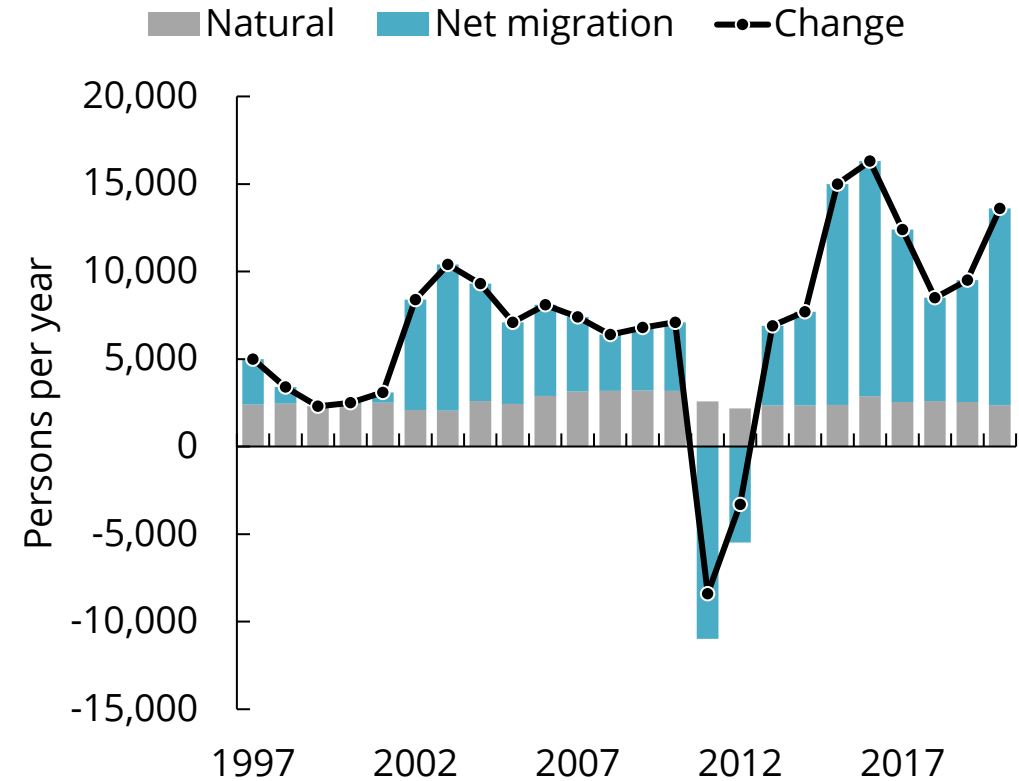
Not just Covid: Canterbury earthquakes parallels



Population Growth by SA2 (2013-2018)



Canterbury Population Growth





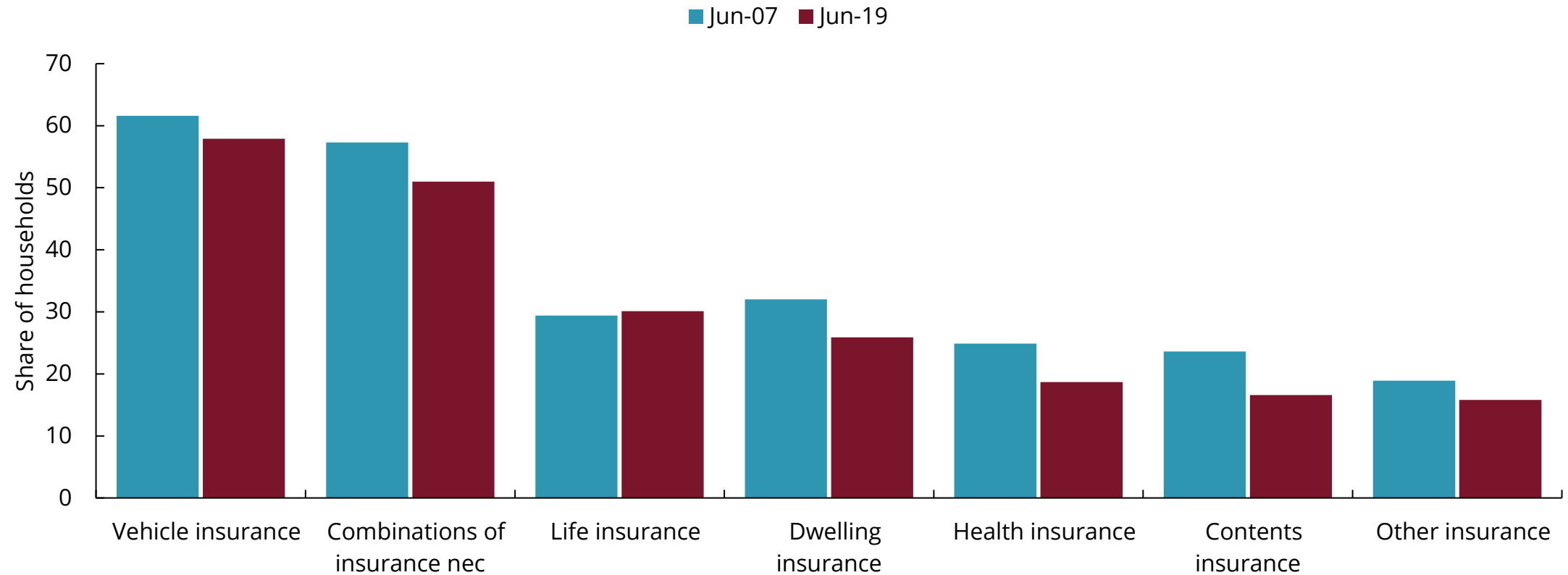
Insurance context

Falling coverage

Falling coverage



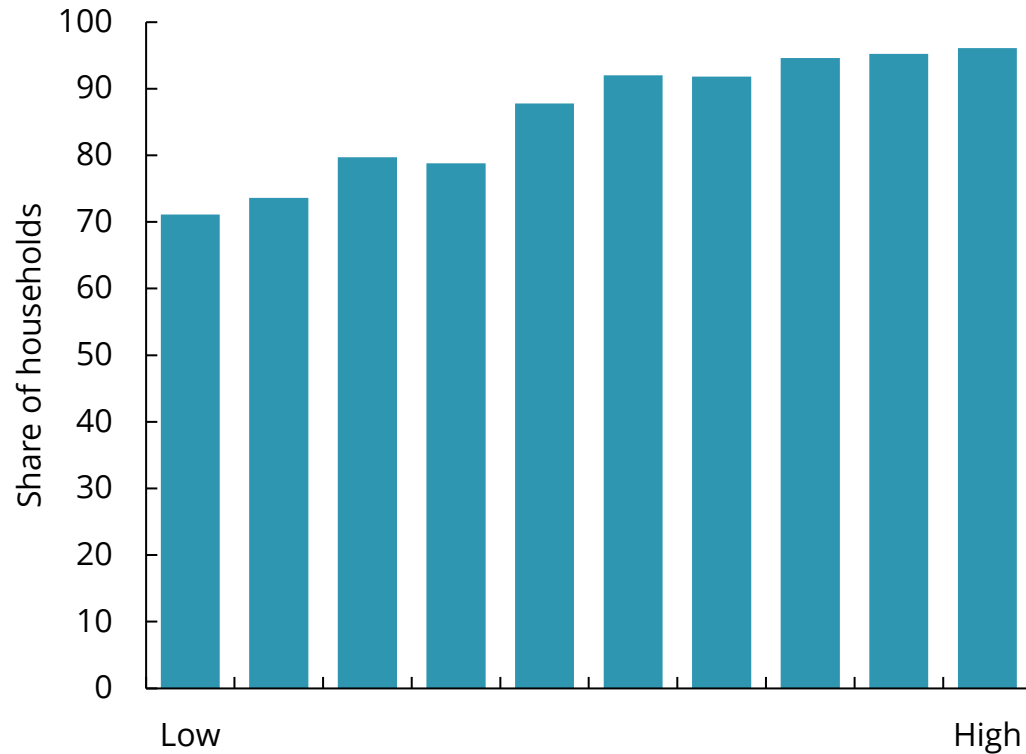
Insurance coverage of households



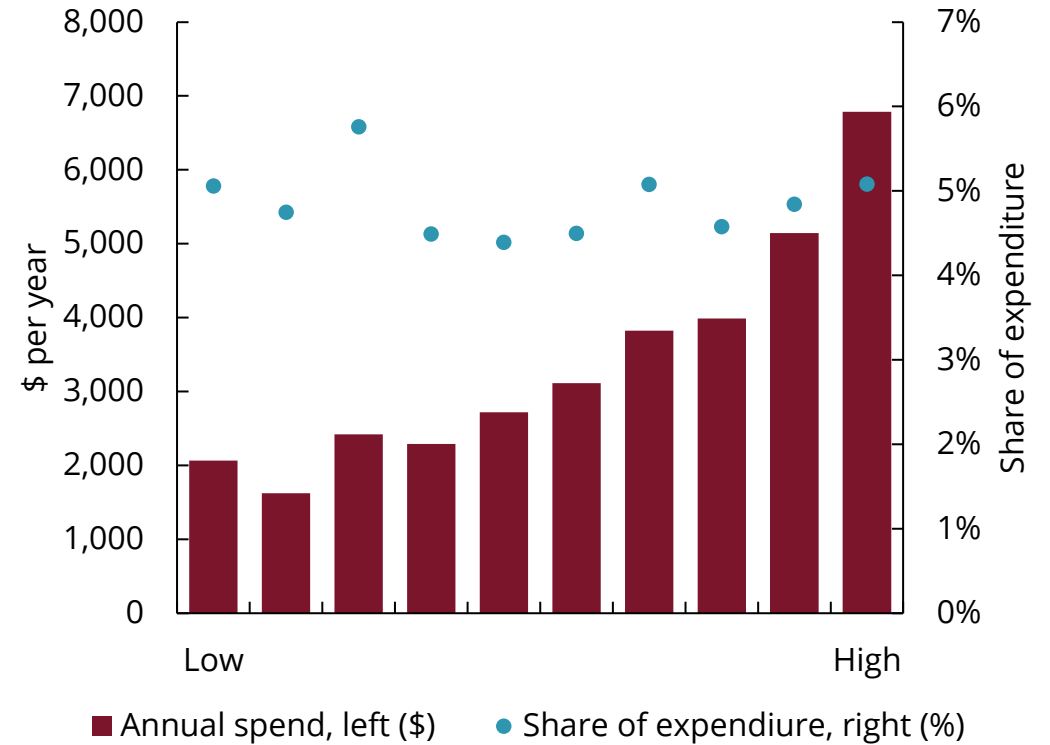
Price, access and quality



Household insurance coverage by income decile



Insurance payments by household income decile





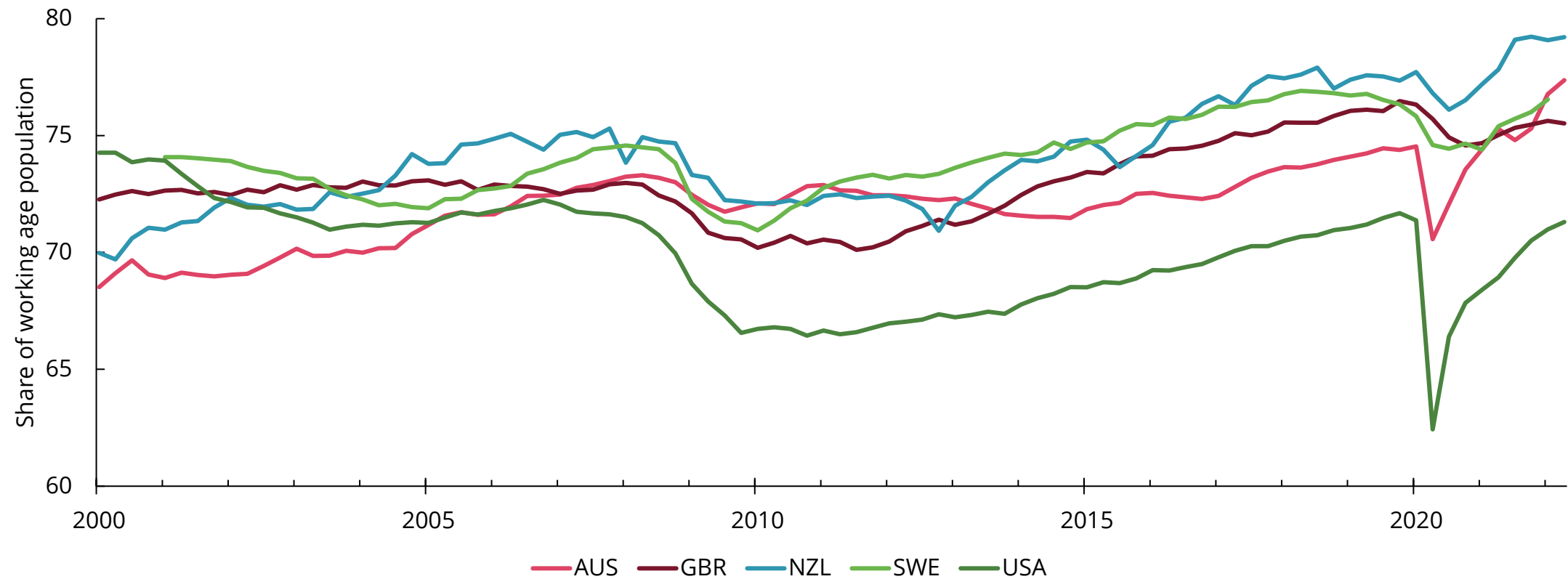
Economic climate

Growing pains & risks of backsliding

Past Covid; peaked high



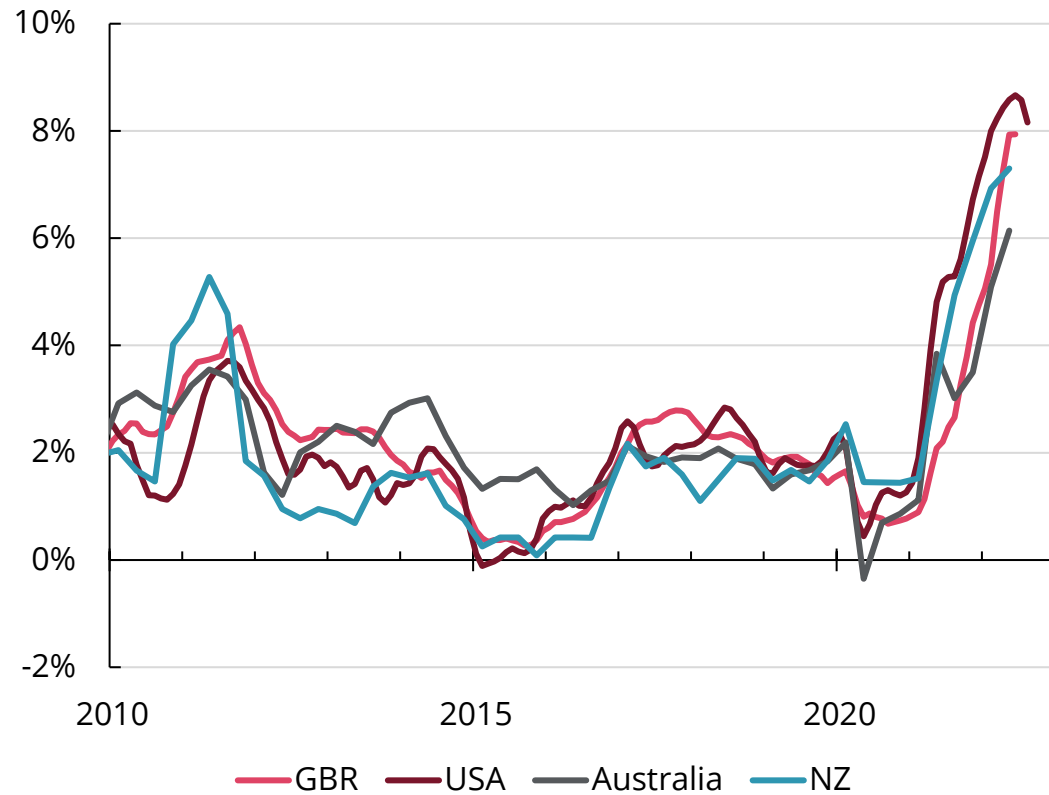
Employment rate



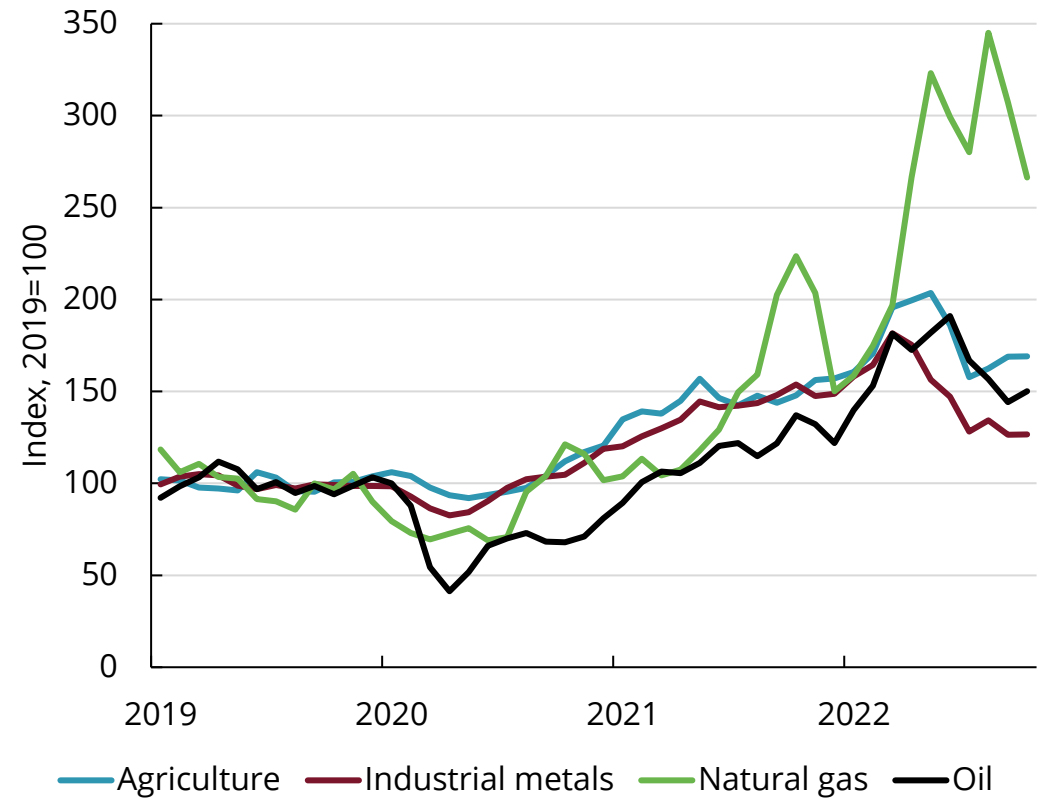
Inflation shock; some relief



Inflation: selected countries



Selected Commodity Prices

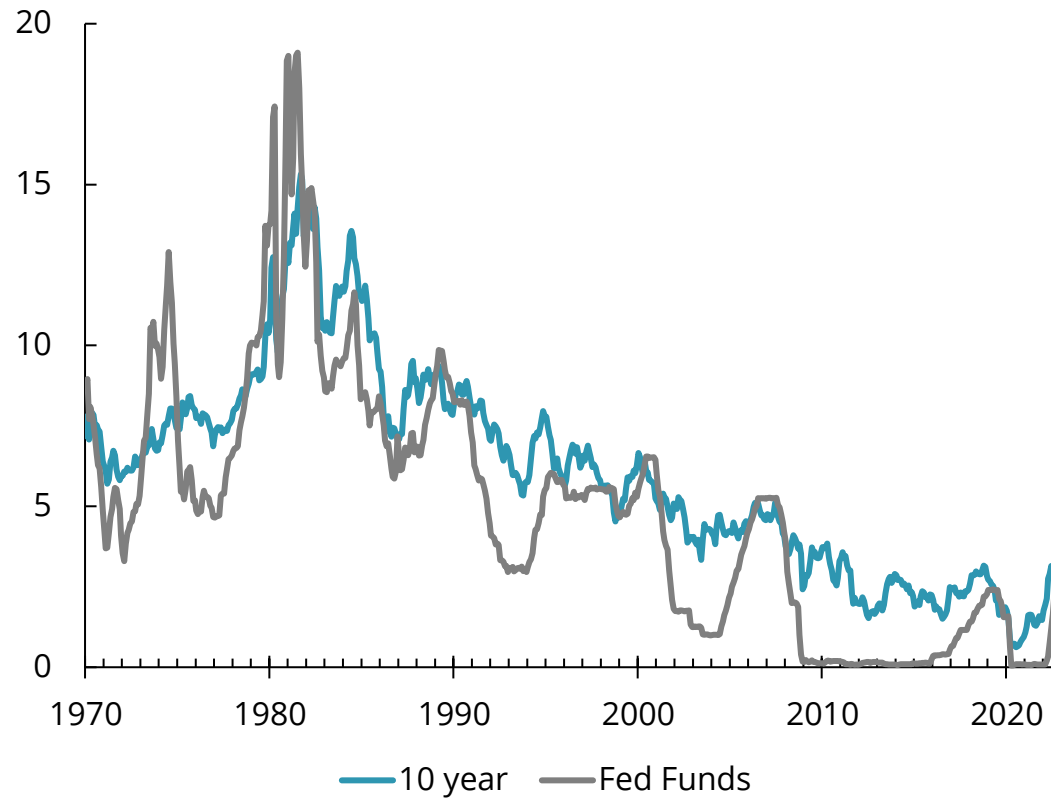


Source: ONS, ABS, Federal Reserve of St Louis, Statistics NZ, S&P Global, Sense Partners

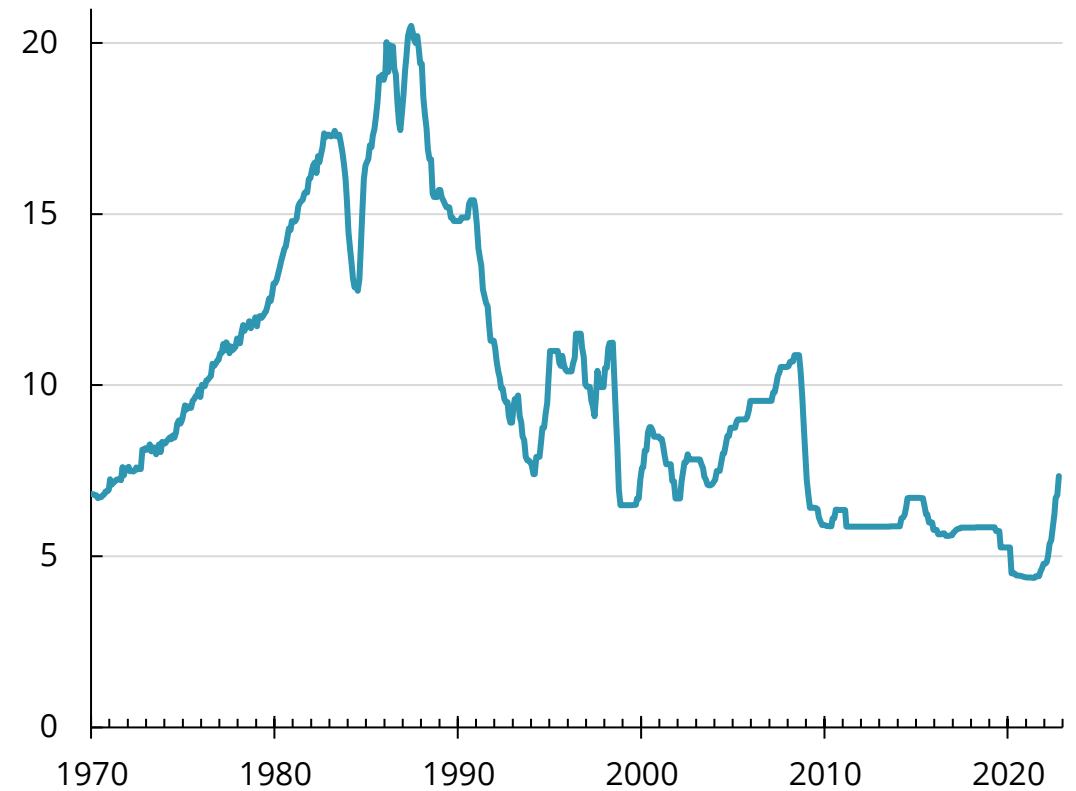
Policy reversal



US Interest Rates

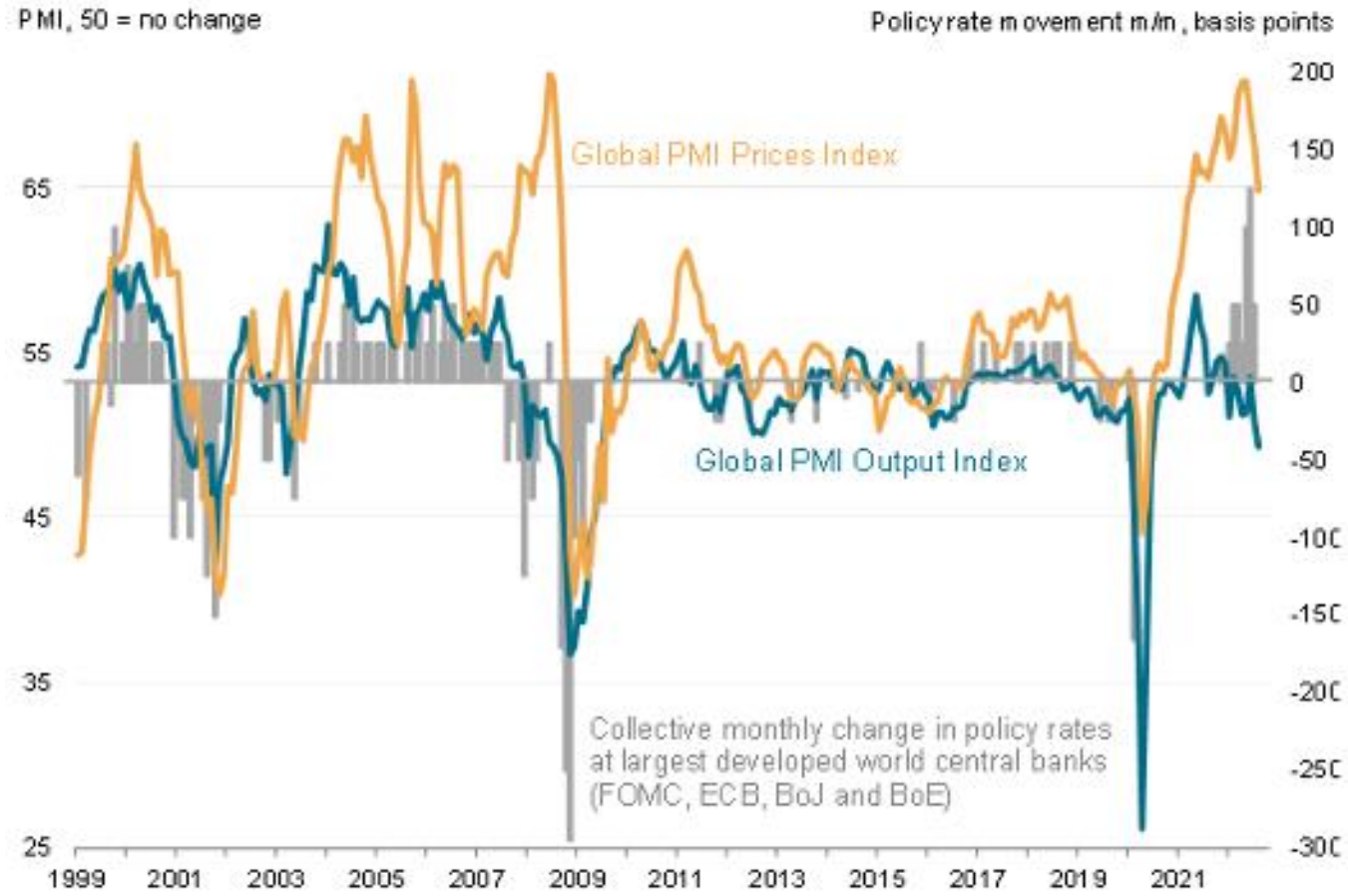


NZ Floating Mortgage Rate



Source: Federal Reserve of St Louis, RBNZ, Sense Partners

Global economy slowing & hitting brakes



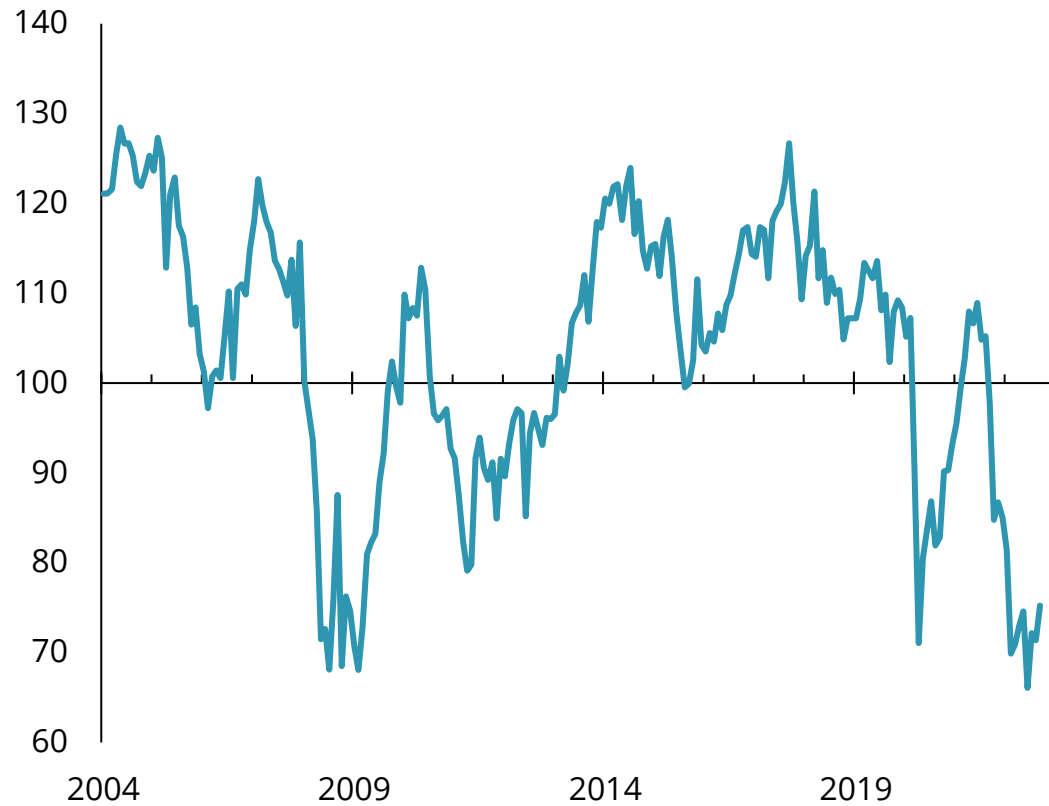
Source: S&P Global, JPMorgan.

Source: S&P Global

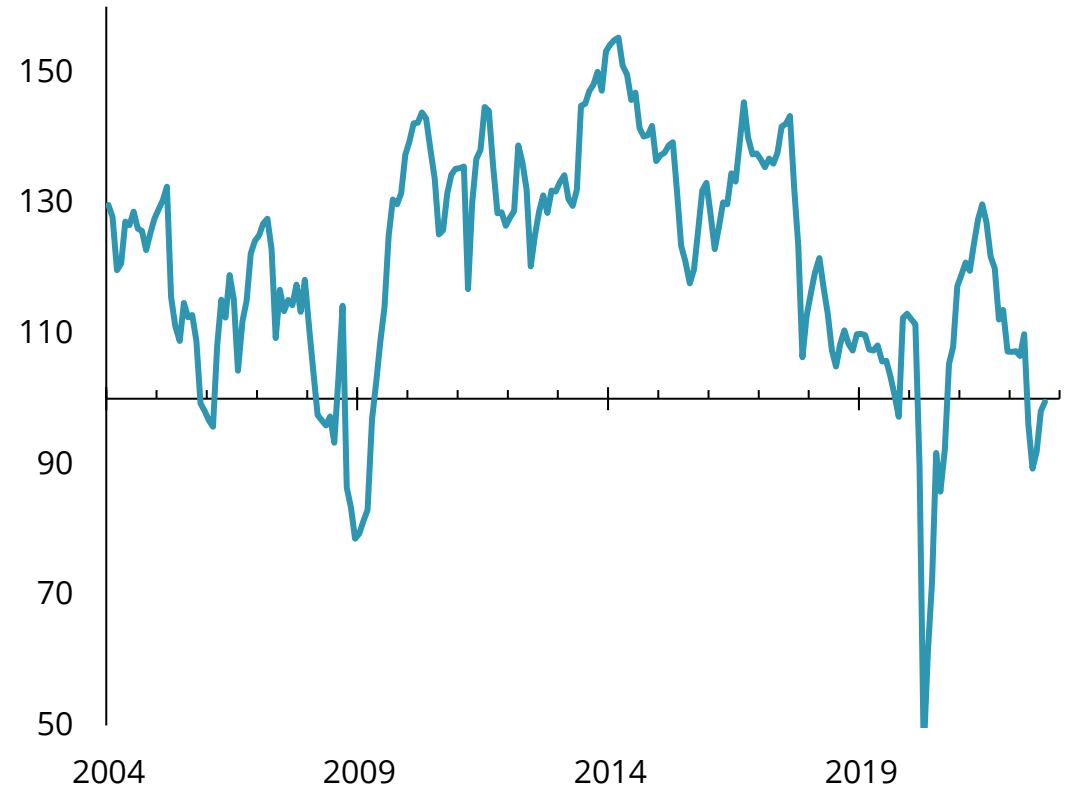
NZ peaked in June 2021



Consumer Confidence

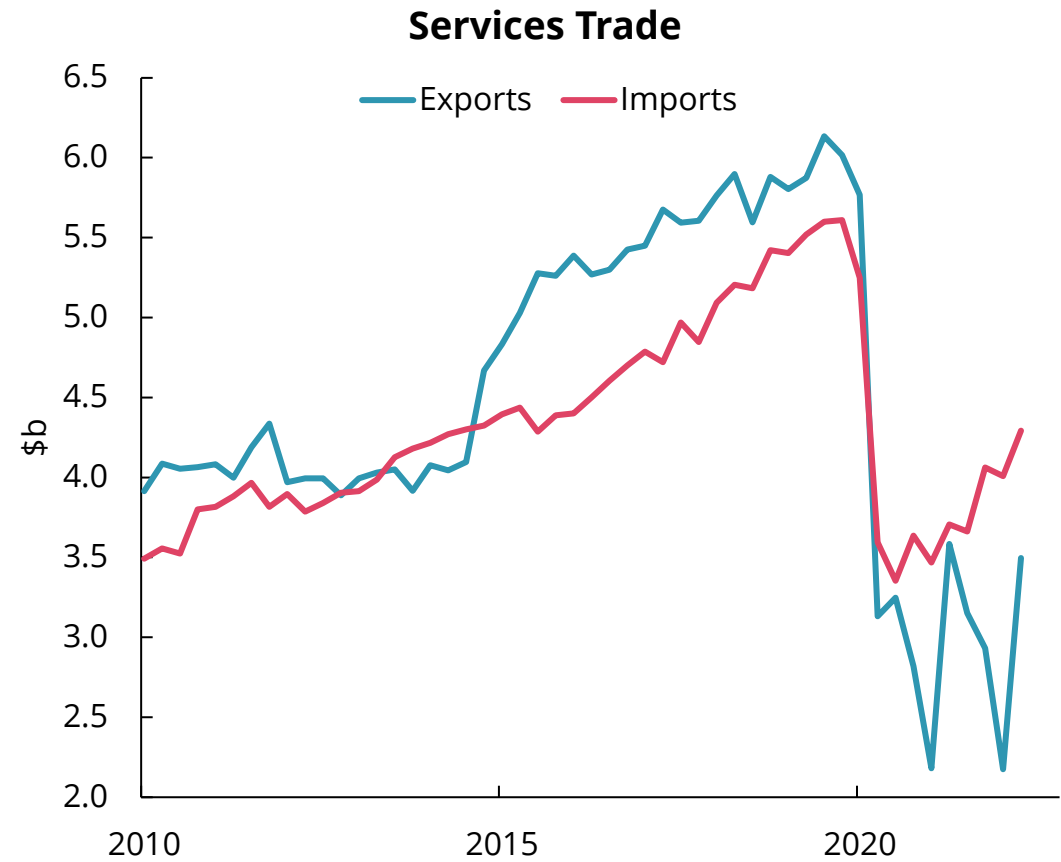
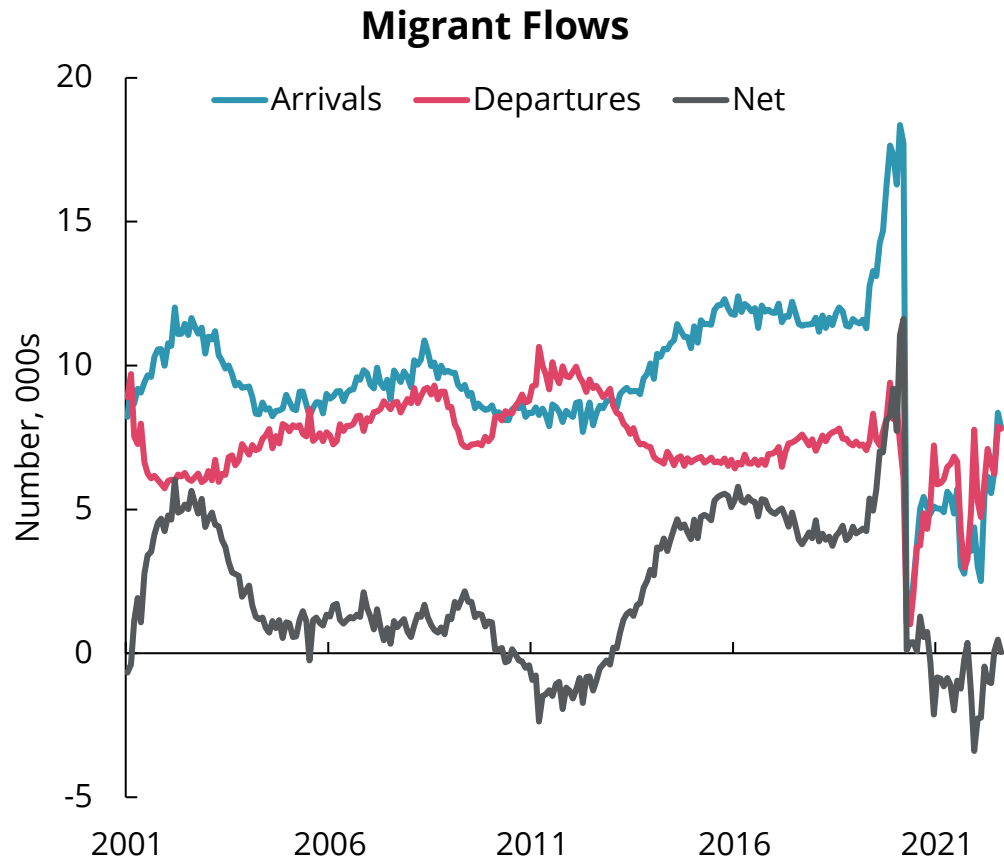


Business Confidence

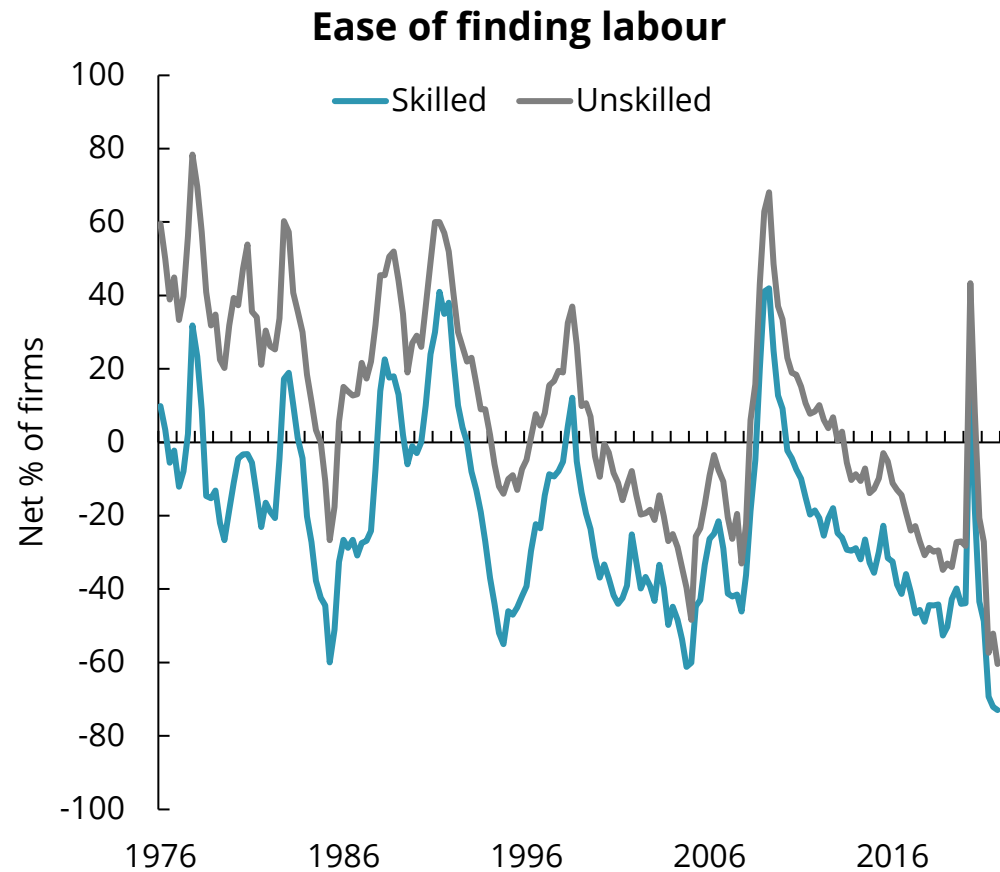


Source: ANZ Bank

Border reopening double edged



Record labour demand & shortages

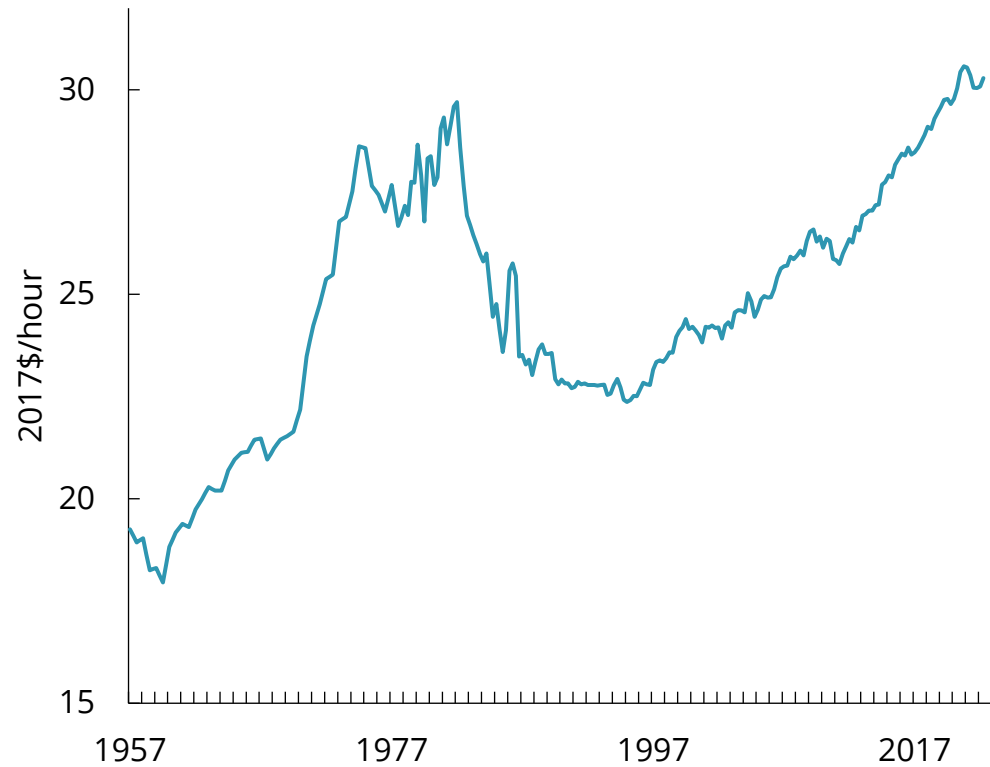


Sources: NZIER, MBIE, Sense Partners

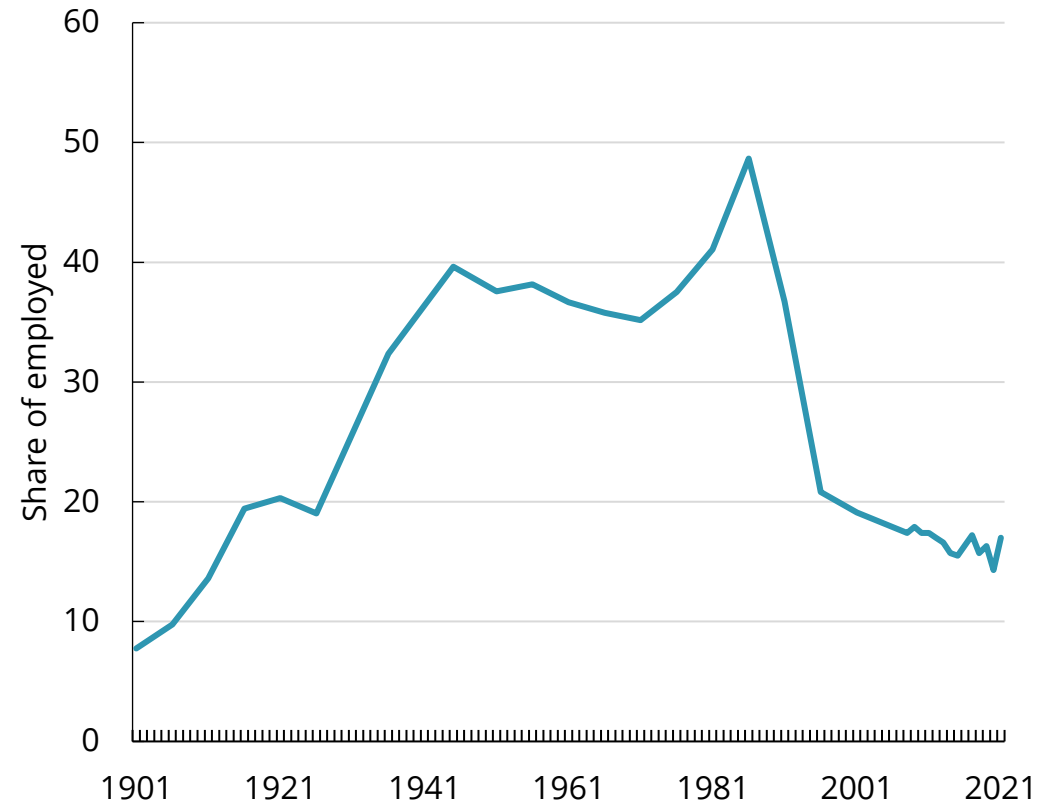
Wage pressures, but changed context



Real Wage Level



Union membership



Costs, volumes and pricing power



Cost, prices and profits

— Costs — Prices — Profits



Sources: NZIER

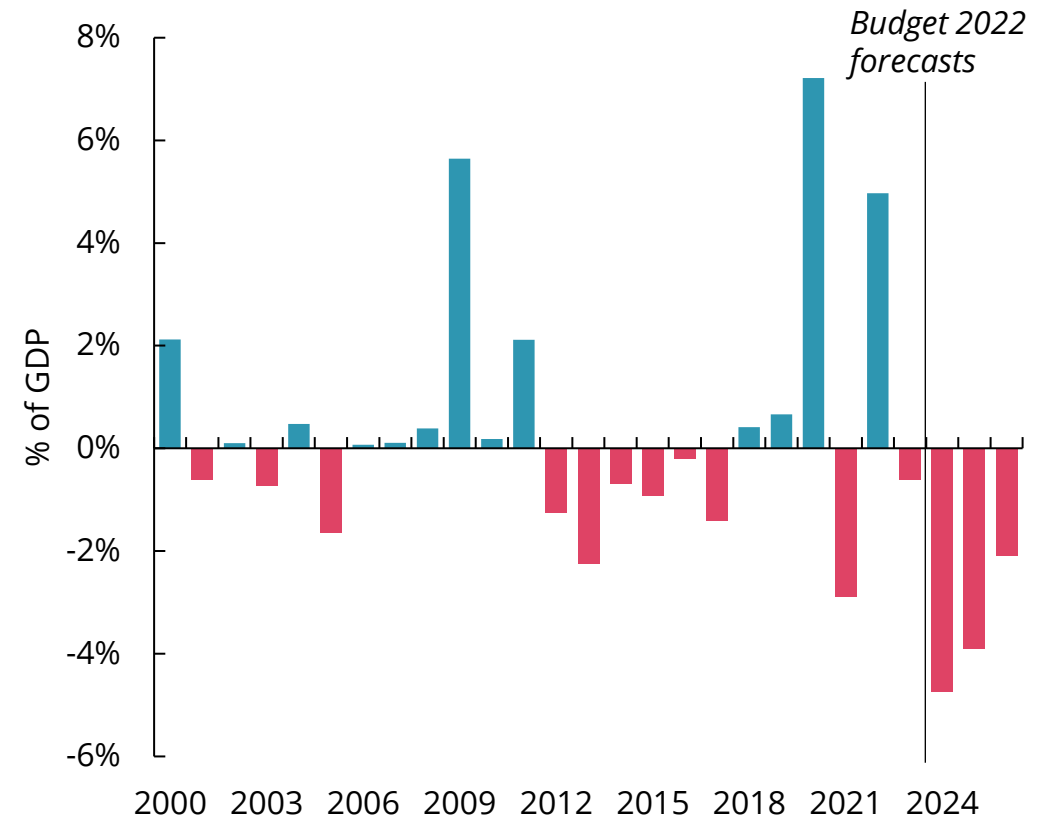
Central bank vs politics



Interest Rates: 3 months



Fiscal Stimulus

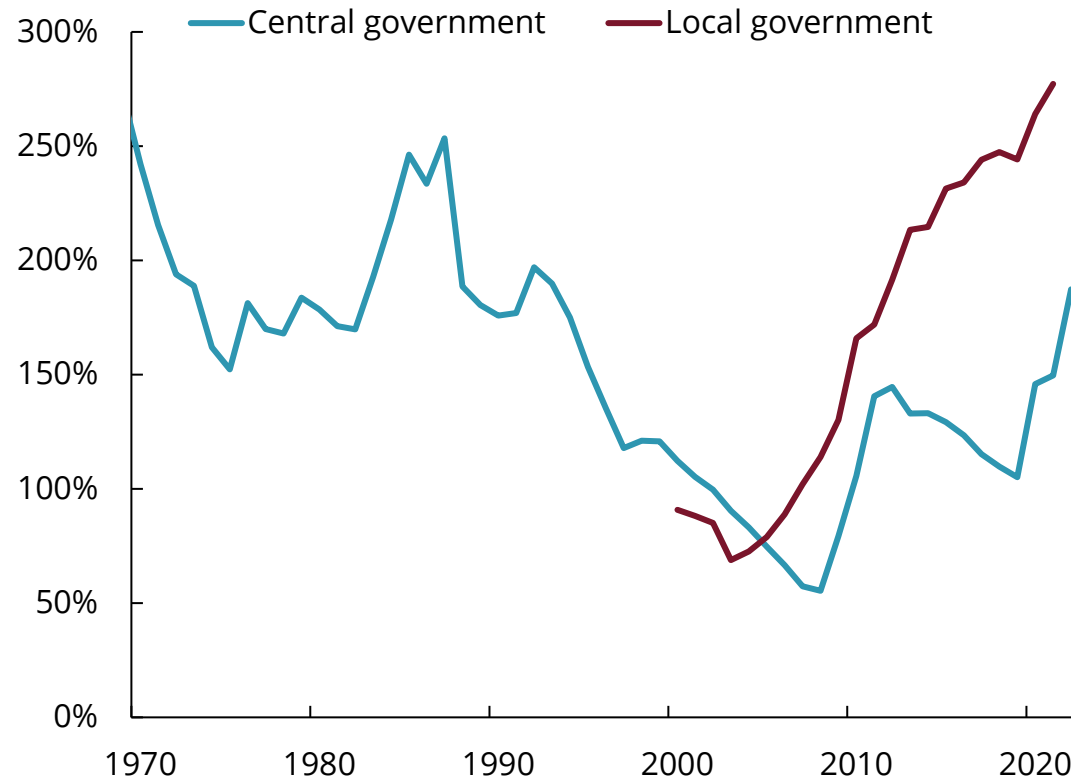


Sources: RBNZ, The NZ Treasury, Sense Partners

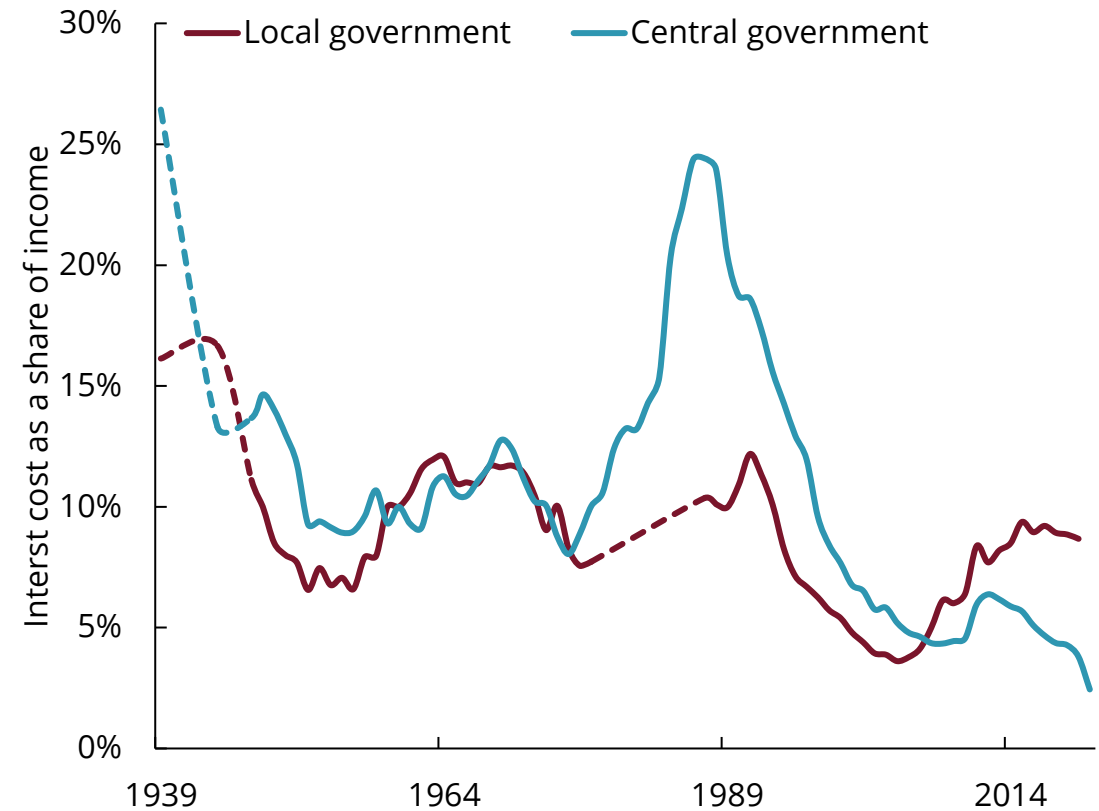
Emerging pressures



Gross debt to tax revenue ratio

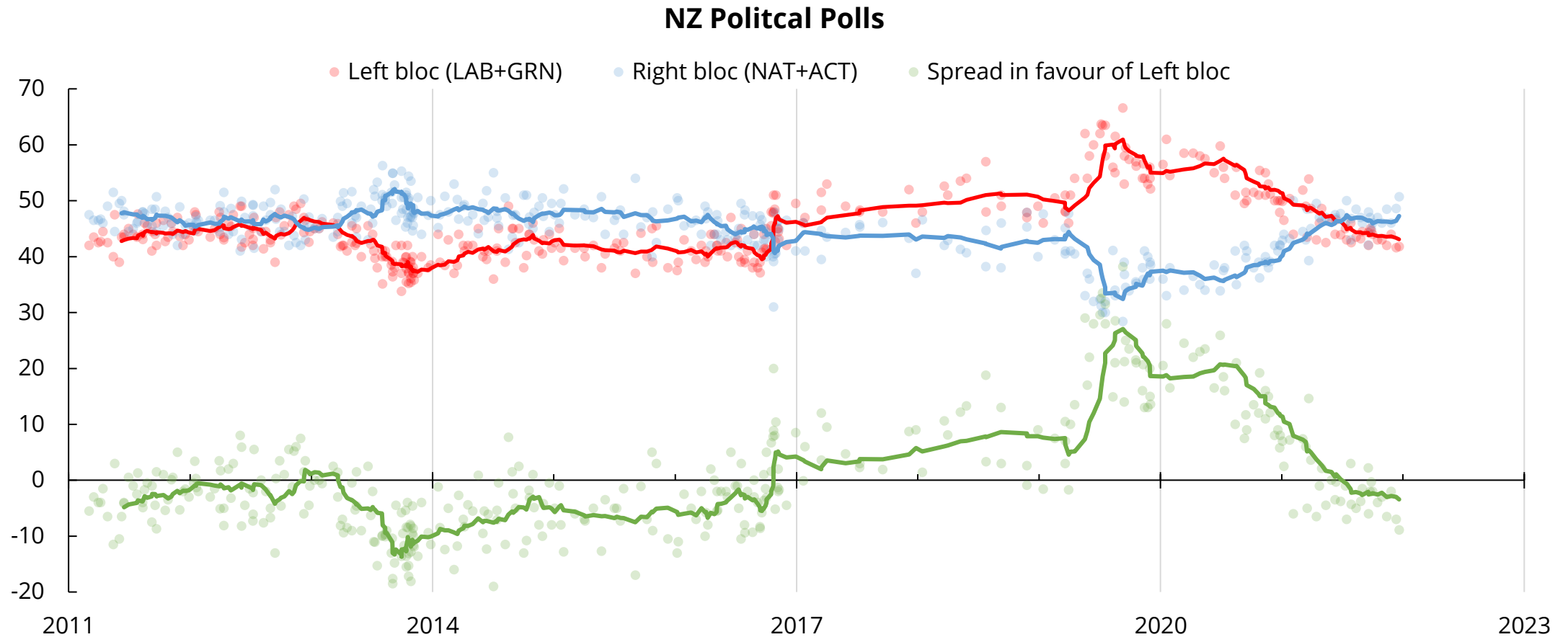


Interest payments as a share of income*



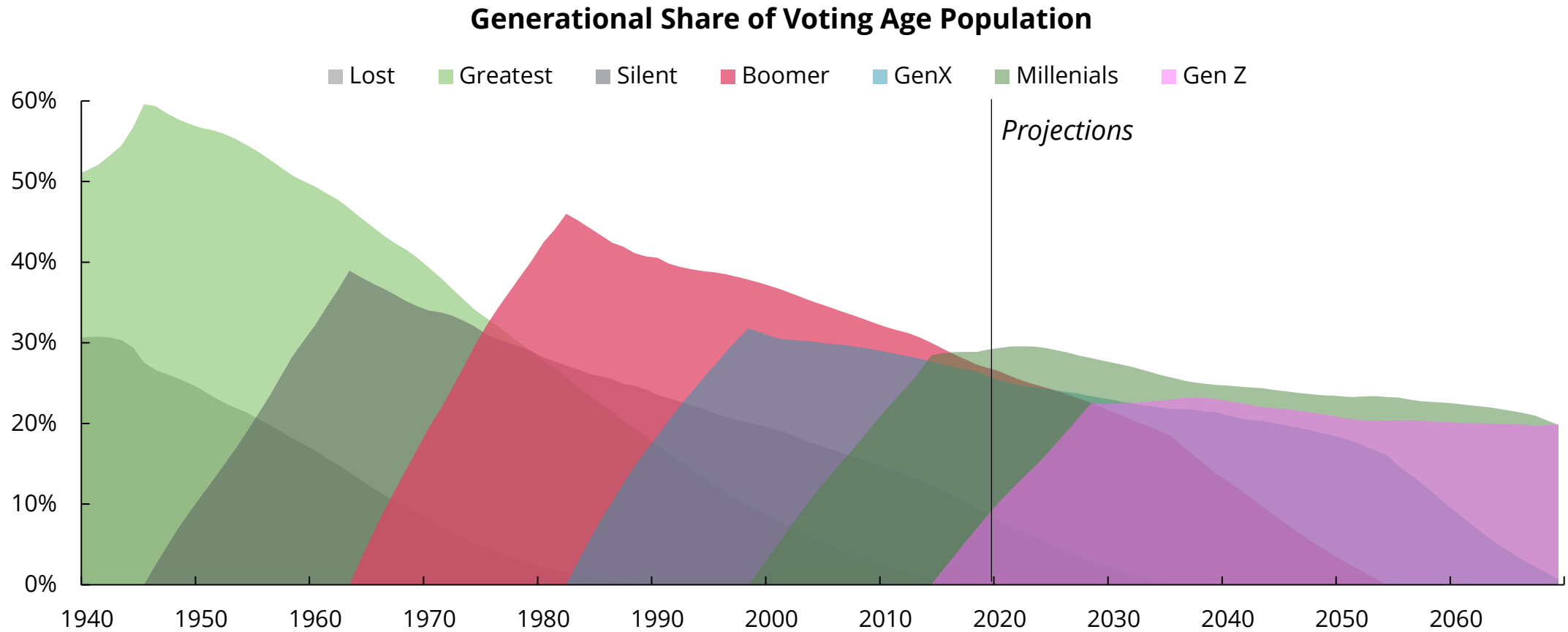
Source: Treasury, Statistics NZ, Sense Partners

New political phase



Source: Sense Partners calculations from Roy Morgan, 1 News-Kantar, Taxpayers' Union-Curia, Talbot-Mills, Newshub-Reid Research

More volatile politics ahead



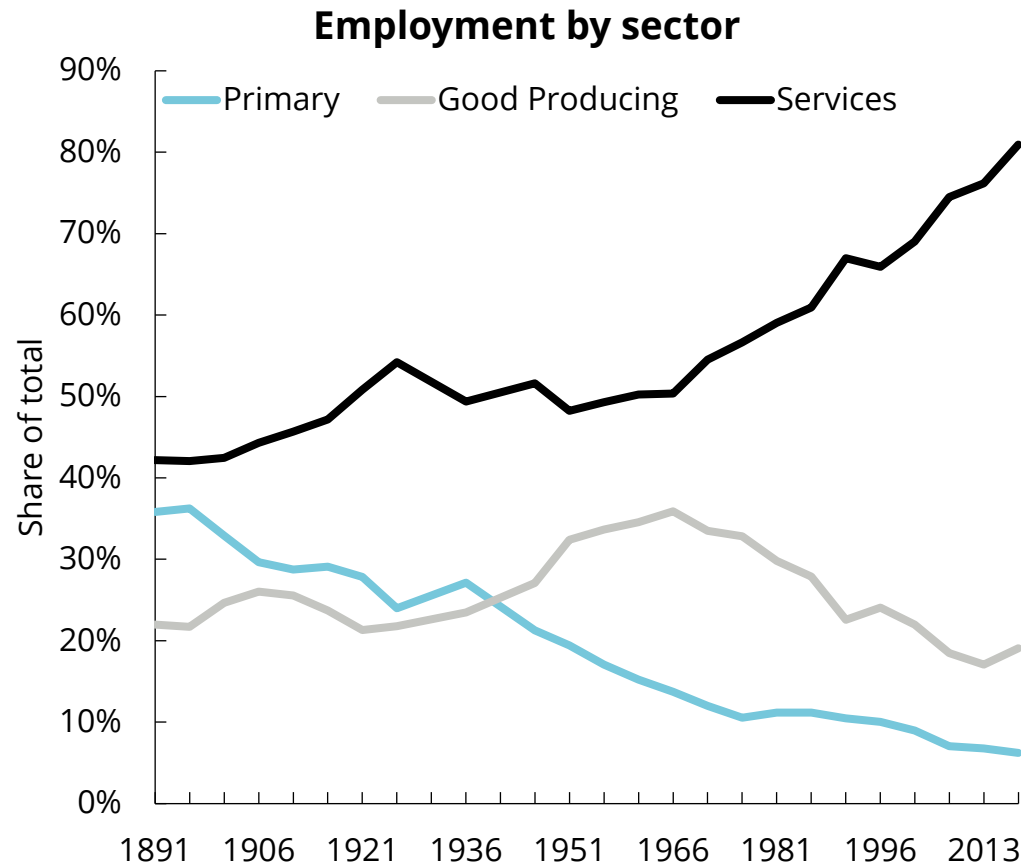
Source: Statistics NZ, Sense Partners



Structural changes

Changing orthodoxy & politics

Regime change?



- Great Depression: Social democracy & welfare state
- Exchange rate crisis: monetarism
- Oil shocks & stagflation: neoliberalism & independent central bank
- GFC & Pandemic: Something new?



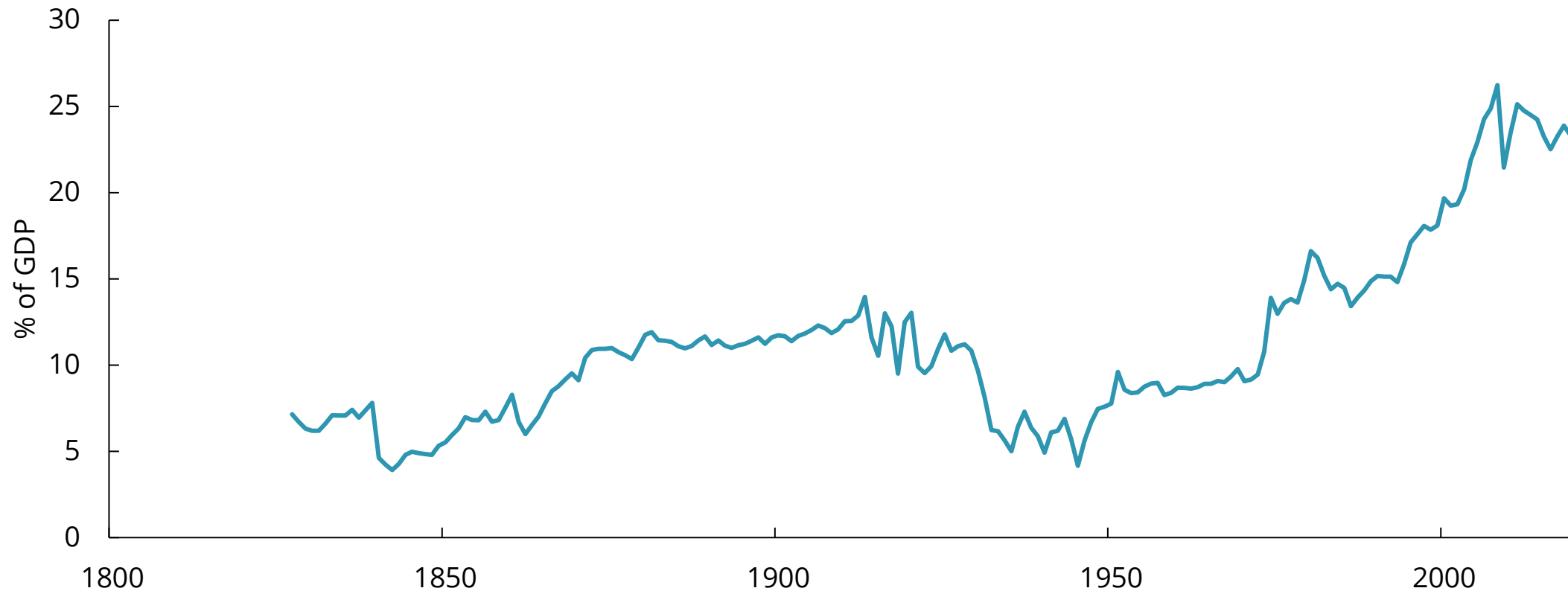
Political fault-lines

- Covid response
- Onshoring
- Tech blockade
- State of democracy in USA, UK, etc...
- Russia's invasion of Ukraine
- China's zero covid...Xi...

Globalisation – growth in peril

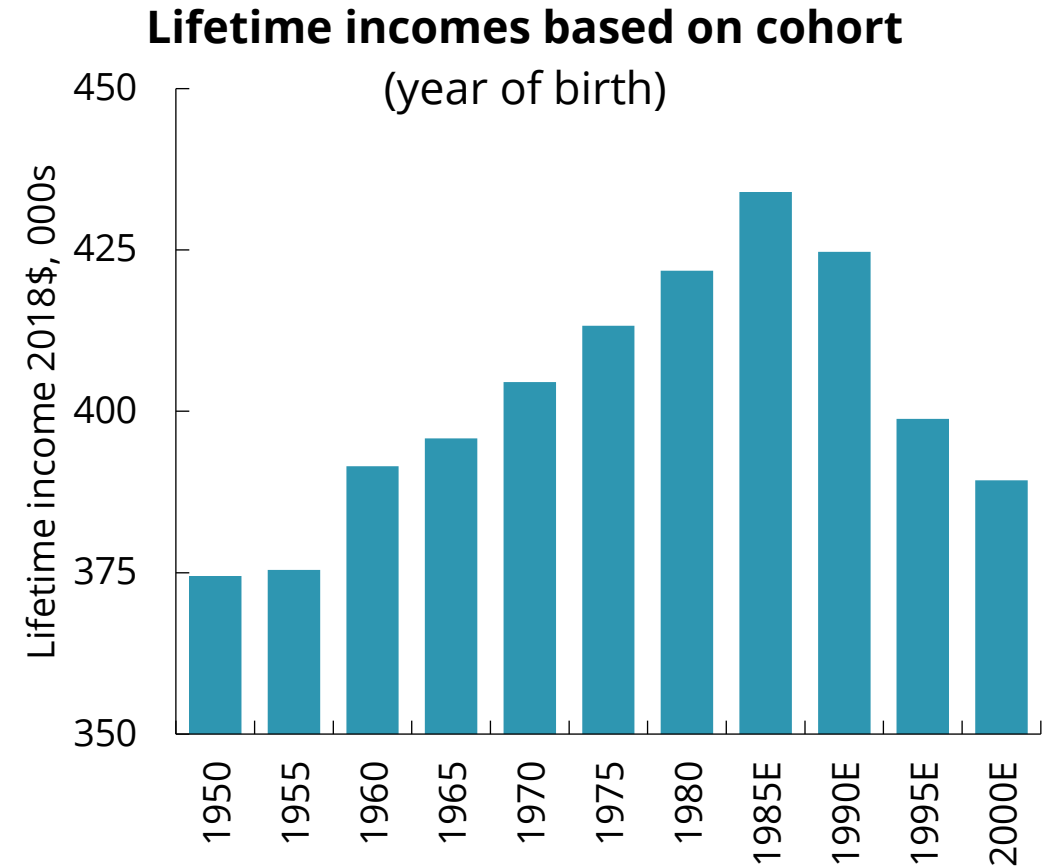
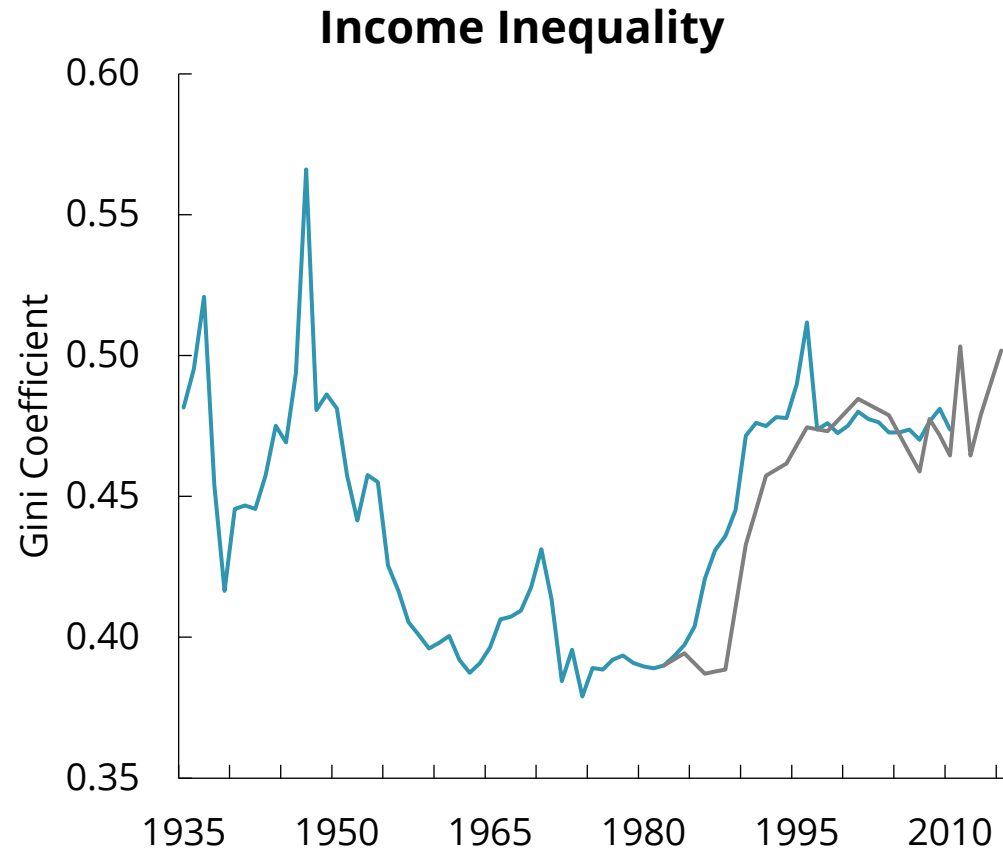


Global Export Share of GDP



Source: Fouquin and Hugot; CEPII 2016; IMF; World Bank; Sense Partners

Fault-lines in our society



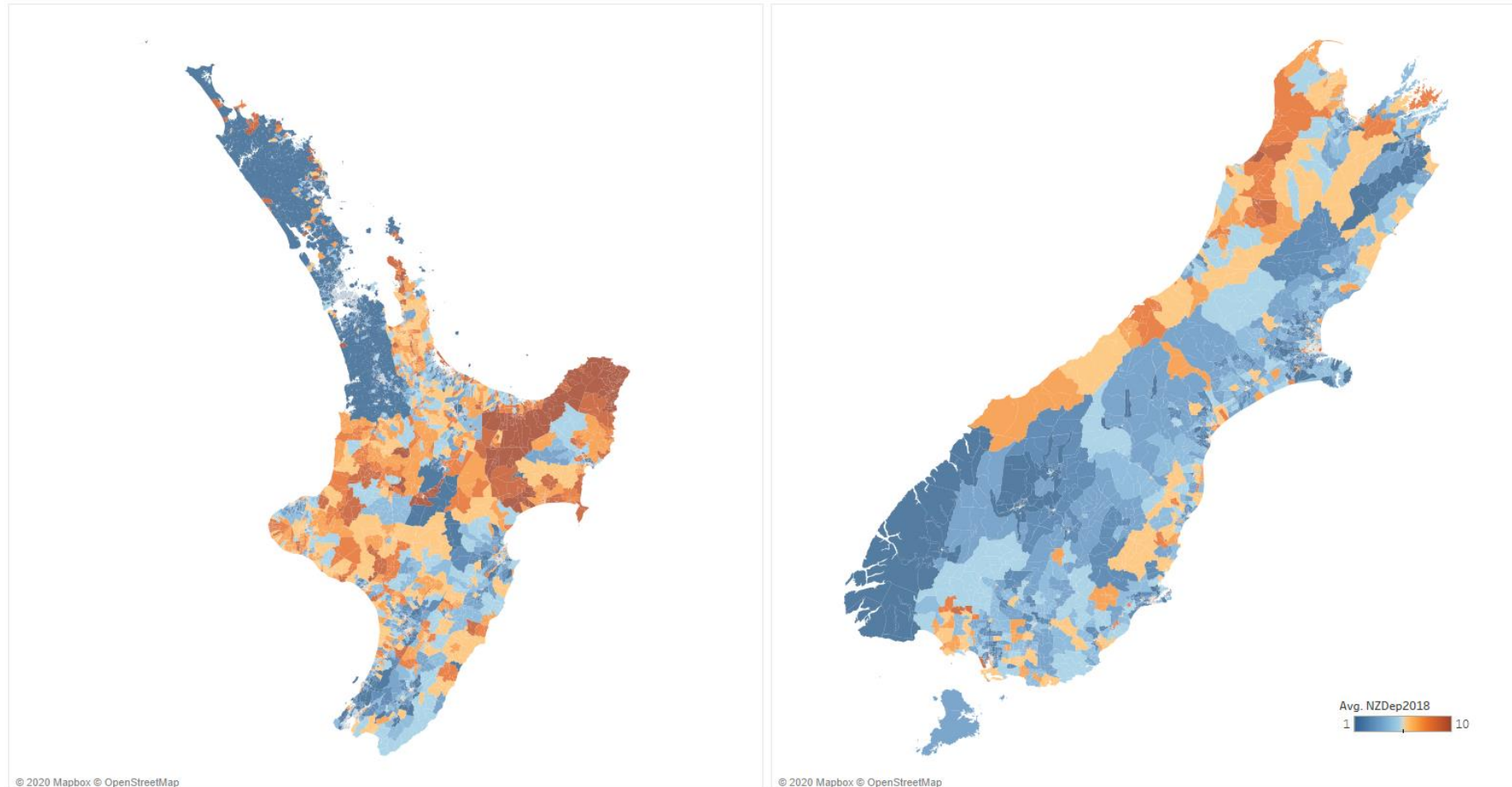
Source: Creedy J. Gemmill N, Nguyen L (2017), Income inequality in New Zealand, 1935-2014, VUW Working Papers in Public Finance; Perry B. (2017), Household incomes in New Zealand: Trends in indicators of inequality and hardship, 1982-2016, MSD;

Source: Sense Partners calculations from Statistics NZ Census age cohort income data.

Regional divides...



New Zealand Deprivation Index (2018)

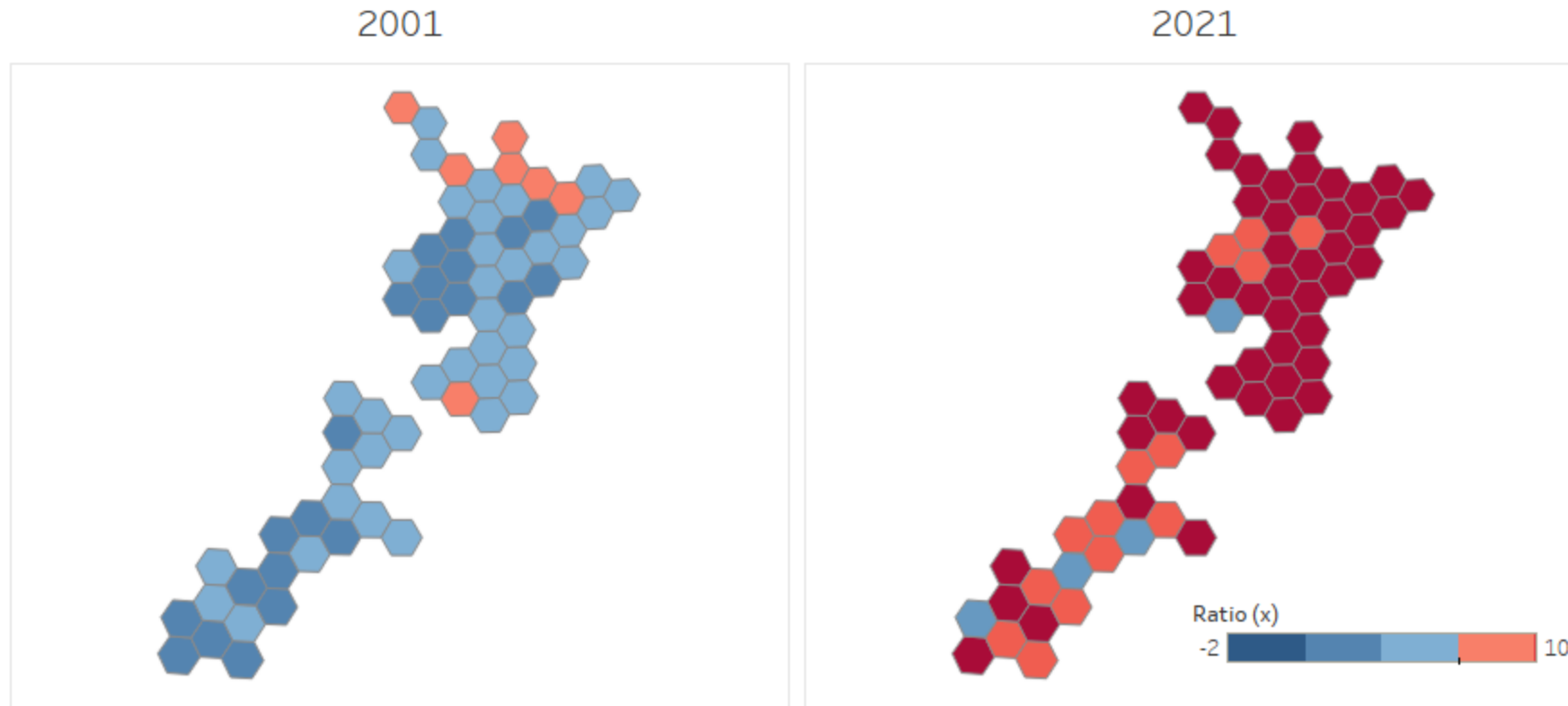


Source: Atkinson J, Salmond C, Crampton P (2019). NZDep2018 Index of Deprivation, Interim Research Report, December 2019. Wellington: University of Otago

...worsened by a spreading cancer



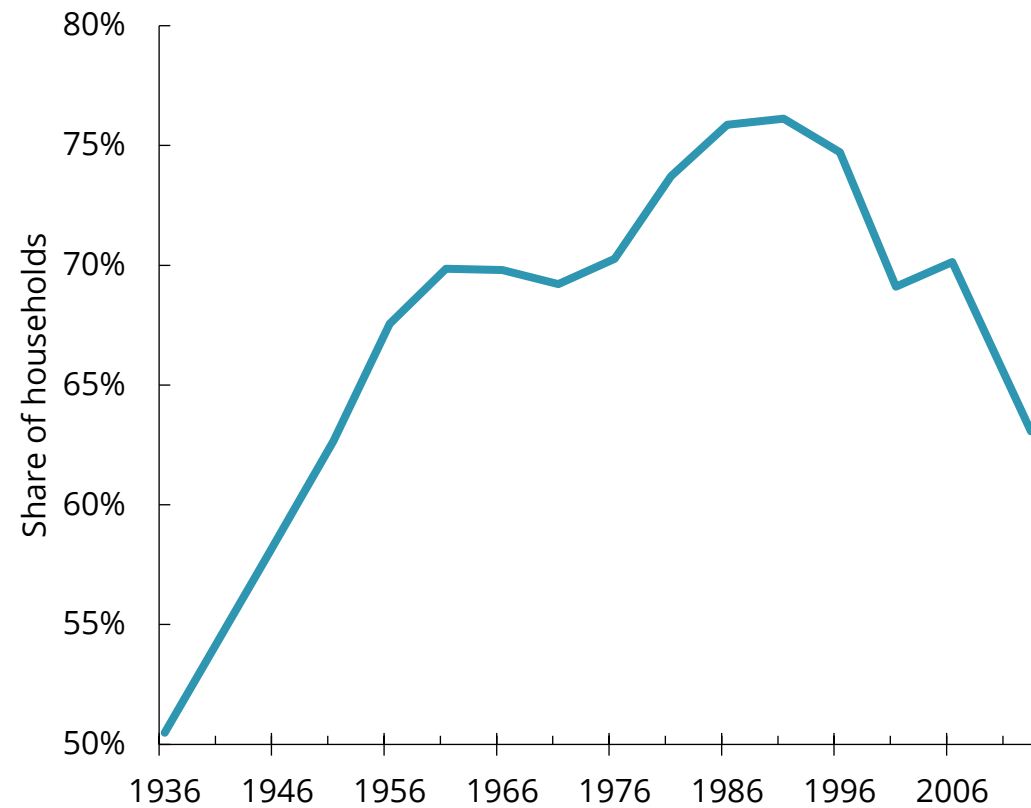
House price to income ratio by district



Generational chasm

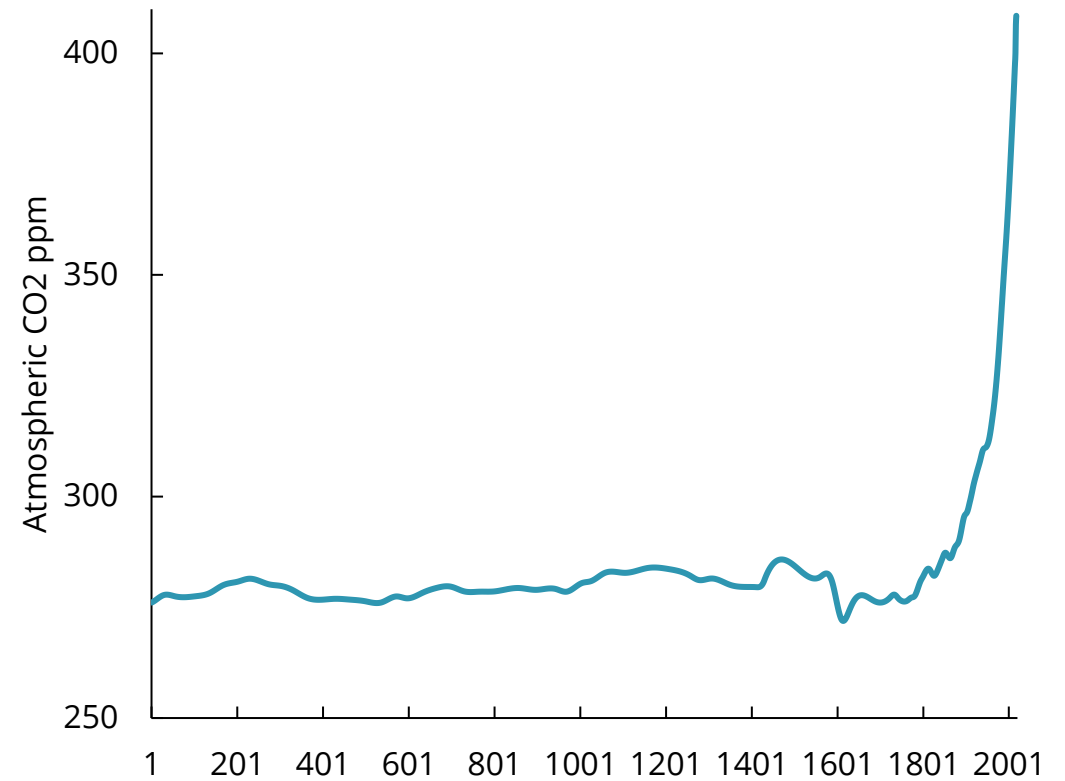


NZ home ownership rate



Source: Eqaub & Eqaub (2015, updated) "Generation Rent" BWB Texts

Atmospheric CO2



Source: Scripps CO2 Program, NOAA

Balance? 90% of climate finance investment in mitigation



Adaptation

- **Adjustments** in ecological, social, or economic systems in **response to actual climate** impacts via changes in processes, practices, and structures to moderate potential damages or benefit from opportunities associated with climate change.

Mitigation

- **Reduce or prevent** emission of greenhouse gases

Some big ideas



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Thank You.





Thinking Ahead.

Looking after the wellbeing of our customers and the sector in a changing world

Tuesday 8th November, 2022
Cordis, Tāmaki Makaurau Auckland, New Zealand

Shamubeel Eaqub



Shamubeel Eaqub is an experienced economist who makes economics easy. He is also an author, media commentator and a thought leading public speaker. He has over two decades of experience as an economist in Wellington, Melbourne, and Auckland in leading international banks and consultancy. He is a partner at Sense Partners—a boutique economic consultancy. He holds a BCOM with Honours in Economics from Lincoln University and is also a Chartered Financial Analyst. He lives in Auckland with his wife and two sons.