



CURRENT ECONOMIC ENVIRONMENT



HOW & WHY we are where we are



COVID
Arrival



COVID
Recovery



Working
with COVID

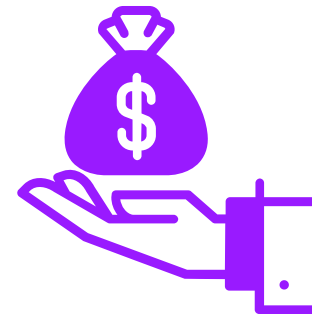


3-Year Recap



COVID Arrival

- Lending came to a halt
- No one knew what the outcome would be
- All predictions were nowhere near accurate
- The world is going to crash



COVID Recovery

- Was all about stimulating the economy
- Encourage spending
- Printing cheap money
- Property boom



Working with COVID

- Too much stimulation
- Tightening Monetary Policy
- CCCFA
- Overheating markets
- Inflation



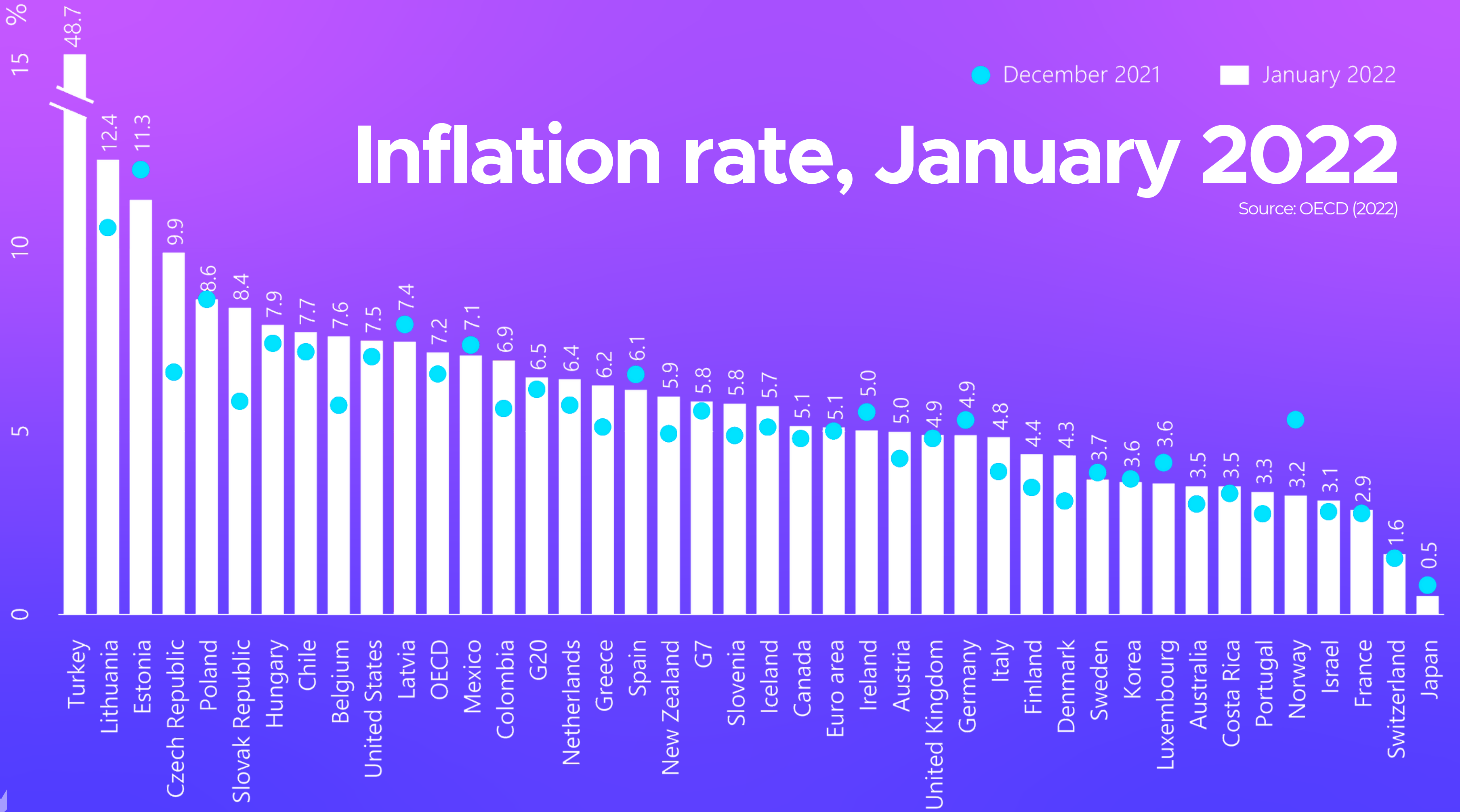
"a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters"

RECESSION



“a general increase in prices and fall in the purchasing value of money”

INFLATION





Incomes have increased faster than the cost of living since 2007



CPI has increased too 7.2%



Groceries 11.3% higher in Dec 22 than Dec 21



Cost of fuel up 11% from last year

INFLATION



If we have an average household grocery bill of \$300p/w correlates to increase of \$33 p/w or an additional \$1,716 per year.



If your car costs \$100 p/w to fill up, it now costs \$572 extra per year

INFLATION

Year	Mar	Jun	Sep	Dec	
2010	2.0%	1.7%	1.5%	4.0%	2.3%
2009	3.0%	1.9%	1.7%	2.0%	2.1%
2008	3.4%	4.0%	5.1%	3.4%	4.0%
2007	2.5%	2.0%	1.8%	3.2%	2.4%
2006	3.0%	2.8%	2.8%	2.8%	2.8%
2005	3.9%	3.9%	3.9%	3.9%	3.9%
2004	2.7%	2.7%	2.7%	2.7%	2.7%
2003	2.5%	1.5%	1.5%	1.6%	1.8%
2002	2.6%	2.8%	2.6%	2.7%	2.7%
2001	3.1%	3.2%	2.4%	1.8%	2.6%
2000	1.5%	2.0%	3.0%	4.0%	2.6%
1999	-0.1%	-0.4%	-0.5%	0.5%	-0.1%
1998	1.3%	1.7%	1.7%	0.4%	1.3%
1997	1.8%	1.1%	1.0%	0.8%	1.2%
1996	2.2%	2.0%	2.4%	2.6%	2.3%
1995	2.8%	2.8%	2.8%	2.8%	2.8%
1994	4.6%	4.6%	4.6%	4.6%	4.6%
1993	6.2%	6.2%	6.2%	6.2%	6.2%
1992	5.3%	5.3%	5.3%	5.3%	5.3%
1991	5.4%	5.4%	5.4%	5.4%	5.4%
1990	7.0%	7.6%	5.0%	4.9%	6.1%
1989	4.0%	4.4%	7.2%	7.2%	5.7%
1988	9.0%	6.3%	5.6%	4.7%	6.4%
1987	18.3%	18.9%	16.9%	9.6%	15.7%
1986	13.0%	10.4%	11.0%	18.2%	13.2%
1985	13.4%	16.6%	16.3%	15.3%	15.4%

ANNUAL INFLATION



IMPORTANT KEY DATES:

GFC '08

September 11 '01

Asian financial crisis '97

Gulf war '90

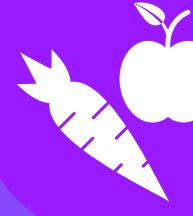
Share market crash '87



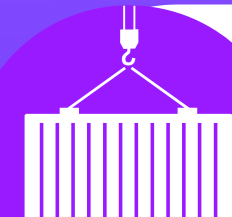
Other contributing factors



Borders closed



Increase in
Money Supply



Supply shortages



Russia/Ukraine war



How we will tackle inflation



- The Reserve Bank of New Zealand – Te Pūtea Matua is New Zealand's central bank. By maintaining a sound and efficient monetary and financial system, we give people, communities and businesses the confidence to spend, borrow and save money in their daily lives.
- Official Cash rate or OCR - influences the price of borrowing money in New Zealand and allows us to influence the level of economic activity and inflation.
- Raising interest rates
- Unemployment needs to rise
- Consumer spending needs to slow



Wage inflation

The largest annual rise in ordinary time hourly earnings since 1989.

Job apps increased from 8.5 per job in 2021 to 13.5 per job in 2022



Hourly earnings rise

7.4%

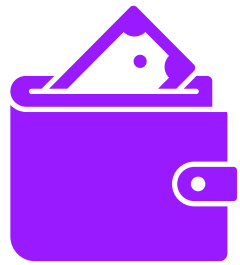
Wage inflation

3.7%

September 2022 quarter



How inflation impacts households



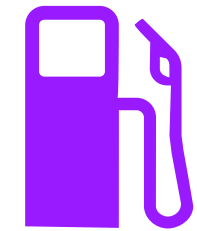
Less purchasing power

If you can't buy as many goods and services as you did before inflation, your quality of living will eventually diminish.



Less savings

If rising prices for essentials is eating into your budget more than normal, you probably aren't putting as much money into a savings account.



Loss of goods and services

Some industries do pretty well during inflationary times, particularly ones in which you can't hold off your spending indefinitely, like supermarkets, gas stations and funerals — but some businesses are completely devastated.



How interest rate movements impact on a general household

Net wealth decreasing -
property,
savings,
Kiwisaver,
shares

Cost of
borrowing
money is
higher

Decrease in job
creation which can
impact income



Unemployment Rate

Last updated 1 February 2023 | Next update 3 May 2023



Quarterly

3.4%

December 2022 quarter



Quarterly change,
percentage points

+0.1pp

December 2022 quarter



Number of people
unemployed

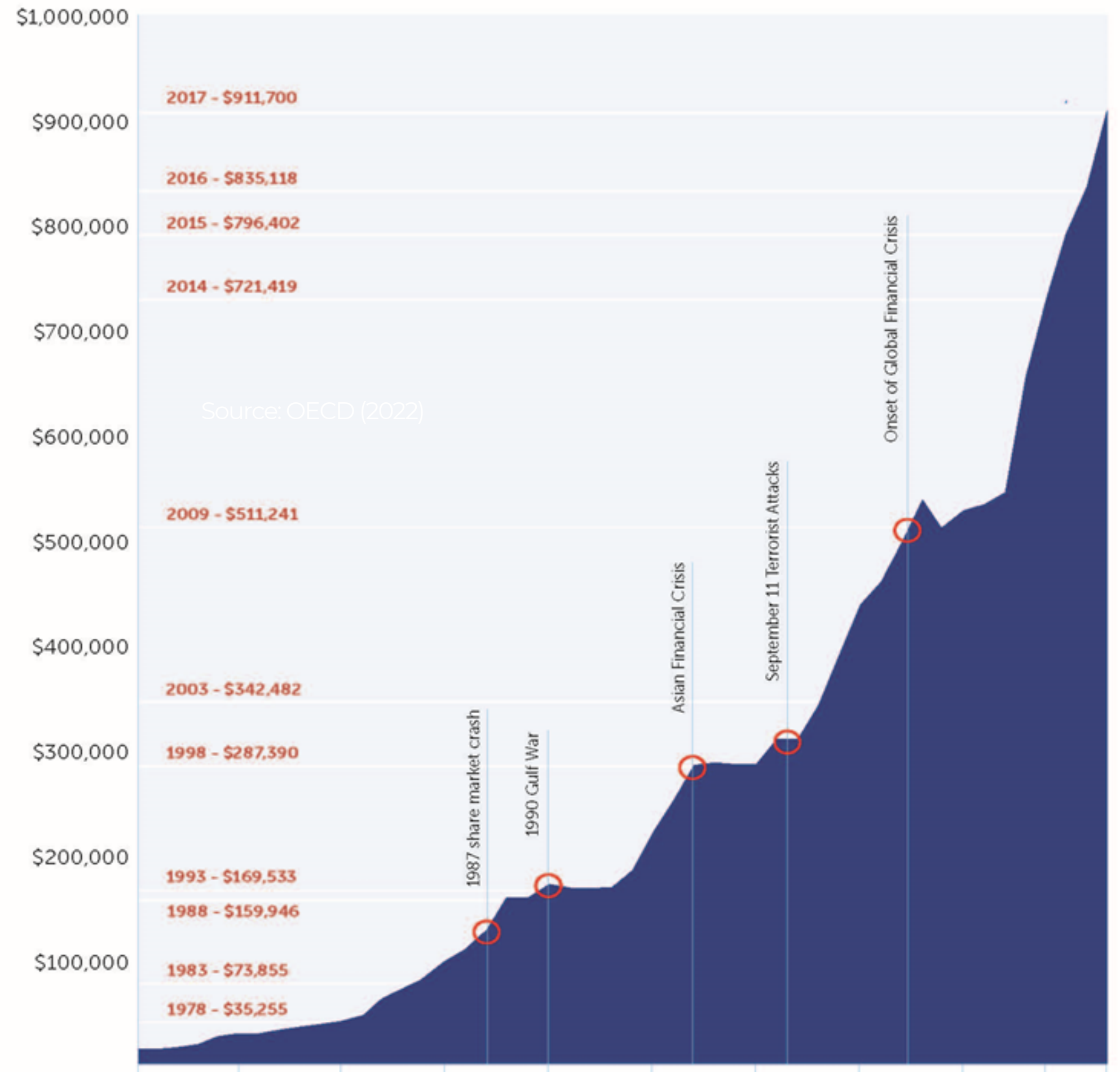
99,000

December 2022 quarter

HOUSING MARKET



Property Values over time





General housing market

New dwellings consented

(Year ended November 2022)

4,649 new dwellings were consented:

- 1837 stand-alone houses
- 1,827 townhouses, flats, and units
- 535 apartments
- 450 retirement village units.

Regional new dwellings consented

(Year ended November 2022, compared with the year ended November 2021)

- 21,733 in Auckland (up 6.6%)
- 4,828 in Waikato (down 6.6%)
- 3,805 in Wellington (up 4.7%)
- 6,553 in rest of North Island (down 17%)
- 8,873 in Canterbury (up 18%)
- 4,416 in rest of South Island (up 10%)

The number of dwellings consented each month can vary significantly due to the timing of large multi-dwelling projects, such as townhouses and apartment buildings.

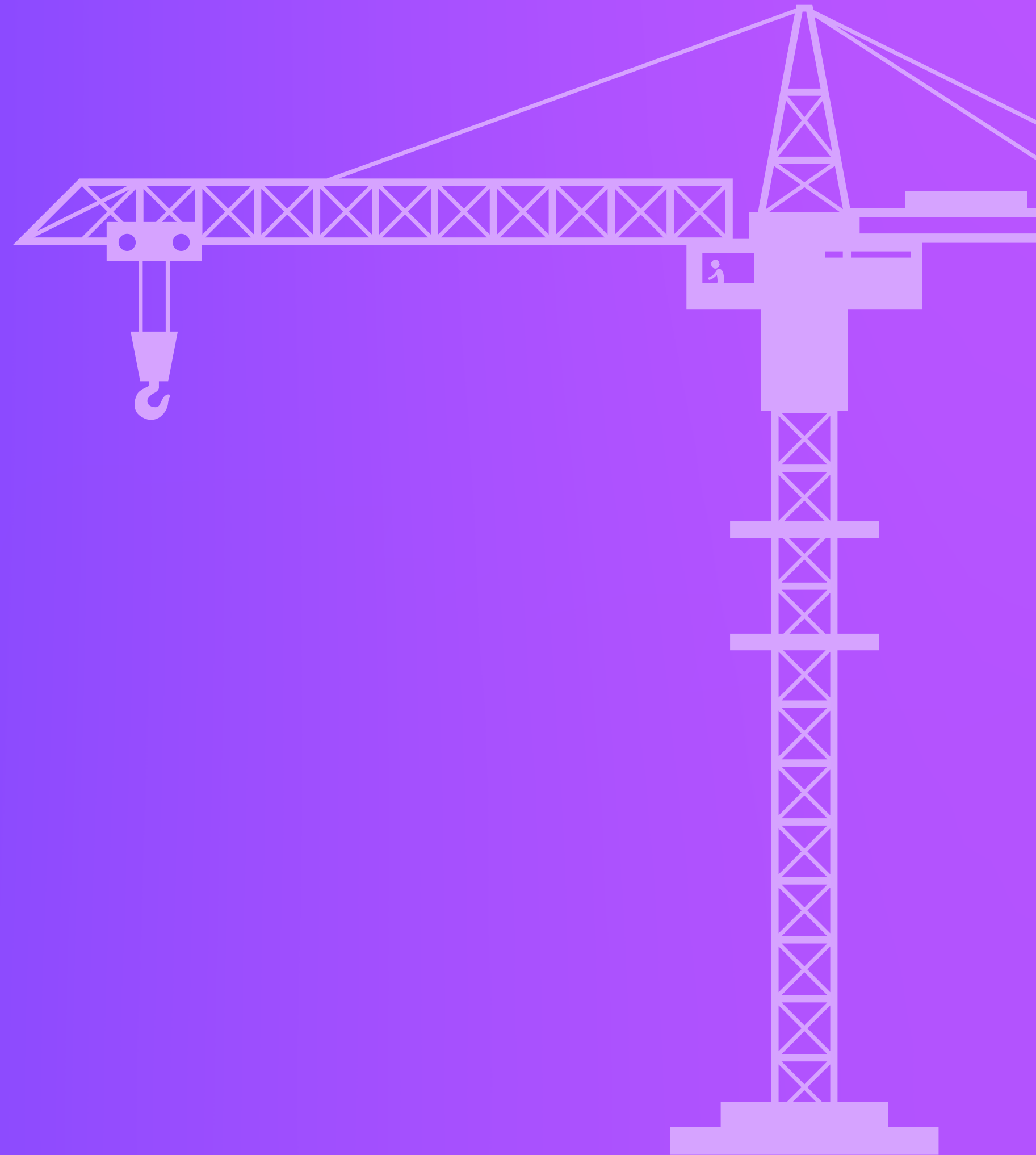


Building sector hit with

17%

inflation annually

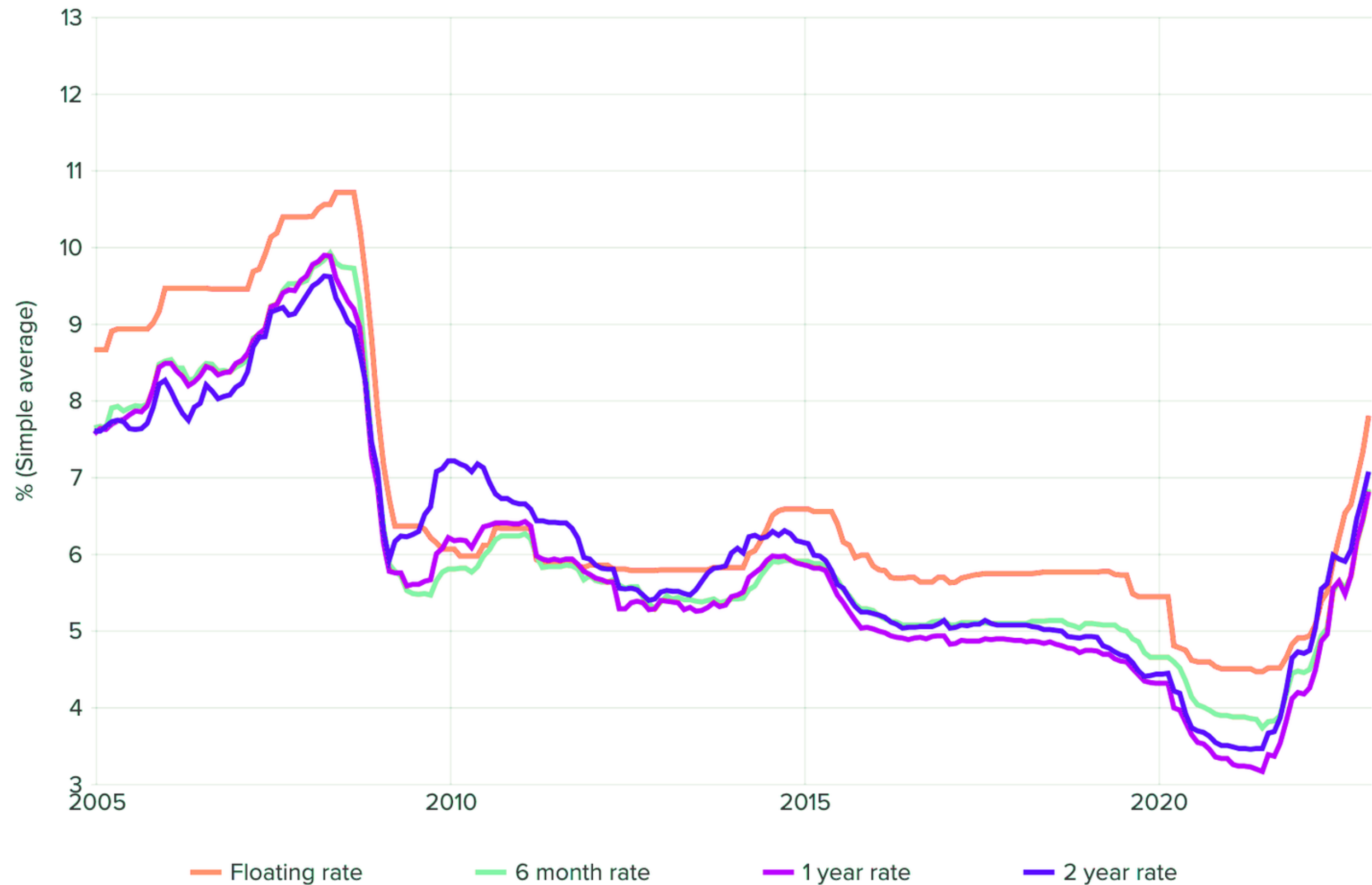
and set to be higher with floods





Floating & Short Interest Rates

New standard residential mortgage interest rates for selected terms less than three years including floating.





Interest rate and inflation predications

OCR
announcement
22 Feb –
increase 50bpts
(sits at 4.25% currently)

OCR

Interest rates
may be peaking
with banks
already
factoring in cost
movements

%

Long terms
interest rates
decreasing

%

Inflation looks
to be stabilising

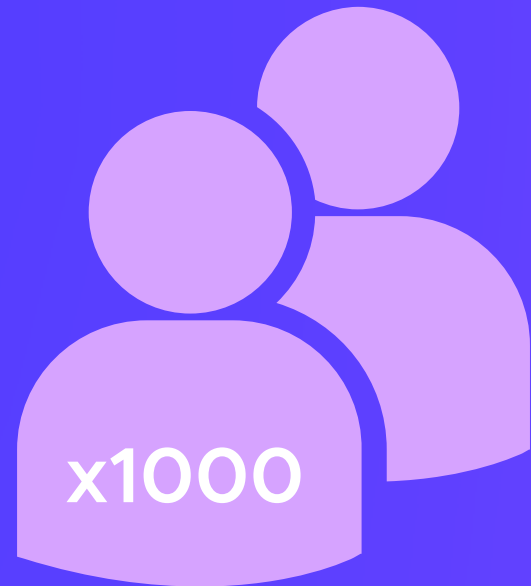
Unemployment
has increased
by 0.1

GLOBAL IMPACT



What's happening locally

Auckland floods



**Professionals
coming in to help
from off shore**



**Construction and
Building**
Potential inflation



Insurance costs
1/2 billion
Insurance premiums



**Uninsured Gov
Assistance**
Inflation

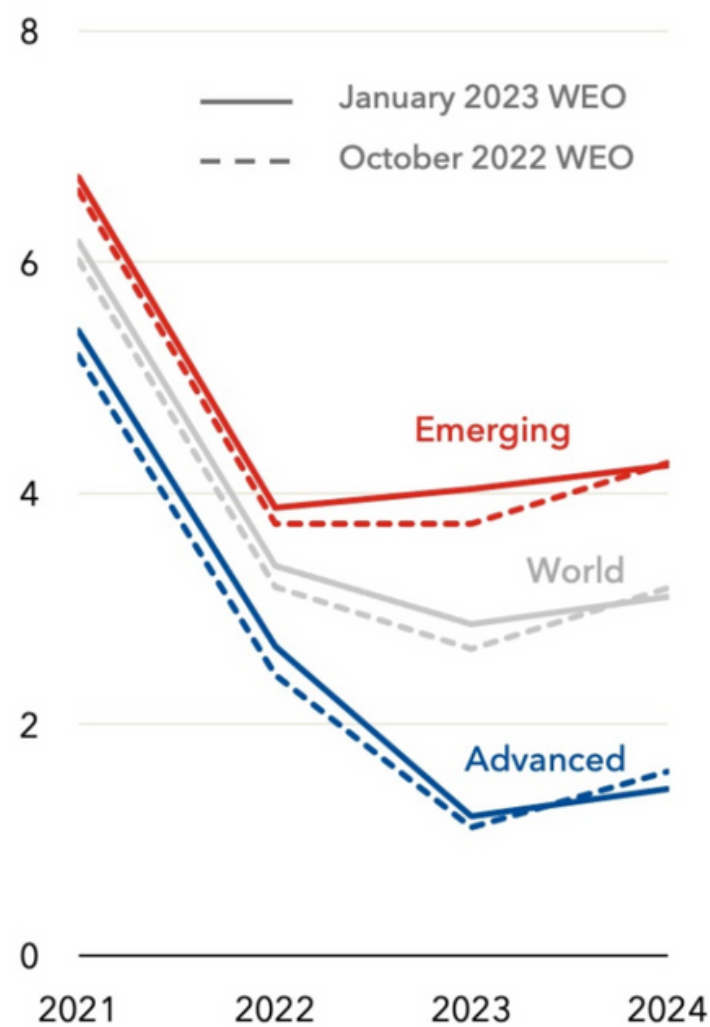


What's been happening globally

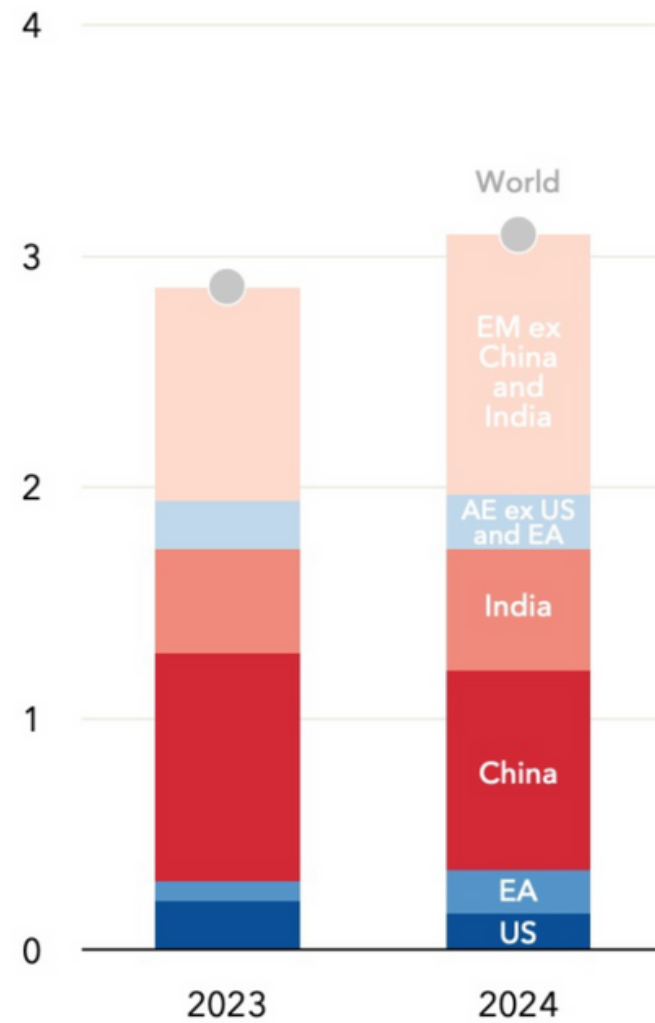
Global growth

China and India will be the major engines of growth this year.

Growth projections
(percent; year over year)



Contribution to world GDP growth
(percent share of world growth)



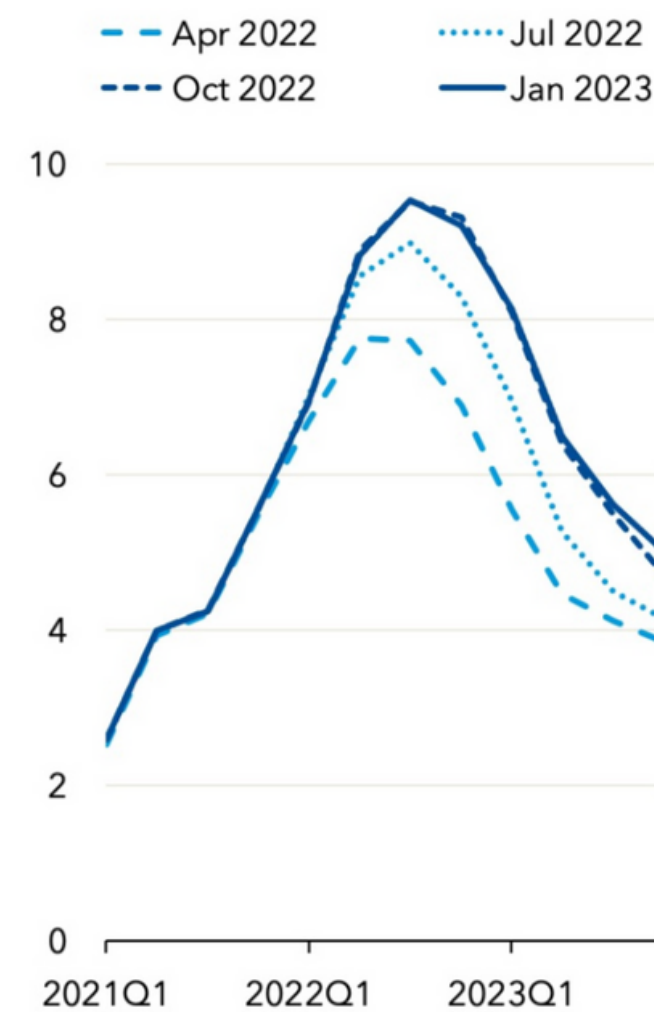
Sources: IMF, WEO January 2023 Update; and IMF staff calculations.
Note: AE = Advanced economies. EM = Emerging economies. EA = Euro area.



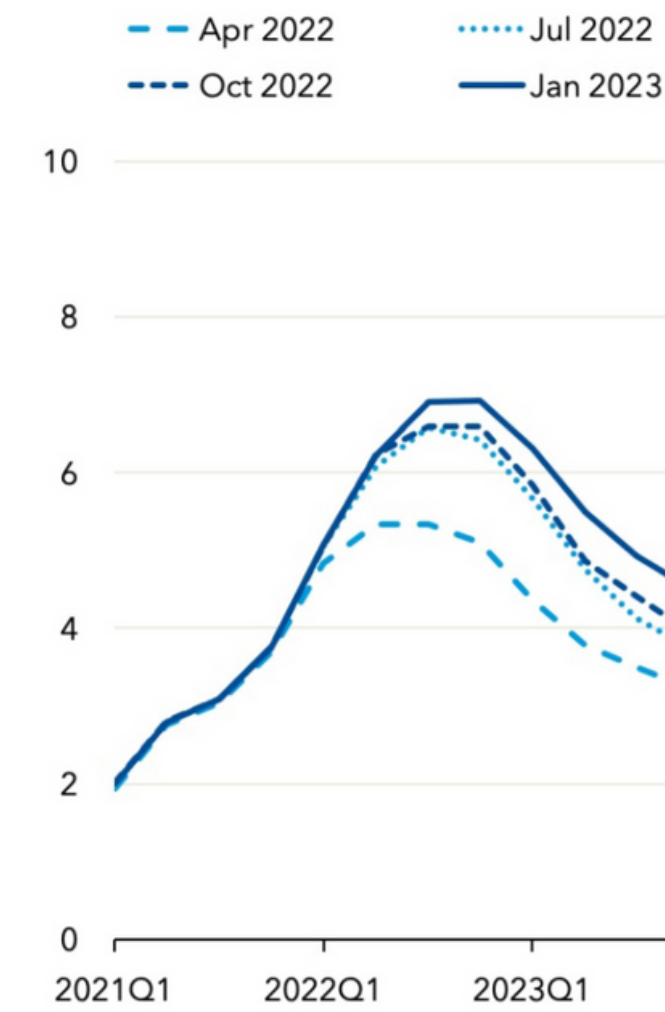
Inflation

Headline inflation is falling in many countries, but core inflation has been revised upwards.

Global headline CPI inflation
(percent; year over year)



Global core CPI inflation
(percent; year over year)



Sources: IMF, World Economic Outlook; and IMF staff calculations.





What's been happening globally

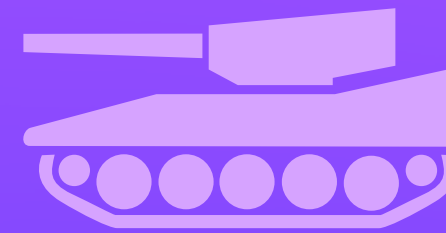
On the downside



China's recovery could stall amid greater-than-expected economic disruptions from current or future waves of COVID-19 infections or a sharper-than-expected slowdown in the property sector



Inflation could remain stubbornly high amid continued labor-market tightness and growing wage pressures, requiring tighter monetary policies and a resulting sharper slowdown in activity



An escalation of the war in Ukraine remains a major threat to global stability that could destabilize energy or food markets and further fragment the global economy



A sudden repricing in financial markets, for instance in response to adverse inflation surprises, could tighten financial conditions, especially in emerging market and developing economies

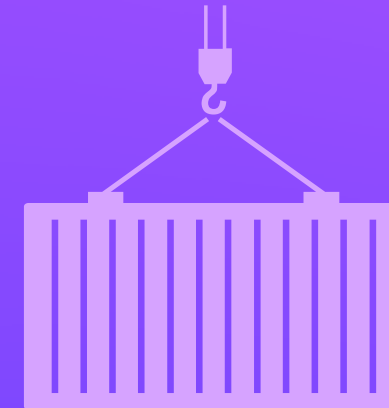


What's been happening globally

On the upside

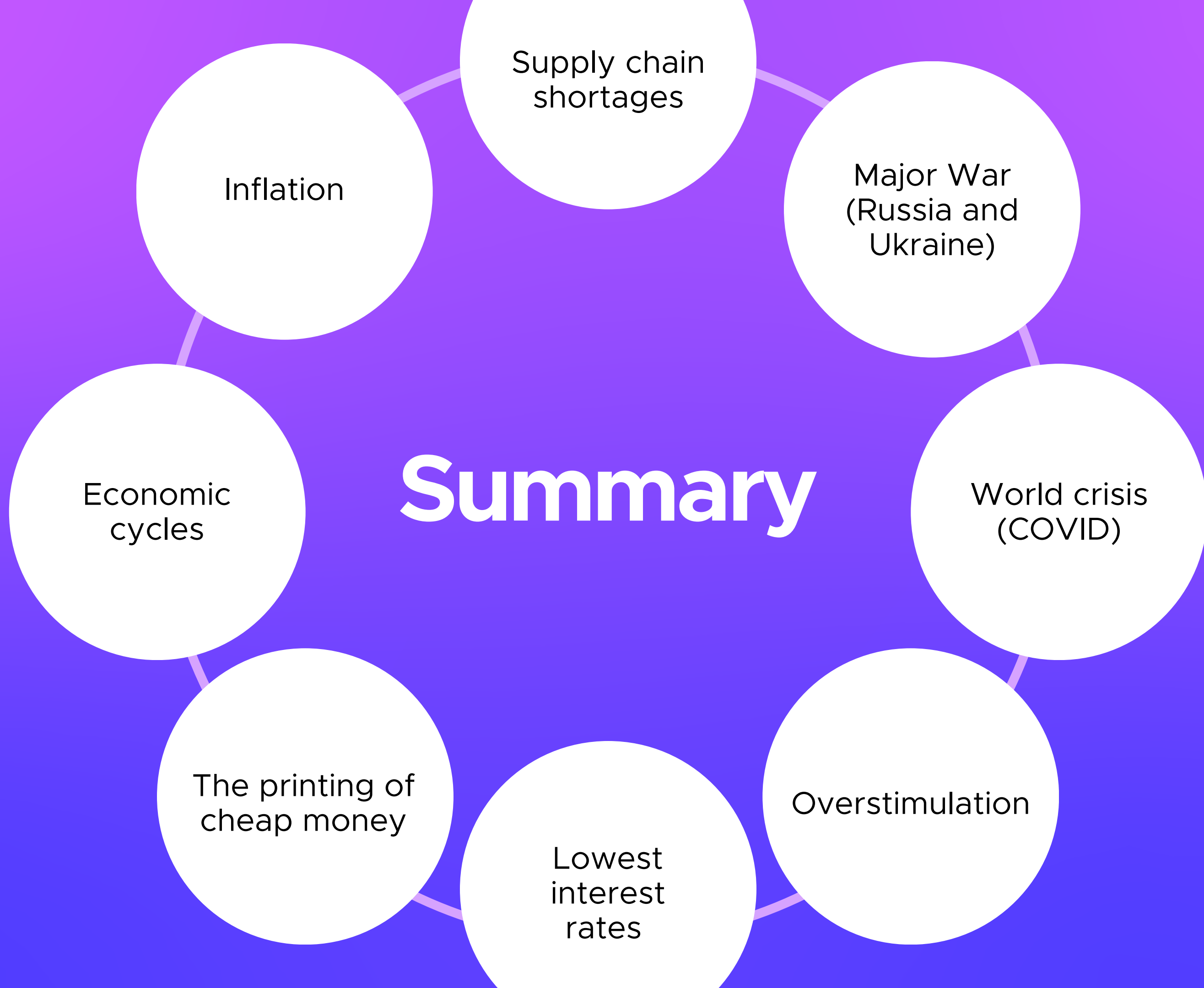


Strong household balance sheets, together with tight labor markets and solid wage growth could help sustain private demand, although potentially complicating the fight against inflation



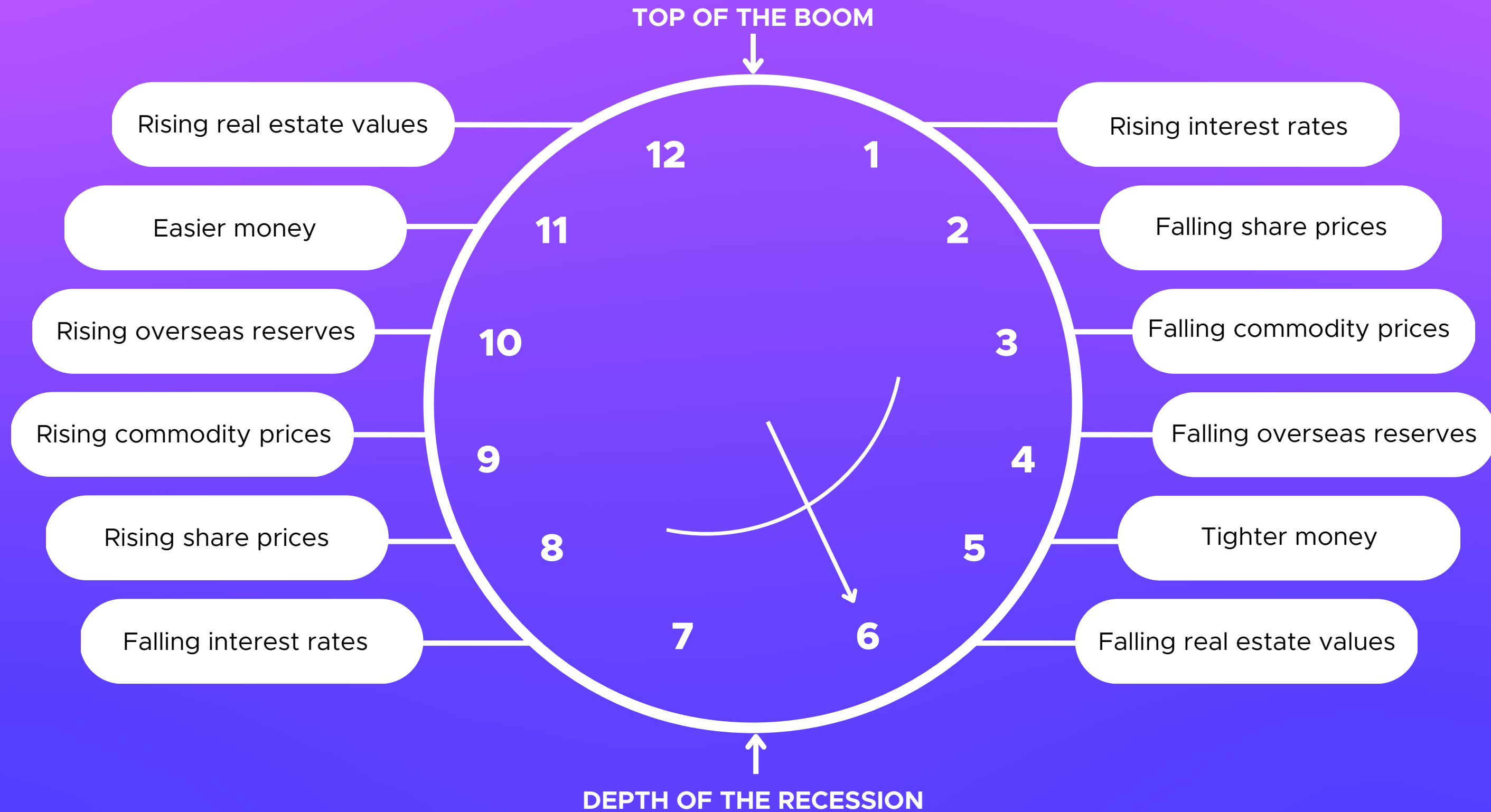
Easing supply-chain bottlenecks and labor markets cooling due to falling vacancies could allow for a softer landing, requiring less monetary tightening

THE
BIGGER
PICTURE





The Cycle





Opportunities



Property has become a buyers market



Dropped share prices



Investors waiting in the wings to pounce on assets at the bottom



If you have capital and or equity with stable income you are well placed



Make a plan and take action - invest long term



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