

# A family snapshot



NZ Aged Care Association Conference  
August 29, SkyCity

# NZ's financial health diagnosis



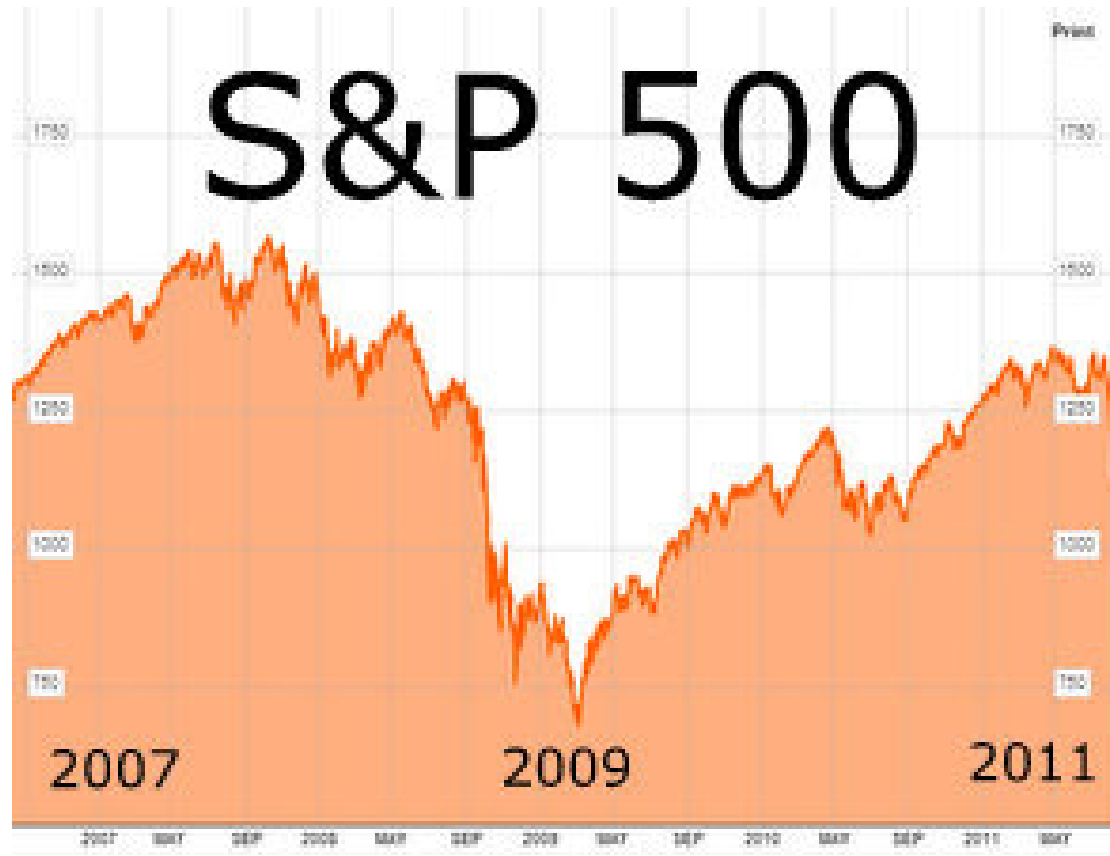
- Financial outlooks
- Governments
- Households
- Age groups
- Context of trends
- Deleveraging Inc
- Slow growth

- Great Depression
- Hollowed out NZ
- Ageing & nesting
- Asset transfers
- Generational politics
- Los Indignados

But first a joke:  
Why did  
God create  
economists.

To make weather  
forecasters look  
good

# Market meltdown/up



# The rate of fear



# Turning Japanese

## Nikkei 225 since 1984



# Deja vu all over again



# The new normal?



# Three scenarios:

1. Goldilocks

2. The Big Bad  
Wolf

3. Sleeping beauty  
(ugly)

# The Goldilocks scenario: not too hot and not too cold

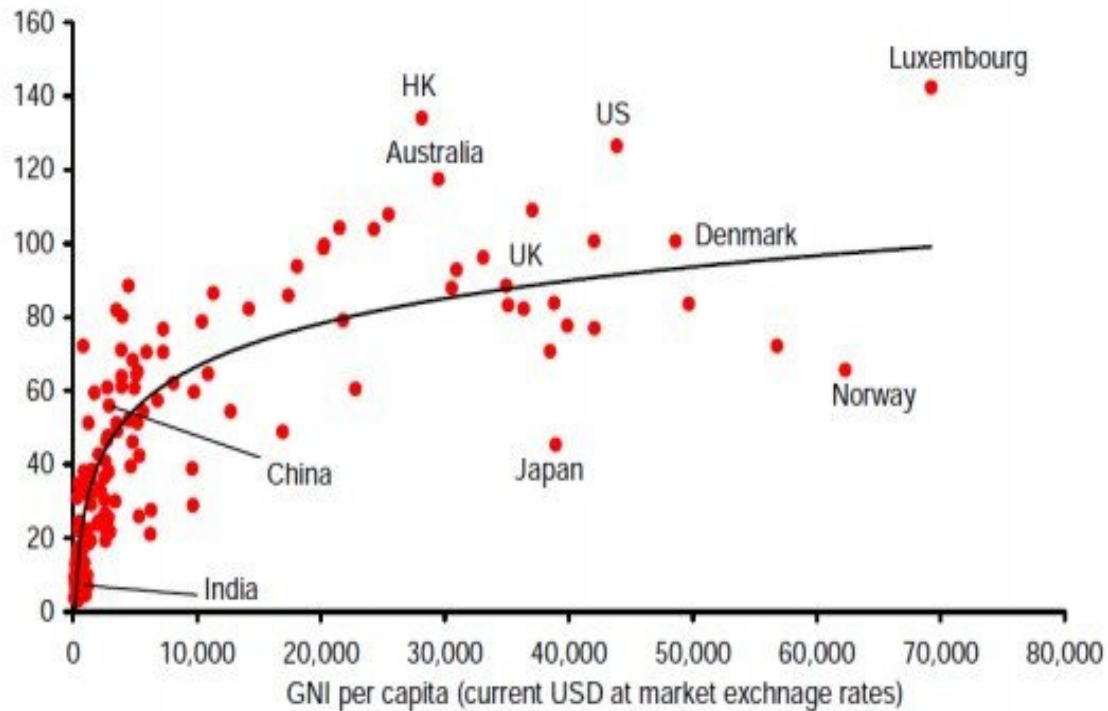
- Extend and pretend works
- Just enough inflation to relieve debt burden
- Political stability
- Energy stability

- Strong Chinese and Indian growth for 10-20 years
- High commodity prices, low inflation
- Orderly markets
- Low rates

A great wall of  
demand for protein  
and holidays in  
our time zone and  
hemisphere

# A world of protein

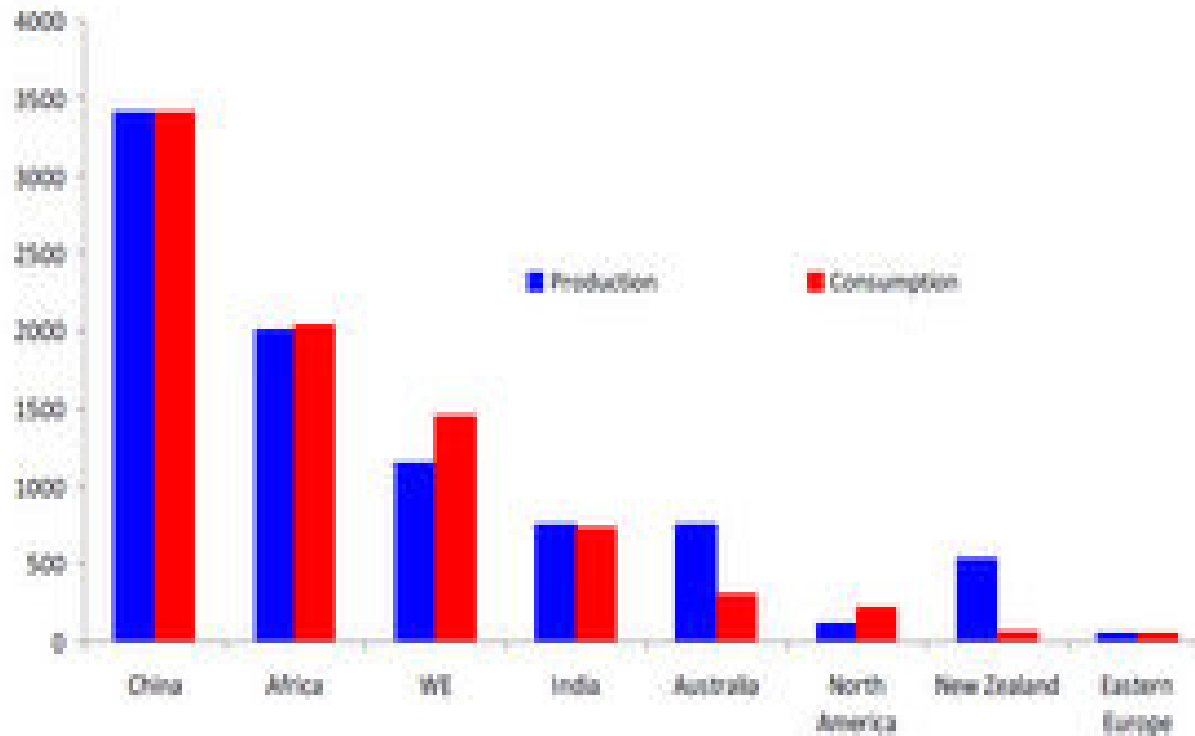
Per capita livestock meat consumption (Kg/year)



Source: FAO, World Bank and Nomura Global Economics.

# Rising up the curve

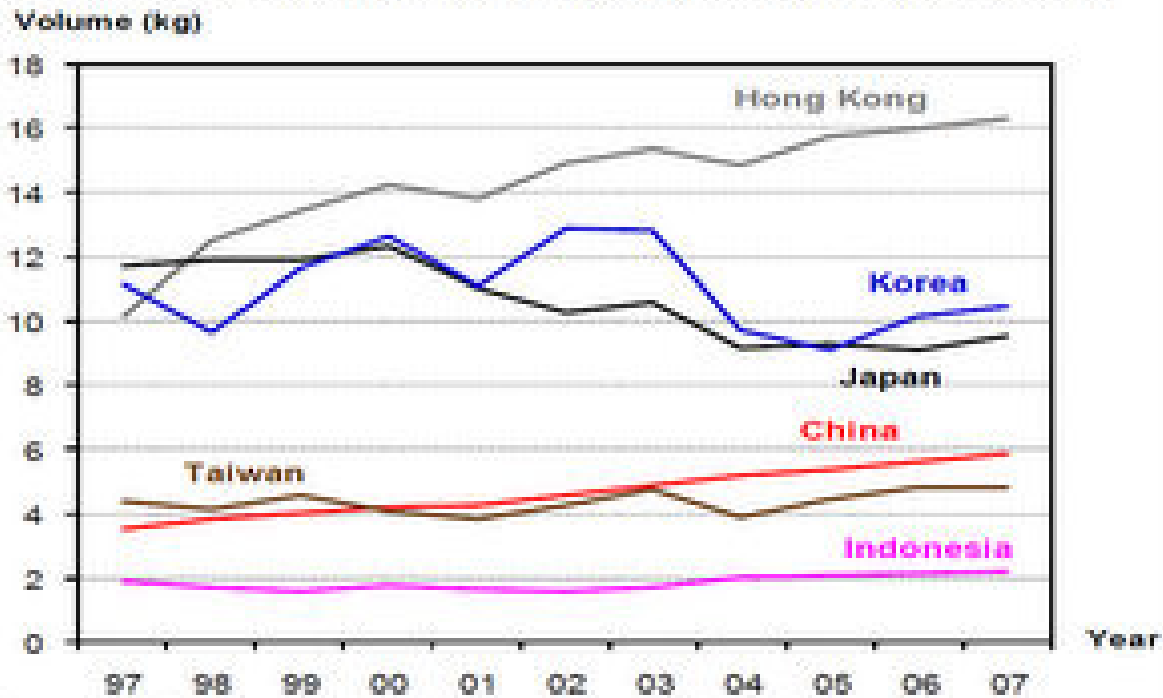
Sheepmeat production and consumption, 2007 (in thousand tonnes)



Source: OECD-FAO outlook, Rabobank 2008

# Rising up the curve

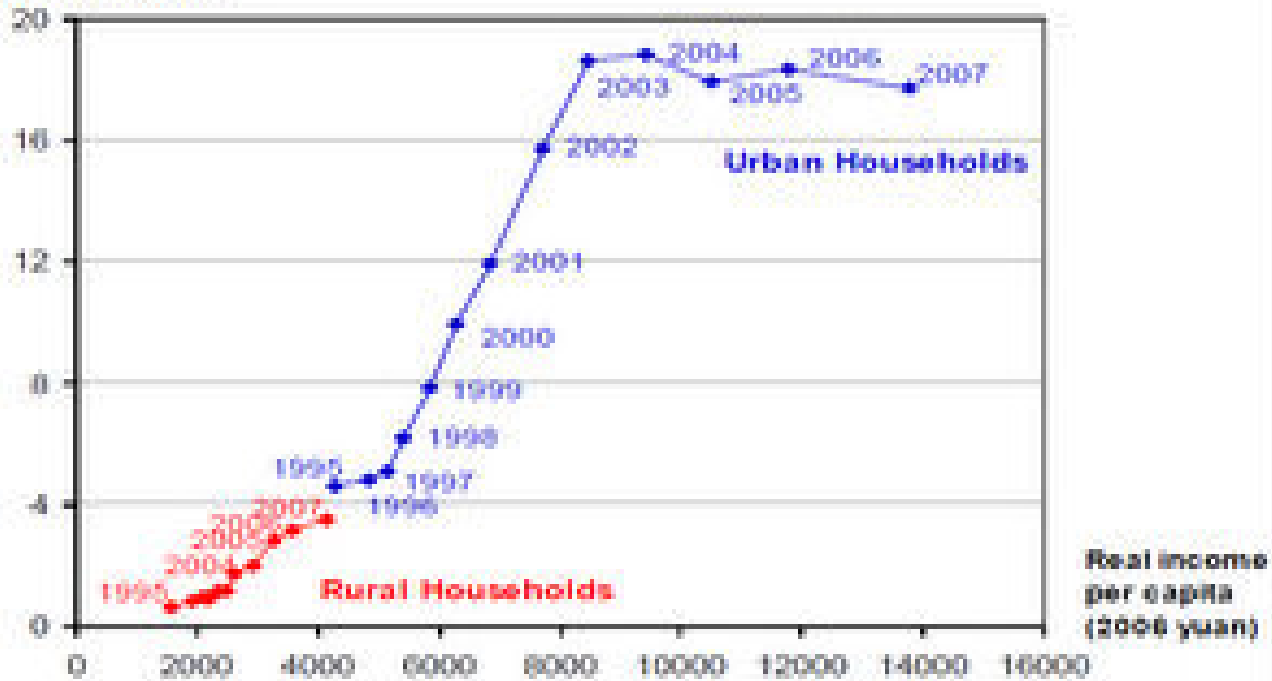
Beef and Veal Consumption per Capita in Selected Asian Countries



Source: USDA

# Rising up the curve

Fluid milk consumption per capita (kg)

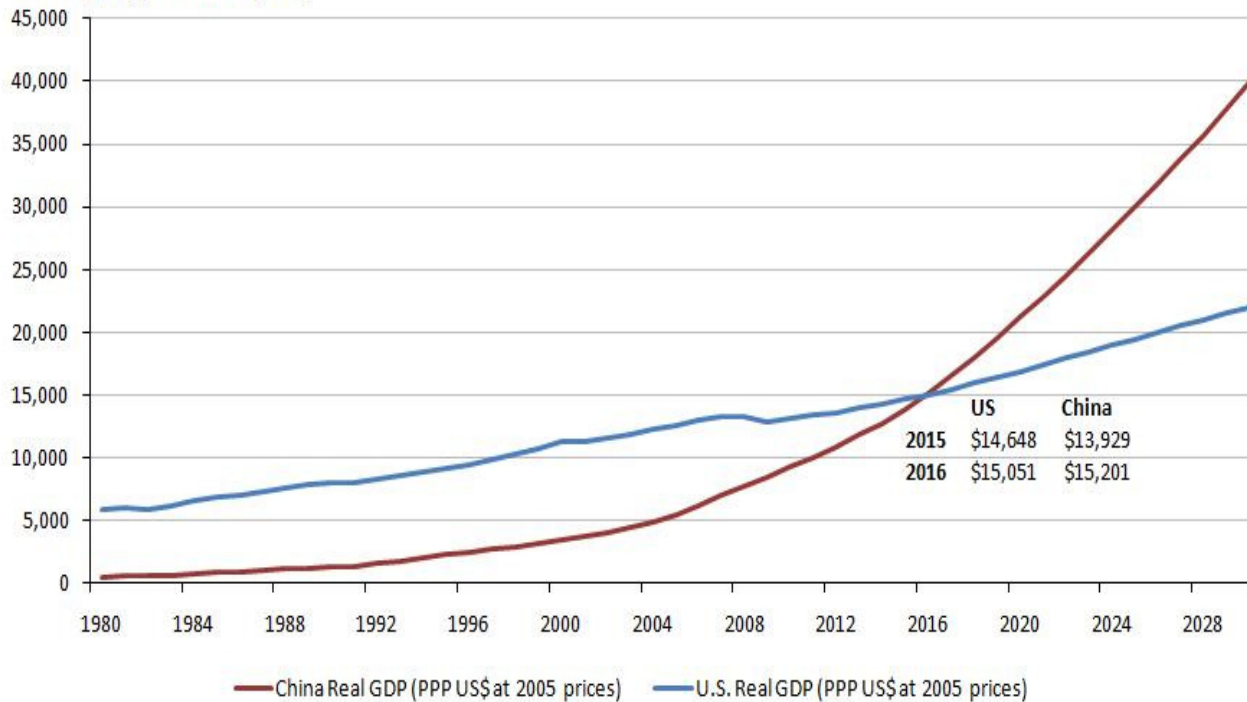


Source: China Statistical Yearbook. Data labels represent years.

# Rising up the curve

Real GDP, China and the U.S., 1980-2030

Billions of US\$ (PPP at 2005 prices)



Source: Economist Intelligence Unit; calculated from GDP at constant market prices, rebased to 2005 constant prices and translated into US\$ using the LCU:\$ PPP exchange rate in 2005

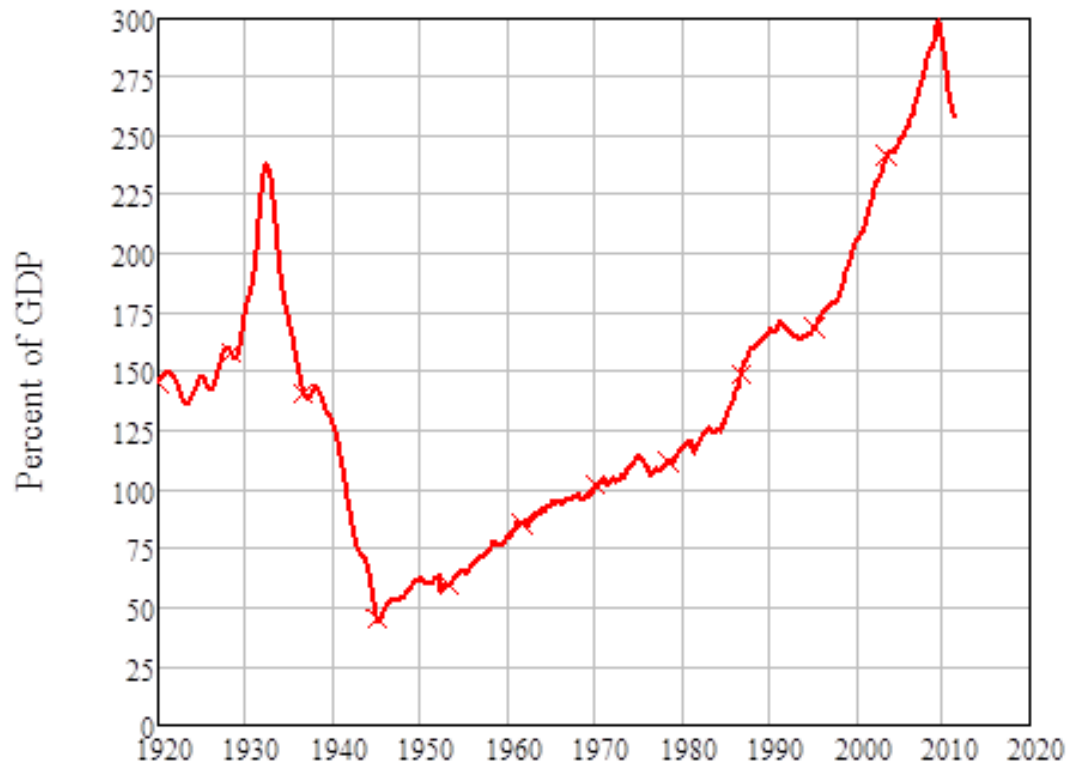
# The Big Bad Wolf and the four little PIGS

- Developed world chokes on too much dumb debt
- Extend and pretend fails
- 10-20 years of very slow growth

- China slows down to contain inflation
- Lower commodity prices, lower NZ\$
- Slow to no growth
- Markets volatile
- Low rates

# A world of debt

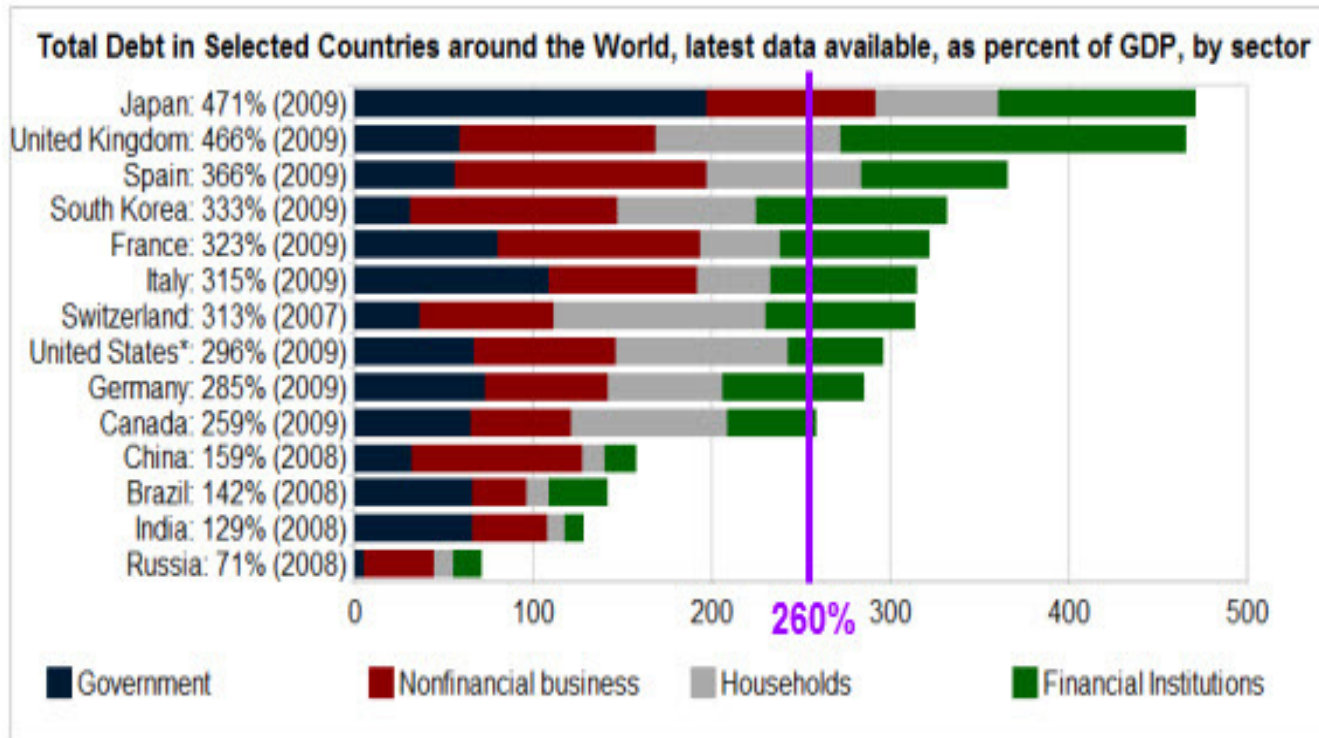
US Private Debt to GDP



[www.debtdeflation.com/blogs](http://www.debtdeflation.com/blogs)

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# A world of debt



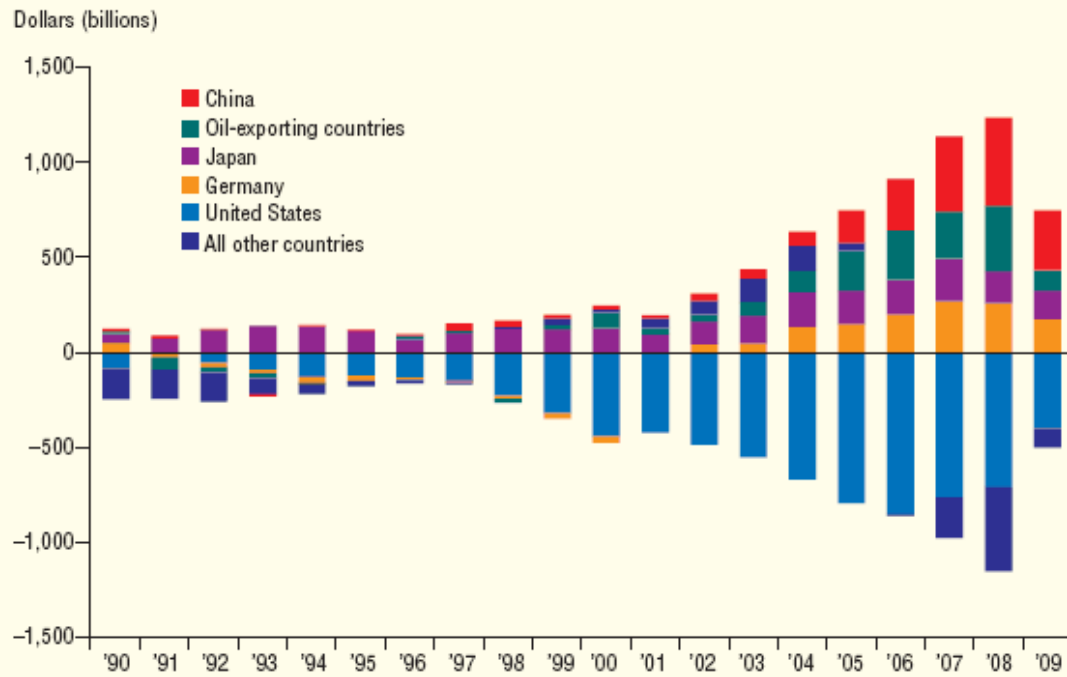
Google Docs

*\* Including asset backed securities (ABS) US total debt would equal 350%-360%. Asset-backed securities are removed from McKinsey data since underlying mortgages and other loans are already included, so it would reflect a duplication within the data, according to McKinsey. Other data sources, including the FT, The Economist and Morgan Stanley, do include ABS in total debt figures.*

# Structural imbalance

Chart 1

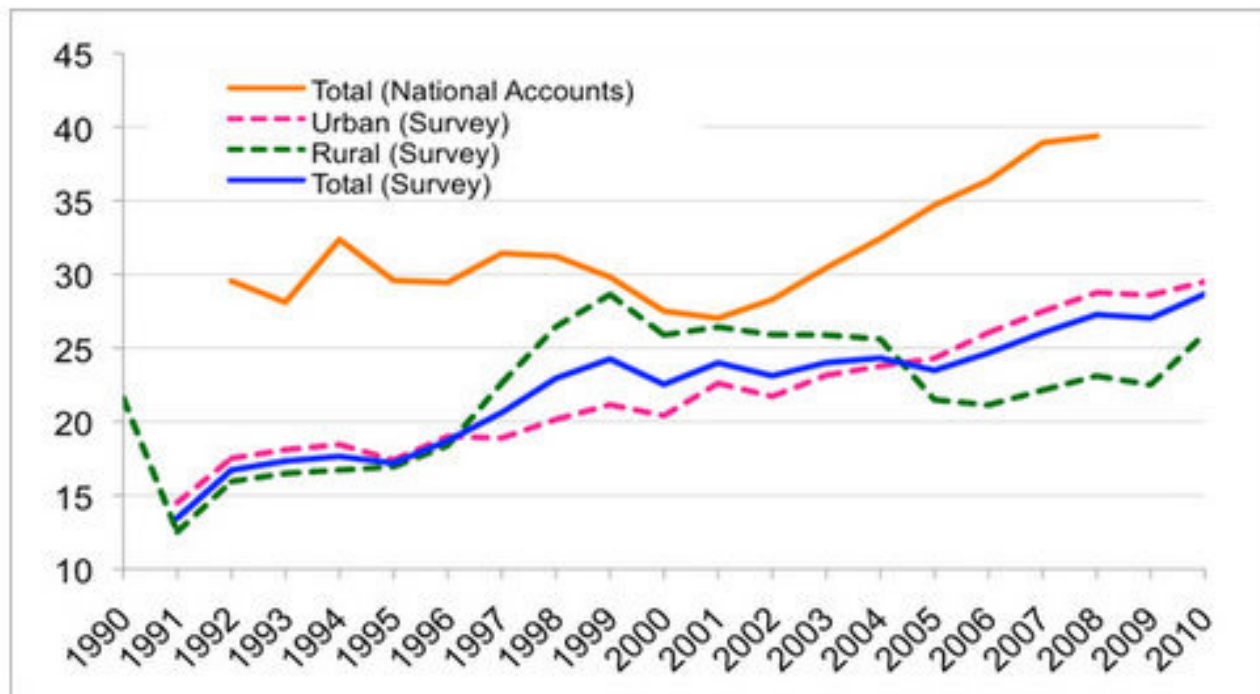
## U.S. Current Account Deficit Continues



SOURCES: International Monetary Fund; Haver Analytics.

# China's savings rate

Figure 7. Household Saving Rate (as percent of household disposable income)



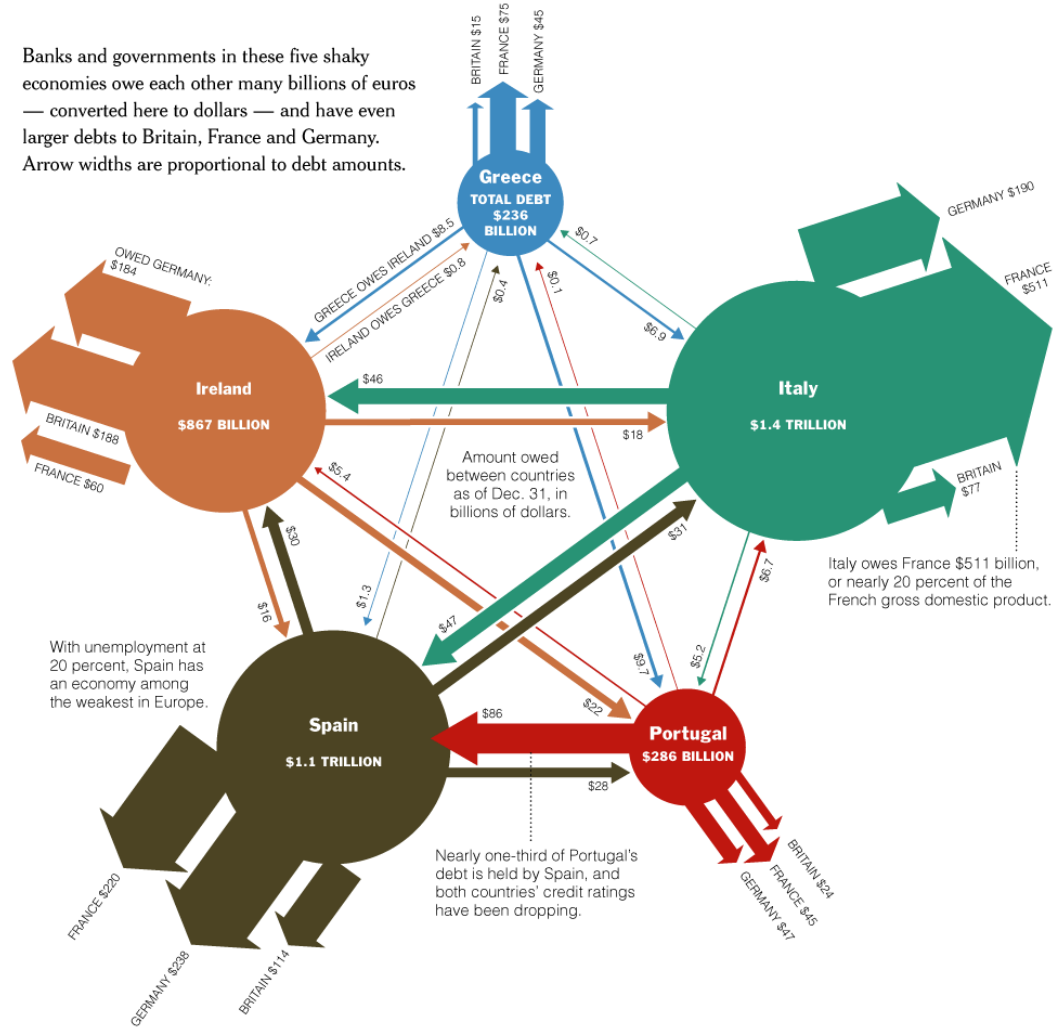
Source: CEIC and author's calculations.

# The interconnected nature of the Big Bad Debt

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# PIGS in a blanket

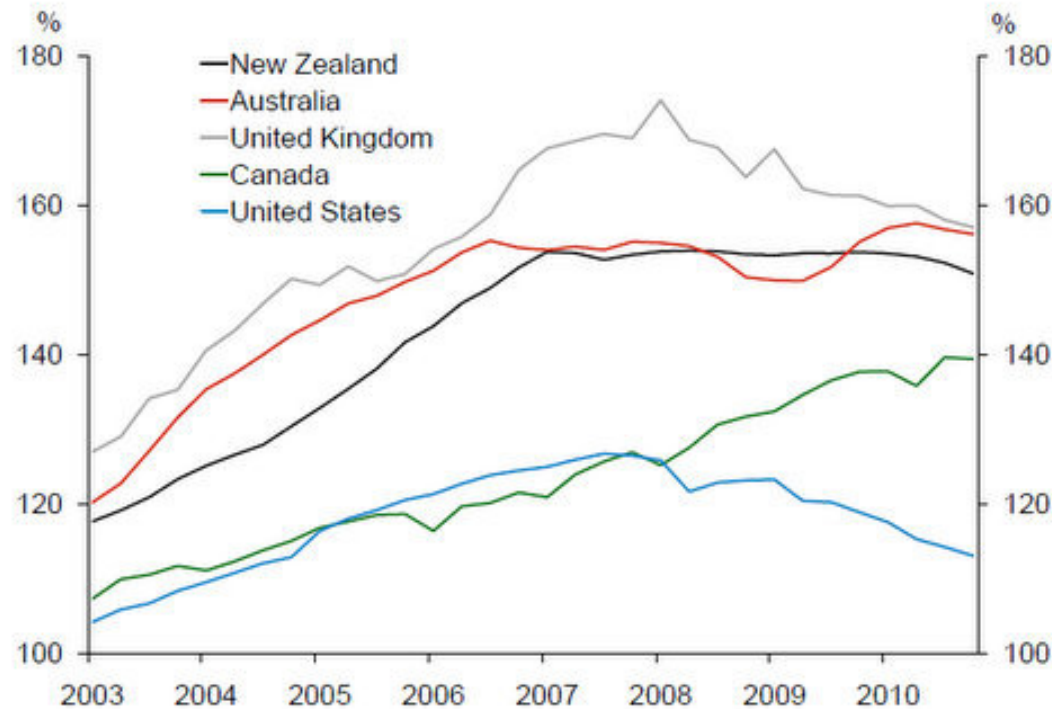
Banks and governments in these five shaky economies owe each other many billions of euros — converted here to dollars — and have even larger debts to Britain, France and Germany. Arrow widths are proportional to debt amounts.



# It's the household debt

Household debt

*(percent of household disposable income)*



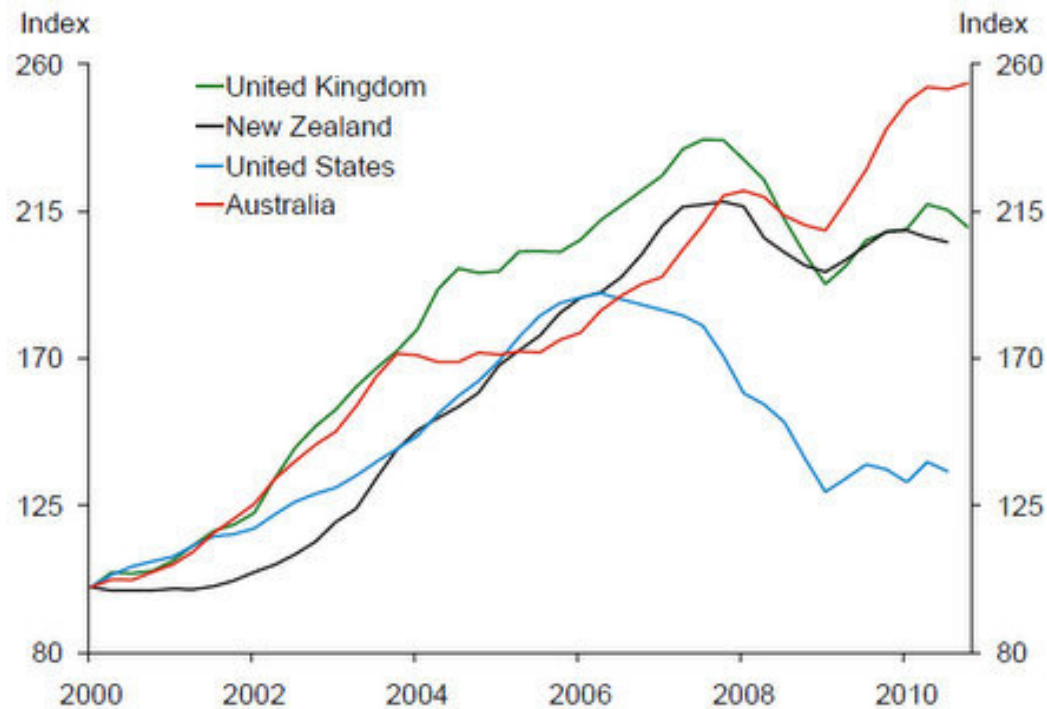
Source: RBNZ Standard Statistical Return (SSR), Reserve

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# It's the house prices

## House prices

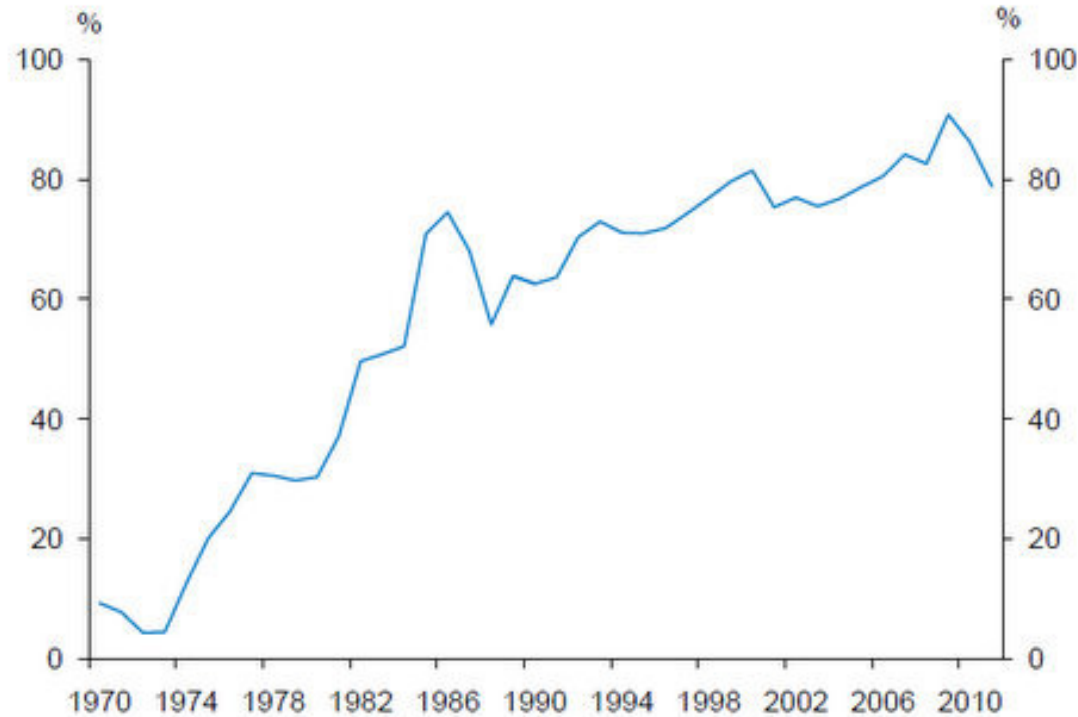
(March 2000 = 100)



# It's the net foreign debt

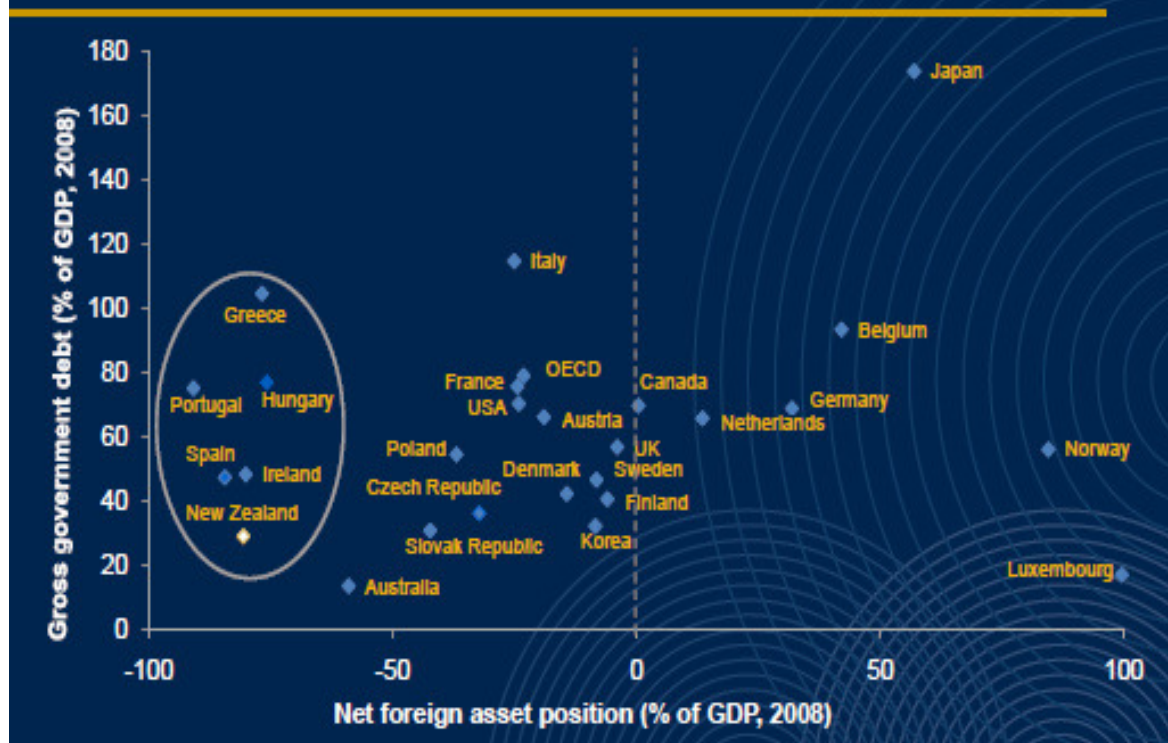
Net external liabilities

(percent of GDP, March years)



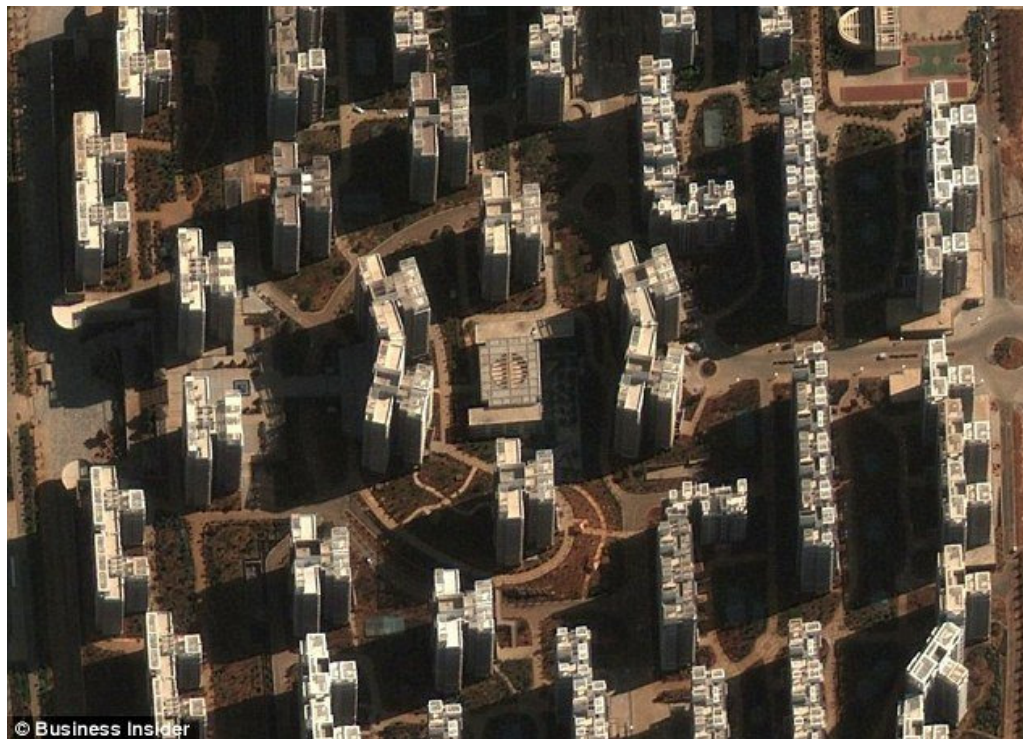
# Not so comfortable

## Government debt and net foreign asset position



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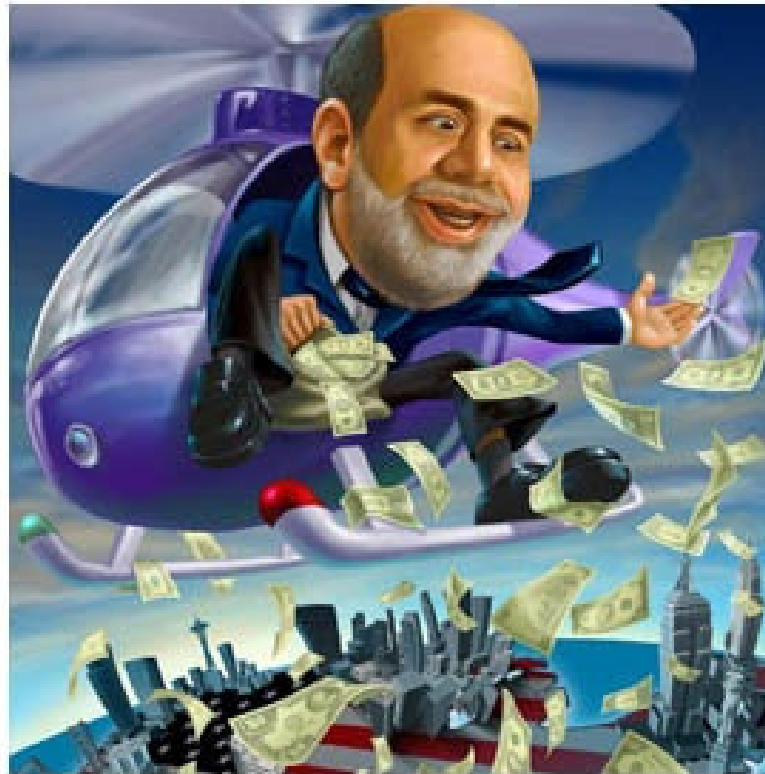
# China's ghost cities



© Business Insider

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# Helicopter Ben



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# Sleeping Beauty or should that be Sleeping Ugly

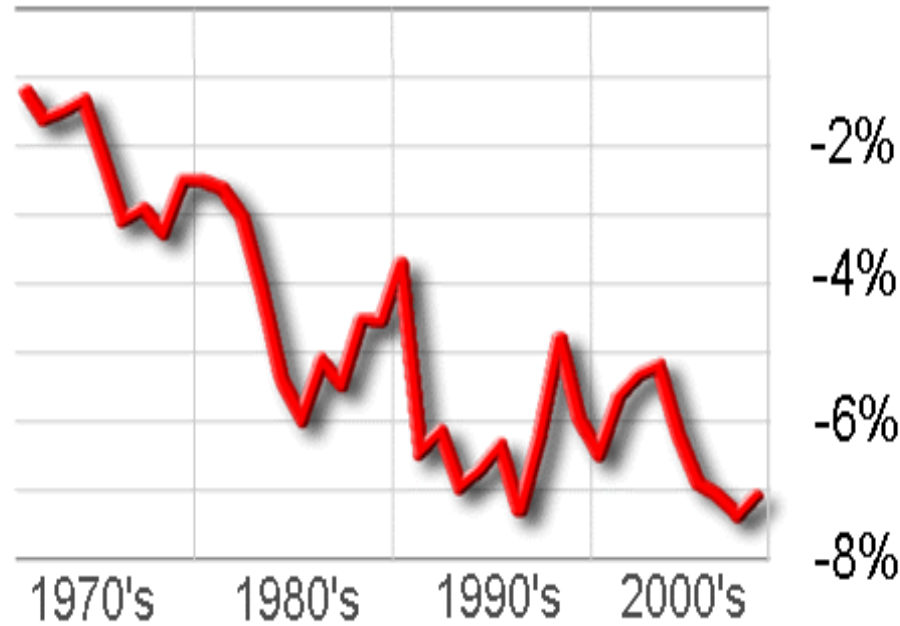
# The new normal?



# How NZ's income, assets and people are being hollowed out

# The foreign drain

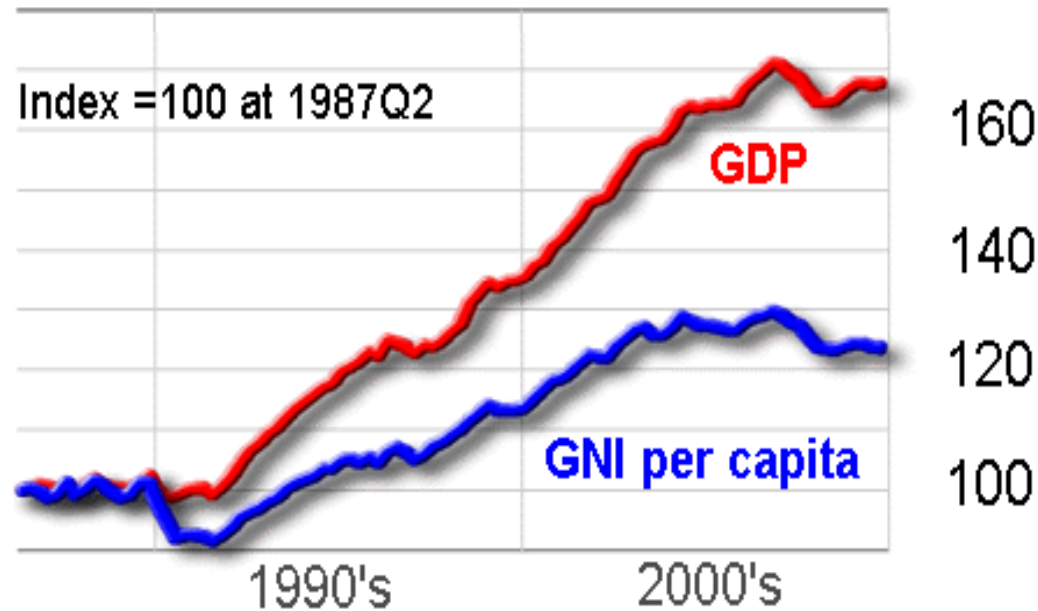
GDP going to foreigners



SOURCE: Stats NZ

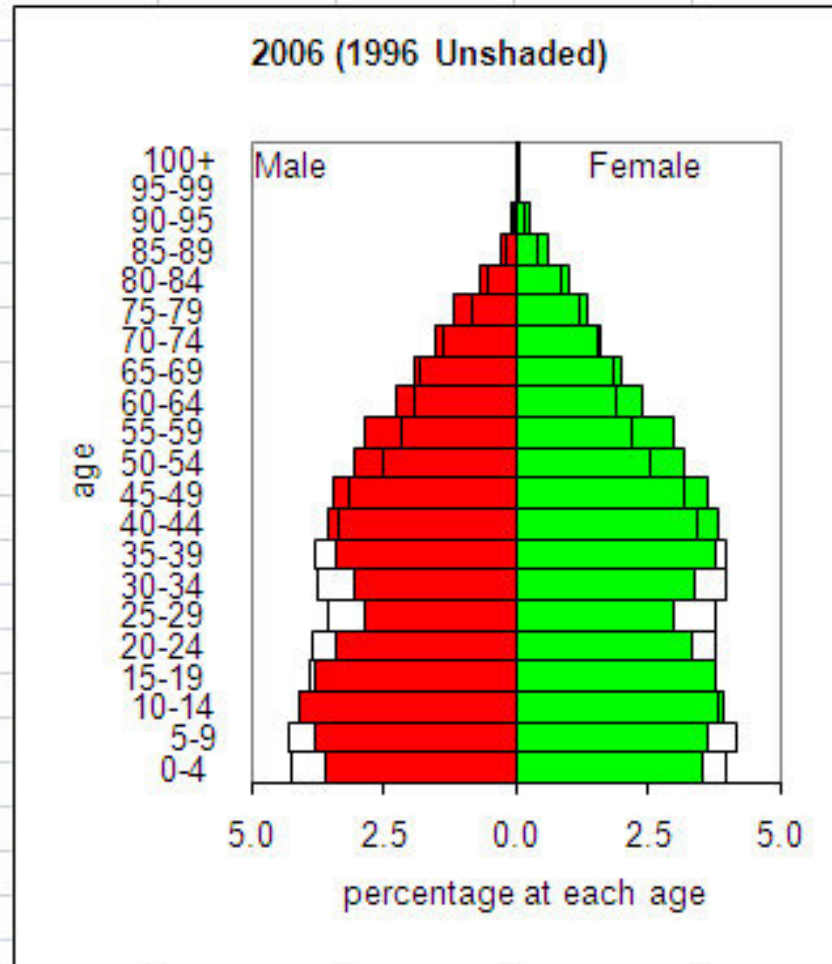
# The real problem

Getting poorer since 2003



SOURCE: Stats NZ

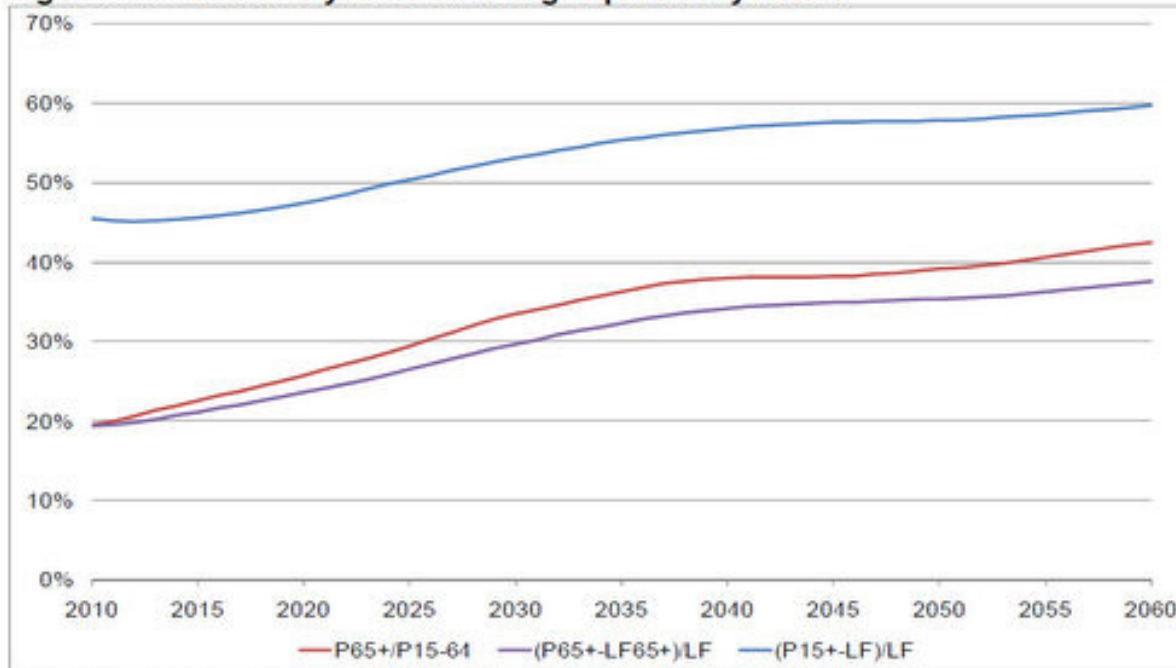
# They just left



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# 40% support 60%

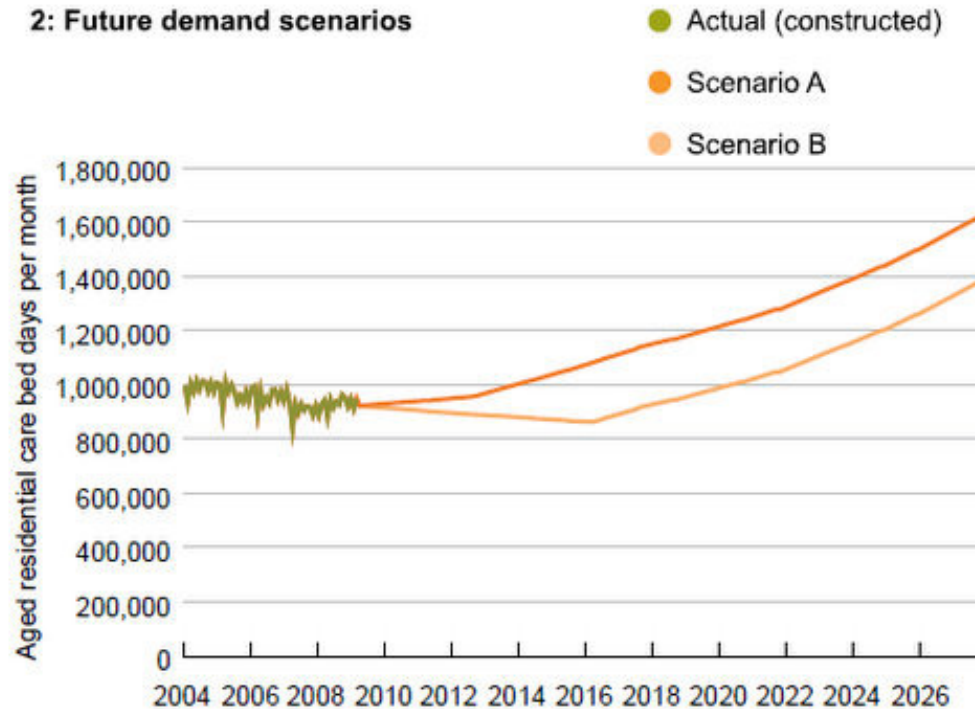
Figure 2: Different ways of measuring dependency ratios



Source: Statistics New Zealand, medium population and LFprojections

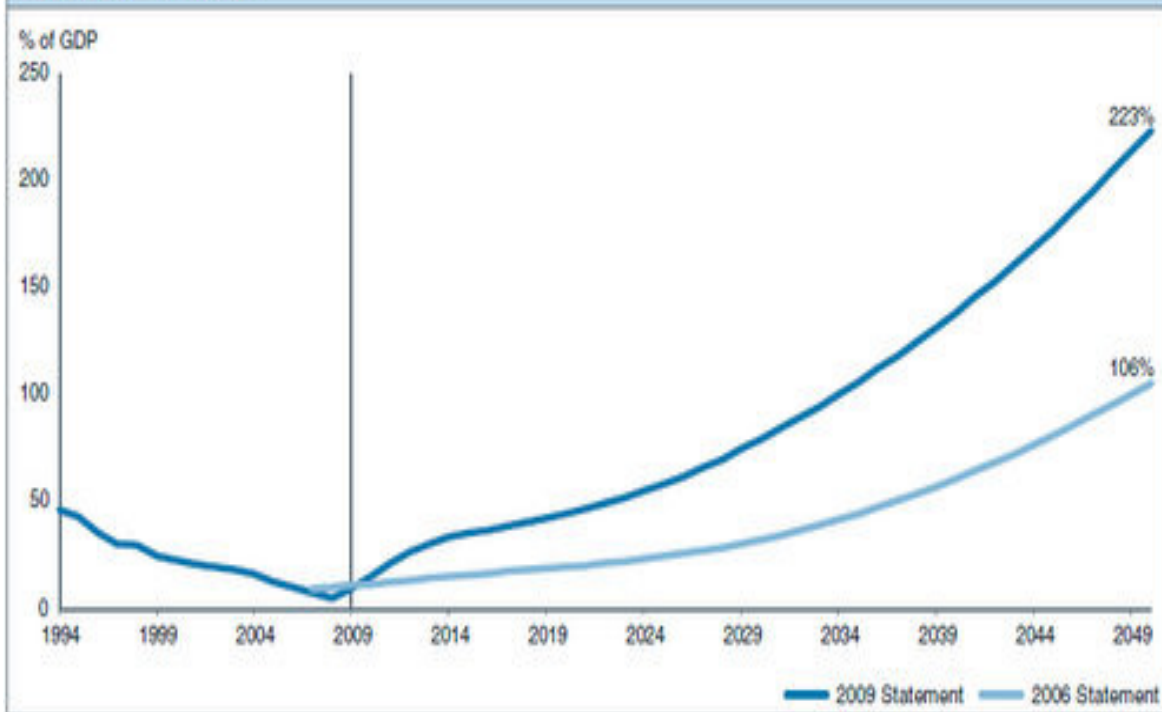
# Who will pay for it?

2: Future demand scenarios



# Who will pay for it?

Figure 2.1 - Net debt<sup>1</sup>

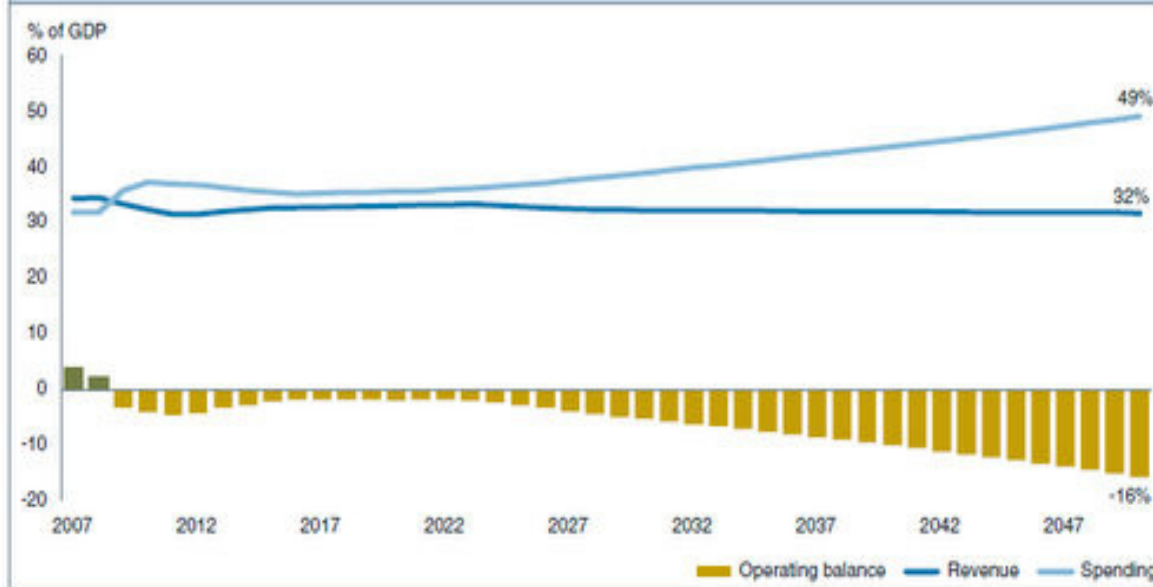


”By 2020 the number  
of new labour force  
entrants will  
be surpassed by the  
numbers retiring”

Natalie Jackson

# Who will pay for it?

Figure 3.2 – Spending, revenue and operating balance



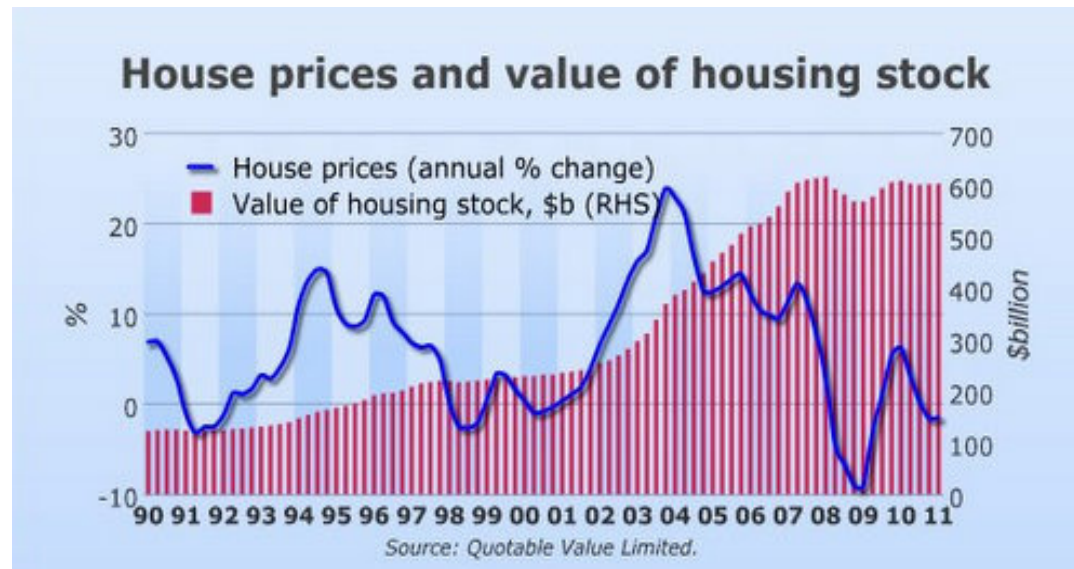
Source: The Treasury

# Ageing and nesting



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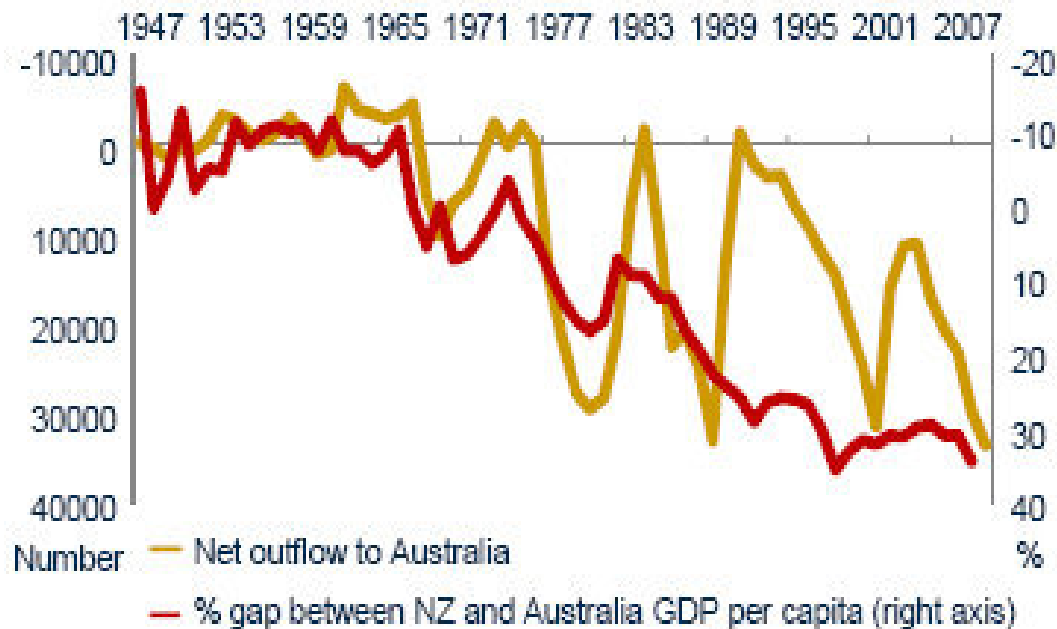
# Asset transfer or asset consumption?



# Hollowed out NZ

## Migration and income appear related

Net outflow of NZ citizens to Australia, GDP per capita



# Young and angry

Outbound - Auckland to Melbourne Lowest Economy fares per adult quoted in NZD

◀	Wed 6 JUL No seats available	Thu 7 JUL \$361	Fri 8 JUL \$431	Sat 9 JUL \$670	Sun 10 JUL \$670	Mon 11 JUL \$670	Tue 12 JUL \$361	▶
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Friday 08 July 2011 Fares: [Economy](#) [Business](#) Lowest to highest price

			Seat	Seat + Bag	The Works	Works Deluxe
			<ul style="list-style-type: none"> <li>• 1 carry on bag only (7kg)</li> <li>• Tea, coffee &amp; water only (no meal)</li> <li>• Buy snacks onboard</li> <li>• TV shows &amp; games</li> </ul>	<ul style="list-style-type: none"> <li>• 1 checked bag (23kg)</li> </ul>	<ul style="list-style-type: none"> <li>• Meal and drinks</li> <li>• Movies</li> <li>• Seat request</li> </ul>	<ul style="list-style-type: none"> <li>• 1 extra bag (23kg)</li> <li>• Premium check-in</li> <li>• Lounge access</li> <li>• More personal space</li> </ul>
Departs	Arrives	Duration				
7:30 pm Fri 08 Jul	9:30 pm Fri 08 Jul	4h 0m <a href="#">1 flight</a>	○ \$431	○ \$451	○ \$481	○ \$631
7:30 am Fri 08 Jul	9:30 am Fri 08 Jul	4h 0m <a href="#">1 flight</a>	○ \$670	○ \$690	○ \$720	○ \$920
3:30 pm Fri 08 Jul	5:30 pm Fri 08 Jul	4h 0m <a href="#">1 flight</a>	○ \$670	○ \$690	○ \$720	○ \$920

# Los Indignados



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