ASFONZ
The Voice of Workplace Super

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The Domestic Picture

How is it really looking?

Bevan Graham
Chief Economist
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Global Assumptions

- This is worse than your normal recession
- Structural recession needs structural recovery
- Global imbalances need to reduce
- The three “D’s” delevergaing, deleveraging and deleveraging
- Developed market growth set to be sub-trend, emerging market recovery more robust and sustainable
- Deflation has been contained to commodity deflation

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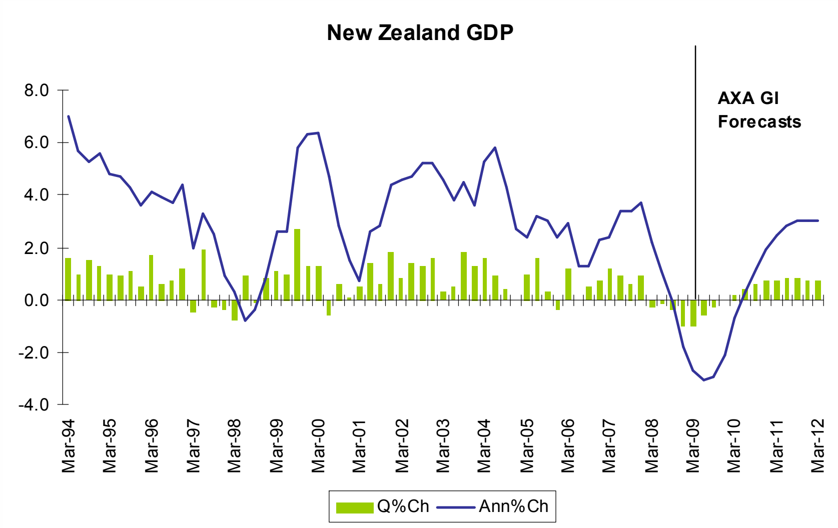
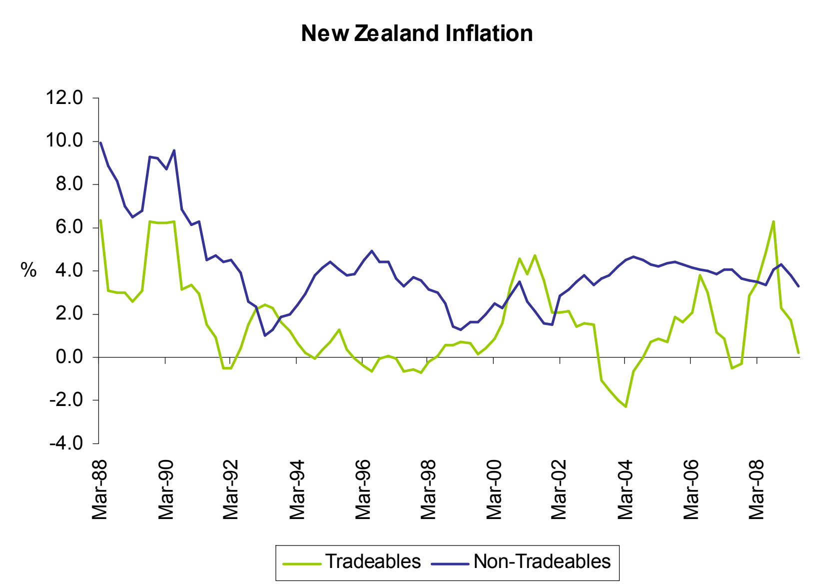
The New Zealand Recession

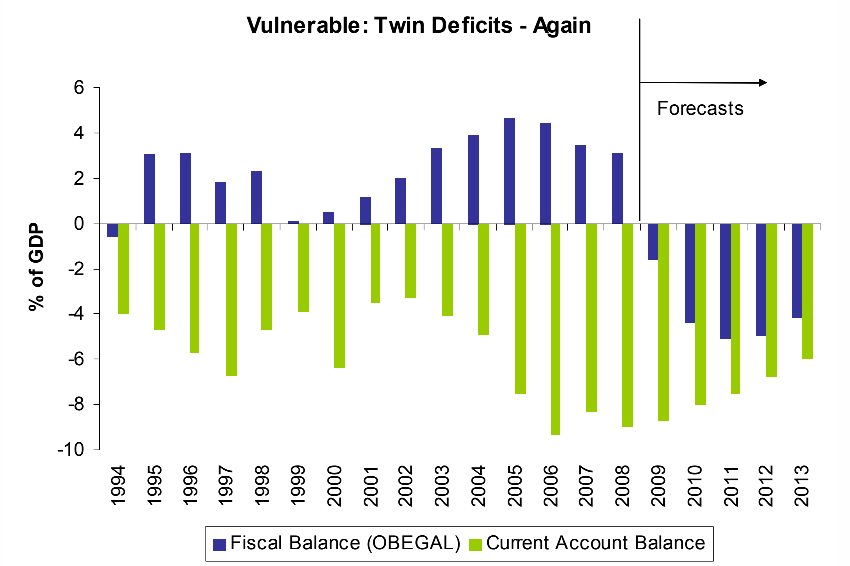


- Non-tradeables inflation has held up
- Volatility in the headline rate is due to commodity price volatility

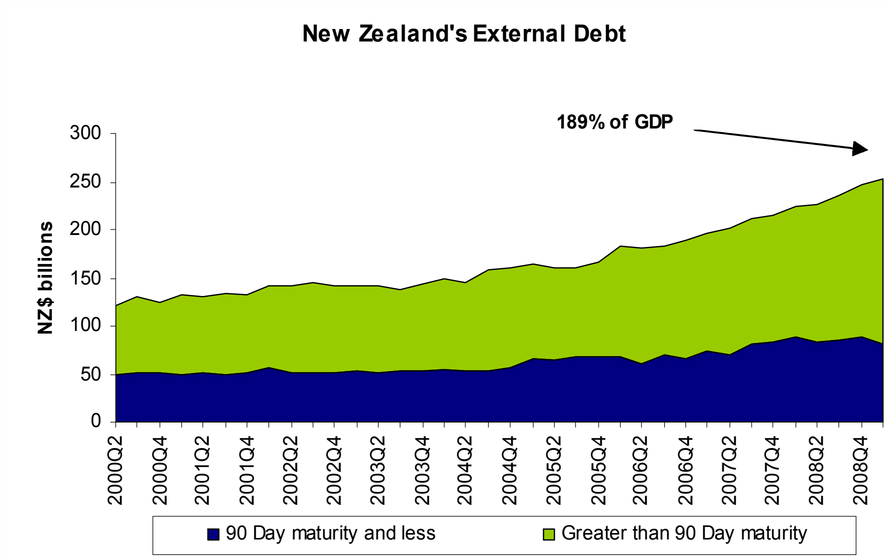


- Already banked 5 quarters of GDP contraction – June quarter was probably the 6th
- Will probably see 7 or 8 in total
- Recovery will be subdued

Our own global imbalances



- Time to reduce our reliance on everyone else's savings



- Back to twin deficits
- On the mend – but it will be hard graft
- Have had to make hard decisions just to get here!

The old model won’t work

- The old model: consumption growth on the back of unrealised and unsustainable increases in the value of houses
- The old model won’t work anymore
- Can’t rely on continued use of the savings of others
- Global imbalances need to reduce – given we are part of the globe, that means us too!
- Return to fundamental drivers of economic growth: innovation and productivity

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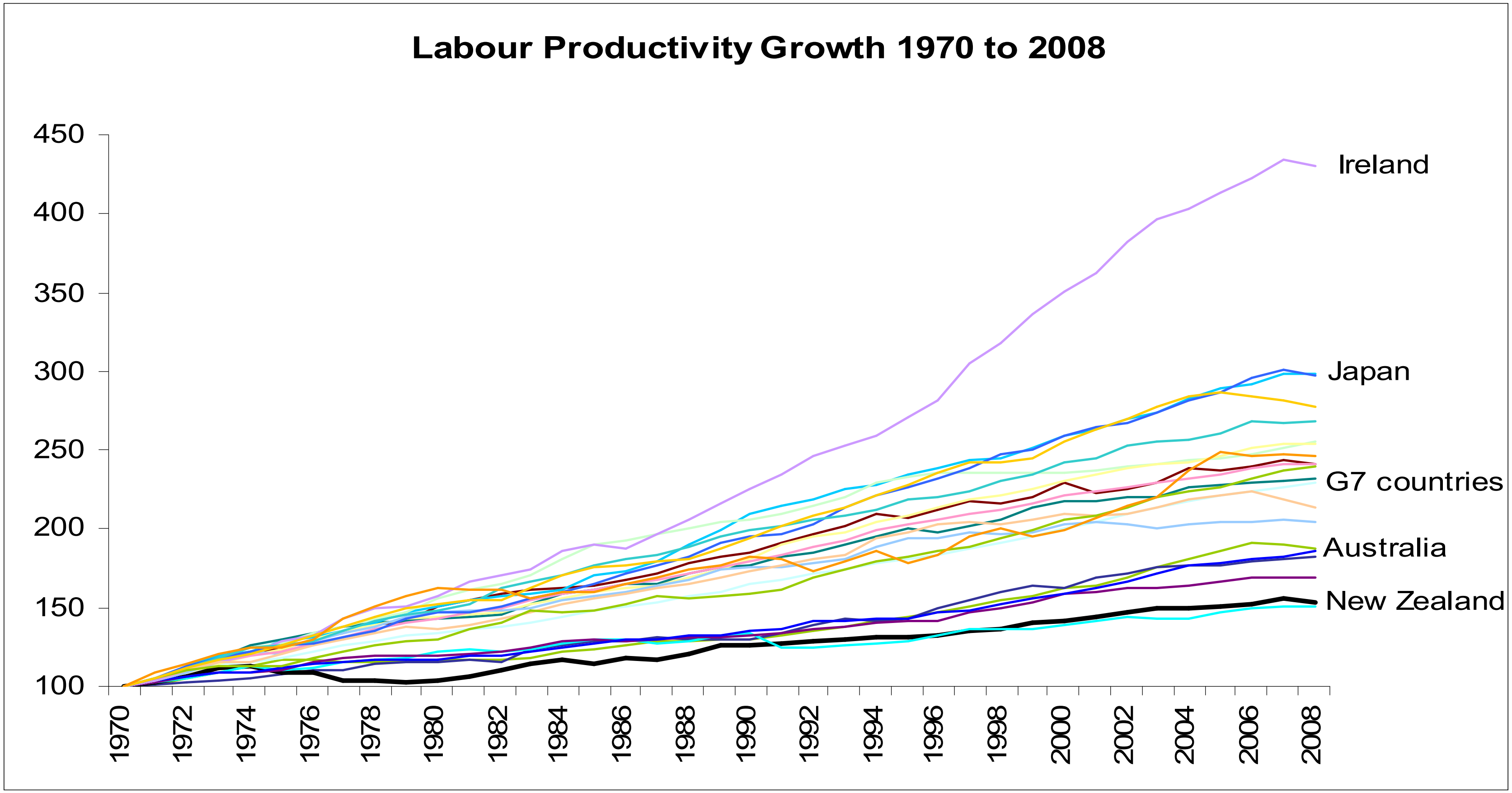
The "P" word



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Work Smarter…Not Harder

Top OECD Countries Ranked by GDP Per Hour Worked - 2008

Country	Gross domestic product in US$mln	Average hours worked per person	Total Hours worked (mln)	GDP per hour worked	Rank by GDP per hour worked	Rank by least hours worked per person
Norway	269,956	1,422	3,723	72.5	1	2
Luxembourg	38,998	1,613	563	69.3	2	8
Ireland	197,265	1,609	3,401	58.0	3	7
Belgium	386,940	1,568	6,956	55.6	4	5
Netherlands	676,785	1,393	12,181	55.6	5	1
United States	14,196,467	1,703	259,873	54.6	6	14
France	2,140,747	1,544	39,901	53.7	7	4
Germany	2,927,275	1,432	57,749	50.7	8	3
Austria	320,438	1,631	6,899	46.4	9	10
Sweden	340,510	1,626	7,411	45.9	10	9
Average	**2,149,538**	**1,554**	**39,866**	**53.9**		
Australia	836,435	1,732	18,581	45.0	12	17
New Zealand	116,673	1,753	3,819	30.6	23	19

Source: OECD

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What do we do about it?

- Innovate
- Commercialise the innovation – that's the entrepreneurship bit
- Invest in skills incl. foundation skills
- Invest in infrastructure
- Get the regulatory environment right
- Play to our strengths - but continue the search for new ones (that's the innovation bit!)

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But we need to remember…

- Government can’t simply legislate for innovation or higher productivity
- Greater innovation and higher productivity ultimately has to happen in firms
- Government’s role is to create the right environment for innovation and higher productivity to happen
- Business owners have to want to do it
- We will fail if we sit around waiting for Government to do it for us

These guys can’t do it for us!

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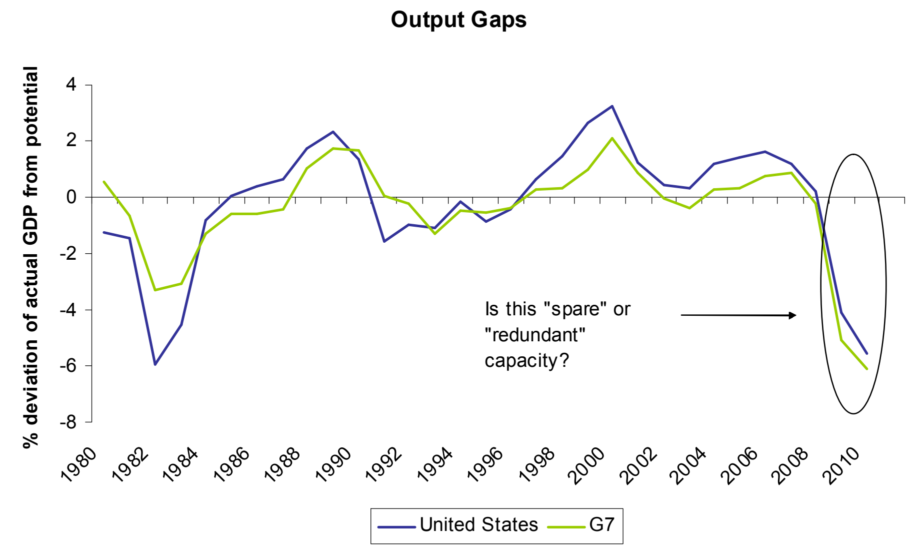
In the meantime…

- We won’t see the usual cyclical economic recovery – this one will be far more muted
- Structural change has to occur…transition of resources to the export sector
- Current “spare” capacity (output gap) might include some “redundant” capacity
- We might see higher structural unemployment AND skills shortages which means earlier than expected inflation pressures



In conclusion…

- We can’t continue on the way we have
- We must save and invest more, consume less
- If we don’t change our ways, others (the world’s savers) will change it for us
- Work smarter, not harder
- Play to our strengths…forget the Knowledge Wave, GIF, ET…Go the old economy!!!
- Remember TINA?

…

<u>T</u>HERE <u>I</u>S <u>N</u>O <u>A</u>LTERNATIVE

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