

Economic Outlook

The general sense of current economic commentary is that the World (and NZ) is now emerging from the pandemic and that, once associated supply-chain challenges are resolved, a more familiar economic pattern will reassert itself. Most do, however, underline the need for extreme caution with deep uncertainty as to whether this scenario will eventuate. Alternate perspectives point to overlooked macro-factors, including global turning points for demographics and energy that may presage the end of growth.

What we're seeing

International Outlook

The global economy started 2022 in a weaker position than commentators had anticipated as Omicron disrupted the hoped-for recovery.¹ This 'saw-tooth' profile is indicative of the medium to long term trajectory as ongoing shocks temper continued economic optimism. Rising energy prices and supply disruptions will continue to pressure economies and drive inflation.²

Global Wild Cards

The WEF's *Global Risks Report* notes the potential for societal fractures—through persistent and emerging risks to human health, rising unemployment, widening digital divides, youth disillusionment, and geopolitical tensions.³ The pandemic has demonstrated that politicians can act when the situation warrants. This is likely to embolden electorates to demand action to tackle economic stress.⁴

New Zealand Prospects

The housing cycle may be past the peak, but the extent and timing of the future decline is highly uncertain. There's optimism that service exports (education and tourism) will start to rebound in the medium-term, and wages should lift given the tight labour market.⁵ However, the challenge for air connectivity remains with very weak international traffic across the Asia-Pacific region.⁶ The pressure on local costs from maritime supply routes constraint also looks set to continue.⁷

Household Debt

Housing affordability increases its negative trend and has just hit an all-time low, with households now needing nearly 12 years to save for a deposit.⁸ It is acknowledged as unsustainable⁹ but requires either a politically unpalatable price correction or a significant relative increase in consumer purchasing power.

Emergent Economic Thinking

The broad economic narrative is that the economy will revert to pre-pandemic normality in the medium term. "*Global inflation is expected to peak during 2022 and then moderate, as supply disruptions are gradually resolved.*"¹⁰ The OECD also sees brisk global growth of 4.5% this year that moderates to 3.2% in 2023.¹¹

The counter to these comforting perspectives is the observation that the last few years have seen an end to the abundant global supply of cheap labour. The pandemic's effects have obscured this end of this historical anomaly. Overlooking this trend could fuel further inflation.¹² Similarly, economic tension is likely to be profound as fossil-fuel demand resumes, just as the World seeks to address the need to constrain emissions within the 1.5°C boundary.¹³ The social pressures inherent in this transition will be politically challenging.¹⁴

More information (links)

¹ [World Economic Outlook \(Update\)](#)

² [PwC's 25th Annual Global CEO Survey](#)

³ [The Global Risks Report 2021](#)

⁴ [How governments can push towards a better tomorrow](#)

⁵ [ANZ Economic Outlook](#)

⁶ [Distribution of air travel across regions \(IATA\)](#)

⁷ [Rise in Steel & Tube profit despite supply chain pressures](#)

⁸ [Housing affordability at an all-time low](#)

⁹ [House prices above sustainable levels](#)

¹⁰ [More tightening needed \(RBNZ\)](#)

¹¹ [OECD Economic Outlook](#)

¹² [The real cause of inflation](#)

¹³ [Global oil supply-and-demand outlook to 2040](#)

¹⁴ [Govt economic advisor warns British defence planners that growth is ending](#)

Potential implications

Create (e.g. technology & processes to produce goods & services)

- Continued supply-chain challenges could encourage resumption of greater local production.

Relate (e.g. social structures & relationships)

- Continued reliance on the 'bank of Mum & Dad' and adult children remaining in the family home.
- Increasing social stress for those without these familial support structures.

Consume (e.g. how we acquire goods & services)

- Reduction of purchasing as consumers respond to inflation pressures.
- Increasing alternates to outright purchase as new business models (e.g. commons economy) are enabled.

Degrade (e.g. waste, social disruption, challenge to norms)

- 'Just-in-time' business will remain challenged with organisations needing to plan for contingencies and the potential for supply delay.

Connect (e.g. practice of connecting people, places & things)

- It could be a number of years (if ever) before the easy international mobility, experienced pre-pandemic, returns.

Define (e.g. changing ideas used to define ourselves & the World)

- Governments' pandemic responses have demonstrated to citizens the economic power available to address deep societal issues. Now the precedent has been established, alternate economic perspectives will become mainstream.