

National outlook

Multiple global factors are combining to create significant economic challenges. While New Zealand has fared comparatively well during the pandemic, the country isn't immune to global events challenging every economy. Significant national and international economic challenges are ahead.

What we're seeing

Three shocks creating a paradigm shift

Pandemic effects, increasing geopolitical tensions, and emerging consequences of climate change are combining to multiply risks and amplify uncertainties. Economic outlooks locally and globally are all gloomy, or worse. Rising costs of living, increasing inflation and interest rates, and supply chain disruptions are raising fears of stagflation, or a global recession. After 15 years of low inflation and interest rates, the co-president of Morgan Stanley has called the current situation a paradigm shift. He suggests the next two years will be a time of transition.¹

Fear and uncertainty

Financial markets don't like too much uncertainty. There are fears that economies will go back to the 1970's with high inflation and low economic growth. Or worse, a global recession will set in. There are plenty of opinions, but no certainty. Some commentators fear that central banks don't have the right tools to control inflation.²

NZ economy not in 'rock star' territory

NZ's economy fared relatively well through the first two years of the pandemic. Employment rates are high, government debt is comparatively low. However, businesses are under increasing stress as pandemic support declines. There is growing international competition for labour, reduced tourism, and decreased trade demand from China. Transport and wage costs are increasing, and supply chains are disrupted. Rising costs of living are reducing consumer confidence too. Productivity remains low. Temporary reactive measures, such as reduced fuel tax and payments to low- and middle-income families, do not address the drivers of rising costs and disrupted trade. Inequalities persist.^{3,4}

Workforce woes

The return of many Kiwis during the pandemic looks like it will quickly reverse, with 50,000 expected to depart just this year.⁵ Higher wages may lure more to healthcare, construction, and transport jobs in Australia. Immigration into NZ seems unlikely to be sufficient this year.⁶

Insurance risks changing too

Insurance costs for all are expected to rise. While cybercrime is seen as the highest insurance risk in NZ this year, climate risk is expected to be the main risk in future years. High levels of regulatory change are also a concern for the sector, both here and internationally.⁷

Fear of the economic 'wheels falling off'

Both in NZ and elsewhere, there is a recognition that the coming months and years may be an economic balancing act. A range of factors, not all under government control, could shift outlooks from a relatively soft economic landing, to a significant recession.⁸

Economists aren't always right

There are a diversity of economic predictions and forecasts out there. So it can be easy to pick an outlook to suit. As *The Economist* noted, economists are often more reliable when forecasting growth than downturns.⁹ But economic turbulence seems a good bet for now.

Potential implications

Create

- New business models may be required

Relate

- Understand the financial & non-financial pressures facing your communities

Consume

- Reduced consumption may reduce sponsorship revenue
- But, a more volatile economy may also increase Class 4 gambling revenue

Degrade

- Ability to attract and retain paid and unpaid staff may become more challenging
- Participation in sport & recreation may decline

Connect

- Develop new relationships & partnerships to mitigate higher costs

Define

- What does long term financial resilience look like in turbulent times

More information(links)

¹ [A paradigm shift in markets has begun](#)

² [World Bank Global Economic Prospects: Slowing Growth & the Risk of Stagflation](#)

³ [Economic outlook - RBNZ Feb 2022](#)

⁴ [Leading economist has a grim outlook for NZ's economy](#)

⁵ [MBIE estimates 50,000 Kiwis will leave as border reopens](#)

⁶ [Net 20,000 people expected to leave NZ in 2022](#)

⁷ [Exploring the insurance industry's top risks. A NZ perspective](#)

⁸ ["The chance of a soft landing is fading"](#)

⁹ [GDP predictions are reliable only in the short term](#)