

Sporadic

tony.alexander@bnz.co.nz

Failure's Lessons

Sporadic 13

Back in 2011 I researched and released a series of papers looking at reasons behind the failure of the New Zealand economy to perform as well as might otherwise be the case. You will find them [here](#).

The conclusion I reached was that the biggest impediment to growth in our economies was not monetary policy, our sectoral structure, distance from markets, role of government or extent of rule of markets but ourselves, our business culture. You can read about it from page 3 of the document 'Our Deficiencies Summarised' available [here](#).

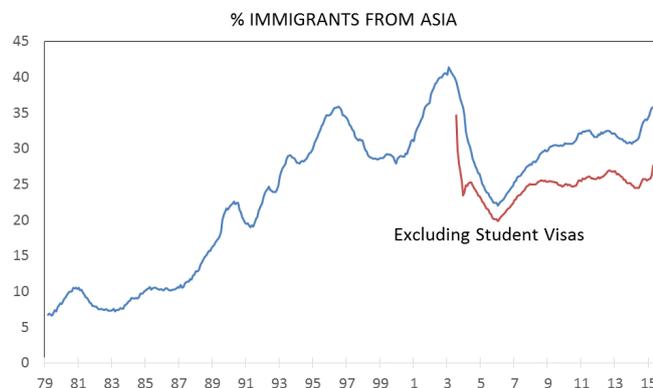
I mention this research because former Prime Minister and now Administrator of the United Nations Development Programme Helen Clark, gave essentially the same answer at the end of a session speaking with a group of us last week in Auckland. She noted the lack of attendance by any Kiwi businesspeople at an important global business gathering and how this reflected upon the determination of our businesspeople to succeed on the world stage. She also noted the big problem of Kiwi businesses selling up rather than growing bigger, the lack of plans within business-owning families for succession from one generation to another, and the need to keep talented young people in New Zealand.

The biggest impediment to growth....ourselves

That second to last point was made in the Herald on Sunday by GM of MYOB James Scollay. From page 25 "In our most recent MYOB Business Monitor Research, less than half of local SMEs had an exit strategy.... Just 12% plan to leave their business to their children."

The latter point is revealed in numerous surveys. PWCs [Talent Challenge Report](#) is one example with four out of five NZ CEOs worried they won't find the people with the right skills which they need. As previously mentioned, while the business sector has learnt to change quickly to meet altered market conditions, the education system as currently structured and staffed has not and perhaps cannot.

It is true and good for us that the centre of global economic activity is moving closer to us, Asia. But that means it is becoming easier for our talented young people to leave. Leaving previously meant an OE or Australia. Now many nations beckon us traditionalists, the Asian young who have studied here, and their offspring who have been born since Asian immigration grew strongly after 1988 (my point). The risk is, Ms Clark noted, that we are seen simply as a nice place to raise a family and not much more. We rate very highly in [quality of life](#) surveys.



There are certainly many examples of Kiwis doing well overseas, many of them heavily connected to KEA – Kiwi Expatriates Abroad. But the fact that we have to highlight their achievements through special functions such as the [Inspire 2015](#) series recently held in Auckland, Wellington and Christchurch, and the annual KEA [World Class NZ Awards](#) held last Thursday night reflects the fact that we consider these people to be aberrations – not following a normal path for Kiwis.

One of the many cultural factors which holds us back is a fear of failure. To quote from my Deficiencies paper noted above “Because we have a negative attitude toward failure we tend to take fewer risks and this can retard implementation of new ideas, seeking out of new partners, markets and products. We also promote a culture where failure is shameful and that constrains the important process of trying, failing, trying again with lessons learnt and eventually succeeding – like children learning to walk.”

But we are not alone in having this fear of failure and the social shame which may accompany one’s financial demise. In China fear of failure is cited as one factor among many holding back growth in the small business sector. As noted in a [Huffington Post article](#), on June 17 the Chinese authorities outlined 100 measures aimed at supporting Chinese entrepreneurs. The focus is on removing administrative barriers to business initiation and growth (NZ ranks best in the world at [ease of setting up a business](#) and second best at ease of growing a business, China 128th and 90th respectively).

Chinese to offer failure counselling

To address fear of failure the Chinese authorities are offering counselling. Maybe we need the same sort of programme in New Zealand. Failing that, how about two other things.

1. Highlighting that failure is not rare and it happens all the time.
2. Examining failure to help others avoid repeating things which went wrong.

This latter approach is something which has fascinated me for some time and which I have attempted to pursue but without success. But I’m going to have another go at highlighting things which go wrong in future issues of Sporadic. After all, in our personal lives, while we may think we have set ourselves various goals and chosen to focus on our strengths, in truth what society (especially in NZ) repeatedly points out to us is our deficiencies with an invitation begging acceptance to address them.

Thus children are told what they are doing wrong and instructed to concentrate on correcting those things. But the list of things which we are bad at is infinite. You will never even achieve the ultimate outcome of correcting things in which you are told you suck – being average. (See the [New Philosopher](#) issue 8 page 18 to see an illustration of the rising focus on deficiency, in this case in the mental health profession.) There is a finite list however of things which you are good at and that is instead where we should be addressing our efforts – firstly finding what we have some natural affinity for and ability at, ignoring the many things our friends and family may tell us we are bad at, and addressing instead the things which hold us back from excelling at our area of advantage. Note to young people, to get ahead in whatever it is you find yourself good at and having a passion for, the chances are extremely high that you need to get out. Home, suburb, city, country. Your life, your terms.

Focusing only on failure/deficiency can at best make you average.

What this adds up to from a business management point of view is this. Identify what you are good at (hopefully you find out before you die.) Identify the roadblocks to being excellent at that thing. And that is where the central theme of this article comes back in. You need to know failure not in the sense of the infinite list of things one may be

bad at – fail – but how it applies to your business. Do you know what usually causes retail businesses to fail? Residential property investors? Share traders?

Hence in my life I am terrible at drawing but I’m not going to waste time taking a course to correct that deficiency/failure. But I consider myself to be good at tramping so I am very interested in stories of failure in the bush and I seek them out. I consider myself to be an excellent speaker, so I concentrate on avoiding failure stemming from too many people getting involved in the organising of an event, myself missing travel connections (Christchurch has suffered most there), audience seating facing the wrong way and so on.

Enough on that for now. Lets take a look now at stuff going on since the last Sporadic issue which might influence the operating environment you are likely to face this coming year.

Since The Last Sporadic....

My theme for the past couple of months with regard to this little economy we operate in has been that things are getting worse. That is the universal opinion now with some people wondering if we are heading for recession (of course we will eventually shrink again but probably not in the coming year), most forecasters now also talking about all of last year's 1% rise in the official cash rate being reversed (wait for talk of going below that soon but watch the exchange rate), and anecdotal evidence I am receiving illustrating the slowdown underway. People have for instance informed me this past week about vehicle sales to farmers slowing sharply along with spending in garden centres. That makes me think it would be a good idea to give thought to resurrecting my BNZ Confidence Survey – not for the headline number of net percent confident which is a bit boring really, but the anecdotal insight into what is happening at the coalface.

Going backward – farmer spending, garden centres...

With regard to this past week, has anything happened to make me more optimistic or pessimistic? Let's see.

The **Greeks** voted against further austerity and therefore an additional bailout package from the EU, IMF and EC. Thus the Greek economy unfortunately is, in technical terms, munted and we face a lengthening period of uncertainty about what that means for Europe and the global economy. The big issue here is not really Greece, but mismanagement of the Greek situation by EU members for two or three decades, future of the Euro, and future of what people now outright call the European project. The outcome can only be a stronger investor focus on the Americas, Asia, and Australasia. Note that as has happened a number of times since 2008, woe offshore benefits us marginally as we get lower interest rates, a lower exchange rate, and higher net immigration. Yes, woe in Greece may well be boosting our housing markets in particular. Speaking of which...

Barfoot and Thompson revealed that their sales in Auckland in June were 12.5% ahead of a year ago but seasonally adjusted some plateauing is evident. The average sales price edged up to \$826,000 from \$822,000 in May and was 15.7% ahead of June last year so price gains continue. The number of new property listings was a rather high 52% ahead of a year ago but we have seen this sort of thing happen before without the end month stock of listings actually jumping up as one would expect. In fact at the end of June the inventory of listings was 9.6% lower than a year before making for ten months in a row of listings falling on an annual comparison. The Auckland market remains strong and if – after six years of me telling you that there is a shortage and prices will rise – you are still not convinced, read again what I wrote in [Sporadic 8](#). I would personally remain a buyer but feel there may remain just two unusually good years before the run-up part of the cycle gets tired. I would look to sell my, for want of a better word, crap properties, before the middle of 2017.

China is the other big moving beastie you need to be aware of. There is complete failure of growth switching from fixed asset investment, heavy industry and exports to household consumption. Growth is slowing and the CCP are worried that if anyone actually got their hands on the true growth and unemployment numbers the good citizens of China may start to feel that the “mandate of heaven” no longer falls upon the CCP. To stimulate growth interest rates have been cut four times the past seven months, and now to stop the punters feeling bad that the sharemarket after rising 150% in a year has fallen 30% there has been a stop put on new IPOs, a special fund set up to stabilise prices, and orders issued to state asset funds to stop selling shares. Such market manipulation shows how far off China is from assuming a respected place in the global financial system and why the Yuan will not assume too large a role as a reserve currency for quite some time. Four steps back.

The relevance of all this for us is that downside risks prevail for commodity prices, and have materialised recently for coal, iron ore, aluminium, and of course dairy products. Sorry Southland, but the way experts are writing about a worsening oversupply of aluminium the chances of the one month extension on a decision regarding the smelter continuing to take electricity from Manapouri leading to a decision to continue production are falling by the day as China's economy slows.

The latest **Quarterly Survey of Business Opinion** from NZIER has shown a fall in business confidence about where the economy is going to 5%, down from 23% in the March quarter and the lowest reading since early-2012. Employment intentions fell to 10% from 16% but this is still above the ten year average of 3%. Similarly investment intentions fell to a net 18% from 24% but this is above the average of only 2%. Thus one cannot read the survey as suggesting a massive slowing in NZ growth, just things coming off their highs – though highs these days is a relative concept. Sectorally, work expectations for architects are very strong, supporting the very strong outlook most of us have for residential, commercial, and public sector construction. Manufacturers and merchants suffered the greatest declines in sentiment. Confidence was little changed in the North Island and it is in the South Island that sentiment has declined the most.

All up, I see nothing at all happening yet to make me think other than that we have seen peak growth for NZ's economy this cycle, that things are slowing, that interest rates will fall, that the NZD will decline a tad further, but that there remain some strong factors which will underpin our economy and easily justify the bulk of businesses continuing to search for employees. Astute businesses, like the many well capitalised older farm operators out there, might welcome this watering down of previously rather high growth hopes as an opportunity to pick up or off some of the under-capitalised inexperienced people out there.

Keep an eye on China. Greece matters mainly to the Europeans and their fracturing strength in the face of a newly militarising Russia looking for things to keep its citizens' attention off economic woe, and Europe's history of deep cultural differences eventually leading to outright conflict. Because likely exit of Greece from the Euro calls the zone into question the remaining participants will want to ensure any other country contemplating exit realises that they will pay a very high price. Thus the incentive for the EU negotiators with Greece now has shifted from trying to keep them in to making sure they suffer as much as possible from leaving. This is going to look quite off-putting.

If I Were A Borrower What Would I Do?

The pattern out there is still one of slightly reducing economic growth prospects in New Zealand, rising global growth risks, therefore decreasing prospects of inflation here and overseas seriously threatening to get on accelerating paths, therefore scope for additional cuts in interest rates. The chances are rising that all of last year's 1% rise in the official cash rate from 2.5% to 3.5% will be unwound by the RBNZ, just as they were forced to unwind all of the 0.5% rise from 2.5% to 3.0% undertaken in 2010. Such is life for those of us in the post-GFC world – forecasts, hopes and dreams end dashed on the rocks. (Couldn't decide which reference to use here so here are both of them "The horror, the horror", and "The pain, the pain". You figure them out. The former has always been ambiguous so can easily apply here. The latter theatrical so definitely applicable.)

Were I borrowing at the moment I would wait for the focus of bank competition to shift a bit further out along the yield curve from the one and two year area into three to five years. If I were risk averse and not prepared to punt I would lock in at a 4.99% rate which is what we offer for the two year term.

Sporadic Library

All issues at <http://tonyalexander.co.nz/topics/sporadic/>

12. [Implications of Unforecastability](#)
11. [How much are we slowing?](#)
10. [Fieldays 2015](#)
9. [A Shift in the Wind – NZ Growth To Slow.](#)
8. [Eight Records Driving Auckland House Prices.](#)
7. [Auckland Housing Shortage Again.](#)
6. [Auckland Housing Shortage is how big?](#)

Sporadic is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. It is a supplement to the monthly NZ Observer. Please sign up at www.tonyalexander.co.nz
To change your address or unsubscribe please click the link at the bottom of your email. Tony.alexander@bnz.co.nz

This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.