In 1988, 1998 and 2008, NZ's economy took a beating due to a crisis the year prior – some have termed it 'the curse of the eight'; as NZ makes its way through 2018, there is a sense of optimism the curse may have been broken

Posted in Opinion March 04, 2018 **Jason Walls**

Superstitious economists and market watchers may well be getting jittery.

It's 2018 and the spectre of economic crashes of yesteryear are looming large.

You only need to cast your mind back a few decades to see why. When some of the biggest financial meltdowns have occurred, they have happened around this time of their respective decade.

On October 19, 1987 the Dow Jones fell 23% – it's largest one day fall in history. It commonly became known as "Black Monday" although we in New Zealand know it as "Black Tuesday" because of the time difference.

The carnage continued into 1988.

The Asian Financial Crisis of 1997 left the markets reeling and saw many economies in Asia, and other parts of the world badly burned. The following year, the Russian financial crisis weighed down the global economy.

And finally, the 2007/08 Global Financial Crisis (GFC) devastated the global economy; leading to hundreds of billions of dollars of bailouts and the introduction of quantitative easing in the US.

New Zealand's economy was badly damaged as a result of the GFC, with unemployment jumping from below 4% to 6.5% in the space of just a year.

In 1988, 1998 and 2008, New Zealand's economy fell on very hard times – some economists call this the "curse of the eight," others would simply call it the end of an economic cycle.

But looking at the state of both the Kiwi and the global economy, it is beginning to look like the curse of the eight will be broken/ the economic cycle may stretch on longer than it has in previous decades.

Prepare for the 'normalisation of rates'

The global economy made it through 2017 relatively unscathed but, although no one is picking the economy to slump like it did in "the eights," some potentially troubling signs have started to emerge.

In early February global markets took a dive after better than expected jobs data in the US led the market to the conclusion inflation was returning to the US economy.

More inflation, the market assumed, would lead to the US Federal Reserve hiking interest rates faster than had been expected.

This led to market panic and the Dow plummeted more than 3,200 points, or 12%, in just two weeks.

New Zealand equities took a hit as well, but it wasn't long before both markets had more or less recovered.

But the problem for New Zealand is not our stock market, it's our housing market.

This country's love affair with owning property has left many homeowners highly leveraged when it comes to debt – that could spell bad news for many when interest rates begin to normalise.

In fact, last month Acting Reserve Bank Governor Grant Spencer was warning homeowners to brace for a **shift in the economy**.

"[Interest rate] normalisation will happen – it has to happen," he said.

Globally, interest rates and inflation have been at record-low levels. But as the global economy improves, Spencer said both interest rates and inflation will pick up.

"The risk is, and what we're nervous about, is if that happens quickly," he said, adding that quick correction in the global market would hit the New Zealand housing market.

"If you're borrowing, then you should be thinking about if you can afford that mortgage at a 2% interest rate higher than you're paying upfront."

This is no doubt a risk to the economy but growth projections from Treasury, the Reserve Bank and bank economists, although some are at odds, continue to see steady growth this year and beyond.

And the likelihood of an economic crisis? Fairly low.

Is the curse of the eights set to be broken? We have 10 more months to find out.