BNZ Weekly Overview

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Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

High Purchasing Power of Our Exports

While the NZ economy is much more diverse than in earlier decades it remains true that the primary sector continues to form the bulk of our exports. And when prices for those exports are high relative to prices for things we import – the terms of trade – then our economy tends to do well. This week we learnt that the terms of trade rose 0.6% in the June quarter to lie 1.4% up from a year ago and just 1.4% down from the record high of late-2017.

This information doesn't strictly tell us where we are headed because there is always a risk of a terms of trade shock such as happened in 1974. Back then the index collapsed 44% over 18 months from a level only 2.3% below the recent record. But that took a quadrupling of oil prices and collapse in Western growth hitting food and wool prices. Neither development seems a reasonable assumption for the immediate future.

Equally, expecting a collapse in consumer spending in the near term does not seem like a reasonable thing. The jobs market is very strong, more wage rises are at last occurring here and there, and consumer confidence remains very high. The ANZ Roy Morgan monthly measure came in at a reading of 118 in August, unchanged from September, though down from 130 in September. Good confidence when sustained tends to feed into good spending growth. But there is no correlation between these two things over very short time periods of, say, less than six months. And good consumer spending levels and growth won't save many retailers from bankruptcy.

Construction Peak

The general view most of us have on the construction sector now is that the level of activity has probably peaked. There is a lot of stuff to build – houses, infrastructure particularly – but the sector has hit capacity constraints. Not enough people, and regulations which act like a molasses spill on a motorway. This week we learnt that the volume of construction work completed during the June quarter was up only 0.8% from the March quarter and 3.7% from a year ago. Activity seems to have flattened out three quarters ago. With builders increasingly refusing to offer fixed price contracts some developers are going to put projects on hold, probably spreading the period of high activity out for further years.

Auckland Residential Real Estate

Barfoot and Thompson data for August show that in Auckland in the past three months and versus a year ago average selling prices have been flat. New listings in the past three months were down 10% from a year back. Sellers see little chance of a great price so don't feel like testing the market just in case a buyer has too many coffees on auction day. And sales were down 4% seasonally adjusted the past three months but ahead 6% from a year ago. No new trend there.

Job Ads

The fact these are running 6% ahead of a year ago with monthly gains over July and August confirms we should ignore business confidence surveys for now, especially the intentions signalled by businesses in the latest ANZ report to lay off staff. Businesses need to figure out that to handle the fastest speed of change in their competitive environment that they have ever seen, the structural long-term decline in staff availability, and the loss of pricing ability through consumer use of new technologies, they need to invest and change. Until then Jacinda – you're going to get the blame!

One helpful pointer for businesses struggling with the new world may be this. Consumers are not just being attracted to better offerings. They are also negatively judging businesses which fail to modernise. Sympathy and respect for the way you have been doing things since 19xx may not be at the level you really think. Frankly, consumers may feel pity for you, but shop elsewhere. And until you acknowledge that you have a problem you'll not change and instead look for someone to blame – government.

The World Is About To End!!!!

At the moment you may be seeing a number of headlines around the theme that a fresh global crisis is imminent. Wonder why? On September 15 it will be ten years since the Lehman Brothers investment bank collapsed and markets went into meltdown, tipping the world economy on the path toward a fresh Great Depression which thankfully was avoided for all except the Greeks who lied about their debt levels.

For some time now a number of us have noted that crises do tend to come along about every ten years or so. Therefore playing on that theme, online media needing clickbait to get you and I to access their ad-heavy sites have been running stories which we tend to pay attention to because of the anniversary, because of the supposed ten year cycle, and because we tend to pay more attention to negative than positive things anyway. Few of us will read articles with headlines screaming "Everything looks okay". But many of us will read those which tell us "Something is Badly Wrong".

The use of those extra words like "badly" has become more common these days. Our tendency as humans toward extremism in our language in order to attract attention and get support for our views has taken off in a world where companies are making advertising money from feeding us bullcrap online.

Will there be another financial crisis? Definitely. Can we reasonably predict when? No. People watched the movie The Big Short not because of a common expectation in 2007-08 that the US housing market was going to collapse but because such an expectation was as rare as real world events mimicking the Jaws movie.

Are You Seeing Something We Are Not?

If so, email me at tony.alexander@bnz.co.nz and let me know.

If I Were A Borrower What Would I Do?

Nothing new. I would fix two years with a tad floating to give repayment flexibility. And remember, every single forecast made in New Zealand since 2009 along the lines that a sustained tightening of monetary policy is imminent has been wrong – 100% of the time. With a record like that you'd be a mug to pay too much attention to anyone's forecasts – especially as it pays to remember two key aspects of the forecasts which we economists make.

First, they are based on a world which now no longer exists. People's behaviour has changed and we can't yet model those changes. Not that our models were much good previously because they relied upon the assumption that we humans are rational, that we make decisions like robots. But our decisions are influenced by hundreds of heuristics or shortcuts which our brains take to reach decisions quickly.

Second, as soon as we make a forecast we are fully prepared to change it when new information comes along. If that information appears the day after making a forecast we are not really bothered.

And it pays to note that we know full well new information is appearing all the time.

Why such blatant comments? Because economics is not so much what you think it is. You think economics is all about forecasting. It isn't. Economic models were developed to examine the effects of certain changes to things like taxes and tariffs to help inform policy choices. Over time these modelling simulations morphed into actual forecasts of what would lie ahead.

Such forecasts are useful because they give a rationalised basis for making decisions. But outcomes following those decisions do not necessarily turn out as hoped. But at least you can look back and say that at the time what you decided to do was reasonable on the basis of the information available at the time.