

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.

Business Sentiment

The ANZ Business Outlook survey released this Tuesday gives us some insight into how businesses around New Zealand were feeling in the first part of this month. Back then, in the absence of any new developments on interest rates, inflation, commodity prices, or the world economy, confidence declined as polls showed a possibility of a Labour-led government at the general election intent on delivering new taxes.

Net confidence about the economy over the coming 12 months fell to an even zero from 18% optimistic in August. Employment intentions fell to 15% from 17%, investment intentions to 13% from 22%, and activity outlook to 30% from 38%.

So all the partial readings also fell, but not by anywhere near as much as the headline confidence number. The results suggest that fears about higher taxes and lack of any specificity on who would get hit by taxes, when, and by how much, ate into business confidence about what the economy would look like.

Looking ahead then, presumably if a government is formed with National as the main party these sentiment readings will rebound. If Labour also form a government then again the sentiment readings will also probably rise given Labour's promise late in the campaign not to introduce any unspecified taxes before the 2020 election. Taxes specifically mentioned in their pre-election comments could however still be introduced.

Realistically, we will have to wait for at least October's survey and most probably November's before we get a true up to date gauge on business sentiment.

Government Formation Negotiations

On Tuesday morning this week, having already read a good number of articles speculating on what NZ First might seek in negotiations with the two major political parties, I spotted a common theme. The journalists have no idea what Mr

Peters or the NZ First caucus are thinking and are frankly floundering around trying to make stories in a vacuum. If you wish to engage in your own speculation about what NZ First may be after then here are some thoughts.

NZ First's manifesto going into the general election is fully laid out in 24 categories on their website at www.nzfirst.org.nz There are 519 often duplicated key points across these 24 areas and it is impossible to discern from the manifesto alone which ones will be considered of greatest importance to NZ First in negotiations to form the next government. Therefore it is best to understand the key principles of Winston Peters and NZ First to gain some guide as to their likely wish list.

Mr Peters is a nationalist, economic interventionist, supporter of the aged, and social conservative. These traits manifest as opposition to foreign ownership of NZ assets, support for business tax concessions and interventions with a regional and export focus, pro-elderly policies, and a tough stance on crime, welfare access, and race-based policies.

NZ First advocates policies which will help achieve the following.

Reduce the influence of foreigners in New Zealand – slash immigration, ban land sales to non-residents, raise the residency requirement for NZ Super to 25 years, ban sale of state assets and vertically-integrated key sectors to foreigners.

Enhance the regions – GST from tourists allocated to regional development funds, no water tax, lower NZ dollar, wage subsidies to farmers, rebalancing government infrastructure spending to the regions.

Drive growth through exports – require the RBNZ to target a low exchange rate rather than low inflation, a 20% export company tax rate.

Accelerate growth in the SME business sector – R&D tax incentives, accelerated depreciation rates, investigations of capital provision, a 25% company tax rate within three years.

Support the elderly – cancel raising the age of eligibility for superannuation to 67 by 2040, enhancements to the SuperGold Card, remove GST on basic food, extra aged healthcare funding.

End race-based policies – referendum on abolishing the seven Maori seats, removal of any race criteria from legislation such as the RMA.

Getting tougher on crime – longer sentences, less home detention, parental responsibility for young offenders, more police.

Chances are that in all the years since 1993 in which you have been reading and listening to commentary on NZ First you have never seen a simple list like this before. The rhetoric and reaction to it has completely dominated discussions.

For the heck of it, here are other NZ First policies which I've chosen to include as vote grabbers, or policies which attracted media attention but which may be non-core and less likely to be actively pursued – raising minimum wage to \$20 an hour with subsidies for affected employers, abolish youth rates, Work for the Dole schemes, a rail spur from Puhinui to Auckland's airport, recreating the NZ Forest Service, universal living allowance and full accommodation supplement for all students, writing off student debt in lockstep with post-graduate time spent working in NZ, subsidised section sales for first home buyers, directing the NZ Super Fund to invest in NZ infrastructure, shifting Auckland Port to Northland and building Northland rail lines (Northland voters rejected Mr Peters), requiring wool carpets in government buildings, exiting the Emissions Trading Scheme, ending deduction of foreign pensions from NZ Super payments, removing asset and income testing for long-term hospital stays by the elderly, restoring public ownership of privatised electricity generators and distributors.

Or I could be completely wrong with this list and these policies are core! The next few weeks will be interesting.

If I Were A Borrower What Would I Do?

This morning the Reserve Bank did the expected in their regular review of the exchange rate and left it unchanged – again. Its a bit like watching soccer. The ball goes all over the place and there is much excitement about potential for goals, but in the end no points are recorded.

If I were borrowing currently I'd look to spread my risk across a mixture of floating and fixed rates out to a maximum of three years. You choose how much for each term. Don't look to us economists to give you great insight into when interest rates will rise, by how much, for how long, and when they go down again. We've got almost all our forecasts of sustained interest rate changes wrong around the world since 2007 and we can't yet figure out why wages for instance are failing to respond to tight labour market conditions.

In other words – we no longer have models which give reliable insight into where inflation is going more than a year from now. That is one reason why central banks may be starting to recognise this uncertainty and their inability to influence inflation so have been switching their policy focus toward quantitative tools such as LVRs.

Put another way. Sustained low interest rates are failing to drive higher inflation. But they are generating purchases of assets which many people think have become vulnerable to decent price corrections – shares, houses. Central banks are therefore parking their attention on inflation and concentrating instead on these asset price risks. That means more rules globally for who banks can lend to, how much, and on what terms.

NZ Dollar

Personally I stopped feeling I have any decent insight to offer with regard to movements in the NZD over short time periods a couple of decades ago. For my longer term thoughts, revisit the Weekly Overview of August 31. Page 4.

<http://tonyalexander.co.nz/wp-content/uploads/2017/08/WO-August-31-2017.pdf>

If I Were An Investor ...I'd see a BNZ Private Banker

<http://tonyalexander.co.nz/regular-publications/bnz-weekly-overview/if-i-were-an-investor/>

The text at this link explains why I do not include a section discussing what I would do if I were an investor.

The Weekly Overview 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. **This edition has been solely moderated by Tony Alexander.** To receive the Weekly Overview each Thursday night please sign up at www.tonyalexander.co.nz
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