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.

Our Economy

Not Much

Fresh numbers and news relevant to the NZ economy have been thin on the ground this week so there's not much in this week's Overview. The begrudging admission from the Statistics NZ chief exec (under threat of being found in contempt) that last year's census was essentially a complete botch-job was a tad surprising. Having near 10% or 480,000 people not complete the online survey was bad enough. But the revelation that near another 240,000 did not fully complete the survey means whenever Statistics NZ get around to releasing data they will be all but worthless. They should try again.

If this were the UK some heads would have rolled by now and hopefully accountability is laid at the right doors. But that aside, the census failure means the government and government departments, planners and investors of all sorts will simply be making best guesses as to how rapidly populations are rising or falling in particular locations, how population compositions are changing, and what resources need to be moved around to do the best for the most New Zealanders.

The absence of reliable population data is likely to lead to insufficient efforts to drive greater construction of housing, infrastructure health and social services in some locations, and excessive wasteful efforts in others.

And it gets worse than that because the removal of departures cards at airports means we no longer even have reliable estimates of how permanent migration flows are changing. You'd have thought that the passage of time and development of so many new technologies would have left us in a more informed state than in the past. But we are worse off. This can be seen also with the monthly Electronic Card Transaction data from Statistics NZ.

You would think that dropping the old monthly Retail Trade Survey and adopting data derived from debit and credit card spending would give us a good early guide to the eventual quarterly retailing survey. But the electronic transaction data have proved to be very poor at giving insight – and that is the key reason why some years back I stopped trying to turn data from one gathering company into a meaningful monthly spending gauge. They simply did not get accurate enough numbers.

Anyway, enough pointing out the deficiencies of others. Let's take a look at us economists. Alongside the fact that we always suck at exchange rate forecasting we have now become near useless at predicting interest rates all over the planet since 2008. The modern world of rapidly changing technologies has thrown some curve balls into our models and previous beliefs about key relationships. We used to think that sustained currency moves had a big impact on inflation, but realised that was not the case perhaps 15 or so years ago.

We used to see and believe that shortages of labour would drive up the pace of wages growth. But this has not happened for all countries bar perhaps the United States post-GFC. We used to believe that rising costs generally would push up business selling prices. But that link has been broken in the face of easy options for consumers to buy elsewhere. Business pricing power has collapsed.

We used to believe that printing money would produce hyperinflation. Post-GFC all occurrences of money printing have done nothing of the sort.

But we are not alone in struggling to figure out how things work now and which trends remain in place. People used to talk about Peak Oil in terms of soaring oil prices bringing the demise of civilisation. No-one uses that term now as technologies allowing shale oil extraction have turned the United States into the world's biggest oil producer!

In New Zealand we used to use the term Brain Drain to refer to the outflow of young and talented people from our country. No-one speaks that way now and instead politicians campaign on how to prevent so many people trying to come here to exercise their talents. Our net migration trend has not just shifted from negative to positive but is rising over time still further.

We used to talk about the Kiwi dollar inevitably falling away because we exported food products the world does not want and imported expensive oil and consumer goods. But now he world seems to desperately want to secure food from us in the face of environmental challenges hitting production elsewhere and rising incomes causing people to seek out good food and drink. Oil has become cheaper due to huge supply (the term "Peak Oil" is dead), and technological developments and shifting of production to cheap wage economies have pushed down prices of many consumer goods.

Now our terms of trade trend up, not down.

People used to worry about retiring Baby Boomers selling houses as they approached and entered retirement and that this would collapse house prices. Now people blame extra buying by Boomers seeking yield for causing higher house prices!

As forecasters and analysts what we are dealing with here are two key things. First, predictability of economic developments like inflation and interest rates has radically declined because economic agents don't act the way they used to. Second, trends which we have inserted into our outlooks as seemingly reasonable underlying assumptions are no longer valid – migration, terms of trade, borrowing costs, etc.

This doesn't mean that efforts to look toward the future are pointless. But it does mean that previous near myopic reliance upon sets of economic forecasts is not advisable now. Instead people need to pay greater attention to three things – infrastructure developments as a guide to where and when growth will occur, trend shifts which render old assumptions invalid, and demographic changes. And that is why the Statistics New Zealand census failure is so appalling. The need for accurate population shift information and informed projections to guide decisions has increased.

The outcome is going to be sub-optimal decision making for many businesses, local and central government in coming years. And that is extremely worrying when we consider the lack of business investment growth in recent years.

Over the past four years while the economy has grown 14%, and core retail spending has risen near 26%, non-housing investment has risen by only 11%. Worse than that, since the collapse in business sentiment associated with election of a government with no business experience late in 2017, businesses have shelved investment plans while continuing to hire people.

Over the past year job numbers have grown by a good 2.3%. But business investment has all but stopped. In the NZIER's recent Quarterly Survey of Business Opinion a net 6% of business say they plan hiring more people. This is equal to the ten year average. But a net 2% plan cutting investment in plant and machinery. This is well below the ten year average of a net 10% planning more such investment.

Productivity growth has been low in New Zealand and in other parts of the world post-GFC for reasons we can't fully yet understand. But whatever the cause, it seems reasonable to assume on the basis of the business reluctance to boost investment in NZ – even in the face of dire and worsening labour shortages – that our productivity growth will worsen further.

Associated with this, as businesses fail to invest sufficiently to reduce costs, pressures on margins and profits will grow. More "weeding out" of inefficient businesses across swathes of the NZ business sector seems certain in coming years.

The developments we have seen in the construction and retailing sectors of booming demand yet widespread business failures will spread to other sectors.

Housing

No new data this week.

Your Strategy

-Things to consider in your next annual strategy session.

Nothing this week.

If I Were A Borrower What Would I Do?

As predicted here some weeks back, competition between banks has combined with a decrease in real estate sales and cuts in wholesale funding costs to produce some decent reductions in fixed mortgage interest rates. You can now fix for three years below 4%. Would I do that rather than fix two years for about the same rate? Probably I would but I could also be very happy fixing two years. Taking that shorter term has worked out well for borrowers in recent years, and in the absence of any sign that local or global inflation risks are on the high side, there is a chance that come 2021 borrowing costs will be lower still.

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 here. http://feedback.bnz.co.nz/forms/lFdYSs5FGEq4kAjP95uzTA
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