

# *BC'S BUSINESS BRIEFS*

## **CRYSTAL BALL TIME AGAIN**

Over the last few years at this time of the year when sending our season's greetings to all our clients and other contacts, I have made an attempt to produce some predictions of what the new year has in store for the economy in which we all work every day. Some of these predictions in the past have been close to what eventually played out while some have been spectacularly wrong! In doing some research to come up with something interesting this year, I was reading the most recent weekly economic releases from the Chief Economists of two of the major trading banks. To say I was more confused after reading them was something of an understatement.

Here are a few examples of topics covered and the different opinions offered by the two authors:

### **1 Interest rates**

- a. "...on current fuel prices, there is a very real chance that inflation will remain below the 1-3% target band... We suspect there is further adjustment to come...we expect that the low dairy payout and an El Nino-led drought will further undermine growth over the first half of next year...we've kept our call for the OCR to be cut further to 2% next year...it now seems the more likely date for the next cut is June...we are now shifting our forecast to OCR cuts in June and August next year."
- b. "...Based on our inflation rate of just 0.4% the case is very strong for cutting the cash rate to 2.5%. But what if inflation is still low in a year while the economy grows 2.5%? Does the RB then cut to 1.5%...The rate is now back to where it was taken during the full throes of the GFC in 2009...It is very unlikely that they will cut the rate again. In fact the RB said they expect to get inflation back to the middle of the 1-3% target range with no further change in interest rates."

### **2 Housing**

- a. "The RB has assumed that the new tax rules and LVR limits will only have a temporary impact on the housing market...The heat is rapidly coming out of the Auckland housing market...We suspect there is further adjustment to come, which should ease the RB's reluctance to cut rates further on financial stability grounds."
- b. "...There is a supply shortage at current prices in Auckland and not enough builders available to allow that shortage to be eradicated for perhaps a generation. Prices will rise further...Eventually when the economy next has a recession (no idea when) some regional investors will suffer most through unsold sections, empty spec. properties and absence of the ongoing population growth which Auckland will enjoy...The crisis in housing for lower socioeconomic groups in Auckland will become much worse."

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### 3 Growth

- a. "We don't dispute that recent data points to the economy regaining some momentum compared to the first half of this year...even this wouldn't fully make up for the disappointing GDP outturns over the previous two quarters, and even less so when you consider that most of the recent growth in GDP has been a product of population growth."
- b. "...you can't run the argument that the household sector is depressed and needs lower interest rates...The construction sector and the huge number of service industries it drives is booming...outside of dairying and sheep meat most other exporters are doing well. These include the pip fruit industry, Kiwifruit, beef, education, wine and tourism which is rising very strongly."

The point of this piece is not to suggest that one or other of these experts is right or wrong but to really illustrate that if two highly skilled individuals such as these can write pieces at the same time expressing what are inherently totally opposite views of our economy, what chance have mere mortals such as me got of getting it right? Maybe as much as either of these two?

What the contrasting views reinforces to me is that it is imperative that business managers are fully concentrated on the basics of their business, are aware of things happening in their marketplace to ensure they can make changes quickly if required and are as fundamentally financially sound as they can get their business in the short term with perhaps a slightly conservative "bent" at present as one thing is for sure. Given the recovery since the GFC in 2009, we are absolutely closer to the next downturn than we are to the next peak.

## CHRSTMAS OPENING HOURS

**Our opening hours for the next few weeks will be as follows;**

**Open to close of business on Tuesday 22<sup>nd</sup> December  
Closed Wednesday 23<sup>rd</sup> December to Friday 8<sup>th</sup> January  
Re-open for business in the newyear Monday 11<sup>th</sup> January**

**For any urgent enquires you can either phone Ross on (0274) 905560 or email Ross on; [Ross@baigentconsult.co.nz](mailto:Ross@baigentconsult.co.nz)**

**A Merry Xmas and Happy New Year to all.**

**Ross Baigent**



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