

Hi John,

Like a Rolling Stone

*Once upon a time you dressed so fine
You threw the bums a dime in your prime, didn't you?
People'd call, say, "Beware doll, you're bound to fall"
You thought they were all kiddin' you
You used to laugh about
Everybody that was hangin' out
Now you don't talk so loud
Now you don't seem so proud
About having to be scrounging for your next meal.*

*How does it feel
How does it feel
To be without a home
Like a complete unknown
Like a rolling stone?*

To see the Bob Dylan video [click here](#).

Offshore they don't seem to be seeing any progress in righting the global credit crisis and its subsequent effect on the world's economies. Nobody knows if what's been done so far is working - or what to do next.

So now it now seems to be the time to allocate blame for the current situation. Or attempt to retrieve bonuses paid to the perpetrators. In this respect I guess some of the Lehman Brothers and AIG executives are feeling a bit like a rolling stone.

I don't really want to go back in the past – in previous newsletters we've discussed all that. But I do think there is more bad news to come from offshore, and Europe especially. A major source of the worry is the former Eastern Bloc that entered the world of capitalism using huge leveraging - financed largely by Western banks.

A couple of articles from respected financial commentator John Maudlin, first brought this to my attention. In February he published an article entitled "While Rome Burns". The essence of the article is Eastern Europe has borrowed an estimated \$1.7 trillion, primarily from Western European banks. And a great deal of the money is at risk – especially the portion in Swiss francs. While currency cross rates were stable that was fine because people could borrow at lower interest rates than they could obtain in their own currency. However as their economies deteriorated their currencies have dropped significantly against the Swiss franc meaning their outstanding loans and debt servicing becomes far greater. If you'd like to read the article [click here](#).

His second article, which came out this month, called "Europe On the Ropes" expands on the earlier commentary and comes to the conclusion that U.S. banks are in better shape than their European equivalents. To read this [click here](#).

But the greatest worry is something I touched on in my 1st February newsletter "The Times they have Changed". And this is protectionism. The link to this newsletter is [here](#).

Protectionism has been the subject of many of the articles from intellectuals, economists and

commentators I read out of the U.S. And they should know. It was protectionist trade policies that turned the severe recession of 1929-1931 into the depression of 1931-1933.

It was also a subject discussed at the world economic forum held in Davos last January where it was reported that *"The biggest concern of all panellists, however, was the risk that the downturn could herald a return to protectionism."* To read the BBC report [click here](#).

This view is shared by our own Reserve Bank Governor Allan Bollard who on return from his world trip in February said he encountered *"quite a lot of worry about both trade protectionism and financial nationalism, whereby either you get big international banks pulling out of host countries back to home countries and/or you get home country regulators taking actions in defense of their own systems which have beggar-thy-neighbour effects on other countries."* To read the Sunday Herald article [click here](#).

And for an article on a new World Bank report on protectionism [click here](#).

Meanwhile the global view for the rest of 2009, both here and offshore, includes the following:

- Until the housing markets in the U.S. and the U.K. stabilise the global financial system will remain stressed.
- Forget inflation for the moment. All the signs are for a deflationary environment where the oversupply of just about everything – too many houses, too much bare land, too many cars, too many retail stores, too many TVs, and so on – exceeds the demand. So stocks are discounted to sell them. Industries have no pricing power as they can produce far more than they can sell.
- Unemployment will continue to rise.
- The world's in for a prolonged period of slow growth as the deleveraging of the debt excesses of the last decade unwind. For another great article from John Maudlin [click here](#).

And to quote from my "The Times they have Changed" newsletter mentioned above *"This is not just a cyclic event. It's a far more a secular shift like that our parents or grandparents experienced from the great depression of the 1930's. The 2001 – 2007 experience of cheap money and easy credit has proved to be a nightmare for many."*

Back home

I'm still of the opinion New Zealand's a pretty good place to be during all this global turmoil.

- Wednesday morning's NZ Herald had a front page article about the IMF giving our economy a relatively clean bill of health compared with the rest of the world. To read the article [click here](#).
- Housing seems to have stabilised. Rodney Dickens' Housing Prospects reports *"suggest house prices will stop falling before the end of the year and could even rise a bit next year"*. The results of BNZ economist Tony Alexander's recent survey showed *"the comments in the real estate sector were the most positive we have received for many months. While there is no evidence of prices rising – and we don't think prices will trend up for quite some time – there is clearly a market clearing process underway."* And in his Housing Market Update says *"Our long view has been that the residential real estate sector in New Zealand will not see anything like the extent of price declines offshore because the fundamentals here are quite different"*. He goes on to say *"People responding with real estate comments have noted a sharp increase in enquiries from people in the U.K., America and Asia, strong attendance at auctions, investors seeking yield, and owner occupiers reacting to low financing costs"*. Go to page 7 "Housing Market Update" of his report [here](#).
- Rodney Dickens reports in his March Interesting Times that merchandise or goods exports volumes are down but agricultural production is still strong. He says this strength may partly be a result of the likes of Fonterra stockpiling against falling international prices but it's still a positive contribution to economic activity. In any event our export base is very different from the likes of China and Japan – which are being hit by the drop in international trade volumes for their exports like cars and manufactured goods. In any event, the drop in exchange rate has insulated New Zealand from much of the drop in commodity prices. It's a good article with excellent charts in this

pay to view publication. To subscribe to Interesting Times [click here](#).

- On the matter of agricultural exports I've always been of the view that as the size of the "middle class" explodes in Asian countries – especially China - the shift to protein consumption can mean only great things for our agriculture exports. We've already seen an increase in the price of dairy products after the rather severe drop - from a record high price by the way – late last year. There's a great article in the Economist which says "*At a time when much of the global economy is falling apart and demand both for consumer goods and the firms that make and finance them is collapsing, the notoriously cyclical world of agriculture is holding up remarkably well. Prices for grains and meat are down from the peaks of mid-2008, but are 30-50% above their averages over the past decade. There is reason to believe that this strength is more than just another of the many bubbles that have recently inflated, only to pop.*" To read this [click here](#).
- It seems to me that the next phase for economic growth in New Zealand is to apply capital and research into what we have been doing best from year dot - and continue to lead the world – growing food. We have the expertise and an established global distribution network. And the government can help through various programmes they have. Let's go for it. In fact I've even got an opportunity to participate in the growing of grain here. So if you'd like to know more about this, or how government can assist, call me or reply to this email accordingly.

Interest rates

I've been predicting for some time now that fixed interest rates are bottoming and judging from the action of the banks last Monday, we may have reached that point now. It now looks like the abnormal inverted yield curve – short term rates higher than long term rates – which we have experienced for so long now, may finally be coming back to what economists would say is a normal yield curve. For technical definition [click here](#).

And for interest.co.nz Bernard Hickey's latest view on when to fix [click here](#).

But if you're thinking about breaking your fixed mortgage to get the lower fixed rates before they rise again, you should seriously do the calculations on the real cost after break fees. Bernard Hickey's got a good article on this too. He shows that borrowers adding the break fees to their mortgage "*for a short-term consumption fix are borrowing for the long term and storing up more debt that will eventually have to be repaid and serviced*". See his view and an example of how it might work, see the Herald article [here](#).

The opportunity for borrowers

In the world I'm involved in – arranging finance for property and business here in New Zealand – we've reached an interesting point. Many of the non-bank financiers who took immediate advantage of the government guarantee for depositors, have obtained money at rates far higher than they would have to pay now interest rate have dropped. They're now stuck with funds they're paying high interest rates to mums and dads and have to get the money out.

Many though – having been burnt in the times of cheap money and easy credit - are seeking the same relatively tough loan criteria banks want. So they're seeking that narrow window between what the banks will approve and won't – and what they feel comfortable with. This gives borrowers an opportunity to secure shorter term loans that the banks would be happy to take over in the future once their criteria had been met. These "bridging" loans tend to be more expensive but the short term means borrowers are not locked in to these higher rates.

Yes, there are more lenders out there, and over the last month or so we have been approached by numerous non-bank financiers looking for lending opportunities. But remember now cash flow is king and to attract loans debt servicing ability – or a clear repayment strategy – are paramount. To see my view on this read my "Putting Out Fires with Gasoline" newsletter [here](#).

Cheers

JP



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