

JUNE 2009 NEWSLETTER

Economic Recovery - Consensus as to yes, but not as to shape or pace

Hi Ross,

On March 15 this year the US Federal Reserve Chairman Ben Bernanke used the term 'green shoots' in an interview on 60 minutes, when talking of a then moderation in the pace of the global economic decline, let alone global recovery. The phrase has since proliferated in the press, financial research and daily conversation worldwide, let alone in our own 12 May edition of Global Update – Green shoots or full on fertilised growth? To read this newsletter [click here](#).

Bernard Salt, a partner at KPMG International in Melbourne and author of books on social trends recently said its human nature to grasp "corporate pop words" in difficult times.

"When something as disastrous as the global financial crisis grips the world, then something equally catchy will pull us out."

"The phrase 'green shoots' gained social currency the minute we saw a chink of light at the end of the tunnel. Now we didn't and still don't know whether there's a train coming the other way, but were happy to ascribe it to a recovery.

It's part of the human psyche to look for simple explanations. Right now, its green shoots to the rescue." To read these two articles [click here](#) and [here](#).

On Monday of this week Brian Fallow of the NZ Herald summarised his own version of New Zealand green shoots and dead roots and in this issue of Global View we thought it appropriate to examine a little further the various 'shoots' involved in terms of the NZ economies road to recovery and its perceived speed, shape or otherwise given the many diverse opinions on offer.

The Housing Market

For some months now we have had a number of economist and real estate industry participants predicting a local residential housing recovery.

The evidence is now overwhelming, although debate continues as to its pace, and sustainability. In a treasury economic outlook for the year, released in the budget on 28 May they predicted no such recovery.

Rodney Dickens, in his May Rodney's Ravings questioned whether "treasury's forecasters live on this planet?" to read his article [click here](#).

Two weeks later the Reserve Bank Governor left the OCR unchanged at 2.5 per cent acknowledging a number of signs of so called green shoots and identifying two major clear upside opportunities for activity being a rebound in household spending and an ongoing upsurge in residential investment as a result of the rise in immigration and the pick-up in the housing market.

With treasury having said otherwise two weeks earlier Mr Bollard's comments seemed somewhat contradictory.

On the subject of sustainability of the housing recovery it is also worth reading Rodney's Ravings June article 'Is the housing recovery about to fold.' To see this [click here](#).

Undoubtedly house sales volumes are on the rise. Prices show signs of stabilising, net migration is underpinning demand and vendors can't hold out for boom-time prices any longer with a shortage of housing stocks now evident.

The reserve bank has halted its OCR reduction cycle. Longer term 3 – 5 year fixed rates continue to increase each day, albeit bank or non bank first tier lenders.

In Australia the RBA have kept their OCR unchanged for a second time after it had been slashed for over eight months, with financial markets pricing a first increase, dare we say it, in the OCR to come within 12 months. Here in New Zealand the reserve bank still expects to keep the OCR "at or below its current 2.5 per cent through until the latter part of 2010".

Rodney Dickens' is of the opinion that the massive interest rate cuts, helped by net migration are in the process of underwriting a V shaped recovery in the NZ Housing Market, with a sharp upturn in residential building in the pipeline with a housing recovery well underway.

If that is the case with the most recent reductions in the OCR not having been passed on to borrowers to the extent expected and with continued pressure on interest rates offshore will the reserve bank be able to maintain their low rates as predicted for so long if our recovery is driven solely by another strong upturn in housing coupled with continued sharemarket increases.

It's looking very much like a countdown to the first rate hike with the RBA the likely first mover with the RBNZ to follow.

Retail Sales and Consumer Spending

Indications are that 'green shoots' are appearing in both these areas driven by interest rate cuts, increased housing sales and an emerging increase in new residential building. The number of consents for new houses in April was up some 22% on the number in January.

This in turn filters through to many service industries, and resulting consumer spending growth and retail spending. All at present aided by an increase in net migration and the added stimulus of the thousands of households coming off high fixed rate mortgages onto current lower variable rates over the months to come. Once again Rodney Dickens and the RBNZ disagree on the pace and extent of such a recovery, with the swine flu now emerging as another factor as to timing. To see this article [click here](#).

Clearly the Reserve Bank and the Government want a 'balanced' recovery path going forward to include the ailing export sector and increased savings and investment within the economy. Both parties have been hammering this message in the last 48 hours, with an article from Mr English "imbalances in economy must be dealt with" [click here](#) and Mr Bollard "Bollard warns bankers, markets about recovery" [click here](#).

With approximately 40% of our export earnings coming from the dairy sector and with subsidies being introduced in the European Union and the United States this action coupled with our rising currency is a major cause of concern for the industry and any export led recovery which is what both Mr English and Mr Bollard would prefer.

What then, if anything, is being done to assist our dairy recovery and ensure we do indeed get a balanced economic recovery. According to Fran O'Sullivan's recent article "Government needs to show leadership on dairy", [click here](#). There has been plenty of talk of late but very little specific action.

As 'green shoots' is now an established 'corporate pop word', 'bank-bashing' appears to be evolving as another.

In recent days they have been accused of profiteering, starving small and medium sized businesses of credit, threatened with parliamentary enquiries, etc. etc. Rightly or wrongly they will continue to come under fire in the weeks and months ahead.

In our last Global Update we talked about a gradual move by investors away from the low current deposit interest rates banks are offering into various alternatives including residential and commercial property lenders offering better returns. Whether or not the banks are indeed still experiencing severe shortages of

funds to lend, there credit departments still appear to be in hibernation, or be determined to find a reason why not to lend, even to many existing clients with good track records.

The gradual move we had referred to previously has gained considerable momentum in recent weeks with established alternative lenders and indeed a number of new lenders suddenly flush with funds available to prospective borrowers.

However having seen the mistakes made by the many finance companies and funds that got into trouble in recent times these lenders have become far more meticulous and prudent when it comes to assessing and approving loans when clients and investors money is at stake.

Never the less if the proposal is solid and the client has a good track record there is now plenty of funding options available at good terms and conditions.

To obtain such money it's a case of knowing where to go, the criteria each funder is looking for, and a proper presentation being the key essentials to success.

In today's market if we at Global cannot source funding for a particular deal, whatever the risk profile, then nobody can.

Consequently, should you or any of you clients or colleagues require finance of any kind, please call me anytime on 021333011, contact me via email, or visit our website, to see examples of the finance we can have arranged.

Cheers



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