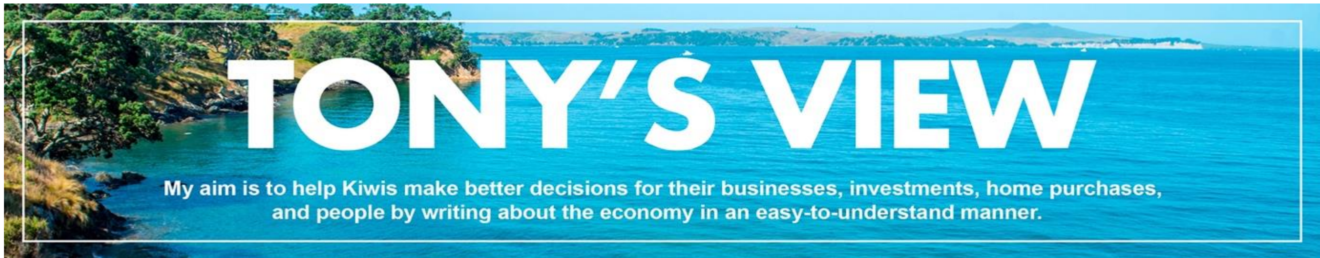

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Merry Christmas

This is my last piece of writing for 2023 so Merry Christmas everyone, thanks for the comments during the year, and hopefully next year will contain fewer surprises than this year. But it won't.

We live in a world which is constantly changing in ways we cannot predict. That is why the main theme I have promoted during my near 90 presentations around the country this year has been the low likelihood that any of the forecasts, cash flow projections etc. any of us are making will prove correct. I'm referring not just to economists but anyone running a business or managing their personal investments.

Things are going to come along and throw our assumptions and expectations askew and our focus needs to be on recognising when things are changing, figuring out why if relevant, and working out how to respond.

How badly uncertain are things? Just last week the September quarter GDP growth rate came in at -0.3% and not the +0.3% which the Reserve Bank and most others had estimated based on already released partial indicators of economic activity. It wasn't even a forecast – just an estimate of what had already happened.

What might be the big forecasting surprise for 2024? Probably inflation falling more quickly than currently predicted by the Reserve Bank alongside the return of worries about inflation being too low earlier than they have assumed. That will mean interest rates falling more rapidly than the Reserve Bank have pencilled into their projections which are already out of date. The same goes for everyone else's given what we now know about our recent economic performance. After some six disrupted years of policy changes, wasted public sector "investments", and alienation of the business community, even with the fastest pace of growth in our population since about 1947 our economy has managed to go into recession once and possibly is back in recession right now.

Are there factors in train which will turn this situation around? The movement away from government centralisation of activities and freeing up of markets a bit will help. But we are not entering a period of substantial economic reform and the chances that the rate of growth in productivity in our economy will improve in the

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near future are not good. I blinked yesterday and apparently missed the mini-Budget. This is especially the case now that labour has become more readily available for businesses so there is less pressure on them to invest in labour-saving technology.

That is – I don't see us moving back up the OECD income per capita ladder anytime soon, no matter how much people might believe investing in new sectors like green energy, space technologies, and bio-things will benefit us.

For 2024 here are nonetheless some of the factors which will likely see the economy grow and set the scene for even faster growth over 2025. In other words – most of us some time back actually wrote off 2024 as being any sort of a strong year and instead have leapt forward to placing our faith in 2025 as the year when our economy will be once again performing well for a while.

One source of support will be increased foreign visitor numbers. Another will be higher numbers of foreign students. There is a lot of work on the country's infrastructure to be done over the next century, some parts of the commercial construction sector look firm, and light at the end of the interest rates tunnel will bring some improved optimism generally to consumers and businesses.

Migration net flows are booming, house prices are rising, and the NZ dollar is relatively low.

However, the negative side has some strong elements. The lagged effect of monetary policy tightening from the second half of 2021 will continue and this will be the main suppressing factor.

The El Nino weather pattern will encourage farmers to keep their spending levels low just in case production volumes plummet. Fiscal policy is finally being tightened after six years of poor fiscal management bringing a blowout in debt and deterioration in things like the state housing waiting list and society cohesion.

House building will continue to decline in response to high interest rates and a weeding out of the earlier over-optimistic.

The pandemic binge on durable consumer goods has well and truly ended and we won't be needing so many spas, gazebos, and kayaks for a few years now. Businesses are revealing below average investment intentions and the high cost of living increase will keep many peoples' hands in their pockets.

The upshot will be slow growth, poor retailing, rising unemployment, yet rising house prices for reasons canvassed here all this year, and the risk of a rapid decline in interest rates at some point.

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I was going to write a lot more than this but on Sunday I fired the chainsaw up and have had it going ever since.

Merry Christmas and a Happy New Year everyone and I imagine I'll send my first weeklies out again on January 11 or 18.

In case you missed it

The results from my monthly Business Survey, sponsored by Mint Design, show businesses remain highly concerned about the economy and interest rates. But the change in government has brought reduced worries about the state of politics and may have contributed to an improvement in plans for spending more on capital equipment. The labour market is generally seen as easing off, but businesses still have firm plans for raising staff remuneration.

[Mint Business Insights - December 2023 - Mint Design]

If I were a borrower, what would I do?

Wholesale interest rates fell strongly a week ago after the weaker than expected September quarter inflation number came out and after a strong rally in the United States markets. The one year swap rate at which banks borrow fixed to lend fixed one year now sits near 5.34% from a peak two and a half months ago of 5.9%. The three year rate sits now near 4.5% from 5.5% back then in early October.

There now exists substantial scope for banks to cut their fixed mortgage interest rates. But this week we saw only some minor cuts by one lender, and they did not touch the terms people are now strongly gravitating to – one year and six months. In other words, they are creaming it at the moment and in the absence of any strong competition in the lending sector at the moment look like they will continue to do so through Summer.

So, if I were borrowing at the moment I would either float and wait for lower rates or do what I tend not to favour because of the hassle and fix for just six months.

If I were fixing at the moment, I'd hold off to see how banks react to the fall in borrowing costs in recent weeks. The one year swap rate they pay for instance is now near 5.3% from 5.6% last week.

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.

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