

# *BC'S BUSINESS BRIEFS*

## **2011 – WHERE HAS IT GONE?**

As we head into another "silly season" I thought I would reflect on what has happened this year and some thoughts on the coming twelve months.

This first part of the year for Kiwis was dominated by the tragic events surrounding the second Christchurch earthquake on Tuesday 22<sup>nd</sup> February. The 6.3 magnitude quake caused chaos and death in the city of Christchurch. The human toll was tragic and in addition to the fatalities and physical injuries, many people whom we up north who never hear about are still suffering from stress related disorders as a result of their world being turned upside down. The ongoing aftershocks have no doubt contributed to this in no small way.

On the financial front, the direct impact to the region was devastating as well with overall economic activity being severely reduced and in many cases totally destroyed. The impact on the rest of the country has been a reduction by the Reserve Bank of the OCR to its current level of 2.5%. This "emergency rate" has underpinned a some mild overall economic growth for us as a country during the year.

Just when it seemed that the Reserve Bank was set to start raising the OCR, the news coming out of first the US, and more recently Europe has sent shivers through world markets that the developed world may well be heading back in to a recession having come out of the 2008/9 recession what feels like only yesterday!

It seems that every day at present more dire news of impending economic disaster seems to keep coming out of Europe. Whether the EU as we know it survives the current economic meltdown is uncertain. One economist I heard speak recently commented that Germany as the largest and wealthiest economy in Europe was desperate for it to survive (if it didn't and they had to revert to using the Deutschemark as their currency, their ability to keep generating trade surpluses would diminish rapidly as the currency appreciated dramatically) and what Germany wanted Germany would get.

On the other hand, British bookmakers are currently offering 3:1 odds that the EU won't survive the current crisis and 3:1 doesn't sound that large to this unsophisticated punter!

What are the implications for New Zealand if the EU doesn't survive?

As a country a relatively small percentage of our exports currently go to Europe. Indeed the days of large volumes of agricultural produce finding its way to Britain & Europe are behind us. Our largest export markets are now much closer to home – Australia and Asia.



Clearly the world financial markets would continue to be extremely unstable and in all likelihood volatility, which has been high for an extended period of time now, would become even more extreme. Given the demand for money from European economies, I would expect that the risk premium lenders would want would likely increase further, meaning that as a country we would probably see further increases in our borrowing costs.

The Reserve Bank signaled in its Monetary Policy Statement last week that it intended holding the OCR at the current level. It further indicated that it was likely to start raising the OCR most likely in the second half of next year. The markets appear to have priced in OCR increases from around September next year.

The Monetary Policy Statement from the Reserve Bank appears to us to be saying that despite the uncertainty stemming from Europe, they expect our economy to recover next year and inflationary pressures to ramp up, perhaps as a result of the Christchurch rebuild kicking into full swing. This has taken a lot longer than originally thought, perhaps as a result of the ability to insure property in the future still being uncertain as a result of the ongoing aftershocks.

For this writer, the message is pretty simple. Regardless of what finally transpires from Europe, the world won't come to an end, the sky won't fall in and while caution is still required, there is reason to feel optimistic that 2012 may well represent opportunities for business to grow and do better than 2011.

## CHRISTMAS HOURS

The office will be shut between 12pm on Thursday 22<sup>nd</sup> December and Friday 6<sup>th</sup> January. We will re-open Monday 9<sup>th</sup> January at 9am.

For any urgent requirements Ross will be contactable on mobile (027-4905560) or by email ([Ross@baigentconsult.co.nz](mailto:Ross@baigentconsult.co.nz)).

Thank you for your business this year and we trust you have a happy and safe festive season.

**Ross Baigent**

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