



**20 August 2008**

## **The rollercoaster of uncertainty continues**

The New Zealand dollar slumped significantly against the US dollar last week before bouncing back this week, continuing the trend of highly volatile interest and exchange rate prices that have been evident since the 1980s. The New Zealand Manufacturers and Exporters Association (NZMEA) welcomes the drop, as this will see the pressure on exporters ease, but emphasizes that these wild fluctuations caused by our monetary policy undermine confidence and investment in tradeable activity.

The dollar had dropped dramatically from 76 to 69 US cents since the Official Cash Rate was cut in July before bouncing back up to 71 cents. What happens if the anticipated September cut in interest rates eventuates remains to be seen. The falling trend started in April when the dollar was at the peak of its monetary policy amplified cycle at over 80 US cents.

NZMEA Chief Executive John Walley says, "We have the highest traded currency in the world as a percentage of GDP, so it is not surprising our exchange rate fluctuations are so severe. Different approaches are available and they are necessary to give our exporters a hope of more exchange rate stability."<sup>1</sup>

"These rapid currency fluctuations make it difficult for those involved in the tradeable sector to make secure long-term investments.<sup>2</sup> Margins are increasing at the moment but the same forces that have crunched credit availability are slowing demand across global markets. High margins and low sales might be as bad as high sales and low margins. It may be hard to capitalise on a fair value currency. Even as things improve for our exporters, future investment will be tainted by past experiences," says Mr. Walley.

"What we have seen is investments focusing on short-term returns while longer term opportunities move offshore or are never attempted. The products and services produced by our economy simplify, causing earnings per-capita fall and a further decline down the international wealth tables."

Similar periods of rapid change occurred on the other side of the economic cycle with interest rates attracting short-term money, which increased the exchange rate and fuelled consumer spending.

"Unless we see some changes to monetary policy including a move away from a singular focus on inflation we will continue to go round the economic cycle losing more of our real economy each time. Ultimately, we all depend on the success of our tradable sector. To develop and grow, our exporters and manufacturers need more stability," says Mr. Walley.

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<sup>1</sup> 'A Case for Compulsory Superannuation', <http://www.mea.org.nz/document.ashx?id=36>

<sup>2</sup> 'Innovation, Growth and the High Cash Rate', <http://www.mea.org.nz/document.ashx?id=38>