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Exports - the key to sustaining a high dollar

The fall in the New Zealand dollar that came after the Reserve Bank cut the Official Cash Rate in July has been a welcome sight for exporters, and another OCR cut looms this week. However, economic stagnation has continued and commodity prices are falling meaning that a 50 basis point cut is justified on Thursday. Falling retail sales show the effect the cut has had New Zealand's consumers who are no longer sheltered by an overvalued currency and this situation is set to worsen. The New Zealand Manufacturers and Exporters Association (NZMEA) point out that in the long run a strong currency must be supported by a strong tradeable sector.

The high dollar, floating on speculative pressure, sooner or later comes to a predictably pain filled end. The credit fuelled housing bubble bursts and the speculative pressure comes off the New Zealand dollar. It is trade, not speculation, which really determines our place in the world. Policies that drive wild fluctuations in exchange rates destroy the tradeable base, pulling us down the OECD rankings. For sustained growth we require more stability for tradeable activity so that firms will take the risk to export.

NZMEA chief executive John Walley says, "Exchange rate variations that have little to do with the fundamentals of trade make it very difficult for the real economy. The success of firms that make things, grow things or dig things up, our tradeable sector, ultimately underpin the success of our entire economy."

"A trade based dollar value is the point where both importers and exporters can succeed. Too much speculative variation either side of this position places too much pressure on the disadvantaged sector. If the problem persists, investment decisions will slow or even stop as the sector becomes more risk averse, and as each cycle passes, we are all worse off."

"The Finance and Expenditure Select Committee's enquiry into monetary policy was commissioned to examine these problems and its findings are long overdue. This issue sits at the heart of our future success – we need action not avoidance."

"We need to see monetary policy reform to provide more stability around our exchange rate. Alternatives to the status quo have been presented to the Select Committee by a number of sources¹," says Mr. Walley.

"Unless we find a way of providing stability for our tradeable sector our economy will continue to suffer these boom and bust cycles and each time round will be worse than the last."

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