



3 June 2009

Appetite for debt fuels rise in the dollar

The high and rising dollar threatens New Zealand's economic recovery say the New Zealand Manufacturers and Exporters Association (NZMEA). The dollar has risen from a low of under 50 US cents back up to 65 cents in a matter of weeks. This could threaten any prospect of an export led recovery when international markets improve.

NZMEA Chief Executive John Walley says, "The continuing rise of the dollar is a major concern for our economy. Exporters are struggling because of a lack of sales and now low margins have also become a problem. A high dollar at this point is like spraying roundup on the green shoots of recovery."

"The continuing local demand for debt has contributed to the rise in the currency. The New Zealand dollar has continued to be fuelled by overseas investors jumping into our higher return, but risky assets."

Debt continues to flow into the tax free, non-traded parts of our economy with household debt increasing 0.96 percent and agriculture debt rising 3.7 percent from December 2008 to April 2009, while business loans decreased 2.2 percent over the same period.

"Unfortunately it seems that the lessons of this economic crisis have not been learnt. Not only are we seeing a continuing appetite for debt despite tight international credit markets, but that credit is continuing to flow into assets rather than activity despite falling asset prices," says Mr. Walley.

"This spells out the need for the Government to reform the tax system. Another debt fuelled asset bubble will do more damage to the real economy. The absence of a broad based tax system distorts credit flows as investors chase tax advantages with devastating consequences for jobs and the real economy."