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Exporters continue to bear the brunt of monetary policy

The return of non-tradeable inflation to its pre recession levels will prevent any rebalancing towards growth in the real economy say the New Zealand Manufacturers and Exporters Association (NZMEA). The Reserve Bank has signalled a return to high inflation in the non-tradeable sector, a replay of the last decade. The OCR at 8.25% did not work except via the overvalued exchange rate pressing down on the traded sector and we are headed towards the same problem. We must see some action to reform the policy framework if this is to change.

NZMEA Chief Executive John Walley says, “We are on the verge of replaying precisely the nonsense of unsustainable growth based on excessive house price inflation and domestic consumption that pushed New Zealand into recession even before the global economic crisis hit. Do we really want to roll out the welcome mat for a rerun?”

Reserve Bank Governor Dr. Alan Bollard seemed comfortable with this situation when questioned yesterday despite noting that, “While business confidence has improved, actual business spending remains weak. In addition, the high level of the New Zealand dollar has limited the scope for exports to contribute to the recovery. After some short-term correction the current account deficit is expected to widen in the future.”

“Note ‘current account deficit to widen in the future’; we are already one of the most indebted nations and it seems we have learnt little from the crisis,” says Mr. Walley. “The rise in the dollar following Bollard’s announcement that rate rises may happen earlier was entirely predictable. He seems surprised at the reaction, but a higher dollar was the only possible result. This will only see the problems he identified with business spending and the current account deficit worsen.”

“If any further evidence was needed about the impact of the carry trade, the dollar going up on the anticipation of interest rates going up in six months rather than eight is it. Surely given that the markets are moving on this sentiment the comment should have been designed to keep the dollar low and help balance the recovery a bit rather than make things worse.”

“The tax system and the monetary policy framework incentivise debt fuelled spending over productive investment. We need to change both before we can expect any sustainable economic recovery.”

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