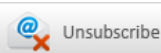


PH: 0800 353 2540
Fax: 03 353 2549

Physical:
253 Cambridge Terrace
Christchurch 8013
New Zealand

Christchurch Postal:
PO Box 13152
Armagh
Christchurch 8141
New Zealand

Auckland Postal:
PO Box 25310
St Heliers
Auckland 1740
New Zealand



MEActive - December 2010

Welcome to the New Zealand Manufacturers and Exporters Association's monthly e-news, giving a series of updates on what we have been working on to make things better for manufacturers and exporters.

- [CEO Comment](#).
- [Media Coverage](#) - Where we have been reported over the past month.
- [Media Releases](#) - Circulated to all media by the NZMEA.
- [Upcoming Events](#).
- [NZMEA Survey of Business Conditions](#).

CEO Comment: Any future for exporters?

The policy framework pursued by New Zealand for the past twenty years or more essentially leaves the exchange rate as the loose end of the policy framework. This is what is meant by a "clean" float; the theory says there will be equilibrium and currencies will tend to balance with reference to the trade flows. Sadly there is no equilibrium, and ever increasing speculative capital flows exacerbate the problem.

Monetary policy as it has been operated in New Zealand has only succeeded in controlling headline inflation; inflation in the non-traded economy has been impervious to changes in interest rates. Only the absence of price stability in the traded economy has provided headline inflation rates inside the policy bands. The links below give some data in this regard.

The International Monetary Fund, and others, are coming to the view that exchange rate volatility is more damaging to the real economy than the level of the exchange rate. A clean float ignores both level and volatility; in so doing it removes any predictability or stability from the traded economy.

Officials and politicians wedded to a clean float develop an obsessive commitment to that choice and revert to "there is nothing to be done" in times of trouble. Hands off becomes a way of life and troubles are characterised as being in the domain of others.

There are policy choices from a dirty float all the way to a managed currency, and the IMF reports that small economies at the managed end of the spectrum have performed better than the ostensibly clean float economies.

http://www.johnwalley.co.nz/136-successful_export_economies_ma.aspx

http://www.realeconomy.co.nz/121-control_inflation_in_the_non_t.aspx

In a clean float the pressure on the currency results from higher interest rates, particularly when the central bank chooses to be heavily reliant on the overnight cash rate mechanism. Currency pressures are amplified if fiscal policy sees Government operating in deficit and borrowing offshore in the absence of local savings.

This does not have to be the case, but a balanced suite of changes are needed to begin to improve the operating conditions of the traded economy.

- Recognise, embrace and implement the realisation that central planning and winner picking will fail in the high value add sector. Face the fact that policy settings matter and an unpredictable exchange rate has a massive detrimental impact on investment in the real economy.
- Monetary Policy: managed exchange rate - lower interest rates supported by loan to value ratios, robust core funding ratios and capital inflow controls.
- Fiscal Policy: lower and broader tax rates, including effective capital taxes.
- Incentivised savings to individual accounts to bolster local savings.
- Investment incentives for high value exports on the same basis as other developing economies (level playing field) - skills development, Research and Development support, depreciation rates, patent costs and investment incentives for innovation.

As there is no equilibrium in currency it is best to apply the common sense test, you know your currency is overvalued if those activities that have significant comparative advantages cannot make a living on the world stage - meat and fibre farming is a good example of this in New Zealand.

Media Coverage

Where the NZMEA was reported during November.

1 November	Scoop.co.nz	Currency Problem 'Worse Than 2007'. <i>Internet.</i>
1 November	Interest.co.nz	NZ First Leader Winston Peters Wants to Control NZ Dollar Similar to Singapore. <i>Internet.</i>
1 November	RadioLive	Comments on Effects of Rising Currency. <i>Radio.</i>
1 November	RadioLive	Interview on the Effect of Dollar Appreciation. <i>Radio.</i>
1 November	Stuff.co.nz	Dollar Holds High Against US. <i>Internet.</i>
1 November	NZHerald.co.nz	Dollar Holds Ground After 27-Month High. <i>Internet.</i>
2 November	ODT	Dollar Holds its Ground After Racing to 27-Month High. <i>Newspaper.</i>

2 November	The Press	Dollar Offsets Price Increases. <i>Newspaper.</i>
2 November	CTV	Comments on the Currency and What Can be Done to Stop it Rising. <i>TV.</i>
2 November	Bloomberg.com	Kiwi's 54 Percent Gain Since 1999 Means New Zealand Pays to Keep 'Hobbit'. <i>Internet.</i>
4 November	Scoop.co.nz	Pragmatism Needed on Currency. <i>Internet.</i>
4 November	Interest.co.nz	US Federal Reserve Announces US\$600 Bln Worth of Long Treasury Bonds by June 2011; NZ\$ Rises Over 77 USc. <i>Internet.</i>
4 November	TVNZ	Exporters Could be Hammered Through Rise in Kiwi. <i>TV.</i>
4 November	Scoop.co.nz	Taskforce Long on Diagnosis, Short on Therapy. <i>Internet.</i>
4 November	Voxy.co.nz	2025 Taskforce Again Long on Diagnosis, Short On Therapy. <i>Internet.</i>
5 November	Scoop.co.nz	Sales Up But Margins Shredded. <i>Internet.</i>
5 November	Engineering News	Managing the Process From Design to Manufacture. <i>Magazine.</i>
5 November	Engineering News	Industry Training Too Important to Cut. <i>Magazine.</i>
9 November	Interest.co.nz	PM Says Govt May Focus on Savings in Budget 2011. <i>Internet.</i>
10 November	TVNZ	Kiwi's Strength Could Hinder Economic Recovery. <i>TV.</i>
10 November	Interest.co.nz	Why NZ Should be Managing its Exchange Rate Like Other Successful Economies. <i>Internet.</i>
11 November	TVNZ	John Walley Speaks About the Kiwi Dollar. <i>TV.</i>
23 November	Scoop.co.nz	NZ's Liquidity Depends on Overseas Perceptions. <i>Internet.</i>
23 November	Interest.co.nz	S&P's Negative Outlook for NZ Shows its Rejection of National Government's Lack of Action on Savings and Foreign Debt, Labour's Cunliffe Says. <i>Internet.</i>
23 November	NZ Manufacturer	NZ's Liquidity Depends on Overseas Perceptions. <i>Magazine.</i>
25 November	CTV	Comments on NZ's Credit Rating and Borrowing. <i>TV.</i>
26 November	Exporter Magazine	2010 - The Year for Exporters. <i>Magazine.</i>

Media Releases

Media releases submitted by the NZMEA during November. [Click here](#) to read the latest media releases.

1 November	Currency Problem 'Worse Than 2007'.
4 November	2025 Taskforce Again Long on Diagnosis, Short on Therapy.
5 November	Sales Up But Margins Shredded.
11 November	Currency Management and Economic Rebalancing.
23 November	NZ's Liquidity Depends on Overseas Perceptions.

Upcoming Events

[Click here](#) for information and to register for our upcoming events.

28 January	Invitation to Meet the Governor of the RBNZ - Christchurch.
9 February	Workshop: HSN0 Approved Handler Training - Christchurch.
15 February	Programme: CPIM - Basics of Supply Chain Management - Christchurch.
16 February	Invitation to Meet the Governor of the RBNZ - Auckland.
16 February	Programme: CPIM - Detailed Scheduling and Planning - Christchurch.
17 February	Workshop: Customer Service - Christchurch.