

Lobby Edition 10 March 2005

This week the wages campaign gets a new head of steam as the Reserve Bank steps in, Treasury has told Ministers growth will slow this year and there's an update on house prices.

We ask whether the dollar and the current account deficit are yet high enough to attract the attention of policy makers.

You're spending more time in your email inbox than you realise – but it's good for business. In media tattle this week the Herald plans changes to its front page.

All this, plus Don's Diary...only in Molesworth & Featherston.

The Lobby Edition is a complimentary, condensed edition of the paid-subscription only Governor's Edition published last Tuesday.

The workers, the PM and the bank governor dance

The wages campaign was given a new head of steam this week with the PSA throwing its weight behind it, although it got a better reception from the PM than the private sector unions last week – partly because she has learned not to comment on wage rises and partly because the PSA was not pressing for what she called an 'across the board' wage rise. Meanwhile Reserve Bank Governor Alan Bollard arranged a meeting with EPMU national secretary Andrew Little on Wednesday to discuss the implications of the unions' campaign for a base five per cent increase - presumable to pass on warnings of inflation pressures and higher interest rates flowing from big wage settlements.

Jam yesterday, but never tomorrow

Economic growth will slow this year, Treasury has told ministers in its latest monthly economic update.



Net migration inflows and the terms of trade (that's the price we get for our exports compared to the price we pay for imports) are both currently high and both are likely to come down.

Compounding the decrease are the lagged effects of the high exchange rate and higher interest rates, which will overall 'lead to a cooling of private consumption and residential investment'.

Growth picked up in the last three months of last year to give an annualised growth rate around the three percent mark.

House price outlook.

How can you tell there's been a housing boom? Everyone you know is now a real estate agent. And sure as night follows day, a house price pause has to come.

"After a strong November/December 2004 period, the housing market was slightly weaker in January 2005 with dwelling consents and house sales decreasing by 7.2% and 16.3% respectively (seasonally adjusted)," Treasury told Minister in this month's update. But prices continued a relentless upward march.

Monthly house prices are volatile and higher wages (and therefore increased opportunity to meet higher mortgage payments) have no doubt helped nudge house prices up, but we continue to believe house prices won't keep going up if sales don't recover. It's one of those iron laws of economics (of course, the trick is not to know that prices will stop rising, but to know precisely when they will stop, and there is no iron law to help out on that one). So overall, we expect prices to settle or slip back a little soon.

So when do we worry about the dollar?

Which reminds us, we haven't griped about interest rates for a while.

As the Reserve Bank ticks off the twentieth anniversary of the floating dollar and prepares for a new MPS on Thursday, the continuing strength of the dollar should – but apparently isn't -- giving policy-makers pause. High levels of imports and struggling sections of the export community have produced a gigantic current account deficit.

Of course you welcome the strong kiwi dollar if you're planning an overseas trip, or buying an imported product like a computer.

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Many economists argue we can keep spending for as long as we can service the payments (Calling Dr Brash). This school says there isn't much you can do and the deficit is self-correcting anyway. But the correction is the real danger – it can happen very suddenly, with a very rapid fall in the dollar and the risk of a sharp recession.

So does New Zealand want a lower dollar? The answer is no, if it means a clumsy intervention – on the twentieth anniversary of the float, no less. But not all interventions are clumsy.

The dollar's strength is attributable partly to higher commodity prices and a weaker US dollar. But the main factor is the easy 'one-way bet' our Reserve Bank is offering overseas investors. The bank can't afford to let the dollar slip in case it fuels inflation. It offers higher interest to attract inward investment and hold the dollar up. An overseas fund manager can't really lose. Mortgage-holders and exporting businesses here are paying for the bet. You could rename it a tax on those sections of the economy, it would be no less the result of policy choices.

If ever there was a time to back off from the one-way bet it's now, with the economy softening a little, inflationary pressures likely to ease and the dollar needing to come down.

The Bank could manage the dollar slightly lower by easing interest rates and letting inflation increase a little (and then perhaps use its specially-created fund to begin a gentle selling cycle). It would have to balance the economic cost of slightly higher inflation against the tradeable sectors' gains from a lower dollar. There may be enough flexibility in the Bank's Policy Targets Agreement to let it get away with a change (it is required to smooth 'output' over the economic cycle).

We'll await with interest its view of the risks and costs associated with the current account deficit.

- UPDATE The Bank this morning increased interest rates 0.25%. The Governor's statement explicitly signaled concerns over wage pressures.

You have a new message

An hour and twelve minutes out of each day is spent by New Zealand businesses dealing with email – but it's worth it, according to a survey by accountants and business consultants Grant Thornton.

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A survey of more than six thousand businesses in 24 developed countries produced a global average of an hour and a half of daily emailing time.

A net sixteen percent of respondents felt email and Internet use had increased turnover or revenue.

Media tattle

The Herald has decided it needs more international stories on the front page, editor Tim Murphy told members of its readers panel in an email last week.

In other changes to the front page, he's pledging more variety in story selection and less advertising in its front-page boxes – instead they'll be used to point to news stories inside (which seems like a more logical way to sell more newspapers).

He's also promising more variety in the selection of front page stories and more positive stories. Everyone says they want more 'good news' and Mr Murphy had an intelligent response: "The Herald, and other media, frequently stand accused of focusing on the 'negative' news. This is, I think, because so often the hard news of the day -- which the classic definitions takes to be the unusual, or the changing or something which someone, somewhere does not want others to know about, or, simply, what is on society's mind at that point in time -- can be uncomfortable or unsettling. Having said that, it is plain that our readership does not want to wake to a litany of darkness and depression:

Mentioned in this week's Governor's Edition...

Don Brash, Margaret Wilson, Michael Cullen, the Prime Minister of Norway, Alan Bollard, Andrew Little and Tim Murphy.

There are two new polls updating our rolling average poll of polls and a lengthy set of decisions around the Cabinet table and we recommend you keep an eye on migration figures.

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Satire Corner

Don's Diary

8.15am 1 Mar: Woke sweating from nightmare. Election day, in polling booth but can't find National anywhere on ballot paper. Had to vote ACT. McCully forgot party vote - again.

4.25pm 1 Mar: Question Time. Waved at Prebble who pretended not to see me so went over to reassure him that I was in full control of my caucus. Got back to find Gerry in my seat deep in conversation with Katherine. Didn't want to disturb them so sat in the back with Lindsay.

9am 2 Mar: In bed early with special edition of Brash: A Biography. Must have nodded off almost straight away. Got only to page 7 where biographer realises his subject is "no ordinary man". Doesn't everybody vacuum-clean the garage?

10am 3 Mar: Up to page 9. Fell asleep smiling at quick riposte to Te Tii marae mud-slinger - "Good shot!" Dreamed I turned other cheek and he hit me there. And in the mouth and nose. Quipped "great grouping".

10am 4 Mar: "Brash's comments brought sighs of relief throughout the nation." Wonderful passage, unfortunately no record of what I said. Can't quibble. Goldsmith has written a real page-turner, if only one a night.

11pm 5 Mar: Home from dinner with Charles (HRH). Charming but mumbles and awfully plummy. When I told him wife came from Singapore he asked (or so I thought) if I "got her duty free".

10.30pm 6 Mar: Page 31: "Fiendishly well organised . . . highly focused . . . in the habit of meticulously recording and accounting for every hour of work." Cooked corned beef, cut up and folded Gladwrap, counted out peas, vacuumed garage, tightened lightbulbs. Drafted press release demanding withdrawal of diplomats from Canberra after news diggers had disturbed Kiwi graves at Gallipoli. Bed.

Comments, corrections and clarifications

Murray Darroch wrote in saying anyone who knows the Chatham Islands would have felt the irony of our story about New Zealand being left off the international logo that carried a map of the 'world'.

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“The Chatham Islands frequently have to put up with seeing maps, which purport to be maps of New Zealand and yet somehow the Chathams are missing. Parliament, the government as a whole and most government departments are frequently culprits.”

Fine Print

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