

High speed economic thinking

300 kph on the high speed TGV train from Spain's San Sebastian to Paris is certainly good for the creative juices. I'm midway through a European sojourn spiced by a quick stop in Hong Kong and 3 weeks through Spain, France and UK. This trip is partly catching up with an increasingly international family – biased I know - but impressed at what this international generation of young Kiwis contribute when they spread their wings.

As important is a chance to “log on” to the international scene. Things are certainly moving – the credit crunch and looming food shortages seem to dominate the business columns.

Credit issues have certainly gained momentum since my visit 6 months ago. Pressures on UK Bank Northern Rock were then being dismissed as a one off. Structural issues around credit and banking are now even more apparent and it would be foolish to ignore this when assessing the outlook for New Zealand's economy and agribusiness sector.

Given many banks' decisions to flout traditional lending rules around security and serviceability and borrowers' disregard for prudent debt management it's hardly surprising to find overheated credit and property markets – including in New Zealand. Changes in urban property values are hardly surprising.

Infatuation with property and anticipation of capital growth combined with loose lending has seen many so called portfolios built on fickle foundations. Cheap credit has been capitalised into property values that are now correcting – and over extended borrowers and lenders are taking a hit.

To hear the problem over here compared to events of the 1930's is a worry – especially given events like the '87 crash don't rate in the same league.

Many wiser and greyer heads will be saying “I told you so”. Decades of bullishness have meant blindness to risk and lack of fundamental sense in many “investments”. Before I left New Zealand I was conscious of growing anguish for a number of younger city investors to whom this scenario is quite foreign. They simply haven't experienced a genuine downturn!

In recent days the Bank of England has offered support to British banks by exchanging bonds for doubtful debt. Maybe the economic war chests of these nations can handle the potential downside. This strategy may simply delay the inevitable as it props up a house of straw over which market forces will prevail. Of more concern it has potential to reward ill discipline and fail to deliver important lessons.

One could argue New Zealand's rural property market has similar characteristics – especially for Dairy. The need for clear heads and risk realism for investors in this sector is no different. Perhaps the saving grace will be the second topic in the news – food shortages.

An interview with the Managing Director of the World Bank on Hong Kong TV and much comment in the European media crystallised this for me. They express real concern at the availability of food to cope with world population growth, increasingly wealthy Indian and Chinese populations and competition for land from bio-fuels.

Good news for New Zealand producers perhaps. But before rejoicing we will need to be sure the credit crunch doesn't drive interest rates and currency over the top or damage demand in western economies. Managing inflation in the costs of labour, fuel and fertilisers will be a challenge for New Zealand farming. Getting the plan and its execution right will demand new levels of sophistication. It must be underpinned by robust strategic and day to day monitoring.

Most importantly we need to be wary of celebrating single success factors like product prices and work as hard on cost control and the bottom line to harness the gains.

New Zealand is undoubtedly well positioned but farmers must guard against complacency and simplistic investment strategies if it is to avoid its own version of the credit crunch. Debt reduction in good times would be a good start for many – especially if they have expanded recently.

Get this right and there is more than a hint of “*la vie douce*” ahead. We will see!

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