

TONY'S VIEW COVID-19 #3 SUPPLEMENT

Input to your Strategy for Adapting to Challenges

Feel free to pass on to friends and clients wanting independent economic commentary

ISSN: 2703-2825

Monday 23 March 2020

To subscribe or enquire about having me in as a speaker, podcaster, live-streamer, or on a webinar email tonyalexander5@outlook.com

My Aim

To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy to understand manner.

This Is Not Your Fault

No-one is losing their job or business because of anything they have done. It is not a situation in which

- the NZ dollar has soared and they did not hedge their export revenue,
- commodity prices have plummeted and they did not diversify their outputs,
- interest rates have soared and they did not fix their debt,
- their online reviews have been bad, or
- their worksite performance has been poor.

People are losing their profits, their businesses, their jobs because on our behalf as citizens our governments have made the decision to sacrifice part of our economies in the interests of saving millions of lives. You have been bulldozed as a vital firebreak, or left to burn down while the town's most valued assets are saved, to put it in the context of Australia's summer bush fires.

Government efforts to mitigate the negative impact of this enforced sacrifice need to focus less on generalised measures such as the ideology-driven welfare boost of last week and the all-encompassing business tax and depreciation assistance, (both look like pre-planned, pre-election Budget measures) and more on the specific firms and people taking the blows on our behalf. The actual fiscal response so far is not great and what's needed is not a fiscal stimulus which can't be spent anyway, but business cash flow and wage support.

The UK government showed how this can be done on Friday with their astonishing package. They will pay the wages of staff unable to be kept on by employers because of the virus if they do in fact keep them on, up to 80% of the wage with a maximum of £2,500 per worker per month (about \$5,000 NZD, \$60k p.a. equivalent).

How can a government pay the potentially huge bill needed to help out the tens of thousands of people and businesses now suffering to save us and get as many as possible through to the other side? They don't. We do through the higher taxes we will all pay over the many years to come. Taxes we should willingly pay, perhaps with that willingness made real through the creation down the track of a special levy on GST, income and company tax rates to remind us all of the community response needed to get everyone through this crisis. The Covid-19 Levy. The government is able to shift the cost of the assistance through time. Given our good Crown finances such a levy probably won't be necessary. But I thought I'd be the first to give it a name.

Insulating Factors

In one live interview I did someone asked if all sectors would be laying people off. The answer is no and along that theme I've put together here a preliminary list of things which will mitigate though not stop the pain and most are small in magnitude. But what would you rather do, stare agog in despair at the big jobless numbers we will see reported in the next three months, or try to stay focussed on some hopeful things which psychologically can be vital in getting us all through to the other side?

1. Some 154,000 people are in NZ on work visas issued in the past year. Many will be in the lower wage parts of the travel and hospitality sectors. The government may let them stay, but employers

will have to give job preference to Kiwis. Thus, many layoffs will not affect citizens and permanent residents or boost dole payments. Think of that what you choose.

2. Interest rates were already at record lows, now they are lower.
3. The NZD is at a 12-year low against the US dollar and may go lower. Good for primary exports.
4. Banks are very well capitalised following moves post-GFC.
5. The RBNZ has established special lines of credit and liquidity backups.
6. We have entered this recession with labour shortages, especially in healthcare, farming, construction, and horticulture.
7. Fiscal policy will deliver an extra 2% of GDP boost this coming 12 months and further stimulus including more business support and wage support measures are sure to be announced soon.
8. Oil prices have plunged and we are a net energy importer.
9. House construction is strong and we enter the recession with a housing shortage.
10. Infrastructure spending is strong and strengthening.
11. There is \$10bn available to spend which we Kiwis were going to spend offshore this year.
12. The world needs food and that is what we produce. Scarcity worries are rising overseas.
13. Over 30% of our goods exports go to China and the CCP will likely introduce growth policies.
14. There is low equity ownership in NZ and little if any debt-funding of share purchases.
15. Banks have applied LVRs and high test interest rates of 7% - 8% when giving mortgages. Mortgage stress for most will be minor.
16. The tourist season had already peaked for many operators before the virus struck.
17. Supermarkets are hiring, demand for cleaners is strong.
18. There is underlying strong growth in a wide range of sectors – wine, horticulture, aged care, healthcare, renewables, gaming, space.
19. Our debt growth has been low – households 41% the past 5 years vs. 84% pre-GFC, businesses 36% vs. 86%, agriculture 20% vs. 111%

Sacrifice

In one of my newspaper columns, and I think during a livestream last week, I suggested landlords at a minimum scrap any planned rent rises, and also discuss rent relief/holidays with tenants in an income loss position because of the recession.

Here's another suggestion. In 1998 6% of people aged 65 and over were still in work. Now that proportion is 25%. You might be working for social engagement. Whatever the reason, consider that you are receiving superannuation, and now might be the time to step aside from your job to provide work for someone paying a mortgage and feeding a family. Your call.

For the rest of us, agreeing to a cut in work to three or four days a week in order to help carry those most at risk of redundancy through to the other side would be a good sacrifice.

The Greens could sacrifice timing on some anti-farmer policies to give those farmers greater scope for hiring people instead of spending millions on environmental issues – for now.

After any war, families, communities, if not countries remember those who sacrificed to help, and those who turned away and looked out only for their own interests. This year you get to choose your reputation for the rest of your life.

Supplements 1 and 2 here

<http://tonyalexander.nz/resources/TV%20Covid-19%20Supplement.pdf>

<http://tonyalexander.nz/resources/TV%20Covid-19%20No.2%20Supplement.pdf>

This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. We strongly recommend readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. No person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.