



By Dan Stratful

The economic clock – what's the time?

A common question asked by many people is – what's the time? While this question was solved years ago, another more difficult question is – what's the economic time? The economy, property markets and share markets all move in a repetitive cycle, a cycle which history shows generally lasts somewhere between five and nine years before repeating itself. While the economic clock pictured below is imperfect, it shows the economic cycle and outlines that there is a time to buy assets and a time to sell assets.

So where are we now? To answer that question we need to ascertain where we have been and look at some of the events over the last few years.

I look at it like this:

Top of the Boom – 12 o'clock: In reaction to high economic growth over the last few years the Official Cash Rate (OCR) hits a cycle high of 8.25% in July 2007; The Dow Jones Industrial Average Index peaks at over 14,000 points in October 2007 after spending five years rising from its previous low of 7,500 points achieved in October 2002; The NZX 50 Index also peaks in October 2007 and Fletcher Building shares hit a high of \$13.42 a few months prior to this; the New Zealand median house price hits a high of \$352,000 in November 2007 and New Zealand unemployment hits a record low of 3.4% in the December 2007 quarter.

Slowdown – 3 o'clock: After several years of steady economic growth, economic activity as measured by gross domestic product (GDP), declines 0.3% in the March 2008 quarter; as the economy slows The Reserve Bank begins easing the OCR lowering it from 8.25% to 8% in July 2008; the Dow Jones and the NZX 50 Gross Indices have begun a steady and at times rapid decline with the Dow trading at 10,500 points by September 2008; the NZ median house price has fallen from its highs and is \$328,500 by December 2008 while unemployment has also begun rising and is 4.6% by the December 2008 quarter.

Depth of the Depression – 6 o'clock: Massive corporate failures in the US in late 2008 include Lehman Brothers, and the US government bailout of AIG Insurance, Fannie Mae and Freddie Mac; the Dow Jones bottoms at 6,540 points in March 2009 and the NZX 50 also bottoms in March 2009 with Fletcher Building shares hitting a low of \$5.01; the OCR is reduced to a record low of 2.5% in April 2009.

General Recovery – 9 o'clock: This is the stage we are most likely in now. After five consecutive quarters of negative economic growth, economic activity (GDP) rose 0.1% in the June 2009 quarter and 0.2% in the September 2009 quarter. Currently we have rising sharemarkets, improving consumer sentiment and a looming increase in the OCR which is expected in mid-2010.

From the above, it appears that the top of the boom occurred sometime in late 2007 and has taken around two-and-a-half-years to get from the boom stage to the general recovery stage or 8 o'clock where it is today. This suggests that the current economic cycle is a fast cycle, and many economists also expect a V-shaped or fast recovery. However, with the economic recovery now underway, the recovery will likely be gradual and drawn out, which suggests we are still a long way off the next boom.

Knowing the economic cycle means an investor is part way to deciding what to invest in.

At this stage of the cycle all portfolios should have exposure to cyclical shares which tend to outperform the market in a recovery. Cyclical shares could include Fletcher Building, Freightways and ASX-listed Transfield Services.

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** Do you have a different view on what the economic time is? Please email me with your view.*

