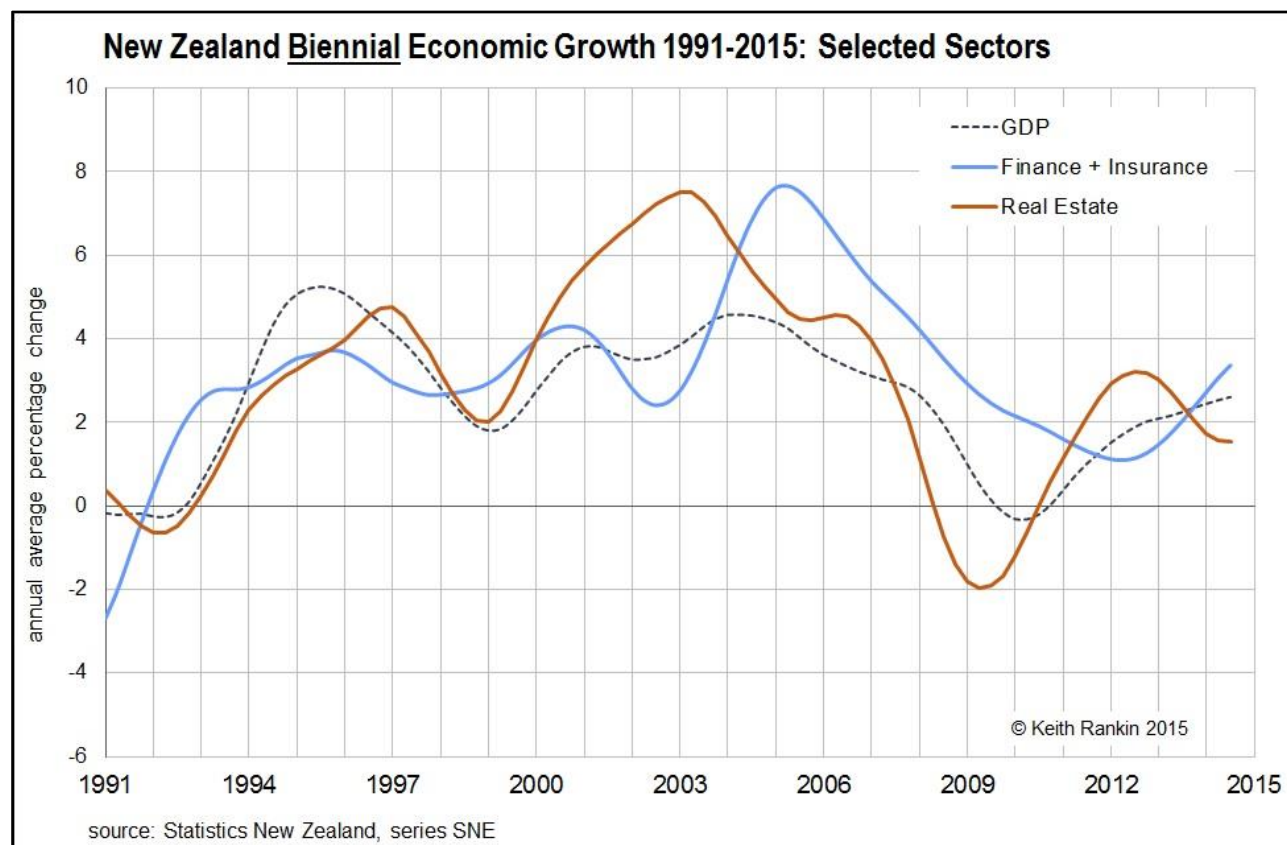


# Chart for this Week: Finance-Related Growth 1991-2015

Keith Rankin, 18 November 2015



## Weaker than in the Naughties

This week's chart is drawn from the same set of data as last weeks. However, instead of simply comparing the sector-GDP data from one quarter and comparing it with the same quarter of the previous year, I have taken eight quarters of data and compared their averages with the averages for the previous eight quarters.

The former approach better showed the very latest dip, while showing perhaps too many blips. The latter approach smooths the blips and shows more clearly the decade by decade similarities and differences.

This week's chart shows important similarities between the twenty-teens and the twenty-naughts, while showing that actual growth of financial and real estate activity is much less this time around.

I think that the next major crisis will be more an economic crisis than a financial crisis, as the issues around inequality, debt-phobia and globally footloose (but increasingly restricted) labour get closer to breaking point. Financial crisis still remains very much on the cards, nevertheless. In 2007-09 New Zealand had a financial crumple-zone in the form of finance companies that flew then failed. There were substantial repercussions for unwary New Zealand savers. These finance company failures protected our banks. The banks have no such protection this decade.

While activity in the real estate sector recovered strongly immediately after the financial crisis (essentially sales and marketing; linked more to volume than price), the 2013 growth-high in this sector barely exceeds the low of the late 1990s. Domestic financial growth in these years (early 2010s) remained weak; bread-and-butter mortgages and debt-repayment rather than lots of new loans. Imported finance was almost certainly playing a greater role then than now in boosting real estate activity.

Growth of incomes generated in Finance and Insurance tends to follow (rather than promote) growth elsewhere in the economy (although 1992-93 and 1998-99 appear to have been exceptions), reflecting the fact that this sector principally services the interests of those with savings to 'invest' and with assets to put-to-work generating financial returns.

Today we see that the financial sector (increasingly, the banks) are once again in the ascendant, having already grown faster than the economy for almost every year since 2004. It's likely that bank activity (essentially recycling and recreating money) will continue to facilitate general growth within New Zealand at around three percent for another year or two, followed by another end-of-decade debt crisis. 2017 will be the year to watch.

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