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"SOFT LANDINGS OR TURBULENT FLIGHTS? THE AMBIGUOUS TRAJECTORY OF ECONOMIC REALITIES"

BY FRANCESCA MASFEN

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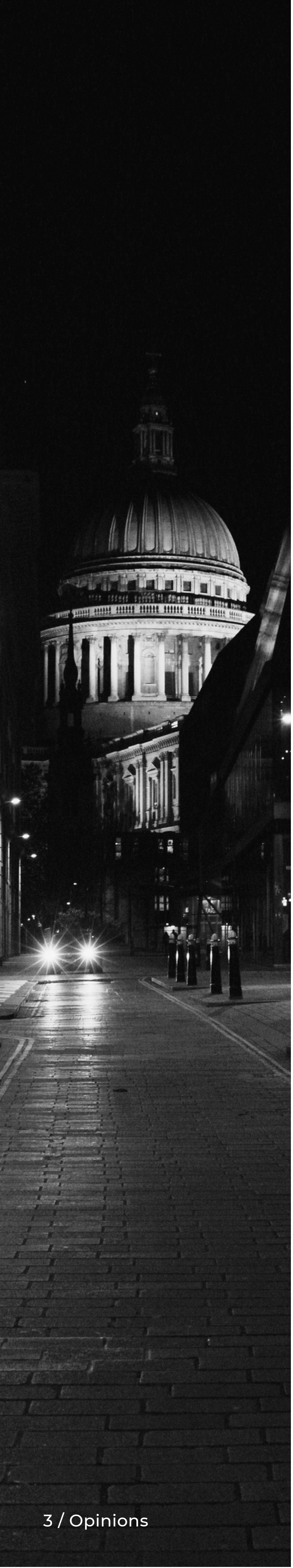
GLOBAL

"Soft Landings or Turbulent Flights? The Ambiguous Trajectory of Economic Realities"

BY FRANCESCA MASFEN

Within economics, the alluring prospect of a "soft landing" captivates the attention of economists, central bankers, and citizens alike. The rarely achieved economic strategy denotes a cyclical deceleration in economic growth designed to evade the looming dangers of a recession. Since early 2022, there have been indications that US Policymakers are embarking to achieve a ‘soft landing’ post the economic crisis of the COVID-19 pandemic. The pressing question, however, remains: will they succeed in achieving this coveted economic equilibrium?



A "soft landing" is a carefully engineered deceleration of economic growth following a market expansionary phase. Central banks adopt this strategy to strike a delicate balance between economic stability and an overheated market. The primary objective is to judiciously raise interest rates, sufficiently curbing soaring inflation and restraining excessive economic activity while avoiding detrimental consequences of a severe downturn or recession, as noted by Investopedia. Soft landing can be isolated for a sector and/or the whole economy.

The term was integrated into economics in the 80s, taking cues from the historical context of early flight, where it found primary application in the controlled descent of hot air balloons. This method entailed a systematic reduction of buoyancy to facilitate a steady and controlled landing process.

To date, there has been one notably contentious instance often hailed as a "perfectly" executed soft landing: the successful piloting of the Federal Reserve by Alan Greenspan in 1994-1995. Through a remarkable measure, the Federal Reserve effectively curbed inflation by doubling interest rates within a year, thereby laying the groundwork for an additional six years of economic growth and expansion. However, the notion of it being truly "perfect" is debatable, as this policy decision also resulted in significant losses for bond market investors and played a role in the 1994 bankruptcy of Orange County, California.

Alan Blinder, who served as the Fed vice chair during the 1994-95 soft landing, suggests the central bank has achieved several relatively gentle landings over the past fifty years. For instance, in 2001, a series of Fed rate increases initiated two years earlier resulted in an exceptionally mild, eight-month downturn, often referred to as a "recessionette" by Blinder. Fed Chair Jerome Powell also mentioned the possibility of a "softish landing" for the economy, wherein unemployment may increase moderately, inflation subsides, and economic growth persists, albeit sluggishly. This scenario aligns with what some economists term a "growth recession”. However, both these examples of ‘soft landings’ require one to look at the term rather liberally...

So, what is the potential for success this time?

It seems odd emerging from the aftermath of a pandemic, but the potential for a ‘soft landing’ is growing. In June, consumer price increases decelerated to 3%, marking the most minor advance in over two years and significantly lower than the peak of 9.1% recorded in June 2022. Despite the Federal Reserve's robust credit-tightening campaign, the job market has remained resilient, with unemployment hovering near a multidecade low. As a result, Fed economists and private economists have revised their earlier projections of a mild recession and now suggest the likelihood of the U.S. entering a recession within the next 12 months is 50% or lower, according to a survey conducted by the National Association for Business Economics. Goldman Sachs has gone more progressive, reducing their recession probability to 20%.

Although, the flight ahead seems rather turbulent. While inflation has decreased substantially, most of the decline can be linked to easing price pressures from the COVID-19 pandemic and Russia's invasion of Ukraine. It will be challenging to reduce inflation further, particularly to reach the Federal Reserve's 2% target. In the services sector, which is presently experiencing the highest inflation, prices tend to show greater resistance to change, and wages play a more prominent role in influencing the overall operating expenses of businesses within this industry. Federal Reserve Chair Jerome Powell has cautioned that taming inflation may necessitate rising unemployment. However, he remains optimistic that any such increase will be moderate, averting a full-fledged recession, with the central bank removing their US recession forecasts.

It becomes apparent then that the path to economic stability is riddled with complexities and further complicated by the looming spectre of stagflation. While the current data suggests a lower probability of an immediate recession, the lingering inflationary pressures in the services sector raise concerns about the challenges in achieving the Federal Reserve's inflation target. The delicate and arduous task of effectively managing inflation without provoking a pronounced rise in unemployment poses a critical dilemma for policymakers. The Federal Reserve must navigate these intricate dynamics with precision and foresight. History has shown balancing economic objectives, and policymaking is a Herculean task, fraught with challenges and complexities... even Hercules might be left pondering if he can handle the skies of economic navigation with the same prowess as his legendary feats.

A successful 'soft landing' in the US economy could have mixed effects on New Zealand. On the positive side, it may make for stronger exports from NZ to the US, benefiting sectors such as agriculture. For instance, if the US experiences stable growth, the demand for NZ agricultural products and other exports may increase. However, if the ‘soft landing’ is somewhat turbulent, the demand for NZ exports may drop, negatively impacting New Zealand's export-oriented industries and overall economic growth. Economic volatility in the US could also affect investor confidence, leading to fluctuations in foreign investment, which may impact NZ’s GDP and capital flows. NZ’s economy is closely connected to the global market, making it susceptible to both the benefits and challenges of international economic developments.

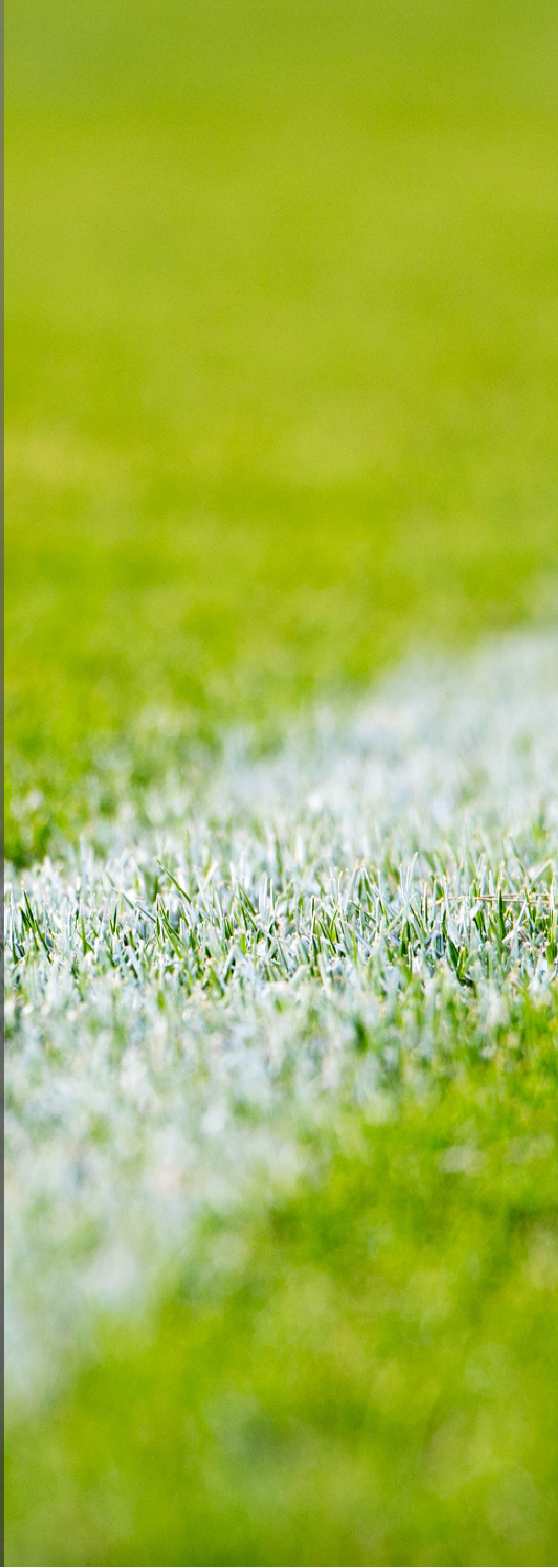
Pursuing a 'soft landing' in the US economy remains an intricate challenge, given the complexities of managing inflation and balancing economic objectives. While the potential benefits of such an outcome could extend to countries like NZ, it may also pose challenges. Achieving this coveted equilibrium demands careful navigation and prudent policymaking in an ever-changing economic landscape.

LOCAL

Keeping TABs on student sports gambling

BY LUKA BORICH

People tend to want to make money. Students want to make fast money. Such is the reality of being a student: you don't have capacity to take on a full time job, and particularly in the current economic climate, cash in hand is all the more valuable. Betting, and particularly sports betting, is therefore an increasingly attractive prospect. But the parallels to investing are largely fictional, and sometimes we forget that.



Earlier this year, the TAB signed a 25 year strategic partnership with UK betting giant Entain. Among the highlights: The deal will bring in 900m to NZ's racing industry over five years and the company also negotiated to continue a monopoly on sports/racing betting. This involved a further upfront payment to the government. The deal also will provide $15 million over the next few years, as well as a sizable investment in women's sports. Privatisation of a previously public entity is always dicey; a short term upfront payment might have long term consequences.

Your opinion of this deal may be shaped by how you view the industry as a whole. It is no secret that the TAB had been dealing with increasing international competition. Some may have seen this as a good opportunity to let the operation die; as if it would slow down the spread of gambling. If nothing else, I think a deal of this magnitude should highlight the need to revisit the inefficiencies of gambling legislation in New Zealand.

Returning to our typical student sports enthusiast, all of this is to say nothing about why people can be so comfortable parting with money whenever their team plays.

I think part of the illusion is that sports fans have a uniquely outsized perception of their ability to predict sporting outcomes. It's as if fandom qualifies you to know the outcome, or likely outcome of a game. For the truly arrogant, it probably feels like you are insider trading; that you are the CEO of a company and have just sold your shares before a bad reporting season.

It doesn't help that, unlike investing, where people tend to be more forthcoming on their investment failures, you tend to hear about the wins in gambling more than the losses. Speaking from personal experience, I know a friend whom won north of $1,000 from a bet less than $50. The realistic takeaway from his fortune is that he's almost sure to continue to gamble for the foreseeable future; the allure of another big win is enticing . Chasing returns in this arena can sadly be an addiction.

In short, the proliferation of gambling has likely hurt more than helped people. Sports betting as a money making scheme is riskier than most of the companies you could find on sharesies, yet people plow headlong into a 7 leg multi with equal aplomb. Putting money on your favourite team or person may raise your investment in the outcome financially, but being a fan is not a substitute for due diligence. It just makes you confident.

LOCAL

From Vodafone to One NZ

BY LILY CRAWFORD

Brand changes, a new ownership structure, new partnerships on the horizon. It's safe to say the iconic Kiwi telecommunications company, One New Zealand - formerly Vodafone - has seen much change in recent months. These strategic decisions could either spell success or alarm for the company and potential upside for the watchful retail investor.

According to the Commerce Commission's Annual Telecommunications Monitoring Report, 38% of Kiwis rely on One New Zealand's telecommunications services. With Spark (41% of the market share) and Two Degrees Mobile (19% of the market share) being the other two major competitors and the three businesses comprising 98% of the total market, it is apparent how One New Zealand plays a significant role in Kiwi's lives. Hence, with such limited competition, these decisions by One New Zealand will impact not only the company but also the lives of many Kiwis.

But what are these shifts I speak of?

First and foremost, One New Zealand - formerly Vodafone - is undergoing a complete rebranding. With a new name and even a new green colour scheme (say good-bye to the iconic red and white) the changes signal a shift in focus for the company, away from the Vodafone brand and towards a future-focused solely on providing value to the New Zealand market.

As Jason Paris (CEO of One New Zealand) has said "now, it is time to take the next step... with one focus on one country and on one goal, to unlock the magic of technology to create an awesome Aotearoa."

The rebranding will save the company an estimated $20 to $30 million in branding fees annually. Money which would have been paid to Vodafone for use of the brand name and logos, which will now be put towards providing value for Kiwi customers.

This is evidenced by its two major new initiatives. One Good Kiwi, a new charity platform which plans to provide $1.2 million annually to charities supporting Kiwi kids. And One Plan, a brand-new mobile plan which offers customers max speeds and unlimited data.

Hence, the rebranding is great for the company who can save money and expand product offerings with newfound funds, as well as for Kiwis, who will be offered more advanced, targeted, and innovative products.

Arguably, consumer goodwill could be impacted with the firm's strange new face - with New Zealanders being known to be quite loyal customers. But the firm's name has New Zealand in it, and whether this poses an issue may come down to how effectively management can market it as a reputable and proud New Zealand company. Notably, they are not the only company looking to make changes in this struggling economy - with supermarket giant Countdown being just one example of a New Zealand business looking to rebrand back to Woolworths in 2024. Hence, the rebrand will hopefully help them to forge a new identity in the market.

Second, One New Zealand's ownership structure has changed drastically. In June, Infratil, a New Zealand infrastructure investment company, increased its holdings of One New Zealand from 49.95% to 99.9% by buying out its Canadian partner and Vodafone's other major shareholder, Brookfield Asset Management.

In a deal worth $1.8 billion, Intrafil issued $850 million in new shares, as well as cash and debt facilities totaling $950 million. A $100 million offer was also made to retail investors, but this was oversubscribed by $220 million, after One New Zealand received $320 million in applications. This gave the average New Zealander the opportunity to get involved as an investor and shows how investors seem to look favourably on the changes being made.

The buyout implies an equity value of $3.6 billion for One New Zealand (which values itself at an enterprise value of $5.9 billion). This indicates good growth in somewhat unfavourable conditions when compared to its 2019 equity valuation at $3.4 billion (in the 2019 sale of the firm from Vodafone PLC to Intrafil and Brookfield). This is particularly admirable as the company struggled during lockdowns, where its roaming revenues (a high-profit revenue stream for the company) were significantly reduced.

The recent success of the company is backed by its increase in EBITDA of 9.7% (to 527.8m) in the year ended April 2023.

The change in ownership structure to Intrafil being the 99% shareholder may help the leadership team be more focused and aligned on one vision, creating a more cohesive company. It will also be more flexible and the absence of foreign ownership may mean the firm has a greater understanding of the New Zealand markets (Intrafil being a New Zealand-based firm).

Intrafil is also a large infrastructure investor (with a market capitalization of $8.148 billion as of August 2023). Hence, Intrafil is likely to be aggressive and eager to expand its market share in the industry. Furthermore, it will have sufficient funds to draw on to facilitate growth of the firm. Therefore, the buyout is a good thing for the future of the company which is likely to benefit from the more aligned leadership and focused support of a large investor.

Finally, the company has also announced a new partnership with Elon Musk's Starlink satellites. This will improve mobile coverage drastically and make the business much more competitive. The company will be able to offer much more extensive coverage at higher speeds and will develop an innovative, future-focused brand image. In addition, being associated with a living legend like Musk is likely to raise brand awareness and draw new consumers to the brand.

The partnership has already received much media attention due to its new slogan promising "100% mobile coverage." This advertisement has since been flagged by the Commerce Commission as potentially misleading. Since connection will still be unavailable where there is no view of the sky (e.g. caves and dense buildings), however, as they say no attention is bad attention - and it sure has got people talking about the partnership which has appeared in the media lately!

While competitors Spark and Two Degrees Mobile have announced similar arrangements with Starklink's competitor Lynk, Starlink is more competitive in the field. While Starlink already has 4,519 satellites in orbit (as of July 2023), Lynk has just three in orbit (as of January 2023), with 1,000 planned to be orbiting by 2025. Hence, being the more established satellite provider Starlink as a partner will help the business develop a key competitive advantage in the industry, as more well-resourced, future-focused and competent.

Related to this is the $1.7 billion sale of Vodafone's cell towers in November 2022. This marked a shift in the company's future away from traditional cell towers and towards satellite technology being the provider of mobile coverage. With One New Zealand planning to fully roll out their 4G and 5G services and to begin ending their 3G network by August 2024 this deal will help them fund their partnership with Starlink and invest in this new technology.

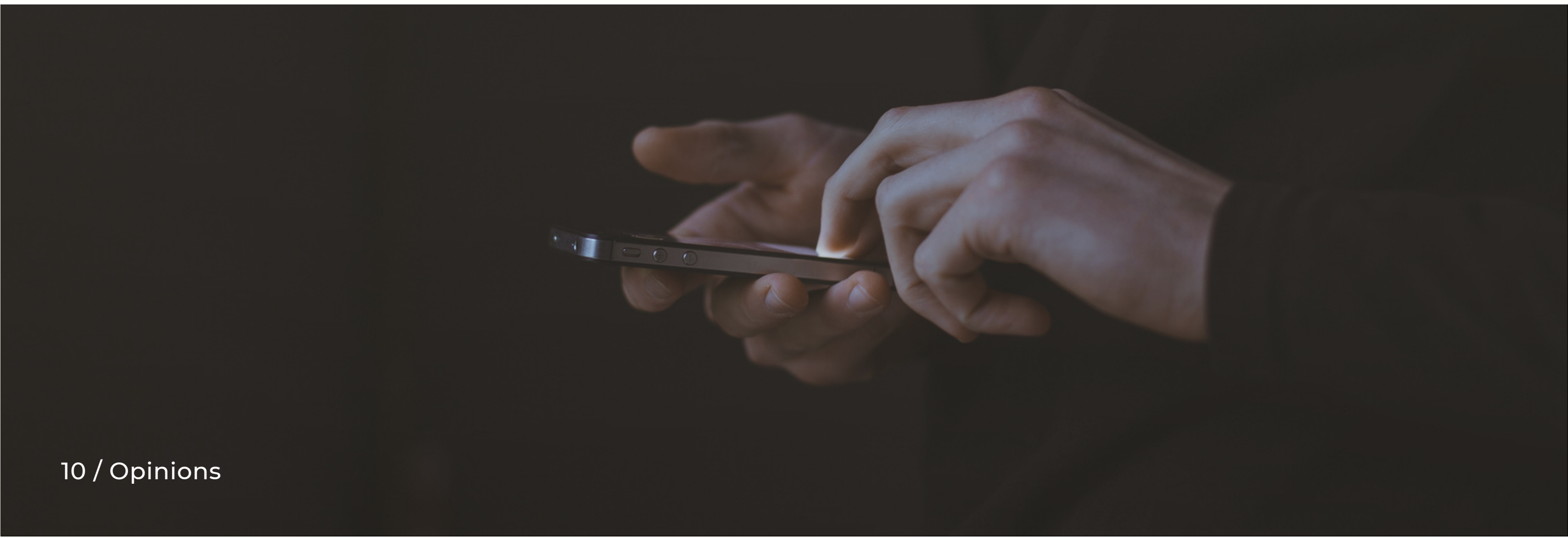
The cell tower sale with InfraRed and Northleaf Capital Partners involved them each taking 40% stakes in the new firm TowerCo and Infratil taking a 20% stake. The deal also included a 20-year agreement which allows access rights to One New Zealand and includes promises to expand the tower network by more than 400 towers in the next few decades.

The sale is comparable to the sale of Spark's mobile towers in July 2022. Spark's TowerCo traded at an EBITDA multiple of 33.8, similar to that of Vodafone's TowerCo which traded at 33.8 times historical EBITDA. These tower sale deals were common mid-last year with low borrowing costs and a subsequent lower rate of return required on investment. Core plus infrastructure assets like telecommunications towers became a particularly attractive asset for private equity and infrastructure investors who could generate strong returns, at low risk, in what was a rocky period for equity markets. However, since mid-last year it's interesting to note that the OCR has risen from 2.5% (in July 2022) to 5.5% (as of July 2023). Increasing interest rates, increases the cost of debt, subsequently increasing the required rate of return for investors. But this is advantageous for One New Zealand who all in all made a good deal, and are now able to fund their 5G expansion and star-link partnership in a low-cost manner.

Overall, the Starlink partnership may present upfront costs right now, but it will likely pay dividends in future years as the company grows its reputation as a superior and high-coverage network with access to Elon Musk's satellites (a major brand awareness strategy).

It can certainly be said senior leaders appear confident in the business. Boyes has said One New Zealand was "well positioned to achieve a 30 per cent EBITDA margin target" over the next few years. Furthermore, if consumer confidence is any indication, the market does seem to be confident in the company's future and content with these new management decisions, as the stock is up 27.2% over the past 12 months (7 June 2023).

Overall, it remains to be seen what the future of the iconic kiwi telecommunications company One New Zealand will look like. With the brand changes, a new ownership structure and a new partnership, I believe there's great promise for the future of One New Zealand, if the new initiatives can be followed through on effectively.



OPINION

Flip pages, don’t scroll!

BY ANDREW HUANG

Lying in bed, scrolling social media, whether it be TikTok, reels or shorts — Is this the best way to spend your time? Absolutely not! May I suggest to you the alternative option of reading perhaps? First, I want to ask you, when was the last time you read a book? A novel, novella, short story or even a fable! You should have recalled when by now, or even vaguely remember that it has since been a long, long time...

Now to convince you as to why you should read, I will first highlight the negatives of — scrolling. Damages to your sleep, attention span and mental health are some of the significant poisons of scrolling.

As you take a quick glance at the time, you say to yourself, I need to head to bed soon; five more minutes, just five more minutes. Before you even know it, those five minutes have passed by in the blink of an eye. This cycle then repeats itself, monotonously chipping away at your sleep time bit by bit as you are lulled into offering a prayer to — the goddess of sloth, idleness, indolence and laziness — Aergia. This is a trap woven by the big social media sites; they want you to be addicted! Once you have fallen into the pit of addiction that they have crafted with intention, they will start to harvest your data and create an algorithm perfectly curated for you. Soon enough, personalized ads will be shown to siphon your wallet, and your data will be sold to advertisers — which means revenue for the big social media companies!

Within a few seconds, you instantly know if a particular clip will entertain you or be scrolled past. The dopamine rush, akin to crack cocaine, keeps you hooked, and before long, your dopamine receptors are fried. Soon you won't be able to focus on a task at hand without subway surfer's gameplay playing in the background. As you spiral and fall into such a chasm, it will be hard for you to direct your concentration for extended periods; such an example would be the inability to enjoy full-length movies and a reliance on bite-sized YouTube movie summary videos...

Theodore Roosevelt once said, "Comparison is the thief of joy". Flash cars, fancy vacations, day in the life of X, thirst traps and toxic grindset content. Subconsciously, as you scroll, you may start to compare reality with such curated content presented to you. The impact of this on your mental health is, without a doubt, ghastly. As you spiral further and further into scrolling, eventually, you will encounter negative and disturbing content that only serves to make you more anxious and paranoid of the world around you.

An easy, great, and simple antidote to the poisons of scrolling is reading! Yes, reading. Now imagine yourself relaxed and reading a book, engrossed, with a cup of joe or tea by your side, either in your bedroom, lounge, or on your porch. This surely sounds better than mindlessly scrolling, doesn't it? Well... it surely does for me at least!

To start our "scrolling" detox therapy, what you must do is to start building up a reading habit bit by bit. Whether this be 30 minutes before bed every day or picking up a book when you feel the need to scroll, as long as you make little steps towards the goal of replacing scrolling with reading you will be on the path to rehabilitation.

What I can promise you is that your sleep, attention span and mental health will definitely improve. Instead of staying up all night scrolling, you will slowly drift off to sleep as your eyelids get heavy trying to read the next word. Your attention span will improve as you will exert and train the muscles in your brain. Mental health will surely improve as research has shown that reading a good book will reduce stress levels by 60%.

In addition to this, there are a multitude of benefits that can be gained from reading. The list of such benefits is endless, but to state some of them, such benefits include the development of empathy, an increase in vocabulary and critical thinking skills.

Talking more about critical thinking, in the world today with the rapid development of AI, critical thinking is an essential skill that needs to be developed. The ability of tools such as ChatGPT to summarize a passage of text and even write an article (this article is human written ok) only further strengthens the need to develop this skill. Only with critical thinking can we evaluate information presented to us by AI and make informed decisions based on such information.

On top of all this, in all honesty, financial advice gained from social media should not be taken seriously. Gurus that try to sell you the art of day trading are all trying to swindle you! May I direct your attention to actual books that will teach you about investing, such as The Intelligent Investor (Graham), A Random Walk Down Wall Street (Malkiel) and One Up on Wall Street (Lynch).

To end off, I hope I have given you enough information to ponder upon and perhaps even make a decision!

MYOB Column

How digital banks can help SMEs manage finances

Every small business owner should try their best to save time where possible, as these efficiencies directly contribute to increased revenue.

You have meetings, sales targets to achieve, and strategies to develop, all of which drain your time. This reality is why you should remove any excess time spent on banking, especially when it is so easy.

Traditional brick-and-mortar banks can consume a significant amount of precious business hours. It is neither practical nor safe to rely on a dedicated team solely for handling your banking needs. As digitisation continues to shape the fast-paced future of global business, the benefits of switching to digital banking are becoming more and more valuable.

Read our latest blog on digital banks here

Forsyth Barr FOCUS

Cracks in the Kiwi Nest Egg

New Zealand recorded its largest ever current account deficit over 2022. The current account is the balance between what we as a country earn and what we spend. In fact, over the 35-year period that we have been measuring the current account we've only had deficits — we are a net (and increasing) borrower from the rest of the world. In the short-term this isn't much of an issue — overseas investors remain happy to lend us money or buy our assets. Over the long-term, however, it does pose economic risks to the country and is another reason why diversifying investments beyond New Zealand is a good idea.

Read the full article here.

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