

## What the parity party says about Australia and New Zealand

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Oliver Hartwich | The New Zealand Institute | 14 April 2015

The Reserve Bank of Australia's surprise decision not to cut interest rates last week only postponed the expected "parity party" between the Kiwi and Aussie dollars. The way things are going, it is a matter of time until both currencies are of equal value.

The currency development leaves politicians and commentators divided. Last Wednesday, *The New Zealand Herald* was jubilant ("Trans-tasman parity worth a celebration") whereas the *Waikato Times* played the party-pooper ("Dollar parity bad news").

Unsurprisingly, Prime Minister John Key claimed the strong New Zealand dollar as an indication of a strong economy while his counterpart, Labour leader Andrew Little, warned of negative side effects of our strong dollar.

With so much disagreement on the interpretation of a rather technical event, who is right in their assessment of the parity party?

The truth is that they are all right in their own ways. At once, the strong NZ dollar is a blessing and a curse, a development to celebrate and to be concerned about. It entirely depends on your perspective.

Obviously, for importers of Australian goods as for New Zealanders holidaying in Australia, parity makes life cheaper. Conversely, exporters trading with Australia will experience business conditions get tougher. That is the very nature of exchange rate movements. They always create winners and losers, parity or not.

So it is futile to discuss parity under the heading of whether it is good or bad for individual people or businesses. It always depends on their individual circumstances.

What makes much more sense to reflect upon is what parity with the Australian dollar says about New Zealand – and what it does about Australia.

It is a tale of two different countries. And it is a tale of a major role reversal.

Until just a couple of years ago, New Zealand was worried about a large migration loss to Australia. The grass seemed greener on the other side of the ditch, and many Kiwis were lured by better economic prospects in Australia. Since then, Australia's mining boom has ended and there has been political mismanagement in Canberra. That is one side of the equation.

On the other hand, New Zealand was fortunate to see a surge in demand for its exports. Plus, we have benefited from sound political management which brought us the free trade

agreement with China (thanks to the previous Labour government) and a focus on fiscal prudence (thanks to the current National government).

Perhaps parity with the Aussie dollar should be an opportunity to reflect on how fortunate New Zealand has been with its political leadership (certainly compared to Australia). And, it should also be a reminder that no good economic run should ever be taken for granted. Just ask the Australians.



*Dr Oliver Hartwich is Executive Director of The New Zealand Initiative, the Wellington-based think tank formed by the merger of The New Zealand Business Roundtable and The New Zealand Institute.*

*[www.nzinitiative.org.nz](http://www.nzinitiative.org.nz). Dr Hartwich is a member of *PortfolioConstruction Forum's core faculty* of leading investment professionals.*

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