STEP BY STEP WITH MONE – THE ECONOMY, BABY BOOMER, GEN X & MILLENIAL
By Stephen Diedericks BCom, CPA, Juris Doctor (Masters of Law)

Over the next four weeks I will share what is happening in our economy and how Baby Boomers, Gen Xers and Millennials can take advantage of it with the use of Network Marketing. This week we will start with the Economy.

We will look at protecting ourselves irrespective of what the economy does. For this we revisit Babylon. This will be followed by some definitions of words used in our economy so that we understand what people are saying when they use words like 'official cash rate' and 'GDP'. It will also help us to determine when someone needs further education on the topic. We will also cover certain parts of the New Zealand economy & the impact of Artificial Intelligence & Robotics.

Let us revisit Babylon and consider certain laws. These laws apply to all legal ways we earn a living. We should use them to strive for financial security so that we can be proactive within the economy, irrespective of the economy going up or down. These laws can be found in *'The Richest Man in* Babylon' by George Glasson and because of their importance I restate them here:

1. **Gold cometh gladly and in increasing quantity to any man who will put by not less than one-tenth of his earnings to create an estate for his future and that of his family.**
2. **Gold laboreth diligently and contentedly for the wise owner who finds for it profitable employment, multiplying even as the flocks in the field.**
3. **Gold clingeth to the protection of the cautious owner who invests it under the advice of men wise in its handling.**
4. **Gold slippeth away from the man who invests it in businesses or purposes with which he is not familiar or which are not approved by those skilled in its keep.**
5. **Gold flees the man who would force it to impossible earnings or who followeth the alluring advice of tricksters and schemers or who trusts it to his own inexperience and romantic desires of investment.**

Economic terms defined

As mentioned in earlier articles, saving money and deciding how and where to invest it may be new to many of us. For this reason, we should proceed with care and gain greater knowledge. In that vein, below are some definitions of economic terms we may have heard in discussions. Please note, I have tried to keep these definitions simple. Please feel free to undertake your own study.

Official Cash Rate – This is the overnight interest rate set by the New Zealand Reserve Bank. The Reserve Bank transacts with the other banks near this rate and so it influences the rates other banks offer to their customers. We are likely to have heard that the official cash rate remained the same or increased. This is a fancy way for saying that the reserve bank has not changed interest rates or it increased interest rates. When interest rates increase, we pay more interest on our mortgages.
Monetary Policy – these are the actions the Reserve Bank takes to affect interest rates, the exchange rate and the money supply in order to influence the pace of spending. This has an effect on inflation.
Inflation – Inflation describes a rise of average prices through the economy. With inflation money loses value. The Reserve Bank stabilises inflation with monetary policy. Simply put, if inflation is high, the Reserve Bank increases interest rates to reduce spending in the hope that inflation decreases. You may want to review terms such as deflation and reflation.
Current Account Balance – This is the difference between what NZ spends overseas and what NZ earns from overseas. If NZ spends more than NZ earns, a deficit arises. Think of it as we spend more than our monthly income. With a deficit, NZ will need to borrow difference or run-down reserves of foreign currency to pay for our expenses. If NZ earns more than NZ spends (a surplus), NZ may accumulate reserves or lend to another country.
Recession – is a decline in overall economic activity usually defined as two consecutive quarterly falls in Gross Domestic Product.

Gross Domestic Product – the total market value of all final goods & services produced in NZ, less the costs of goods & services used in their production, over a specified time period (a year or quarter).
Macroeconomics – The study of the behaviour of the whole economic system. Macroeconomics deals with forecasting of national income by analysing major economic factors that show predictable patterns and their influences over one another. Factors include employment/unemployment, GDP, balance of payment, inflation and deflation.
Microeconomics – The study of the economic behaviour of an individual as a person, household, firm or industry. Microeconomics deals with the factors of the individual decision makers, how their choices are coordinated by markets, and how prices and demand are determined.

The New Zealand Economy

The economy is moving with low interest rates and increased population growth. There has been a slowdown in the housing market. Most New Zealanders have their wealth in their homes and any increases in interest rates will have an impact on the way people spend their money.

The New Zealand Herald (21 July 2017, page 12 The Business section) noted that NZ debt decreased from 85% of GDP in 2009 to 58.5% of GDP in July 2017. This means that in 2009 out of everything that NZ produced and sold, 85% of that value was required to pay NZ debt. Today, out of everything NZ produces and sells, 58.5% of that value is required to pay NZ debt. This is a good thing because it means we keep more of our money. In 2009, we only kept 15% (100% - 85% debt). Today, we keep 41.5% (100% - 58.5% debt).

Before we celebrate, remember the Yang and Yin of finance. The same article noted that over the past three years NZ households moved from savers to spending more than households earn. If we are spending more, we are likely paying more for the same number of products and services. This has the result of causing a rise in inflation. This is consistent with Westpac's May 2017 Quarterly Economic Overview, which notes that inflation has picked up from its lows, even after adjusting for the temporary boost from higher food and fuel prices. Putting fuel prices aside, food prices increased because poor weather wiped out crops or delayed harvests which resulted in higher fruit and vegetable prices. Assuming next year there is no poor weather, fruit and vegetable prices should stabilise, however, Westpac still calculated that inflation has risen and may continue to rise.

To curb inflation the Reserve Bank will eventually increase of Official Cash Rate (not in the immediate future, we are in an election year after all), thus causing interest rates to increase, which will have an effect as to how we spend our money.

In an election year, political party's' will make promises, which will impact us in later years. Promises will have to be paid for. For example, the Opportunities Party (**please note that I am not approving or discouraging this party or its policies, I use this as an example in this article)** proposes an annual $10,000 Youth Universal Basic Income. All youth would be entitled to it, regardless of their financial situation. To pay for this promise the party could reduce current benefits, increase taxes or borrow the money overseas. They have alluded to reducing current benefits to youth. However, this will only contribute to the $10,000 annual payment. This is because the $10,000 payment is more than what youth currently receives. Any further decrease in current benefits or increases in taxes will be borne by the middle class. This is because the youth receives the benefits and do not have the income to pay for any increased taxes and the rich are ahead of the game and would have restructured their finances so that they do not have to pay any increased taxes. If the political party borrows from overseas our children, grandchildren and great grandchildren will pay for those promises. Keep this in mind in this election year.

Gen Xers may be looking forward to their pension at the age of 65. For many dependent on the age pension, they may be shocked to hear that the age of eligibility for public pensions will rise by six months each year from 2037, reaching 67 by 2040. This is unlikely to affect Baby Boomers but will affect Gen Xers. 2037 may seem a long time away, however, the Organisation for Economic

Development ('OECD') Economic Survey of NZ, June 2017 is pushing for the increase to be brought forward and then to be indexed based on life expectancy. I am not sure what this means but it sounds like the OECD wants the NZ government to increase the age we get our pensions earlier than 2037. For example, if the increase in age is 2025 then if we turn 65 in 2025 we may have to wait until we are 67 before we get a pension. In relation to indexation with life expectancy, I assume this means if we live longer (which many of us will) the date from which we qualify for the pension is extended. Either way, we are likely to wait longer for the pension. This leaves us with Kiwisaver, investment income and other income (if any) at age 65.

Artificial Intelligence and Robotics

The OECD noted that employment has shifted towards high-skilled occupations. This is likely to continue with increases in the use of artificial intelligence (AI). Many NZers are overqualified for their jobs. They earn less than people who are not over-qualified. Most over-qualified people work outside their field of training. This is more likely to be the case for Gen Xers and millennials.

We have all heard that AI and robotics are taking over the world. Nexus, the Alternative News Magazine June-July 2017 edition refers to this as the 'Fourth Industrial Revolution'. It notes that 47% of all USA jobs will be lost to automation over the next two decades. With due respect to Nexus, I think they underestimate the time within which those jobs will be lots. I think that it will be sooner.

Areas where AI are already taking over the market include, robotic fruit pickers which replaced poorly paid migrant workers shut out by anti-immigrant policies. The impact of AI on college educated workers is **gigantic**. Goldman Sachs (a global investment bank) employs Marcus, a fully automated lending platform, which displaces humans in equites sales, trading and research (next time we buy a share on the stock market, instead of talking to our broker we may be talking with Marcus or his counterpart when placing our trade), the Fokoku Mutual Life Insurance Company is turning over policy payouts to IBM's Watson supercomputer, which has 6,000 corporate clients, like Hilton Hotels, Whirpool and Visa. For me the two star performers in AI are the Smart Tissue Autonomous Robot (STAR) and drones. STAR outperformed a human surgeon in a test of skill. The high price of doctors will be compared to robots who perform without complaint and are self-taught. I like drones because Matternet's drones, created by Mercedes Benz's has already successfully carried blood and laboratory specimens, which arrived in good condition.

In conclusion, all we know for sure is that the economy is changing. The price of goods and services are increasing and interest rates cannot remain low forever, government will continue to spend (e.g., who is going to pay for the $10,000 annual Youth Universal Basic Income, if introduced). This is not all doom and gloom, AI and robotics should increase many areas of our lives, e.g., it may overcome the deference by some theatre nurses to the authority of a surgeon when they know a surgeon is doing something wrong, the robot should be doing the right thing on the operating table.

Finally, I revert to Babylon, if we start, and continue with its laws we should be better placed than our fellow citizens. This is because we now know that NZers have been paying down debt, however, they have now started spending more than they earn. Inflation is increasing and although not in the immediate future, the Reserve Bank will have to raise the OCR to curb inflation, which may work. This will result in increased interest rates and since most NZders wealth is tied to their homes, increases in interest rates may cause people into foreclosures of their homes. Therein is the opportunity for the well prepared. Please note, I am not saying we should go out and take advantage of these opportunities. What I am saying is that this is what the current NZ economy is showing.

Next week I will share how Baby Boomers can take advantage of Network Marketing in this economy.