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Is The Party Over?

Ten years of unprecedented good times are over!

It has been a generational thing. New Zealand's economy (also the worlds) has been very cyclical.

If you look at the passport section of the Te Papa Museum in Wellington, it is displayed on a wall how up and down our small economy has been over the decades.

Unfortunately for us, the recent good times have lasted for ten years. Cycles normally have a three to five year span. This ten year cycle has given us a false level of financial confidence.

I have been to four Christmas parties in recent years, with rural banking colleagues, and each year we discussed how it couldn't possibly last, but it did until now.

The availability of cheap credit is gone. Lenders are going to be more cautious. Over confident lending against assets, rather than cash flow is also a thing of the past.

If you try to get an equity type loan against your assets with little or no income to support the debt servicing, then you are in for a shock.

There has been about five billion dollars of second tier money wiped out with the recent crash of finance companies. It is easy to criticise and blame these new hybrid finance companies, but they were just responding to a demand. There was a big gap in the market, and they were making a lot of money. Of course the gap has gone, along with the companies that entered into, that particular market.

So back on the farm, what does it really mean?

What can we do individually to weather the storm?

The 4th of October weekend Herald, likened it to a cash flow coronary. In other words the blood flow has stopped, because of the change of available cash, world wide.

Firstly take a very realistic look at your business. Are you borrowing money annually to cover your cash flow deficit? In other words, is your debt increasing annually? If it is, then you need to look very carefully, at where the money has been spent. Where is more going to come from, and can you stop the leakage?

This might include:

- No more hire purchase or expenses on vehicles, or plant.
- Cutting back on travel, e.g. make less frequent trips to town.
- Looking at consumption spending.
- Doing more on the farm yourself.
- Cutting back on the stocking rate and the amount of brought in feed, as a supplement, to the grass produced on the farm.
- Not replacing plant and or staff who leave your employ, and so on.
- Not spending on wants, as distinct from needs.
- Some of the largest conversions are run by astute, cost conscious business people. Their attention to cost control is huge.

Once you have set up a plan on how to improve your cash flow. It might be a good time to call your banker, and discuss it with them. Your banker will be very impressed, and more likely to help you, as against those who just keep on spending and pretend nothing is wrong.

An outside independent financial consultant can help you see the notes from the coins, so to speak. I know as a finance consultant, it is easier to sort out other peoples issues, than my own. It is like the car that belongs to a mechanic. Their own car gets less attention than other peoples that they work on, as part of their job.

Draw up a plan, put it in writing, and stick to it. Nail it to the back of the toilet door, so every time you sit down, you read it, to remind yourself, of what you need to do.

And if you have to sell something to survive, then do so in an orderly managed fashion. There will be a lot of property that has to be sold over the coming years. You need to be well organised, and employ good real estate agents. Be objective, rather than emotional, about the situation.

Remember the first offer, is often the best offer you will receive. I have been caught out about three times, in similar situations. I have put property on the market an offer has come in, and for a whole range of reasons, declined that first offer, only to regret it later. When considering an offer, just remember the 'cost of capital' by not selling. For example a million dollar sale, saves you \$100,000 dollar interest bill annually.

You will see the milk payout reduced, on the back of falling commodity prices, and how will that affect your bottom line? The credit crunch will also affect Fonterra and other dairy companies in New Zealand. They will also struggle to find capital and to increase their bottom line.

In Summary

There are going to be some very uncertain and difficult times ahead, for many people. We need to keep a straight head, and be as objective as we can. If you need sound advice and someone to talk to, look for an old rural banker, who went through the 80's crash in New Zealand. 'There is only a few of us left'

There will be very little he hasn't seen happen before.

If you need to sell property do so with clarity and objectivity, and remember the first offer may be the best offer to come forward.

And remember that life will go on. The sun will rise every morning. The current crisis will not last forever and things will improve.

In recent years we have put more emphasise on making money and growing our assets. These are difficult and uncertain times so we need to band together, to support each other. We need to go back to putting more value and emphasise on people, family, friends, good working business relationships, the environment and things that really matter.