

The banking led recession started in the United States and flowed through into rest of the world. The banks got out of control, lent too much money and created a sub prime mortgage market in the United States and other Western countries.

Easy Credit and 100% finance on housing created the problems we now face. More than that there were no international finance structures between countries so it was like a free for all.

It appears there were very few checks and balances within the finance structures and a lot of people got very greedy. Interestingly the Americans sold their TOXIC debt to other banks around the world, which basically spread their problems worldwide. Had they not sold their toxic debt to the rest of the world then America would probably be the country in serious trouble.

Then the CRUNCH came and the flow slowed rapidly. Because people cut back on spending this created a credit shortage. The United States are currently just printing more money and that is okay for the moment, but when things come right, will that just equal more inflation.

Inflation starts to 'rage' and then banks will be forced to put up interest rates to try to stem this flow, so it is a vicious circle.

There is talk of a new money order coming, where a new currency may be created amongst stronger nations. The American dollar may no longer be the currency preferred for international trading, which would further weaken their position.

Interestingly, no country ever goes bankrupt. They seem to always get bailed out, by the International Monetary Fund. Iceland is the latest example of this.

Back in New Zealand, our fundamentals are very good.

We have the following:

- A relatively stable economy
- A stable government with good leadership

- A government that is proactive in generating growth and expenditure in our economy, which includes lowering interest rates, tax cuts and investment infrastructure.
- Our banks are generally, in good heart and have not got too much toxic debt and / or sub prime lending
- Prices for dairy products have come off the bottom and starting to firm with increasing demand
- Beef is in strong demand, particularly with the US slaughtering some of their beef herds.
- Lamb is in short supply, with the highest prices ever paid.
- Land on an international basis is also in short supply. It is in strong demand and while prices are currently weak, they may strengthen. Why would the Dae Woo Corporation, the Bin Laden Corporation and Middle Eastern countries be trying to buy or lease land to grow rice on an international basis.
- Horticultural crops remain in steady demand, although we are facing some over supply issues across some products
- Input costs have fallen and that includes fertilizer etc
- There will be some fall out from those who have over extended themselves and taken on too much debt, to find they can not meet the payments that are due.
- There will be some forced sales occurring in the market. Those that have overspent and are hopelessly in debt will have to sell.
- We, as a nation are rural based, a country that produces food cheaply and that is our main competitive advantage.
- The world remains relatively short of food and New Zealand can only benefit from this situation.

So, where to from here?

- It is back to basics time
- Live within your means
- Enjoy what you already have
- Be realistic and remember this is not the time to take risks
- Be thankful you are a Kiwi and live in New Zealand.
- Be pleased we are not in the market of car manufacturing or IT

IN SUMMARY:

- This current world recession was largely created by the banks.
- The fundamentals of our economy remain good.
- It will be a difficult winter, but things are expecting to improve into 2010
- Be realistic, take good advice and use it wisely

**These are the opinions of Don Fraser of Fraser Farm Finance. Any decisions made should not be based on this article alone and appropriate professional assistance should be sought.**

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