

This article featuring AXA's Chief Economist **Bevan Graham** and Head of Investment Strategy **Keith Poore** was recently published in the *DomPost* and *Christchurch Press*, it outlines their predictions on New Zealand's recovery post the recession. Bevan also appeared on TV3's *Business Breakfast News* programme.

Market still has value for investors

In its latest quarterly strategic outlook, AXA Global Investors says shares have risen far and fast from their lows in March. The NZX top 50 share index is up more than 30 per cent from March.

Australian shares were expected to do better than New Zealand's.

"After such a tremendous rebound in equity in markets it is right to ask the question: 'Is there still value?' We think so," said AXA head of investment strategy Keith Poore.

"We don't expect recent gains to continue, but there is some momentum and we think they will go higher."

However, there might be some false starts and surprises for the economy.

"We think 10 per cent returns in shares in the next year is easily achievable," he said, which was even more attractive than usual because bank interest rates were so low. "It will be in the tens, rather than twenties [per cent gains]."

Sales would recover in time as the economy picked up, but with a weak labour market and low wage rises, there would be a healthy lift in company earnings.

"That is good for investors," he said.

The dairy sector was also expected to become more positive in coming months, because soft commodity prices were likely to follow up hard commodity prices like oil.

AXA does not forecast just how big an earnings rebound may come through, but believe it to be "strong" in the order of 20 per cent.

The New Zealand economy was now bottoming out, but like the rest of the world, the subsequent recovery was expected to be subdued. The economy was being boosted by improved business and consumer confidence, lower interest rates, and net migration growth. But there were headwinds from a weak job market and a weak United States dollar driving the kiwi dollar up and making life tougher for exporters.

Growth would be low, unemployment would keep rising to about 7.5 per cent, and there would not be a recovery driven by "consumption and easy credit."

"We don't want to see another debt-fuelled explosion in the housing market. We don't want another bubble," says AXA's Chief Economist Bevan Graham.

"International economic growth had returned to positive numbers sooner than had been expected three months ago," he said.

"There is little sign of any strong, robust and sustainable improvement in final demand, consumption and business investment," he said.

"So there is a bit to worry about".

Source: Dominion Post

