

Keeping an eye on currency rates

The value of the NZ dollar against the US dollar has been headline news almost daily for the last few weeks as the NZD has fallen sharply against the value of the US dollar.

Why is this so important?

When the value of the NZ Dollar drops against another currency, it means that it costs more to buy either the other currency or goods that are sold in that other currency.

For example, one NZ dollar currently buys around 65 US cents.

If you were buying a pair of shoes from Amazon for \$100 US, it will cost you **\$151 NZ for the shoes today** (plus conversion costs).

If you had bought those same shoes on **11 April 2018**, they would have cost you **\$135 NZ**.



Travelling to the US

If you are planning to travel to the US, it will now cost you more to stay there, eat there and spend there.

Where a lower NZ dollar can become an issue is when you are buying necessities of life from another country, such as **petrol**.

When our dollar drops, the cost of petrol goes up.

Petrol is our largest import, followed by machinery (vehicles and equipment).

When the value of the NZ dollar drops against another currency, it means that it is cheaper to buy NZ goods in that other currency. We are still charging whatever we charge, but it costs the importer fewer dollars in their own currency to buy it.

Exporting

For example, if we look at a US based importer buying something from NZ.

If the order was costing them **NZD \$10,000, today they will pay USD \$6,594** plus conversion costs.

If they bought the same order on **11 April 2018, it would have cost them USD \$7,397 for the same order.**

This makes our exported goods a lot more competitive (cheaper) in international markets.

It may mean that we attract new buyers, or that existing buyers will buy more from NZ and less from other countries.

Our largest exports are primary goods (agriculture and forestry).



NZ's other large earner is tourism.

If our dollar drops against an overseas currency, it makes NZ a more cost effective option for overseas tourists to come and spend time (and money) in NZ.

If you are holding assets or investments in another currency, a drop in the NZ dollar makes the value of your overseas investments increase in value.

This is helpful for investments such as KiwiSaver, international share funds and overseas superannuation funds.

When does it become a problem?

It becomes an issue when the cost of overseas goods significantly pushes up the cost of living i.e. buying petrol and food.

It becomes an issue when businesses have to put up the charges for products to cover the increased cost of imported materials which are necessary to their production. It makes it difficult for people to emigrate – just ask anyone from South Africa what that is like.

Is the falling NZ dollar likely to become a significant issue?

Given that we have a steady economy and a stable political and financial system, it is unlikely that any movement in the NZ dollar will get to the point where it becomes a significant issue for the economic wellbeing of New Zealanders.

Janet Natta is a financial adviser and director of Smart Money Advice, offering investment portfolio construction and management services to clients throughout NZ, as well as comprehensive financial planning advice to assist clients to build and protect wealth to achieve their dreams.

DISCLAIMER: The information contained in this article represents the views of the author. It is based on information believed but not warranted to be correct. Any views or information, whilst given in good faith, are given with an express disclaimer of responsibility and no right shall rise against any of the authors or Smart Money Advice or their employees either directly or indirectly out of any views, advice or information.