

## Input to your Strategy for Adapting to Challenges

Feel free to pass on to friends and clients wanting independent economic commentary

ISSN: 2703-2825

16 April 2026

Sign up for free at [www.tonyalexander.nz](http://www.tonyalexander.nz)

## No long-term equilibrium

When studying economics at university you get introduced to the idea and practice of developing theoretical and then attempting practical mathematical models of an economy. Using these models one can work out the likely effects of particular things happening.

For instance, a policy maker may want to know what the impact will be of imposing tariffs, cutting tax rates, subsidising employment and so on. The models will produce insights, and it is then up to the politicians to decide whether to try and pursue the policies or not.

There are however at least eight big problems with using models. First, they are based on how things related to each other in the past. That is, one's research may show that an x% change in inflation tended to be associated with a y% change in consumer spending over a particular period of time and z% change in interest rates.

But we are living through a period of accelerating change which renders the old calculations almost meaningless in today's environment. For instance, the appearance of AI may change the employment response to interest rate cuts.


Climate change may alter where businesses focus their investments and where people live.

So, the coefficients we calculate in front of key variables change over time and we can't be sure how.

Second, those calculated coefficients are a rough representation of the average relevance of something. But things are usually above and below average, not exactly average. The calculations can be wildly wrong, but the average relationships remain the same.


Third, although the main use of these models is for running simulations of particular changes, nothing happens in a vacuum. Other things change at the same time as one shifts tax rates for instance or the rate of growth in offshore economies. To get around this one quickly learns at varsity to end every piece of economic analysis with these two Latin words – ceteris paribus.

They mean other things unchanged. We make our models work by assuming the world stands still as we shift key stimuli. That never happens in reality.

 **Construction finance**  
**from 5.95% p.a.**  
**Call now.**

Naomi Yueh +64 21 912 006  
Warren Law +64 21 483 666  
Andrew Stevenson +64 27 700 2708

\$2m to 5m Loan Facilities | No pre-sales, QS reports or RV required | **For a limited time only** | [cressida.co.nz](http://cressida.co.nz)



Fourth, most of the variables which our research shows were relevant to how targeted things moved in the past need to be input in order to figure out our new forecasts. But we don't know what the future values of these key things will be. So, in order to make our models work and produce "believable" forecasts we make assumptions about how these things will change.

We might assume for instance that the exchange rate does not change, that oil prices stay at a particular level, that wages growth tracks at a set pace.

But as anyone breathing eventually realises in their personal lives, the assumptions we make about the things around us are often wrong. In economic modelling they are almost always wrong.

Fifth, shocks these days seem to be flowing thicker and faster than was ever the case before. We used to talk just about the oil shocks of 1973/74, 1979, Rogernomics, the 1987 sharemarket crash, and maybe the 1997/98 Asian Financial Crisis. But impactful things now occur with high frequency. Covid, an American King, weather events, etc.

We also live in a world where things which in the past we considered challenges are now described as crises and catastrophes. We are encouraged to see ourselves as victims of things outside our control and to do what the authorities tell us – perhaps from "an abundance of caution."

This means we cannot rely on old data to estimate what the impact will be of challenges such as higher oil prices or localised heavy rain.

These shocks throw all forecasts out the window and much as people want us economists to quickly generate new predictions we know that they are garbage. We are just guessing – pulling numbers out of thin air, trying to sound intelligent on the radio and TV, and hoping people quickly forget what we said as times inevitably change. Even as we make new predictions, we are preparing our excuses for future use when they prove wrong.

Sixth, in order to make our models work we have to assume that after periods of usually three to five years many things will converge towards some concept of long-run steady state equilibrium. But we never reach the long-run until we are looking at the lid.

For economies as for our personal lives, everything is a series of unpredictable short-runs and not a steady long-run. As a rural accountant I used to make presentations with around the country used to say to farmers – when times are good take photos. You'll need them to remember when times inevitably go bad again.

Seventh, even if we accept that making our models work requires assumptions and convergence towards a long-run equilibrium, there is a big problem remaining. Where are we starting from?

As the Irish joke goes regarding a stranger asking for directions, the answer starts with "Well I wouldn't start from here."

The data we rely on to tell us where the economy is at right now is always out of data. For instance, data on gross domestic product changes is released typically two and a bit months after the end of the quarter being reported. The quarter as

a whole has an average timing of the middle of the mid month.

So, by the time we get the data it is on average almost four months out of data. More than that, the numbers get revised as additional data come in. And worse than that, we like to examine data adjusted for seasonal changes so we can see the true underlying developments. But these seasonally adjusted numbers get revised sometimes every month.

So, we economists get asked for insight into where we are headed. But we don't really know where we are starting from.

Eighth, and this is one receiving a bit more attention these days in light of the poor performance of our policy makers (Reserve Bank especially) in recent years - we have to guess the psychological bias of others.

Specifically, in the current context, will the Reserve Bank stick with their established policy bias of tightening too late, tightening too much, loosening too late, and loosening too much, or have they learnt their lesson? We don't know. Until proven otherwise I assume this bias on their part which has worsened our economic progress for three decades will continue. But my assumption could be wrong.

These are just eight factors which popped into my head getting this issue ready for Thursday's release. But given time I reckon one could come up with more reasons why the economic models and relationships which we economists rely upon to generate the insights people demand from us cannot be trusted.

What then does one do? Take note of forecasts but base no decisions solely on them. Use your own judgement based on experience and hopefully the way you have already prepared your business and portfolio for the uncertain world we are living through.

## If I were a borrower, what would I do?

Wholesale interest rates have moved marginally higher this week as we await developments in the Middle East plus next week's NZ inflation number which will give a broad starting point onto which the war-related inflation boost will be added.

The Reserve Bank over 2024-25 cut our official cash rate 1.25% as inflation accelerated from 2.2% to 3.0% (now 3.1%, tomorrow ..) and left themselves and our economy no room to handle an inflationary shock.

Worse, they assumed acceleration in our pace of economic growth from -1% to 3% would cause inflation to fall back to 2% and stay there – which brings us back to the main article in this week's

TV. They assumed the long-run steady state equilibrium involving 2% inflation would occur. Their modelling does not work.

They took a gamble, got paid, continue to get paid, and the rest of us bear the cost.

If I were borrowing at the moment, I personally would still favour fixing three years in order to get insurance against the risk of our central bank having to play tightening catch-up somewhere down the track – basically 2027 and 2028.

To see the interest rates currently charged by major lenders go to [www.mortgages.co.nz](http://www.mortgages.co.nz)

**Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.**

This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. We strongly recommend readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. No person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation, or omission, whether negligent or otherwise, contained in this publication. No material in this publication was produced by AI.