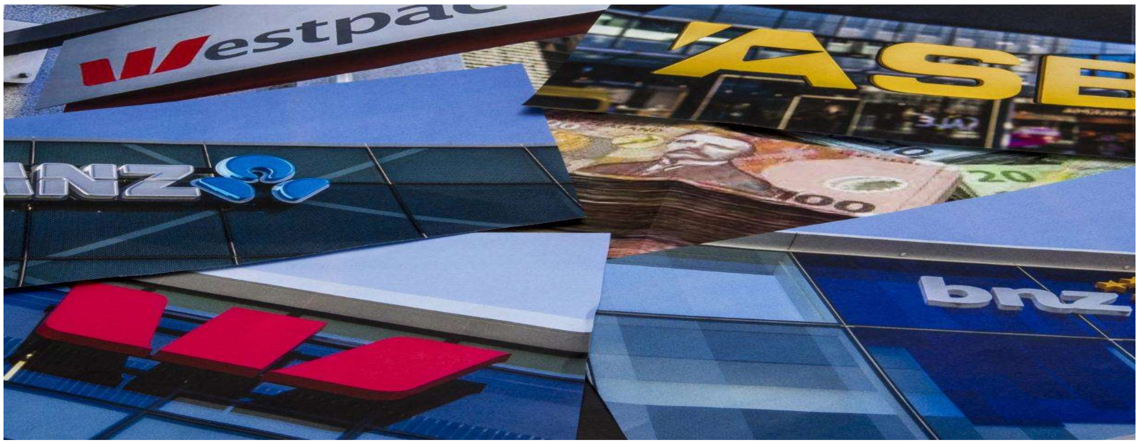
Inside the world of the bank economist

Tom Pullar-Strecker
March 3, 2024



Banks' economics departments compete on the accuracy of their forecasts, the credibility of their narratives, and their turns of phrase.
STACY SQUIRES / STUFF

Outside politics, sports and showbiz there are probably few individuals whose names appear in the media more frequently than those of the chief economists of the country's big five banks.

Will interest rates go up or down? What to make of the latest unemployment numbers?

Reading the economic tea-leaves and providing advice to policy makers is one of the glitziest jobs in what may seem a dusty profession, with the biggest occupational hazard being the risk of egg on face.

Sharon Zollner, the respected chief economist of the country's largest bank, ANZ, experienced the latter on Wednesday after, in her words, going out on a limb predicting the Reserve Bank would raise the official cash rate, and being proved "totally wrong".

Consultant and former ANZ chief economist Cameron Bagrie says the upside of the roles are that you get a good gauge of what is going on across the country, "which is pretty fascinating", but the hours are horrendous.

"It is a job that is not easy on family life because you're travelling a lot. Even the overseas trips which people think must be great – you get sick of hotels pretty quickly."

There is a lot of pressure on bank economists to get it right, and when they don't it is "not particularly pleasant", he says.

"There is an adage you are only as good as your last call.

"Every economist out there will have their good days and their bad days, but like any job you are paid to perform and if you're getting more 'wrongs then rights', you start to wonder about the value-add proposition."

Economist Cameron Bagrie says there is an element of "public good" or altruism in banks' producing economic research.

SUPPLIED

At the same time, individual economists attract their own loyal followers, which may not be based solely on the precision of their forecasts, he says.

"It is all about communicating risks. You are telling a bit of a story.

"If you think about the spirit of what ANZ said, there's is still a chance that interest rates go up. Over time, they could still be proved right."

Tony Alexander, who was BNZ's chief economist for almost 25 years, says there was a time before the 1980s when banks kept their forecasts very largely to themselves.

Banks then produced their research almost exclusively for their own use.

"Banks are right at the coalface of what's happening in the economy, and if the economy overall is going to go through a bad period that means bad debts will build up.

"So it's good to have some insight into, in a nutshell, 'is the outlook for the economy, okay?'."

Providing economic insights for internal consumption remains the primary function of their research arms, and individual banks will tend to trust their own teams over others, he says.

But the role of bank economists started to change in the 1980s when customers started to request more guidance and banks realised their research could be useful in promoting their own brands, he says.

“Front-line bank staff want insights they can give to customers on a day-to-day basis.

“What developed from the 1980s was a requirement that, if you're going to be a chief or a senior economist, you need some ability to give presentations and a willingness to appear in the media if journalists would call you.”

Former BNZ economist Tony Alexander, now independent, says the transformation of bank economists into public figures began in the 1980s.

RYAN ANDERSON / STUFF

The demand for a constant stream of commentary from the banks increased in 1990s when fixed-rate mortgages became popular, he says.

“Then people had to think, do I float or do I fix? So, over time, the public-facing component of the economics departments have definitely increased, but the primary focus still remains providing advice to the bank.”

An area in which there is more light-hearted competition between bank economists is in their turns of phrase.

In a profession known for a focus on numbers, their talent for spitting out creative pithy quotes can surprise.

“There's got to be strong emphasis on the quality of work, but people get a lot of information,” Bagrie says.

“If you want somebody to open up your piece of work, you got to give it a decent headline.”

Alexander says that when forecasts prove badly wrong, it is embarrassing.

But don’t expect any gloating from rivals “because you will also have got it wrong and you will get it wrong yourself in the future”, he says.

“What will be happening now with the likes of ANZ, is people will have a chuckle and be saying, ‘Oh, you got that one wrong, didn't you?’ And then they're going to say ‘what do you think now?’”.

“I learnt that with exchange rates years ago; you'd get your exchange rate horribly wrong, but as long as you came up with three reasons why they’d say; ‘Okay, I understand, what do you think it going to do now?”

Economists’ jobs aren’t usually on the line over individual forecasts, he says.

In 1995, one wrongly maintained the Reserve Bank wouldn’t tighten monetary policy despite everyone else saying it would, he said.

“My understanding is the bank did position itself for a fall in rates and it cost them maybe $100 million or so.

“But I don't think there were consequences necessarily for employment. There could be for bonuses — you never know.”

Since then, banks have tended to seek longer-term funding for long-term loans, reducing the risks of being on the wrong side of a dud call, he says.

Bagrie says there is an element of “public good” or altruism in banks’ producing economic research.

“We want them talking about broader things. Banks have put out reports on issues related to climate change and housing affordability, for example.”

He would like to see a lot more commentary from the economics fraternity on fiscal and government policy, and less on monetary policy.

“We're in a new era, when a lot more attention needs to go on government fiscal policy. But if you look at the skew of commentary, most of tends to be on what things means for interest rates.

“I think it’s a big shortcoming.”

Alexander agrees people do get interest-rate forecasting out of perspective.

“There's a lot more happening in terms of providing information to your senior executives, your front-line staff and your customers — monetary policy is just one component of it.”

But he also notes it is the issue on which bank economists get the most questions.

Alexander believes it is rare for their forecasts to move markets — ANZ’s recent big call and comments he made in 2009 about the exchange rate being two possible exceptions.

But bank economists are conscious people will in some cases be making decisions about their mortgages based on their forecasts, he says.

“With great power comes great responsibility.”

- The Post