Job cuts begin in New Zealand as economy shrinks

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A wave of job cuts has begun in New Zealand as the economy declines for the first time in five years. Reports released in the past month show record balance of payments deficits, deteriorating terms of trade and a possible recession. The turn in the economic situation is already generating a gathering assault on jobs and living standards.

Statistics NZ figures released in late March showed the economy shrank 0.1 percent in the December quarter, as high interest rates slowed household spending and stalled business investment. Prior to Christmas, Reserve Bank governor Alan Bollard increased interest rates to a record 7.25 percent—the ninth rise since January 2004—to curb spending.

The Institute of Economic Research's quarterly survey of business opinion released last week found levels of activity consistent with another negative quarter in March, which would mark a recession. ANZ Bank chief economist Cameron Bagrie said the results reinforced evidence of a "sharp and sustained slowdown". With profit margins "under pressure," firms were likely to cut back on employment and investment.

Annual consumer spending growth has hit a three-year low, slowed by fewer purchases by tourists and reduced spending on transport, hotels and restaurants. Spending on cars and computers fell 1.4 percent in the last quarter while purchases on food and clothes rose a meagre 0.1 percent. The Warehouse retail chain, which specialises in cheap household goods, primarily in working class areas, saw its sales fall 2.3 percent in the three months to January 29.

The official unemployment rate for the December quarter stood at 3.6 percent, but higher at 7.6 percent for Maori and 6.2 percent for Pacific Islanders. Full-time employment fell by 9,000 (0.6 percent) while part-time employment rose by 11,000 (2.4 percent). The total labour force decreased by 3,000 (0.1 percent) over the quarter, and actual hours worked fell by 1.5 percent.

Job losses are already accelerating in the current quarter. Cutbacks announced since the beginning of March cover dairy processing, manufacturing, printing, fishing, public services and education.

The dairy export company **Fonterra** is to lay off 300 workers at its cheese-making plants in Dunedin, Auckland and Taranaki. The work will be transferred to one remaining plant in Eltham where automation is being introduced. Another 59 jobs will go at the Clandeboye factory in a move that will end 20 years of production in South Canterbury. Another 100 jobs are at risk at the research and development centre in Palmerston North where Fonterra employs 400 people. Cost-cutting has helped Fonterra boost this season's forecast payout to its farmer-shareholders from an original estimate of $3.85/kg of milk solids to $4.07/kg.

New Zealand Post plans to lay off 80 head-office workers in Wellington and Auckland as it strives to cut costs. A spokeswoman said the state-owned enterprise faced continuing pressure in the domestic letters business, from competition with electronic mail and the economic slowdown. NZ Post is spending $80 million on mail-sorting machines and technology over the next six years. As many as 650 staff in Wellington and Auckland will see their jobs affected.

Almost 200 jobs are on the line at Hutt Valley manufacturing company, **Southward Engineering**, following the loss of a major customer. The company is closing its automotive business and rationalising its mild steel and stainless steel tube sections. New Plymouth manufacturer **Howard Wright**, which makes most of the country's hospital beds, laid off six workers, following the introduction of new technology. A spokesman said the company had to compete "with products that are ... coming out of low-cost economies". Nearly all of printing firm **Wickliffe Ltd's** 150 staff in Dunedin are set to lose their jobs, with most of the work moving to Auckland following the company's purchase of Auckland-based Moore Gallagher Ltd.

Up to 40 South Island-based jobs will be lost after **United Fisheries** announced plans to reduce production and staffing levels. The Christchurch fishing company is to cut jobs in its factory in Sockburn, as well as closing its Dunedin operation. The company, formed in 1947, employs 160 people in fishing, marine farms, transport, processing and marketing. A spokesman blamed decreased profits caused by cuts to fishing quotas and rising production costs, claiming the cost of manufacturing in a labour-intensive industry was "becoming increasingly uneconomical." The cuts are another blow in an already struggling fishing industry. In December, Picton-based **Nelson Ranger Fishing** made 30 job cuts, following layoffs earlier last year by the **Sealord Group** that affected 160 workers at its Dunedin branch.

In the tertiary education sector, hundreds of staff at the Maori training provider **Te Wananga o Aotearoa** were given six working days from 12 April to justify their roles or lose their jobs. Nearly a quarter of the Te Awamutu-based institute's 1,265 staff nationwide will be sacked in a restructuring drive. The institute faces an operating deficit of between $13 million and $27 million, with forecast enrolments for 2006 down from 30,000 to between 18,000 and 21,500 students.

At **Canterbury University** more than 20 academics from the College of Arts will lose their jobs amid $1.6 million in budget cuts. University management has not ruled out cutting entire subjects from the college despite the university holding a surplus of more than $9 million. Up to 30 jobs will be axed at the **Christchurch College of Education** as part of restructuring aimed at cutting $1.5 million from next year's budget. Fifty-one staff have already been made redundant from the teachers' college, which is expected to merge with Canterbury University. The college's business school is also being wound up. Further redundancies are expected. Job losses are also being negotiated as Taranaki's **Western Institute of Technology** loses its science and maths department. The closure will affect seven staff members and involve the de-commissioning of the polytechnic's four science laboratories.

St John Ambulance is to centralise its administration in Auckland, leading to jobs being lost in human resources, marketing, education, and corporate services. The restructuring will see 80 jobs cut nationwide, with some new jobs to be created in Auckland. Jobs are also under threat at the **Accident Compensation Corporation** in a review of the management structure intended to make it more "flexible" and "customer-focused".

While the trade unions have issued a few meaningless protests over the job cuts, not one has moved to oppose them. The sole complaint of the unions is that that they had been insufficiently consulted and involved in the sackings.

The Dairy Workers Union said it was "upset" at Fonterra's rejection of a union plan for scaled-down production, which it claimed would have saved 120 jobs. The chairman of the union representing the Maori wananga staff said the union understood jobs had to go. "If there's no redundancies there's no wananga," he said. The National Distribution Union, representing St John Ambulance staff, said only that the restructuring plans were secretive and a month-long consultation period "woefully inadequate".

The current sackings are only a foretaste of what is to come. According to the latest IMF forecasts, New Zealand is expected to grow less than any other advanced economy except Portugal this year. The IMF's latest World Economic Outlook, released last week, slashed the forecast for the country's economic growth in 2006 to 0.9 percent from the 2.5 percent issued last September. It said a high exchange rate had hurt exports and now there were signs that domestic demand was beginning to slow and the housing market was cooling.

Other recent reports show that the country will struggle to finance its current account deficit next year. The deficit for calendar year 2005 widened to $13.7 billion or 8.9 percent of GDP, from $13 billion and 8.5 percent of GDP in the year to September. It is the largest deficit relative to the size of the economy for 30 years. New Zealand has the third-worst deficit as a percentage of GDP in the OECD, ranking ahead of only Iceland and Portugal. The trade balance has gone from a surplus of $400 million in 2002 to a deficit of $3.9 billion over the past year.

The figures are fuelling claims in ruling circles that New Zealanders are "living beyond their means". Ordinary people are commonly held to blame, accused by commentators and politicians, as well as the Reserve Bank, of pursuing a "borrow-and-spend philosophy". It is a sure sign that further attacks on jobs and living standards are on the way. Calls for further sales of public assets are also on the rise.

However, the country's deteriorating economic position has deeper causes. World Trade Organisation figures show that New Zealand's exports are growing more slowly than the world average and are still dominated by primary exports, which represent 59.7 percent of total exports. Since 1980, the country's share of world exports has fallen from 0.27 percent to 0.22 percent.

International agriculture exports are growing far more slowly than non-agriculture trade and remain dependent on the vagaries of world commodity prices. By comparison, over the past 25 years, the southern hemisphere's two other major agriculture countries, Argentina and Australia, have reduced their reliance on the primary sector from 71.6 percent to 49.6 percent and from 44.8 percent to 25.6 percent of total exports respectively.

According to *New Zealand Herald* economics commentator Brian Gaynor, a principal contributor to the current account problem is the investments deficit, which grew from $6.9 billion in 2002 to $10.8 billion last year. The investment figures reflect the difference between earnings from offshore investments and the earnings and interest attributable to foreign investors in New Zealand.

Overseas investors, attracted by the country's high interest rate regime, achieved an after-tax return of 10 percent on investments in 2005 whereas New Zealand's direct offshore equity investments realised just 0.9 percent. Profits extracted by the four major foreign-owned trading banks, ANZ National, ASB, Bank of New Zealand and Westpac, alone contributed an estimated $2.5 billion to the 2005 deficit.