# New Zealand economy sliding into recession

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Bank of New Zealand (BNZ) economists warned last week that New Zealand was heading for a recession—and that it may already be there. One spokesman said the housing slump and global credit crunch had combined to form an almost "perfect storm".

The drying up of available credit is continuing to put upward pressure on interest rates at a time when householders are already struggling with rising mortgage rates. At the same time, businesses are facing the prospect of rising debt servicing bills and the BNZ declared the impact of the credit crunch was only just beginning to be felt. The statement came the same day the share market dropped $850 million, or 2 percent, in value.

In a front-page article on March 7 headlined "Prepare for pain in the pocket", the *Dominion Post* said that householders should "brace for prolonged pain as power and petrol prices rise, and with little relief in sight from punishingly high mortgage rates".

Amid the catalogue of grim economic news, the Reserve Bank announced it would not consider a drop in interest rates until the second half of next year at the earliest, despite a housing slump and deteriorating economy. It warned that, due to world events, higher interest rates were "the new reality". New Zealand already has the highest interest rates in the OECD; the current lending rate for house mortgages is running at 10.7 percent, up from 10.5 percent in February. In the past year alone, interest costs on a two-year mortgage have risen by more than 14 percent.

Last July, a visiting US economist predicted that the New Zealand economy was on a "death spiral". The comments by Steve Hanke, fellow of the Cato Institute and professor at Baltimore's Johns Hopkins University, came as the New Zealand dollar hit US80c, a record since it was first floated in 1985 and a rise of 27 percent in six months. It remains at the same level eight months later, crippling many exporters.

According to Hanke, to fight inflation the Reserve Bank hiked interest rates, but because New Zealand had higher interest rates than other developed countries and a small economy, it attracted a flood of capital from offshore where rates were lower, pushing up the exchange rate. He said this aggravated the inflation problem and the central bank then had to increase rates and start the whole cycle again. He concluded; "It's obvious to everyone that this isn't the paradise that everyone thought it was." The Reserve Bank has hiked interest rates no less than six times since early last year.

The bank has now warned there is the potential for a severe downturn in house prices. According to figures released last week by the Real Estate Institute, prices, which are down as much as 10 percent this year, fell for the third month in a row in February. The institute claims prices are now at a "tipping point"—poised to go into reverse for the remainder of the year. The housing market has entered a slump, with sales volumes slipping to their lowest in seven years, while the time it takes to sell a house has risen rapidly to an average of 50 days. Deutsche Bank chief economist Darren Gibbs predicted that falling house prices were set to become a "significant drag" on the economy, and that the market was already sliding faster than the Reserve Bank expected.

As the US-led international recession gathers pace, the economic shocks are impacting sharply on the daily lives of working people in New Zealand, like those of their counterparts around the world. No-one remains unaffected, with most households facing deepening concerns over their budgets, household expenses, mortgages and financial security. For ordinary people, the daily and weekly struggle to make ends meet has taken an ominous turn, with recent indicators revealing rising prices hitting basic household items.

According to figures released last week by Statistics New Zealand, food prices rose 5.2 percent in the year to February. Grocery foods were the worst hit—the cost of dairy products has soared, with butter costing twice as much as it did last year. In the past month alone, milk has risen by 4 percent and bread by 3.4 percent. Overall, meat poultry and fish prices went up 3.9 percent in the past year. Poultry rose by 10.4 percent. Costs for restaurant meals and ready-to-eat food rose 4.2 percent and non-alcoholic beverages by 4.8 percent.

With a three cents per litre hike last week, motorists are now paying record prices for petrol. All the major companies lifted their pump prices after oil hit the $US110 mark. It now costs $NZ1.78 a litre for 91 octane and $1.83 for 95 octane. The Automobile Association is predicting that petrol will cost over $2 per litre by the end of the year.

Signalling that working people are already being forced to reduce their spending, core retailers—excluding those in fuel and vehicles—are reporting their flattest sales period since the Asian economic crisis some 10 years ago. The retailer The Warehouse Group, the dominant discount homegoods supplier in working class areas, last week reported net profit for the year was down 5.1 per cent to $57.1 million, while its operating profit declined 10.8 per cent to $83.3 million.

After nine years of steady increase, core retailing figures have been flattening out since April last year. Statistics NZ figures for January showed that on a seasonally adjusted basis, total retail sales rose just 0.3 per cent. However, the biggest contribution to the rise came from a 2.1 per cent surge in supermarket sales, in large part a reflection of rising food prices. Fifteen of the 24 core retail industries reported drops in sales. The biggest falls came in takeaway food (down 6.1 percent), appliances (3.1 percent) and department stores (1.8 percent).

The *Sunday Star Times* noted this week that essential items such as petrol, household energy, local authority rates and vehicle running costs have all “spiked dramatically” since Labour came to power, by more than the official rate of inflation. In the past year alone, food price rises represented a quarter of the increase in the total consumer price index (CPI). That and necessities such as local council rates, rubbish disposal, water charges, telecommunications, electricity and gas and petrol were responsible for two-thirds of the total increase. The rise in essential items has hit those with the lowest disposable income hardest, as they are forced to spend the highest proportion of their income on basics.

Accompanying the pressure on household living costs has been a series of business failures and job losses.

On March 7 the country’s principal carpet maker Feltex announced the closure of two of its plants. The decision will devastate the regional towns of Foxton and Feilding where Feltex is a long-term employer. The plant at Foxton made tufted carpet and the plant at Dannevirke produced yarn. Around 160 workers will be affected by the two closures.

A company spokesperson said there had been no investment in the plants for 15 years and they had become uneconomic. Although other jobs have been offered at the Dannevirke, Wiri and Lower Hutt plants, most of the laid off workers will be unable to transfer to the main centres because of the wide difference in housing costs. One worker bitterly joked that if he managed to sell his house in Foxton he could buy a letterbox in Auckland. A spokesman for the National Distribution Union (NDU) noted at least 15 cases where multiple family members will lose their jobs. Many of the workers are responsible for young families, while others who are just a few years away from retirement will find it difficult to get new jobs in the local area.

The Australian company Godfrey Hirst, previously Feltex’s main Australasian competitor, bought the NZ business from receivers in 2006. It almost immediately shut the Riccarton plant in Christchurch, with the loss of 134 jobs. The new round of closures came after the NDU had already delivered “efficiency gains” and reductions in take-home pay through an agreement on shift changes. Workers were earning a miserly $14-$16 an hour.

Union officials were on hand at the meetings where the closures were announced and promptly declared they would meet with the company to “discuss the restructuring plans” and to organise the sacked workers onto unemployment benefits. The union has only a “very modest” redundancy agreement with Godfrey Hirst, with significantly lesser conditions than those that applied under the previous owner.

In the finance sector, thousands of desperate small investors have become embroiled in a series of collapses and have lost millions of dollars of their life savings. The most recent involved Australian-owned Blue Chip Financial Solutions (BCFS). In February nineteen property management companies associated with BCFS were forced into liquidation, and reports indicate that as much as $58 million may be owed. The liquidator told a meeting of 200 investors—mainly retired couples—that it was one of the worst company collapses he has handled. He indicated that, at best, the more than 2000 investors around the country might recover 50 cents in the dollar after the web of Blue Chip companies was unravelled.

In less than two years, some fourteen finance companies have collapsed, with the rate accelerating since the onset of the US sub-prime crisis in the middle of last year. The extent of losses is now as bad as in the period of the 1987 share market crash. Recent collapses include; Five Star Consumer Finance (August 30, owing $50 million), Property Finance (August 29, debenture debts of more than $80 million and loans of more than $630 million), Nathans Finance (August 21, owing $166 million to 6,000 investors), Bridgecorp (July 2, owing nearly $500 million to 18,000 investors). The toll for tens of thousands of small investors has reached more than $NZ 1.2 billion.

Prime Minister Helen Clark, her Labour government—and their accomplices in the trade unions—have done nothing to address this deepening crisis. For most of its nine years in office, Labour has presided over a buoyant economy fuelled by high world prices for export commodities and a booming share market. The principal beneficiaries have not been working people but a thin layer of wealthy investors and the corporate elite.

The downturn in the economy has seen a significant shift among vast layers of the population against Labour. With no progressive alternative within the parliamentary setup, this is expressing itself in a rise in support for the conservative opposition National Party, which has run a populist campaign promising to boost household incomes with substantial tax cuts. Just six months out from the 2008 elections, National has opened up a consistent 20 point lead over Labour in the polls, and on current figures could govern alone without having to enter a coalition with any of the minor parties.

Neither Labor nor National represent a way forward for New Zealand workers. The only way the working class can defend its own independent interests in this new period of spiralling economic crisis, militarism and war is to turn to the building of a new political movement, in unity with workers in Australia, the Asia-Pacific region and throughout the world, grounded on the perspective and program of socialist internationalism. That is the perspective of the WSWS and the Socialist Equality Party.