New economic slowdown hits New Zealand workers

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Statistics released in New Zealand over the past month have revealed a slowing economy, with working people bearing the brunt both of job losses and the assault on social services and living standards by the conservative National Party-led government.

The Gross Domestic Product (GDP) expanded at an annual rate of just 0.6 percent in the March quarter, down from 0.9 percent in the December quarter—the high point reached after the global economic crisis plunged the country into recession in 2008-09.

The slowdown has been accompanied by growing unemployment, with the official jobless rate increasing from 6 percent to 6.8 percent during the June quarter. According to Statistics NZ, the number of unemployed rose by 19,000 to 159,000. Maori unemployment reached 16.4 percent. The increase wiped out most of the drop in the jobless figures in the previous quarter.

Economic analysts denied that the country was facing another recession. Small business company MYOB said its latest Business Monitor survey showed New Zealand was "not in danger of a double-dip recession, despite signs of a slow and shaky recovery". According to a report this week by the Institute of Economic Research (NZIER), the recovery is "faltering", showing enough momentum and stimulus to keep growth positive, "but only just". The NZIER has predicted growth of 1.2 percent for the next year.

Other commentators were not so sanguine. Referring to the residential and rural property markets, Bernard Hickey likened New Zealand to a "Zombie Nation…frozen in the headlights of the Global Financial Crisis". Writing in the *NZ Herald*, Hickey noted that in the wake of the global crisis "easy, cheap" foreign loans had stopped, probably permanently, and that things would not return to normal. In a further sign of the slowing property market, house sales plummeted to a 10-year low in July. A report by business researcher Infometrics predicted house prices will fall another 4.1 percent by next June.

Government debt levels are relatively low compared to other industrialised countries—currently 28 percent of GDP and forecast to rise to 33 percent in 2014. However, net foreign debt is running at 94 percent. Overall net debt—government, households and businesses—has jumped from $NZ100 billion ($US70 billion) in 2000 to almost $180 billion and is forecast to reach $250 billion by 2014.

Prime Minister John Key used the rising debt levels to justify his government's austerity measures. He commented in July that the debt loading "puts us up there with countries like Greece, Ireland and Iceland". He warned: "The global crisis showed... that if you rely very heavily on foreign borrowings, as New Zealand is doing, eventually it catches up with you."

The government has slashed government spending and attacked wages, working conditions and living standards. The Nationals promised in the 2008 election campaign to close the "wages gap" with Australia so as to stem the flow of workers moving across the Tasman. In fact, recent figures show that the gap between New Zealand and Australian pay rates has widened.

Comparing average weekly earnings in November 2008 and February 2010, the *Dominion Post* reported in July that wages in New Zealand grew by 5.2 percent compared to 6.17 percent across the Tasman. On prevailing currency rates, the gap widened from about $NZ540 a week to $580, bringing the annual gross wage differential to $33,400.

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The exodus of New Zealanders leaving to find work in Australia is continuing. In June, 2,923 residents, nearly 100 a day, left to live in Australia permanently. The figure was up from 2,201 in June 2009 and heading towards the pre-election level in June 2008 of 3,797.

The National Bank's Business Outlook report for August showed further signs of economic regression. Business confidence fell for the fourth consecutive month, plummeting 12 points, down 34 from a high point reached in February.

The manufacturing sector has been badly hit. Advance orders plummeted in July, dropping almost 10 index points. The BNZ-Business NZ Performance Index is an early indicator of activity levels—above 50 indicates expansion, below 50 a contraction. The index dropped 9.8 points from June to 47.6—the first sub-50 reading for 14 months.

The NZIER recently issued a warning that the non-residential construction sector is "at the precipice of a collapse". Building work usually lags behind building approvals by a year. Twelve months ago the level of approved floor area fell by a third—putting around 20,000 construction jobs at risk.

Bank lending has slowed dramatically. Retail sales rose a meagre 0.4 percent in May, after weaker-than-expected sales in the hospitality sector, such as cafes and accommodation. Core retail sales, which exclude vehicle-related industries, dropped 0.2 percent. The overall figure was only held up by purchases of household goods as people sought to avoid the government's increased Goods and Services Tax (GST), due to come into effect in October.

The grim economic reality facing ordinary people is indicated by increased mortgagee sales, which, according to Terralink International, were up in May to 264, from 246 the previous month. Last year it was mainly property investors who were forced to sell; now people are losing their family homes. "This year the pain has shifted to New Zealand families," Mike Donald, Terralink's managing director, reported.

In a sign of things to come, Massey University research indicated that 2010 might become the "toughest" since the downturn began for small and medium businesses. Professor David Deakins predicted a spike in business failures and staff cutbacks in the next six months. The "Managing Under Recession" report, which surveyed 1,539 small-to-medium enterprises (SMEs), found that many owners had relied on personal savings to survive after the recession hit. These businesses are now exhausting their finances and finding it difficult to access bank loans. SMEs account for about 96 percent of all enterprises in New Zealand.

The economy is being held up by a fragile revival in overseas trade. Rising sales of dairy and forestry products helped boost exports by 12 percent in July. Increased imports, however, led to a trade deficit of $186 million—equivalent to 5.2 percent of total exports. The trade figures were weaker than expected—economists had been forecasting a deficit of around $40 million.

Dairy products were the main driver of growth, with exports of milk powder, butter and cheese up $179 million or 32 percent. However, the country's largest exporter, dairy producer Fonterra, reported milk powder prices fell 13.7 percent in July, which is likely to lead to lower than expected payouts to farmers in the 2010/11 season. According to the ASB bank, weakening dairy prices, combined with an expected fall in demand for forestry products, will result in a worsening trade balance over the next year.

The country's exports, on which the economy is heavily dependent, are based on a narrow range of commodities and two key markets. Australia and China—respectively New Zealand's largest and second largest trading partners—were responsible for much of July's trade increase. Exports to Australia were up 13 percent and to China by 30 percent. Any slowdown in China's hothouse economy will impact heavily on New Zealand—both directly and, indirectly, because of Australia's dependence on mineral exports to China.

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