Unstable economic upturn in New Zealand

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New Zealand's conservative National Party government, along with the corporate media, spent the Christmas and New Year period celebrating an apparent turnaround in the country's economy. Economic activity grew in the September quarter by 1.4 percent, the biggest increase in four years, driven by a 17 percent surge in agricultural production.

The economy is widely expected to have grown by 3 percent in 2013, and the Organisation for Economic Co-operation and Development (OECD) has forecast 3.3 percent growth in 2014, compared with an average of 2.3 percent for developed countries.

New Zealand's terms of trade—the value of exports against imports—increased 7.5 percent in the September quarter, reaching its highest level in 40 years. Finance Minister Bill English last month declared that New Zealanders had "been through a pretty tough time" but now "they can see things looking up."

In reality, the growth is narrowly-based and built on highly unstable foundations. It is driven by a boom in food and timber sales to China, which last year became New Zealand's largest market, and a temporary increase in construction activity in the earthquake-devastated city of Christchurch.

In the 12 months to November 2013, exports to China jumped 42 percent to $9.4 billion, overtaking exports to Australia, which fell 8 percent to $9.2 billion. Despite the surge in Chinese trade, New Zealand's total exports only increased 2.6 percent over the year, as sales to other major markets—including the US and Japan—also fell.

The value of the country's biggest export, dairy products, rose sharply due to a 50 percent hike in global milk powder prices in 2013. During the first half of 2013, China increased its share of the world's milk powder imports to 16.7 percent, compared with 12.4 percent in 2012, leading to a tighter market worldwide. China is NZ's biggest market for dairy, taking about 25 percent of its exports. For the month of November, New Zealand dairy exports to China reached a record $774 million.

Other key industries also rely heavily on China, including log exports, which reached a record $2 billion for the year to November. During 2013, New Zealand overtook Russia as China's largest soft wood log supplier, and in the third quarter 71 percent of log exports went to China.

According to the Meat Industry Association, sheepmeat exports to China doubled last year, and the country overtook Britain as the number one destination for NZ sheepmeat.

While most financial commentators predict an ongoing boom this year, this places heavy bets on the stability of the Chinese and world economy. Economist Brian Gaynor wrote in the *New Zealand Herald* on December 14: "The present export- and investment-led upturn could be maintained for several years—as long as dairy prices don't collapse, the Chinese economy doesn't go into an unexpected downturn and there isn't an external shock like that of the mid-1970s," when oil prices increased nearly four-fold.

China's growth slumped to around 7.6 percent last year, compared with an annual average of 10 percent during the 2000s. Beijing is now winding down the massive stimulus measures it put in place after the 2008 crash. Plans to cut local government debt and address industrial overcapacity will mean increased unemployment and a drop in consumption.

The spike in global milk prices is bound up with China's deepening economic turmoil. China's dairy production fell by 10 to 15 percent last year due to a cull of two million cows—equivalent to almost a third of New Zealand's herd. Dairy Australia analyst John Droppert told the Australian Broadcasting Corporation last month there had been a mass exodus of small farmers who could no longer afford the steep production costs and were not being supported by the government.

The worsening Australian economy will also have a deep impact on New Zealand. The slowdown in China is already leading to mine closures and thousands of job cuts across Australia. Since NZ went into recession in 2008, the number of New Zealanders living in Australia has increased from 470,000 to 648,200, with thousands crossing the Tasman in search of work. Westpac economist Felix Delbruck told the *Herald* in November that this trend was starting to turn around due to the tightening job market in Australia, with 15,800 fewer people arriving from NZ compared to the previous year.

Outside of agricultural exports and construction in Christchurch, New Zealand's economy remains stagnant.

Census figures released last month reveal a deep crisis in manufacturing, which has shed 29,472 jobs or 13 percent of its workforce since 2006. As in Australia, the US and elsewhere, businesses are cutting staff and moving to lower-wage countries to remain profitable. While the Christchurch rebuild has resulted in some temporary job creation, official unemployment is still 6.2 percent, almost double what it was in 2007.

The government has sacked 7,000 public sector workers since 2008 and recently approved 2,000 job cuts at NZ Post—with the support of the opposition Labour Party and the Greens.

The benefits of the economic "recovery" have flowed almost entirely to the richest layer of society. Corporate tax cuts, record low official interest rates and the partial privatisation of power companies have contributed to a bonanza for the super-wealthy. The stock market reached record heights in 2013, rising by 17 percent, on top of 25 percent in 2012.

At the same time, the census revealed that since 2006 the annual median income fell in real terms by $196 to $28,500. Household debt stands at 146 percent of disposable income, having doubled over the past two decades. Since 2000, house prices have increased 88 percent in real terms—the biggest rise in the OECD. The Reserve Bank and numerous economists have pointed to the risk of profound economic destabilisation if the housing bubble bursts.

In Christchurch, Fletcher Building, New Zealand's largest listed company, has profited immensely from rebuilding contracts, but ordinary residents have suffered a dramatic decline in living standards. Three years after the quake, 43,000 damaged homes have not been repaired, largely due to delays by insurance companies, while 10,000 homes that have been or will be demolished will not be rebuilt.

The estimated cost of the rebuild was revised up last year from $30 to $40 billion, with the government to pay $15 billion. This is being funded by cuts to services, including health and education, with the government vowing to return the national budget to surplus by 2015. Any fall in taxes from export revenue will lead to even deeper austerity.