

Warnings of an economic downturn in New Zealand

Tom Peters
23 April 2015

Reserve Bank deputy governor Grant Spencer issued a blunt warning to the government last week that the housing bubble in Auckland, the country's largest city, could suddenly burst, endangering the wider economy.

While the National Party government and some media commentators continue to describe New Zealand as a "rock star economy," there are growing fears of a crisis triggered by a collapse in the property market combined with the global slump in prices for dairy products, the country's main export.

Growth was 3.5 percent last year, the highest in the OECD. This was based on a temporary increase in construction activity following the 2010–2011 Christchurch earthquakes and agricultural exports to Asia. The economy is highly exposed to the gathering global economic downturn, particularly the slowdown in China, which is New Zealand's biggest trading partner.

House prices in Auckland increased by nearly 17 percent in the year to March alone. According to the Real Estate Institute, the median house price in the city is an extraordinary \$NZ720,000—more than double the national median.

Rents are increasingly unaffordable, rising by between 5 and 10 percent per year. Homelessness and overcrowding has soared in Auckland, Christchurch and other centres. The home ownership rate reached a record low of 61.5 percent in 2013.

Speaking to the Rotorua Chamber of Commerce, Spencer made clear that this is the result of rampant speculation, coupled with a housing shortage and a growing population. "Indicators point to an increasing presence of investors in the Auckland market and this trend is no doubt being reinforced by the expectation of high rates of return based on untaxed capital gains," he said. The proportion of houses bought by investors has

risen to 37.4 percent in February from 33.8 percent in September 2013.

The out-of-control housing market is one example of how New Zealand capitalists, like their counterparts internationally, continue to engage in the same parasitic activity that led to the 2008 financial crash. Rather than producing anything in the real economy, the super-rich are increasing their fortunes through the stock market and various investment bubbles, while driving up living costs for ordinary people.

Spencer warned that "a correction" in house prices "could be prompted by a range of potential shocks to the economy or financial system," such as a rise in global interest rates or increased unemployment. "With 60 percent of its lending in residential mortgages, the New Zealand banking system could be put under severe pressure in such scenarios," he said, adding that the "resulting contraction in credit would amplify the impact of an adverse external shock to the domestic economy and financial system, making it more difficult to avoid a severe downturn."

There are numerous sources of economic instability. The country's exports are being hit hard by the decline in China's economic growth, which fell to just 7 percent in the first quarter of 2015—the lowest rate since the immediate aftermath of the economic crisis in 2008–2009.

While China remains New Zealand's largest export market, figures released last month showed that the value of exports to China has fallen 45 percent since late 2013. The drop was driven by a 51 percent fall in prices for dairy exports since their peak in February 2014.

Craig Ferguson, an analyst from Antipodean Capital Management, told Fairfax Media on April 16 that dairy prices could fall by another 60 percent due to supply

outstripping demand globally. DairyNZ chief executive Tim Mackle said the forecast was “not looking pretty” and “many farmers won’t be in credit for the entire 12 months of next season” unless they cut costs. Total farm debt stood at \$52 billion last year, about two thirds of which is held by dairy farmers.

New Zealand is also affected by the slowdown in Australia, where minerals exports have collapsed, business investment has dried up and unemployment is at a 12-year high. Migration figures indicate that many New Zealanders who moved to Australia and other countries in recent years are returning, compounding to NZ’s housing shortage.

The government has trumpeted the soaring value of the New Zealand dollar, which has almost reached parity with the Australian currency for the first time since 1973, as a sign of economic strength.

In reality, the relative value of the currency reflects instability in Australia, New Zealand’s second largest trading partner. Almost 20 percent of New Zealand exports and 50 percent of the country’s foreign direct investment go to Australia. New Zealand’s Timber Industry Federation president John McVicar told TVNZ that parity between the two currencies was “not sustainable and will be devastating for many mills.” The industry has already experienced several mill closures and thousands of redundancies since the 2008 financial crisis.

The government is responding to the sharp decline in tax revenue and increasing economic volatility by deepening its austerity measures. Finance Minister Bill English told a business meeting in Christchurch on April 21 that next month’s budget will be the “toughest” since the government came to power in 2008.

Previous budgets have slashed spending on basic services, including health care and education, while tens of thousands of people—including single parents and disabled children—have been pushed off welfare benefits. National has partly privatised the country’s power companies and plans to sell tens of thousands of public housing units.

The opposition Labour Party agrees that the working class must be made to bear the burden of the crisis. Labour has mainly attacked the National government for failing to return a budget surplus, which would be achieved by cutting spending even more drastically.

In response to the housing crisis, Labour and its allies, the Greens and the anti-Asian xenophobic NZ First Party, have sought to divert the growing hostility towards the government in a reactionary nationalist direction. Joined by several media commentators, the opposition is demanding restrictions on foreigners buying houses.

Labour and NZ First have also called for cuts to immigration, with NZ First scapegoating Chinese and Indian immigrants for unemployment. Labour, the Greens and the Maori nationalist Mana Party all supported NZ First in last month’s by-election in Northland.



To contact the WSWs and the Socialist Equality Party visit:

wsws.org/contact