

# New Zealand sinks into recession

John Braddock  
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Figures released on June 14 show that New Zealand fell into a recession in the first quarter of 2023. Gross domestic product (GDP) fell 0.1 percent in the three months ending in March, following an economic contraction in the December quarter of 0.7 percent.

The latest result was in line with most economists' expectations, but at odds with a Reserve Bank (RBNZ) forecast of 0.3 percent growth. The December figure was considerably worse than expected, with predictions of a 0.2 percent drop and an RBNZ forecast of 0.7 percent growth.

Most parts of the economy slowed or contracted, offsetting a slight rise in construction. Business services—including management consulting, advertising, scientific, and engineering design—fell by 3.5 percent. Agriculture, forestry and fishing contracted 0.7 percent, manufacturing fell 1.1 percent, and education and training fell 1.9 percent.

On interest.co.nz, economist David Hargreaves wrote that the June quarter GDP will likely also be negative along with the September quarter. "We could very well now end up being 'in recession' or something like it for a year or more" he warned, noting it will inevitably impact the October 14 election.

The RBNZ admitted last November that it was seeking to deliberately engineer a recession. In May, the central bank raised the official cash rate by 25 basis points to 5.5 percent, the latest in 12 consecutive rate rises since October 2021.

As is the case internationally, the ruling class is responding to the economic crisis triggered by the pandemic and worsened by the US-NATO war with Russia in Ukraine by imposing the full burden on the working class. The RBNZ aims to drive up interest rates, increase unemployment and beat back a developing movement in the working class for substantial wage increases.

Wage growth lags behind inflation in many areas.

Data from the job search firm Seek NZ released in March, covering 30 industry classifications, showed annual salaries rose 4.4 percent in the three months following a 4.3 percent increase in the December quarter, when annual inflation was 7.2 percent. Food inflation is currently running at 12.4 percent.

Warning the RBNZ may have done "too much to rein in inflation," Kiwibank chief economist Jarrod Kerr told Radio NZ "the brunt of the slowdown is yet to come." Weaker demand could push unemployment up from the current 3.4 percent to 5.5 percent in 2024, Kerr predicted.

According to *Bloomberg* on June 15, international authorities are closely watching New Zealand as a "possible harbinger of what lies ahead for others." The country was "one of the first to begin raising rates when inflation surged after the pandemic... outpacing even the [US] Federal Reserve," it said. "Now the impact is starting to be felt as households already grappling with soaring prices see mortgage repayments jump."

The International Monetary Fund (IMF) has declared that the country is "living beyond its means," and that the government must tightly control spending with the RBNZ ready to raise interest rates again if necessary. It expressed concern about the high current account deficit, at present \$NZ33 billion or 8.5 percent of GDP.

The IMF praised New Zealand's management of the COVID-19 pandemic as "exemplary" but said the economy had overheated because of "generous" financial and monetary support, and had entered a "necessary slowdown."

In fact, the Labour-led government used the pandemic to transfer tens of billions of dollars to big business, in the form of tax relief, direct bailouts and so-called wage subsidies. During 2020–21 the RBNZ printed \$53.5 billion (\$US34 billion) to buy up government bonds from the commercial banks,

boosting their profits to record levels and contributing to rampant inflation.

The “necessary slowdown” means an intensifying assault on the working class to recoup these vast sums. Working people are already tightening their belts with retail over the past two quarters falling by 2.9 percent. Spending on non-durables was down 3.4 percent in the last quarter alone.

Satish Ranchhod, Westpac senior economist, reported that in a recent survey more than 40 percent of households declared that their financial position went backwards over the past year, while only 14 percent said that it had improved. “Large increases in living costs, especially for necessities like food, are hitting every family in the country in the pocket,” he said.

RBNZ predicts that mortgage holders—nearly 40 percent of the population—will pay an average 22 percent of their income in interest payments this year, up from 9 percent in 2021. Households behind on repayments are up 26 percent on the same time last year, with 19,300 accounts overdue. Data from credit bureau Centrix showed mortgage arrears climbed for the eighth consecutive month in March.

Rents also reached a record national average high of \$600 per week in February, according to Trade Me Property. Median rents were in the \$500 bracket for nearly four years before they jumped last year. “With the rising cost of living on everyone’s minds, this will be tough news for tenants who will be having to dig deeper into their wallets to pay rent,” Trade Me’s Gavin Lloyd said.

The poorest sections of the working class are being hit hard. “One News” reported last week that to help household incomes many school students in South Auckland are also working, sometimes 40 to 50 hours a week. Soane from Tamaki College said: “I work to support my family with bills and groceries.” Chris sometimes works from 10 p.m. to 6 a.m. “I still come to school in the morning. I just go home and get changed then come here,” he said.

The NZ Food Network reported in May that the country’s food banks are now supporting over half a million people each month—165 percent more than at the start of 2020. The cost-of-living crisis is the main reason for those seeking food relief (88 percent), followed by low individual/household income (70 percent), and unemployment (65 percent).

Deep job cuts are underway. Retail giant, The Warehouse Group, expanded its layoffs in February with an additional 150 to go on top of 190 announced at the end of January, with the NZX-listed company citing “challenging market conditions.” Auckland Council has axed more than 500 jobs and is selling shares in the International Airport to address a \$350 million budget shortfall.

The education sector is currently at the forefront of an onslaught on wages, jobs and services. The primary teachers’ union, the NZEI, recently pushed through a sellout deal for 30,000 teachers, which effectively cuts their wages.

Last week the national trades training institution Te Pūkenga announced 400 sackings to rein in a \$63 million deficit. Hundreds of university jobs are also being axed, following 1,000 jobs lost during the height of the pandemic. Recent cuts include 230 at Victoria University of Wellington (VUW), announced Wednesday, over 200 at Otago, 170 at Auckland University of Technology and 37 at Massey University.

Morgan Godfery, a VUW academic and columnist for *Stuff* and the *Guardian*, wrote on Twitter that the Labour government is “passively presiding over the collapse of tertiary and vocational education, the slow degradation of primary and secondary education,” as well as health services.

In fact, there is nothing “passive” about this historic assault, which is a deliberate class policy. The Labour government’s May budget cut funding for education and health, relative to inflation, and the government has entirely dismantled its COVID-19 public health measures. Billions, meanwhile, are being poured into the military as it collaborates with NATO in the war against Russia and cements its alliance with US imperialism against China.



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