The New Zealand Economy: Challenges and Opportunities

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New Zealand: a story of fluctuating economic growth rates

NZ GDP growth per Capita

Sources: Statistics NZ; ANZ
And a poor performer relative to the rest of the world

NZ’s OECD rank: on per capita basis

Source: OECD
Inflation tamed but performance deteriorating

Annual % change

Consumer price inflation

Sources: Statistics NZ; ANZ
Unemployment higher than it should be or needs to be

% of labour force

Unemployment rate

Sources: Statistics NZ; ANZ
Commodity prices help explain poor growth performance

Real commodity prices (1900-2008)

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Long-term secular decline

Sources: IMF; ANZ National Bank.
Likewise the terms of trade (ratio of export to import prices)

NZ’s terms of trade

Sources: Statistics NZ; ANZ
Slow productivity growth is the price of backing off reforms

Sources: Statistics NZ; ANZ

NZ multi-factor productivity growth

Pre-reform
Post the economic reform period
Reform retreat

After the Employment Contracts Act and 1991 Budget

Index

Sources: Statistics NZ; ANZ
Communications: fastest productivity growth; now the most regulated industry
A persistent risk factor is the external constraint

NZ’s external current account history

Sources: Statistics NZ; ANZ
$NZ: \text{ not a happy ranking}$

Current Account Balances of OECD nations
(Forecast 2011)

Source: OECD, ANZ
The elephant in the room: overseas debt

NZ’s Overseas Debt

Source: Statistics NZ, ANZ
NZ’s total overseas debt rising rapidly again

Source: Statistics NZ, ANZ.
A favourable relative ranking for Government debt

Comparison of government gross liabilities

Sources: OECD, ANZ; data for 2009
Another elephant: NZ fiscal balance deteriorating rapidly

Source: The Treasury
NZ government public debt forecast to rise rapidly

Source: The Treasury
Government spending: boom or bust?

Core Crown spending

% of GDP, June years

Source: Treasury
We do not work as much as we used to

Sources: Statistics NZ; ANZ
And we are not great at saving (we use others’ savings)

Household saving rate

% of disposable income

Sources: ANZ National, Statistics NZ, Bloomberg
Kiwis have a much lower income than even Tasmania

Trans-Tasman Per Capita Incomes
Year Ended June 2009, $NZ

Western Australia $94,800
Northern Territory $76,400
South Australia $60,100
Queensland $69,100
New South Wales $70,700
ACT $92,300
Victoria $67,000
Tasmania $57,500
New Zealand $42,200
So many of us are heading for Australia

Net Migration to Australia
Years Ended June

Sources: Statistics NZ; ANZ.
NZ’s per capita GDP was similar to Australia’s in the mid 1970’s. In 2007, NZ’s per capita GDP is around 24% below Australia’s. In order for NZ to catch up to Australia by 2025, per capita GDP growth has to average 4% per annum, almost twice what has been achieved in the past decade.

For NZ to catch up to Australia by 2025 requires:
- Australia average growth = 2.4% per annum
- NZ average growth = 4.0% per annum

Sources: OECD; ANZ.
The “great little country” is actually not so great at No. 20

UN Human Development Index, top 30 nations
(encompasses longevity, health, knowledge and GDP per capita)

Source: United Nations, ANZ
Moderate vulnerability ranking, a net positive but only just

Sovereign Debt Vulnerability Scores

Source: ANZ
The rebirth of growth in the core public service

Core Public Service staff
(June years)

Source: SSC
Government pay rates are higher than private sector............ and increase faster

Public versus Private Sector Pay Rates
(Average Hourly Earnings)

Sources: Statistics NZ, ANZ.
Are Kiwis really this sick?

Trends in main benefit types among the working age population, 1960-2009

Source: Ministry of Social Development Statistical Reports and Statistics New Zealand population estimates.
NZ has allowed its tax rate competitiveness to be eroded

NZ’s Tax Rates versus the OECD

Source: OECD, ANZ.
We have been investing less over recent years
Regulation and taxes are the biggest problems

Source: National Bank of NZ; data for 2005
Regulatory creep is an ever accumulating problem

Number of Pages of New Primary Legislation by Decade
1900s to 2000s

Source: Parliamentary Library.
Business adaptability has been severely eroded

Regulatory Dilemmas

- Regulation begets regulation
- Regulation overrides commercial solutions
- Regulation and changes induce uncertainty
- It imposes high transactions costs
- Diverts energy into rent seeking behaviour
- And away from focussing on winning in the market
- Regulation always has unintended consequences
- It concentrates on past issues rather than future growth
- Success ironically attracts regulation
- Regulation reduces flexibility
- It ultimately impedes the competition it pretends to promote
- Reduces attractiveness of NZ for foreign direct investment
*NZ has an inadequate capital market*

Domestic Stockmarket Capitalisation as % of GDP

- **Australian Stock Exchange**
- **New Zealand Stock Exchange**

Sources: World Federation of Exchanges, Statistics NZ, ANZ.
Opportunities abound ..... 
But we need the right environment for them to prosper

Here are some illustrations:

We are richer in minerals than we realise

The diary industry is a great growth engine

Education has heaps of potential

Tourism is fast growing and now sizeable

Australia, China, India and Asia are the future for us
New Zealand is resource rich

- Royalty payments for petroleum and minerals $517m in 2008/09
- Petroleum exports were $2.8 billion – 6.7% of total exports
- Petroleum and gold were at or close to record production levels
- 2009 was the busiest ever drilling season for petroleum with 37 wells drilled
- Global players are being attracted into new petroleum basins
  - Petrobas into the Raukumara (East Coast) Basin
  - Origin and Anadarko – Canterbury Basin
- Coal exports – particularly high grade coking coal – are growing
- Significant potential exists in ironsands deposits

Source: Ministry of Economic Development
NZ: Oil production back to 1997 record of 21.3 million barrels

Source: Ministry of Economic Development
NZ: Highest gold production in over 20 years

Source: Ministry of Economic Development
Strong milk production and dairy payout growth

........ 5% and 9% p.a. over the past 10 years

Note: Total Dairy Payout is in nominal dollars and assumes the average weighted dairy company total payout multiplied by total milk solids processed.
World food demand will double by 2050, driven by growing population and rising incomes in the developing world

Global food consumption
Billions; MT

<table>
<thead>
<tr>
<th></th>
<th>2050E</th>
<th>Gap</th>
<th>2020E</th>
<th>Gap</th>
<th>Today</th>
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<tr>
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<td>4.7</td>
<td>7.8</td>
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World population
Millions

<table>
<thead>
<tr>
<th></th>
<th>Today</th>
<th>2020E</th>
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<tr>
<td>Rest of World</td>
<td>6,513</td>
<td>7,675</td>
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<tr>
<td>Developed</td>
<td>5,296</td>
<td>6,407</td>
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% increase

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<tr>
<td>Rest of World</td>
<td>21</td>
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<tr>
<td>Developed</td>
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Real GDP
USD, Trillions

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<th></th>
<th>Today</th>
<th>2020E</th>
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</thead>
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<tr>
<td>Rest of World</td>
<td>47</td>
<td>66</td>
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<tr>
<td>Developed</td>
<td>35</td>
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Source: Fonterra and McKinsey
Why Fonterra is so positive on dairy for the long term

Real GDP Growth 2004-2009 (average annual)

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<th>Region</th>
<th>GDP Growth</th>
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<tr>
<td>World</td>
<td>3.6%</td>
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<tr>
<td>UK</td>
<td>1.4%</td>
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<tr>
<td>Africa</td>
<td>5.6%</td>
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<td>Developing Asia</td>
<td>8.0%</td>
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<tr>
<td>China</td>
<td>10.0%</td>
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<tr>
<td>Japan</td>
<td>0.2%</td>
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<tr>
<td>USA</td>
<td>1.6%</td>
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<tr>
<td>Brazil</td>
<td>3.7%</td>
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<tr>
<td>Chile</td>
<td>4.0%</td>
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<tr>
<td>New Zealand</td>
<td>1.8%</td>
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<tr>
<td>Australia</td>
<td>2.3%</td>
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<tr>
<td>China</td>
<td>10.0%</td>
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Source: Fonterra
Especially in developing nations with rapid GDP growth and growing populations

Growth rates based on 2009-2013 forecasted data - EIU
Source: EIU
Dairy consumption in Asia has significant room for growth

Per capita milk consumption

Note: GCC represents the Persian Gulf nations
Source: Euromonitor, powder converted to its rate of 1kg = 8.33 lts; 2005 data
Opportunities in Education for Growing Exports

- 861 providers in NZ in 2010
- 93,505 fee paying students
- 7% growth expected in 2010
- Industry aim is 10% p.a. income growth
- 70% from Asia, mainly China, South Korea, India, & Japan
- India the fastest growing at 44% in 2009
- Export receipts to exceed $3 b. by 2011

Source: educationnz.org.nz
Tourism is another strong export growth industry

Visitor Arrivals to New Zealand

Sources: Ministry Of Tourism, ANZ.
In summary

- The post reform period proved we could grow faster
- We were among the best for productivity growth
- But then we eroded the gains
- Government sector grew much faster than private sector
- The fiscal surplus became a deficit
- Regulations again became widespread and constraining
- The global financial crisis added to our woes
- We failed to address the big policy challenges
- These relate to taxes and government spending
- Particularly in social welfare, health and education
- Infrastructure and the regulatory environment
- The private sector is getting crowded out
- Yet that is the source of growth and productivity gains
The essence for stronger economic growth

- Lower taxes
- Smaller government
- Less intrusive regulation
- Privatise SOE’s
- Protect property rights
- Stable fiscal and monetary policies
- Do not try to pick winners
- Get closer to Australia
- Grow with China, India and SE Asia