

# **The New Zealand Economy: Challenges and Opportunities**

Dr Roderick Deane

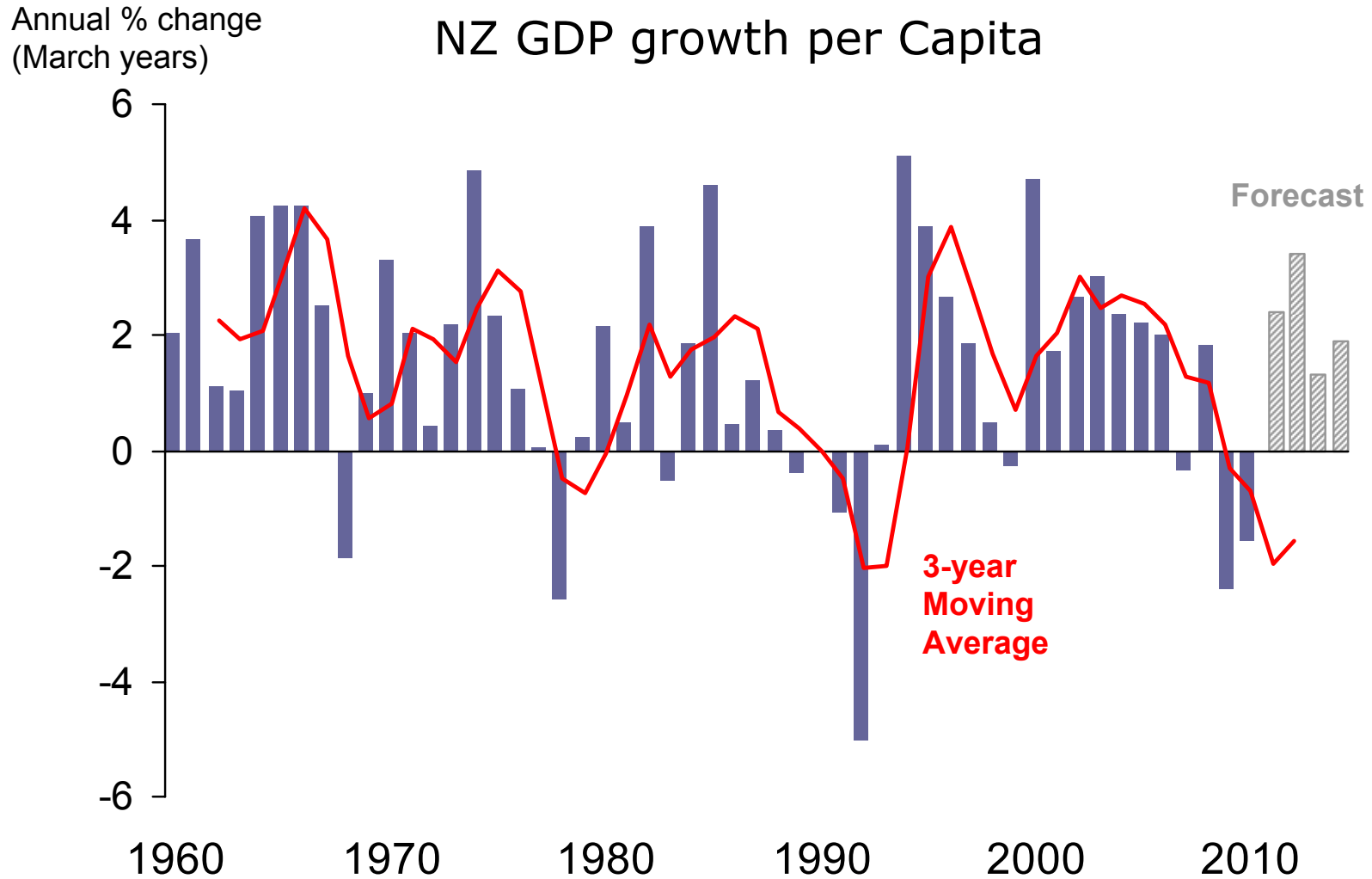
An Address to the Dunes Symposium:  
A Public Policy Forum for Tomorrow's Business Leaders

9-10 September 2010

Formosa, Beachlands, Auckland.

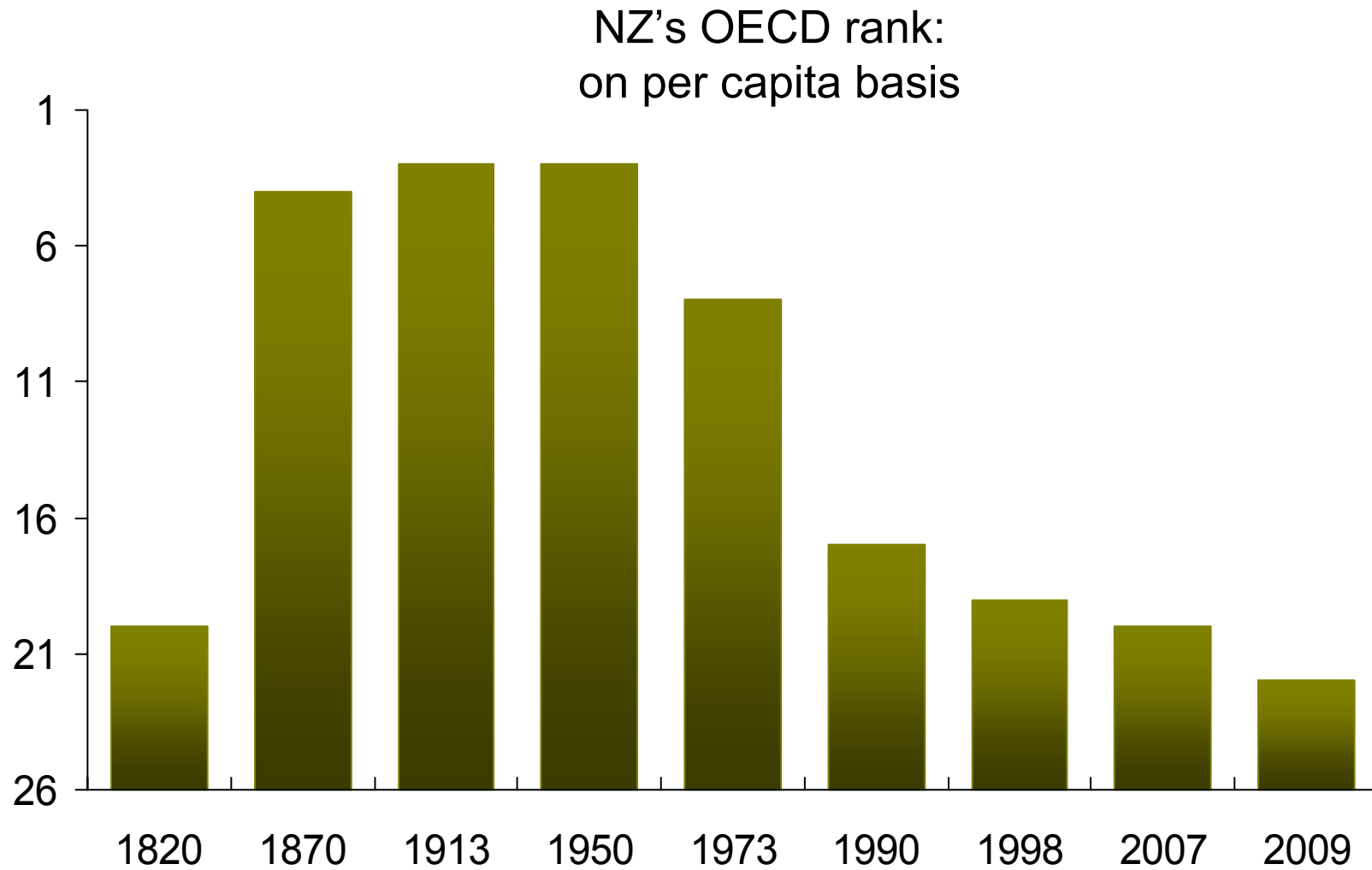
Dr Roderick Deane is Chairman of Pacific Road Group in Sydney & the NZ Seed Fund, & a Director of Woolworths Ltd in Sydney. He is also Patron of IHC & Chairman of the IHC Foundation. He was previously Chairman of Fletcher Building, ANZ National Bank, Telecom NZ, Te Papa Tongarewa (the Museum of NZ), City Gallery Wellington Foundation, & a Director of the ANZ Banking Group in Melbourne. At an earlier stage he was CEO of Telecom NZ, Electricity Corporation of NZ, Chairman of the State Services Commission, & Deputy Governor of the Reserve Bank of NZ. He was also Professor of Economics and Management at Victoria University of Wellington & a Director of TransAlta Corporation in Canada for some years. Dr Deane is very appreciative of the assistance he was given in preparing this material by Stephen Edwards of the Economics Group of the ANZ National Bank, Bryce Wilkinson of Capital Economics, Bruce Parkes of MED and Dan Brenninkmeyer of Fonterra.

# ***New Zealand: a story of fluctuating economic growth rates***



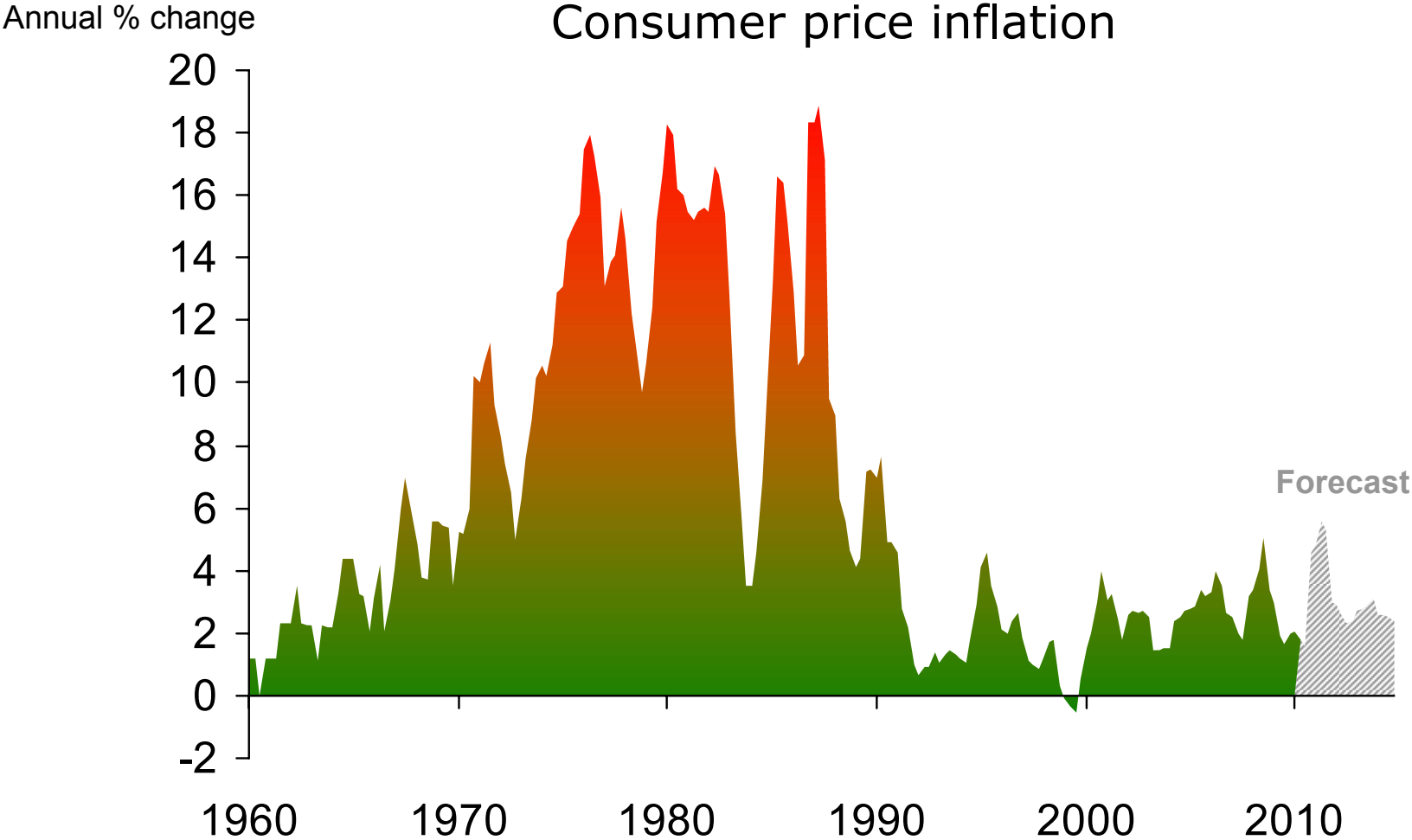
Sources: Statistics NZ; ANZ

## *And a poor performer relative to the rest of the world*



Source: OECD

# ***Inflation tamed but performance deteriorating***



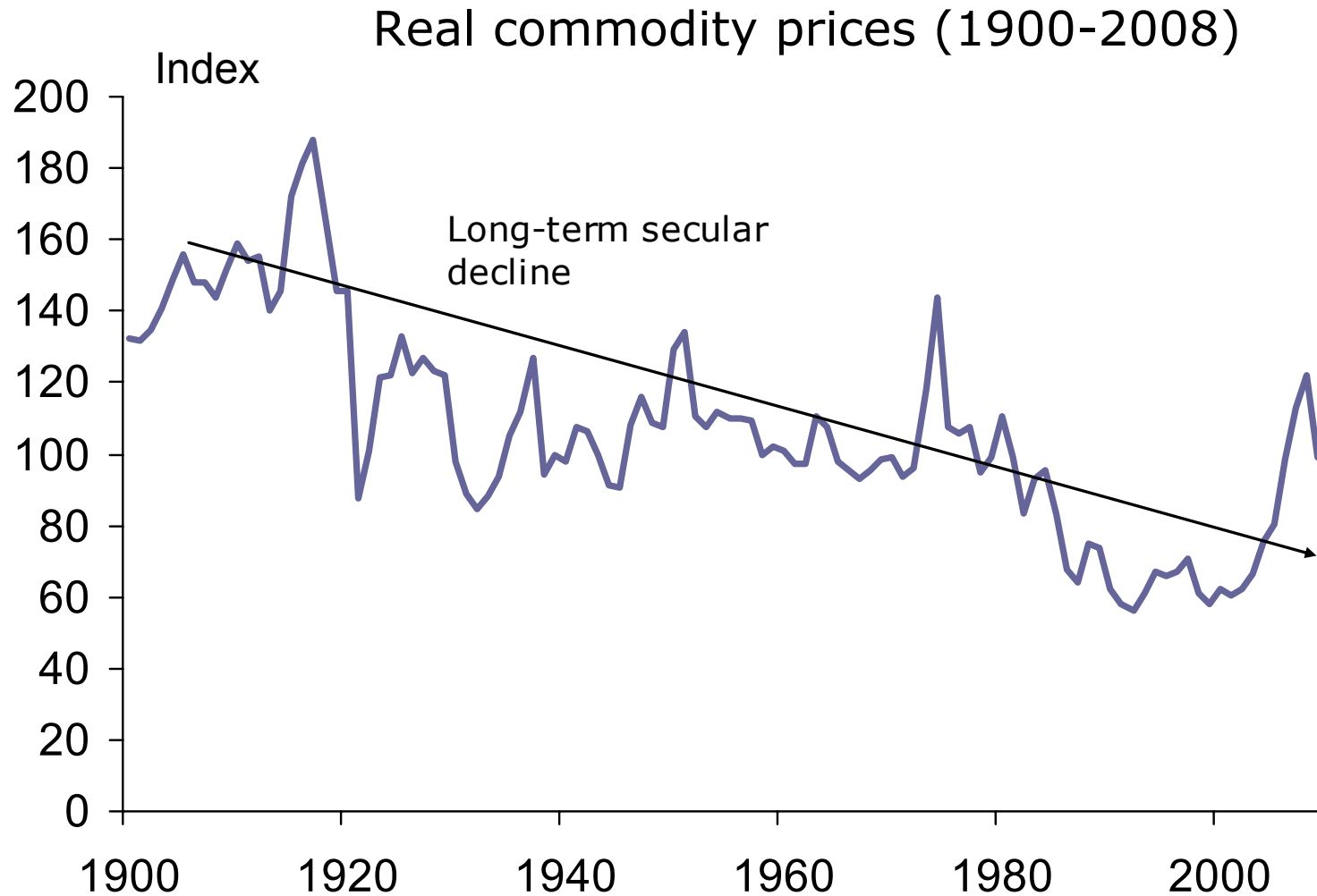
Sources: Statistics NZ; ANZ

# ***Unemployment higher than it should be or needs to be***



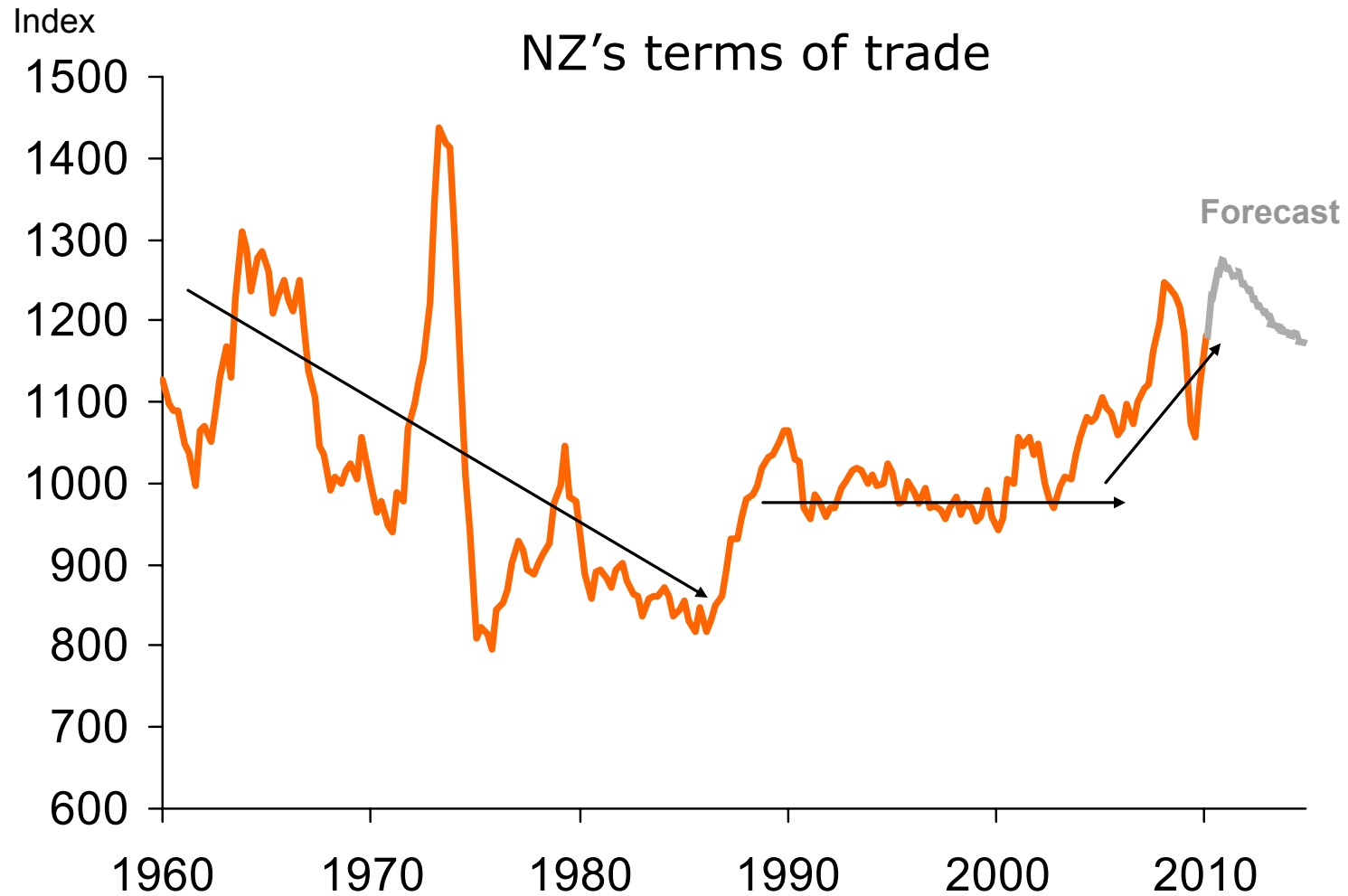
Sources: Statistics NZ; ANZ

## ***Commodity prices help explain poor growth performance***



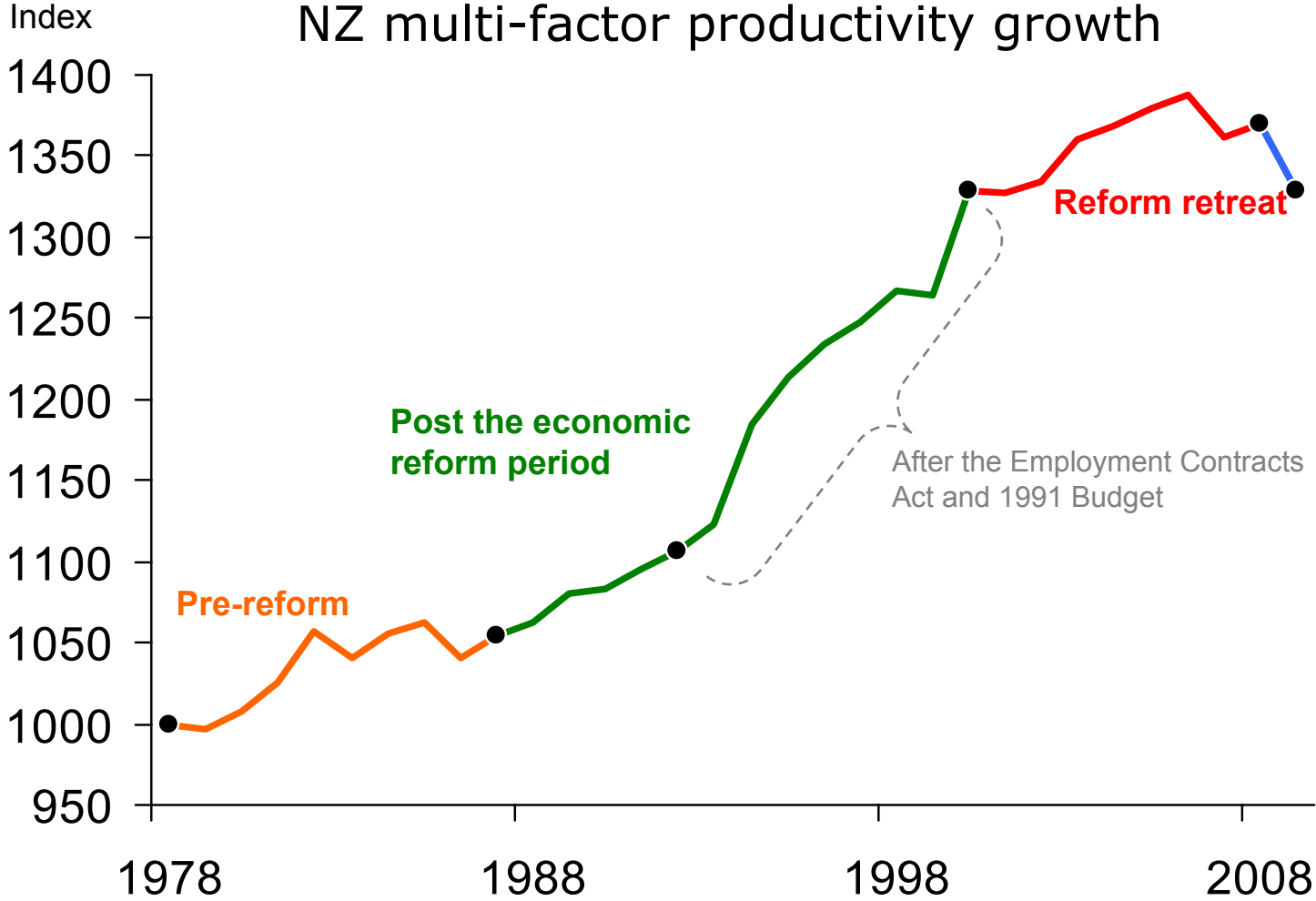
Sources: IMF; ANZ National Bank.

***Likewise the terms of trade (ratio of export to import prices)***



Sources: Statistics NZ; ANZ

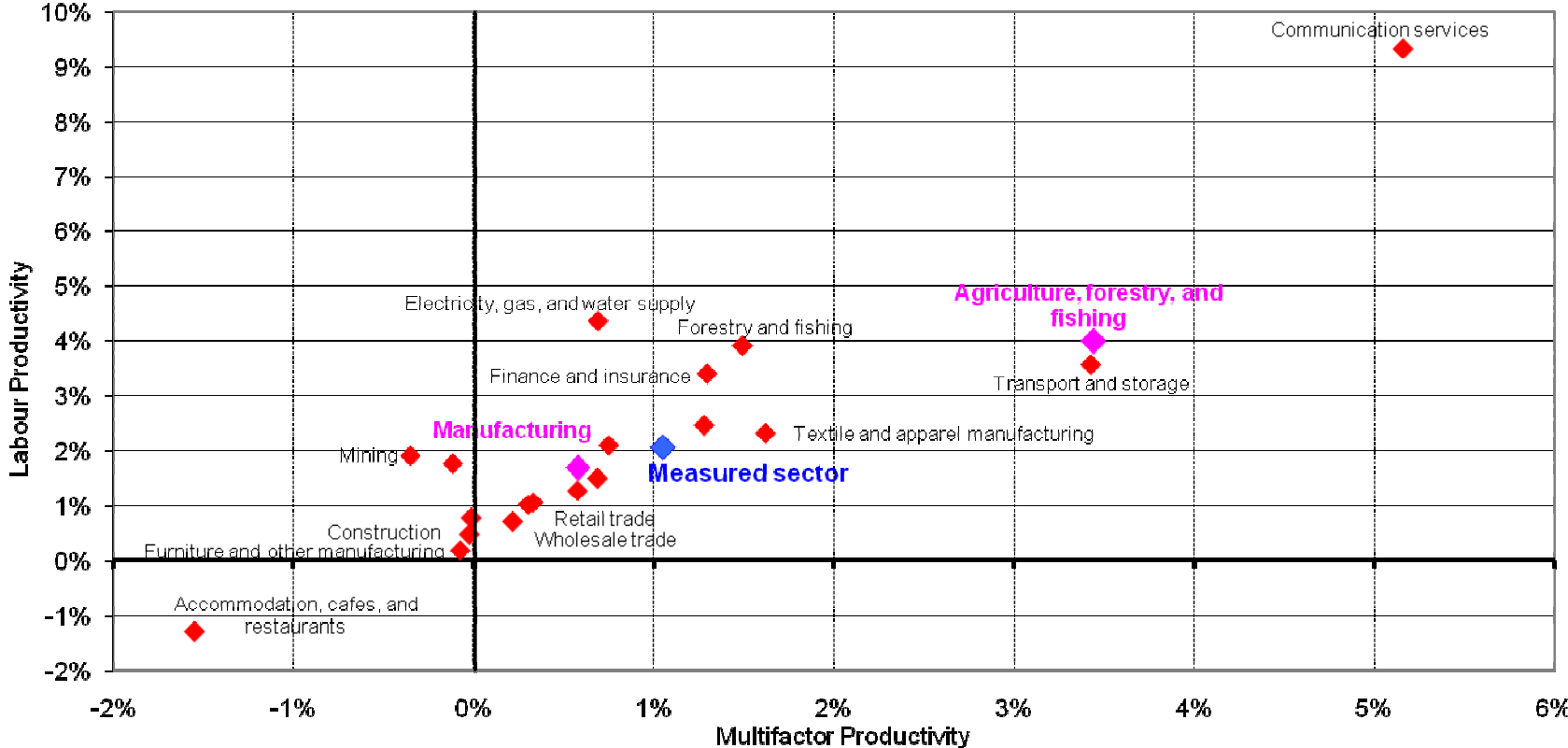
# Slow productivity growth is the price of backing off reforms



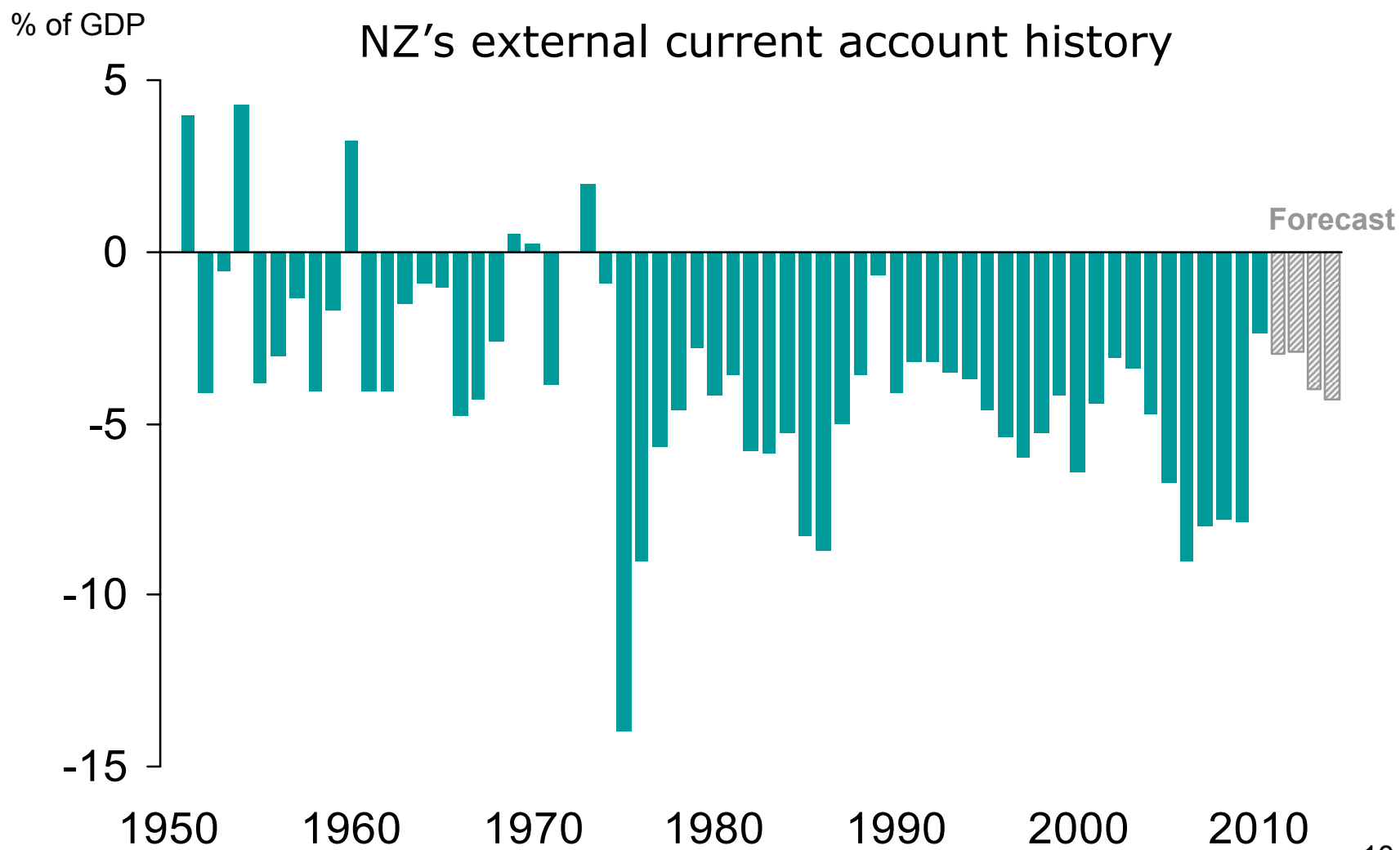
Sources: Statistics NZ; ANZ

# Communications: fastest productivity growth; now the most regulated industry

Labour and Multifactor Productivity in the New Zealand Measured Sector  
Average annual compounded growth rates 1978-2008

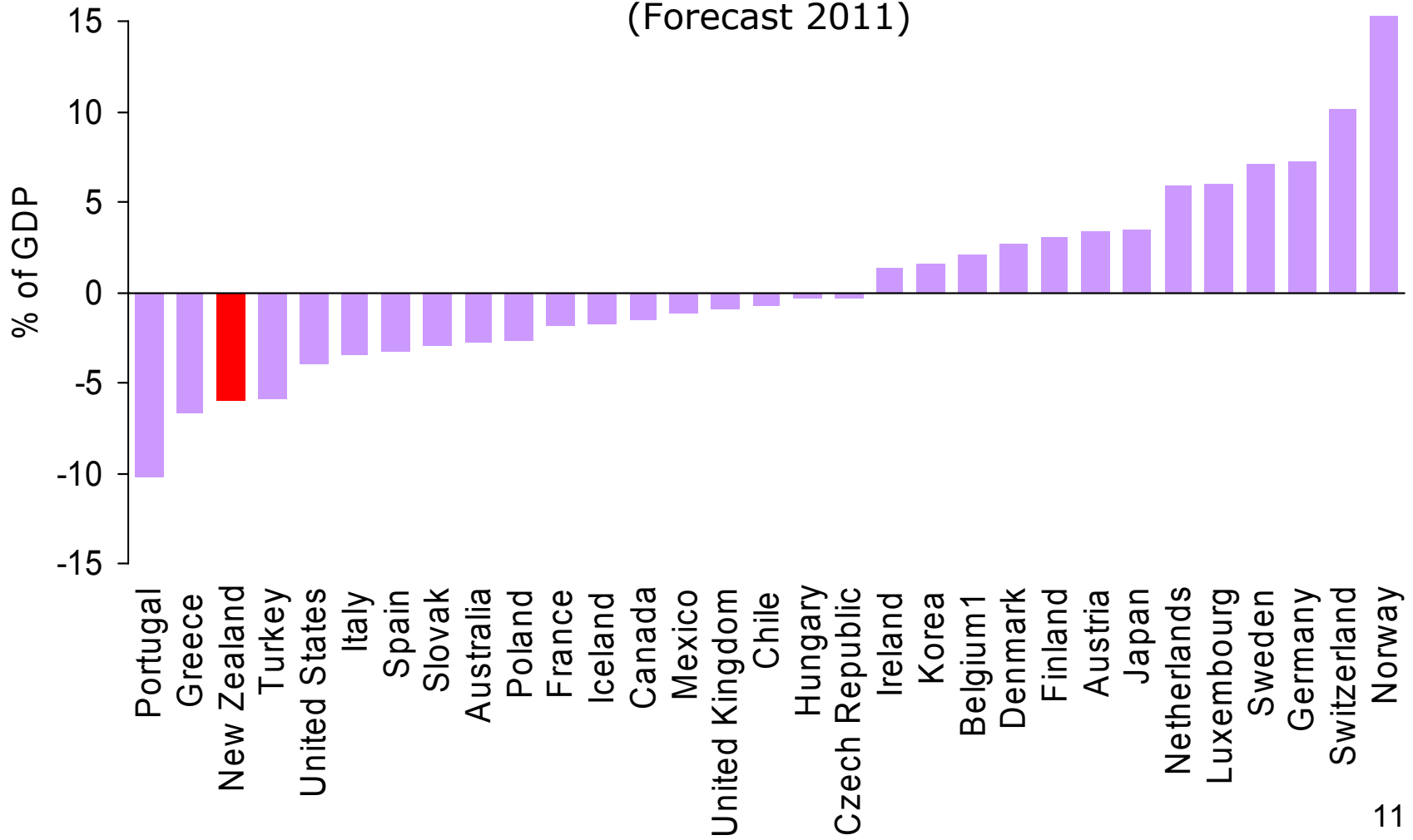


## *A persistent risk factor is the external constraint*



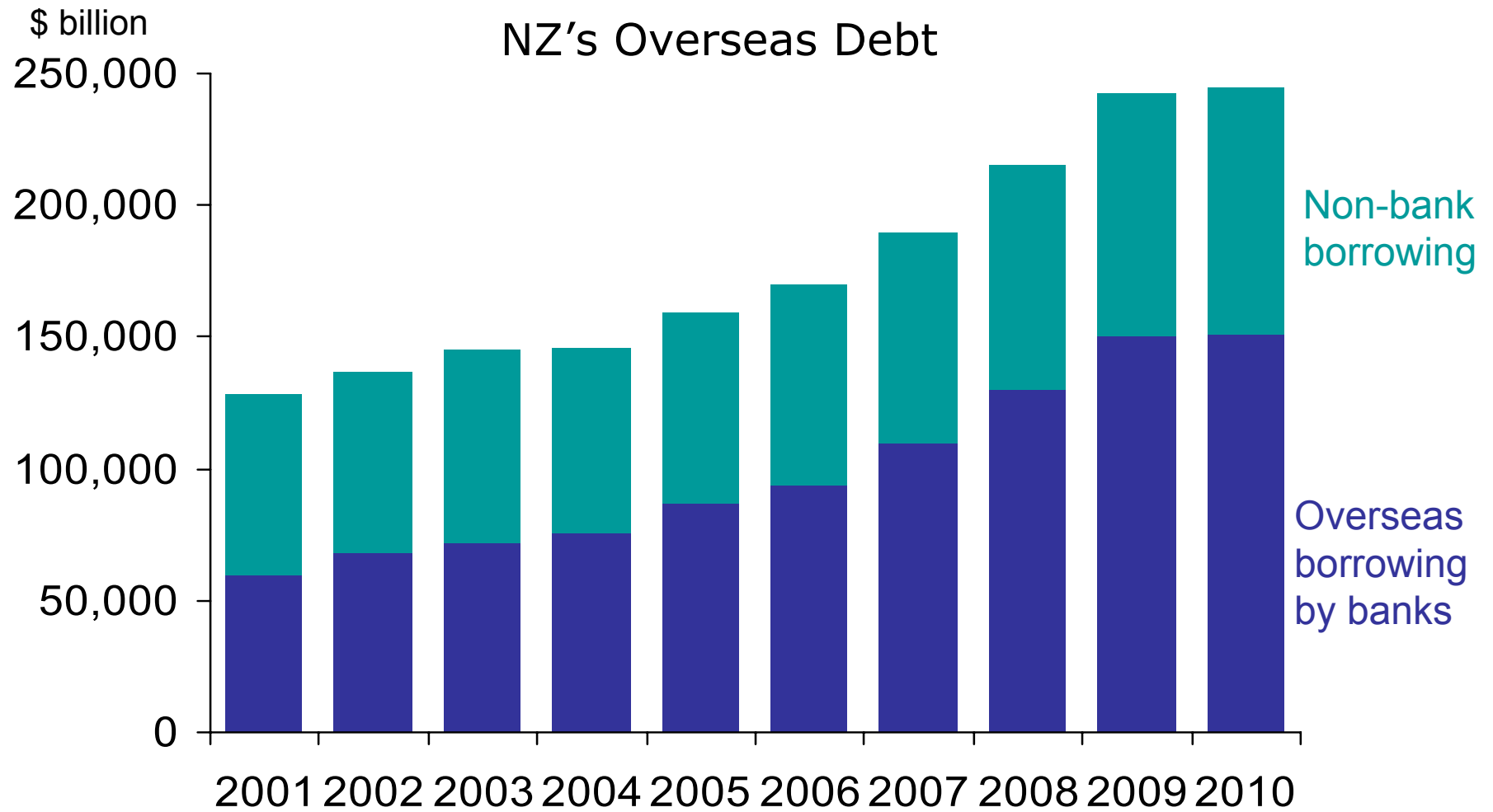
Sources: Statistics NZ; ANZ

# Current Account Balances of OECD nations (Forecast 2011)



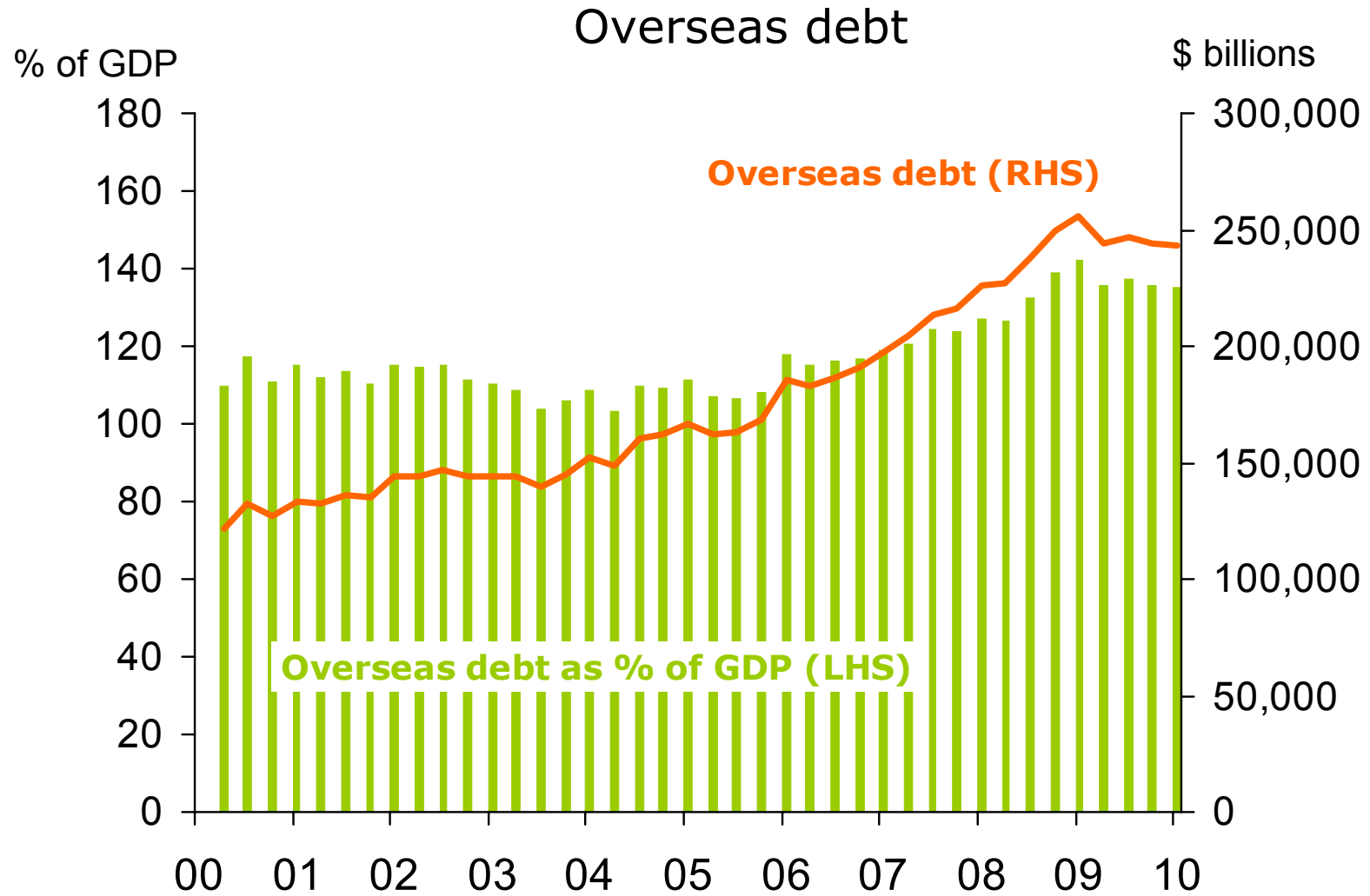
Source: OECD, ANZ

## *The elephant in the room: overseas debt*



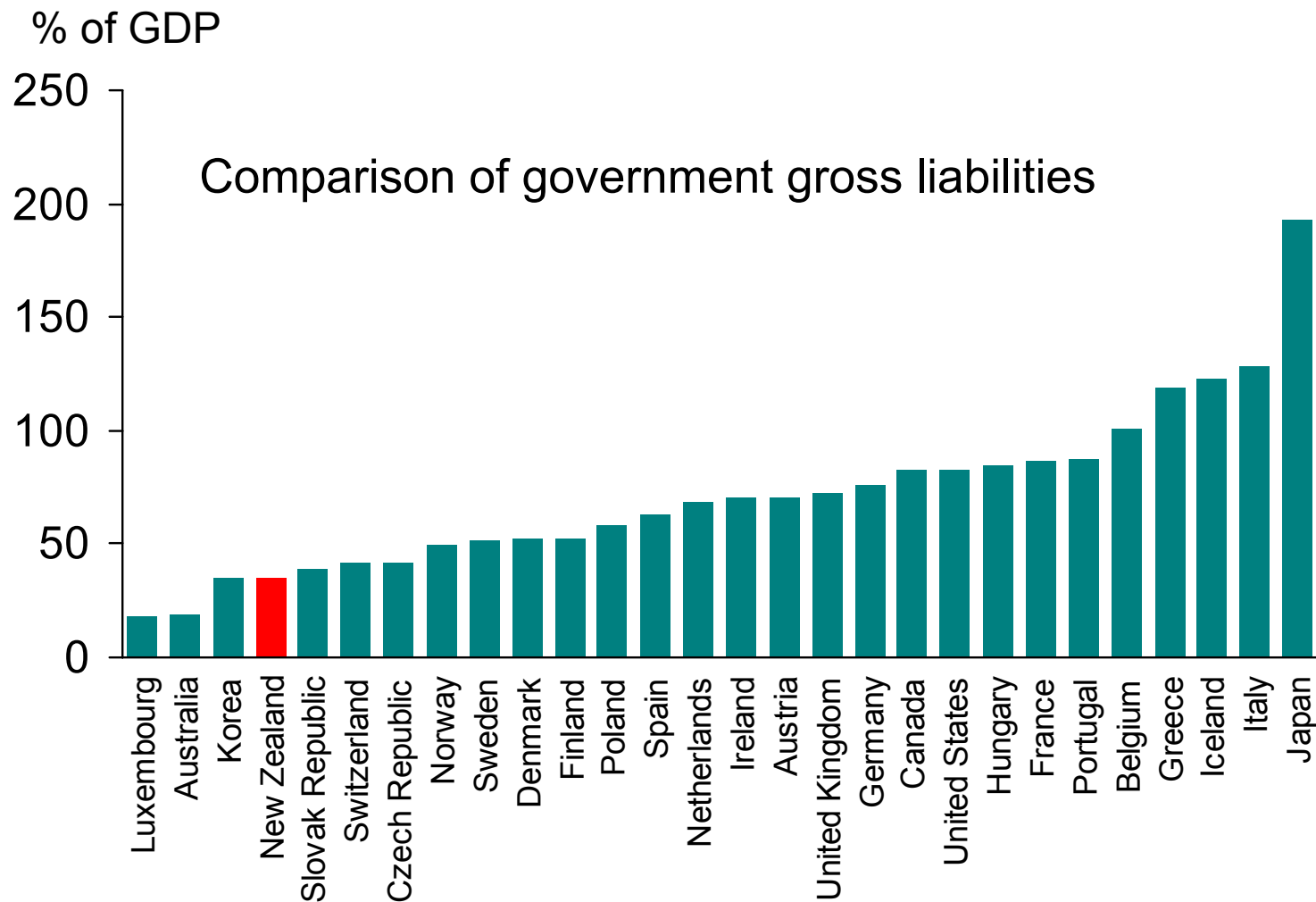
Source: Statistics NZ, ANZ

## NZ's total overseas debt rising rapidly again



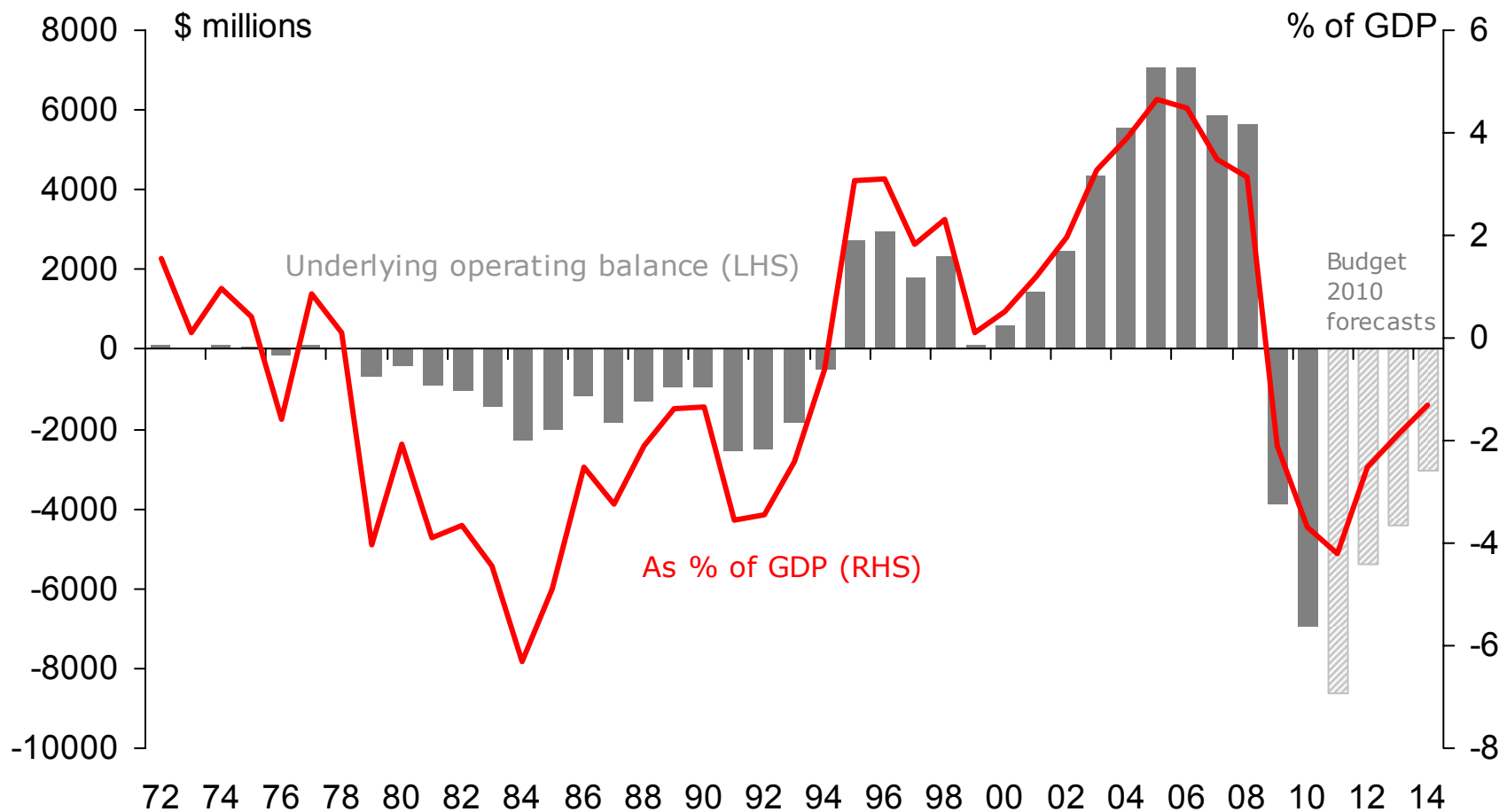
Source: Statistics NZ, ANZ.

## *A favourable relative ranking for Government debt*

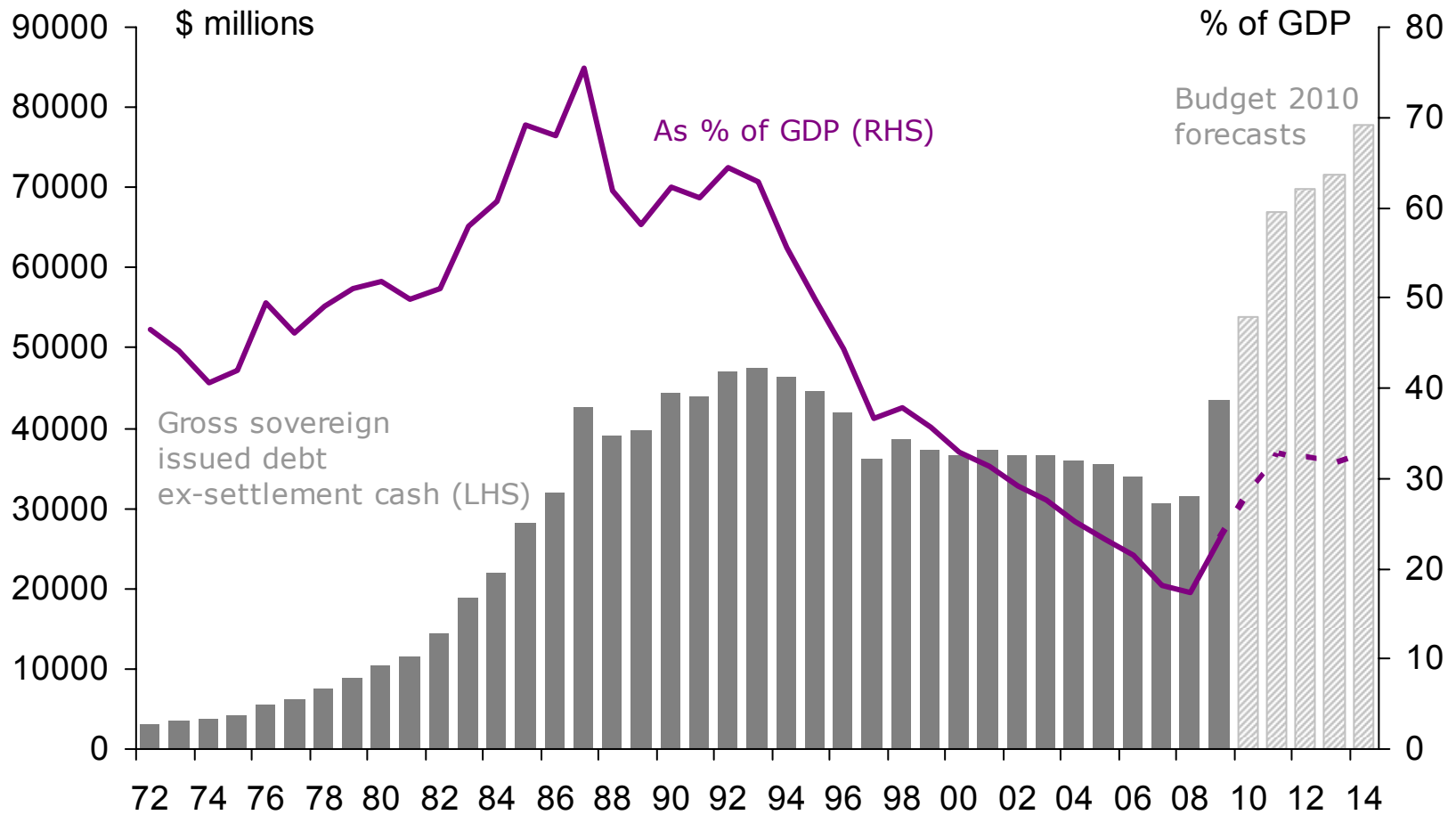


Sources: OECD, ANZ; data for 2009

## Another elephant: NZ fiscal balance deteriorating rapidly

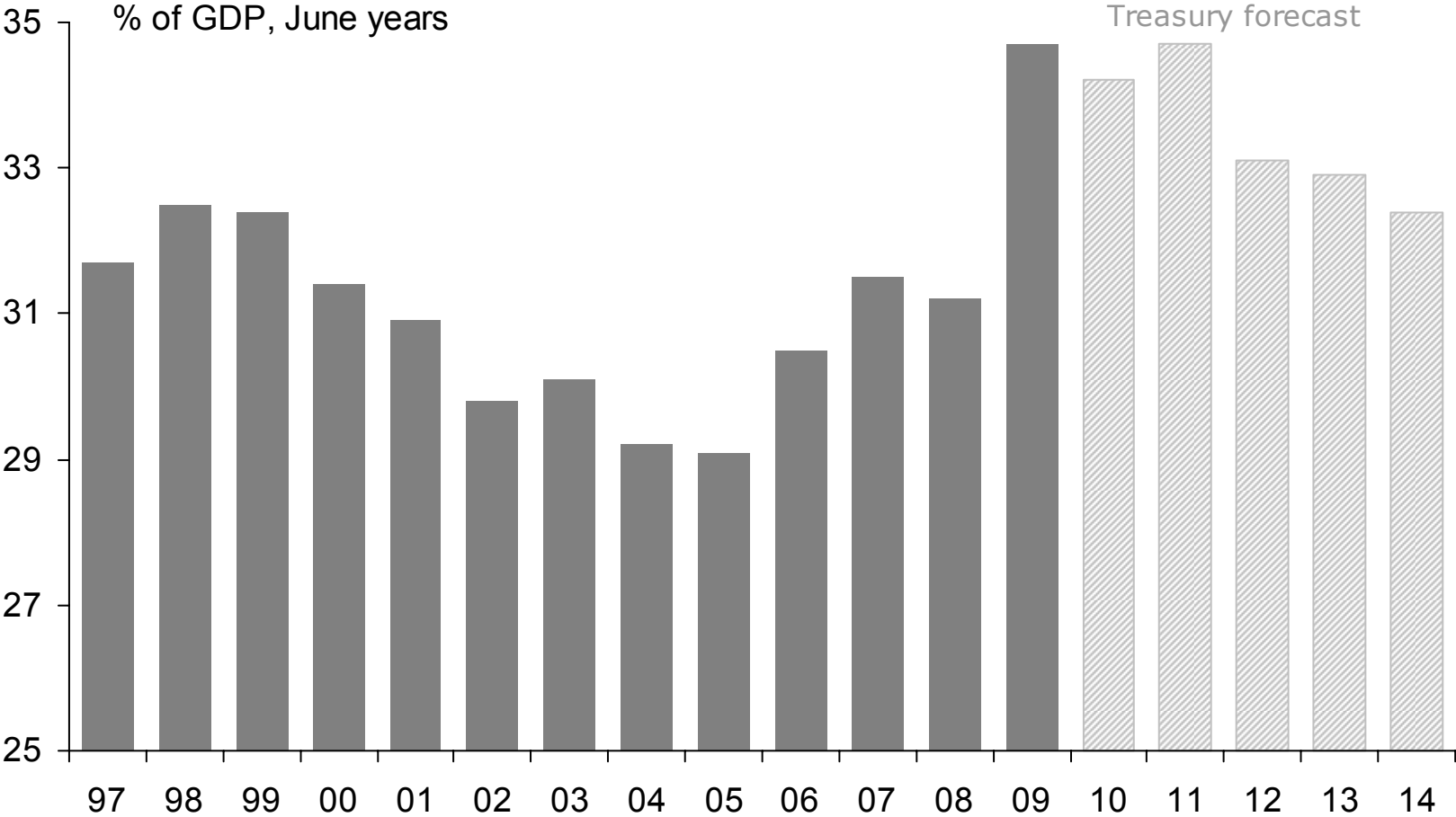


# NZ government public debt forecast to rise rapidly



# Government spending: boom or bust ?

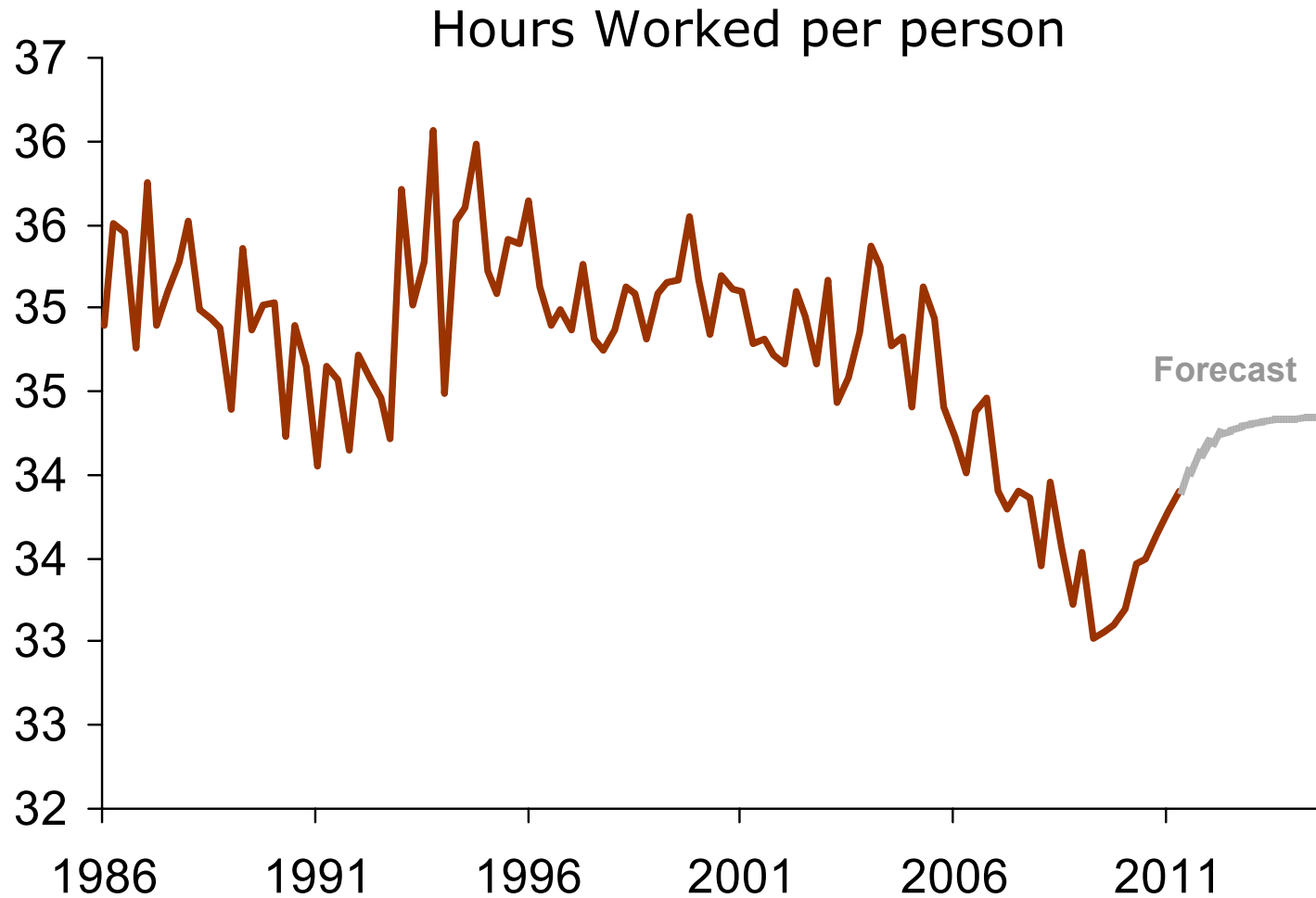
## Core Crown spending



Source: Treasury

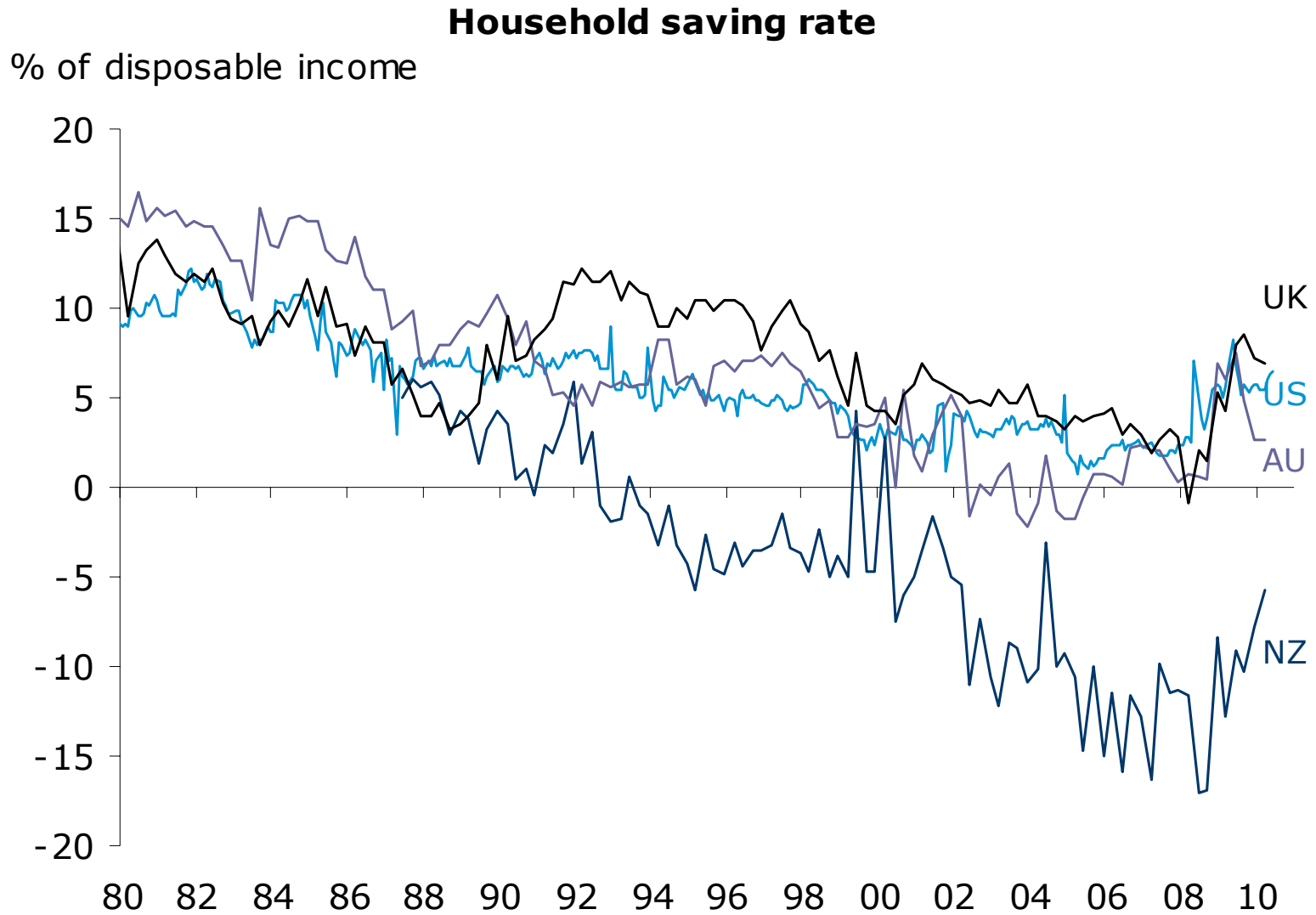
# ***We do not work as much as we used to***

Hours per week



Sources: Statistics NZ; ANZ

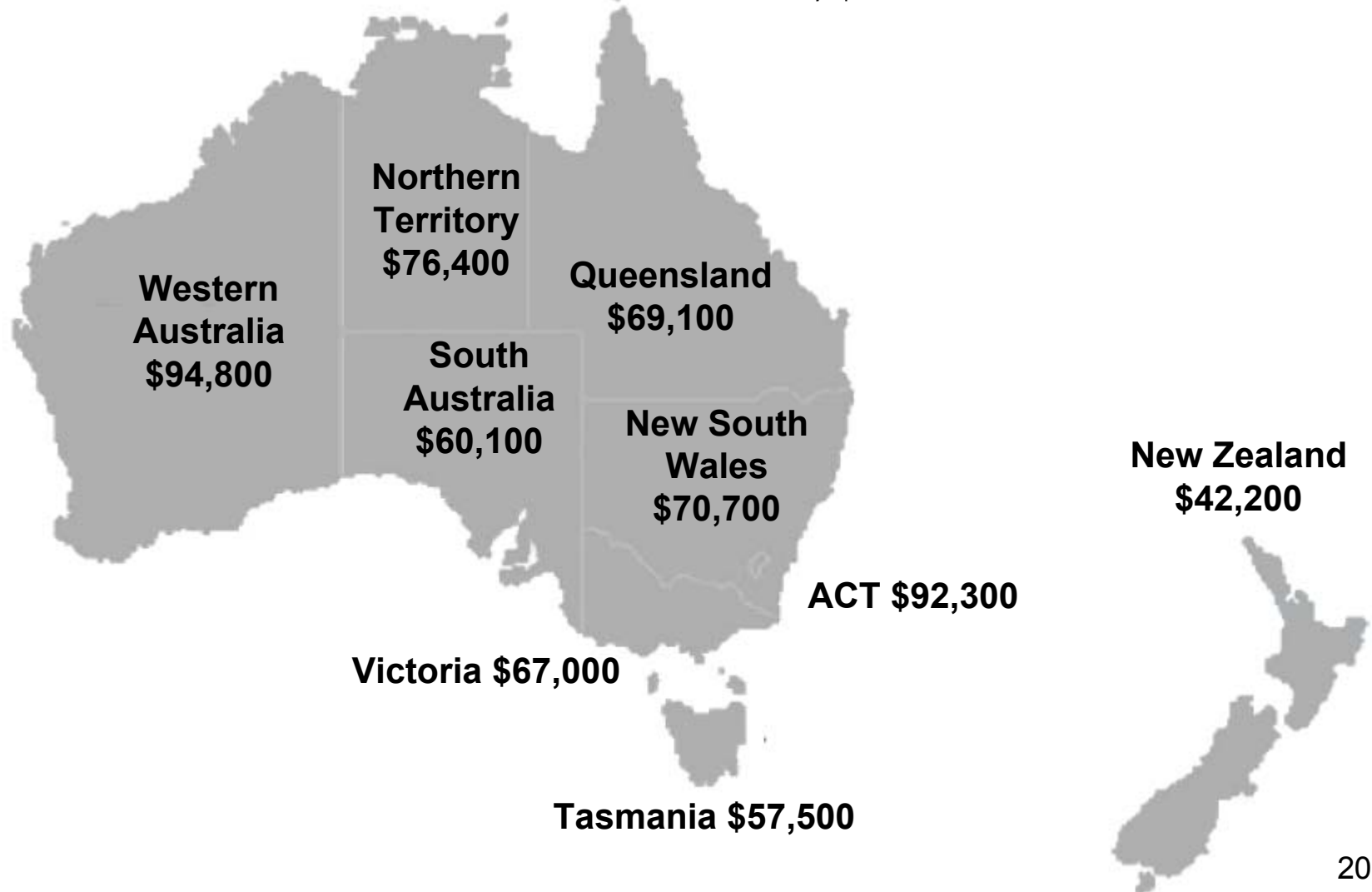
# ***And we are not great at saving (we use others' savings)***



Sources: ANZ National, Statistics NZ, Bloomberg

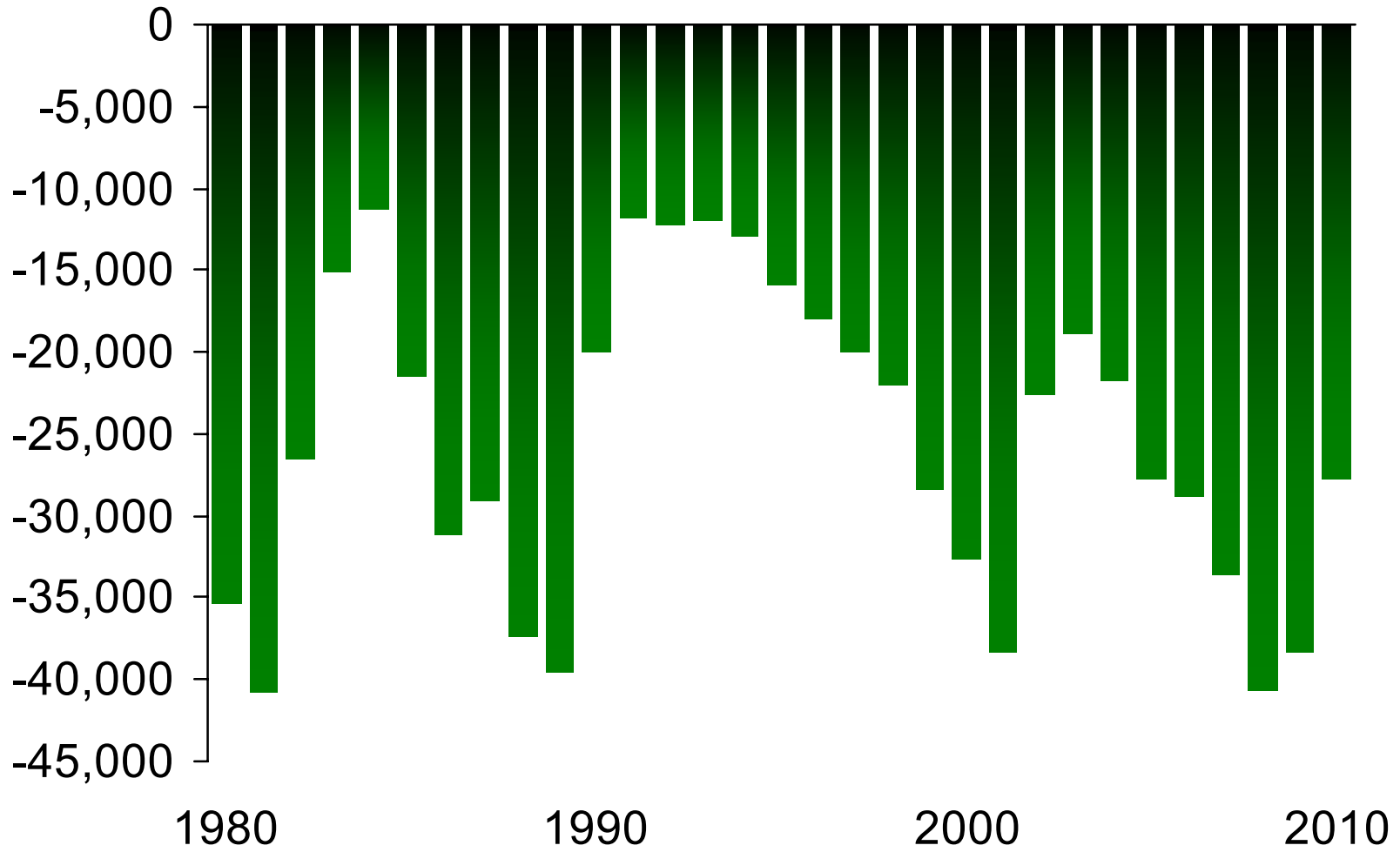
# ***Kiwis have a much lower income than even Tasmania***

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



# *So many of us are heading for Australia*

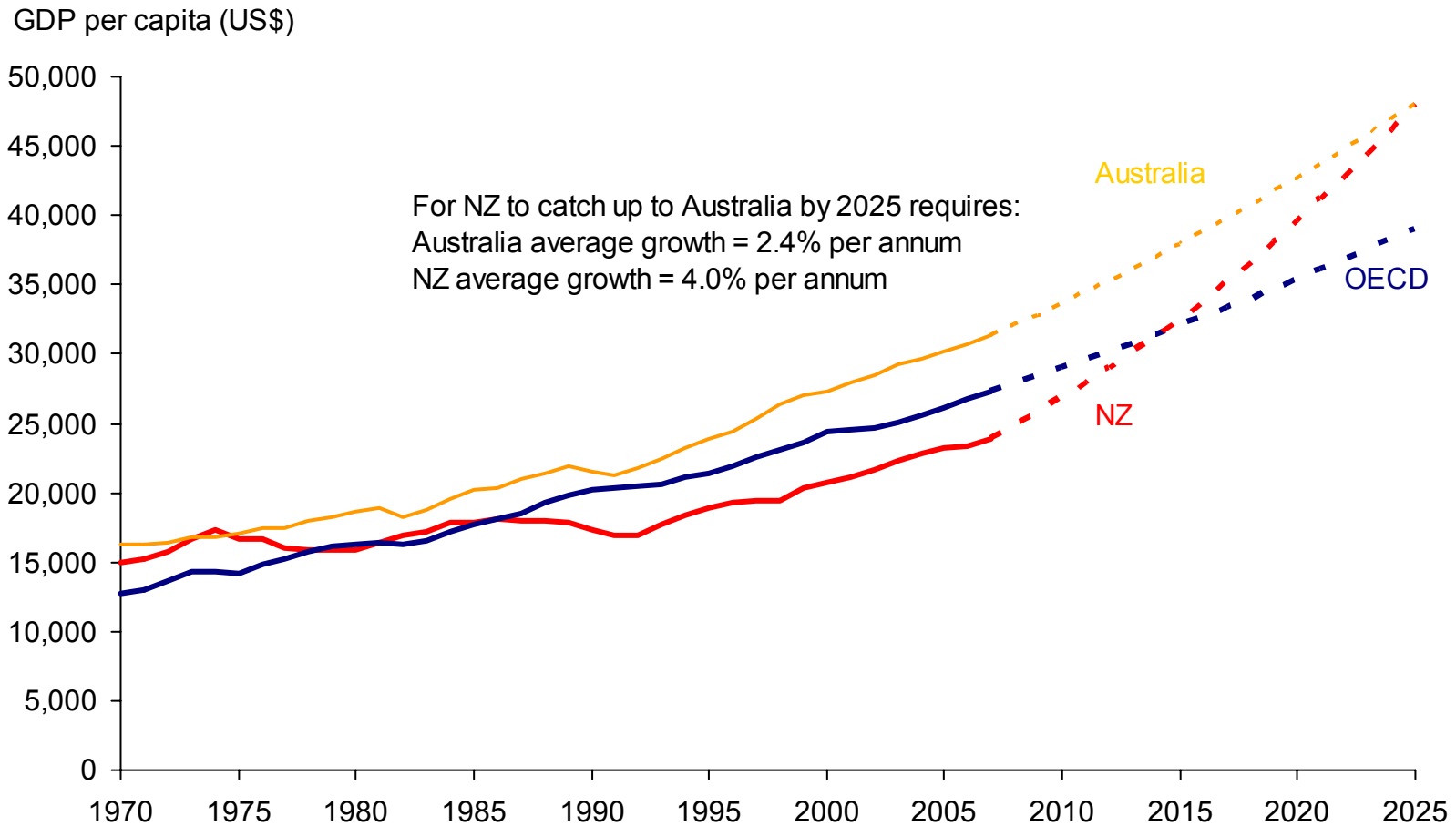
Net Migration to Australia  
Years Ended June



Sources: Statistics NZ; ANZ.

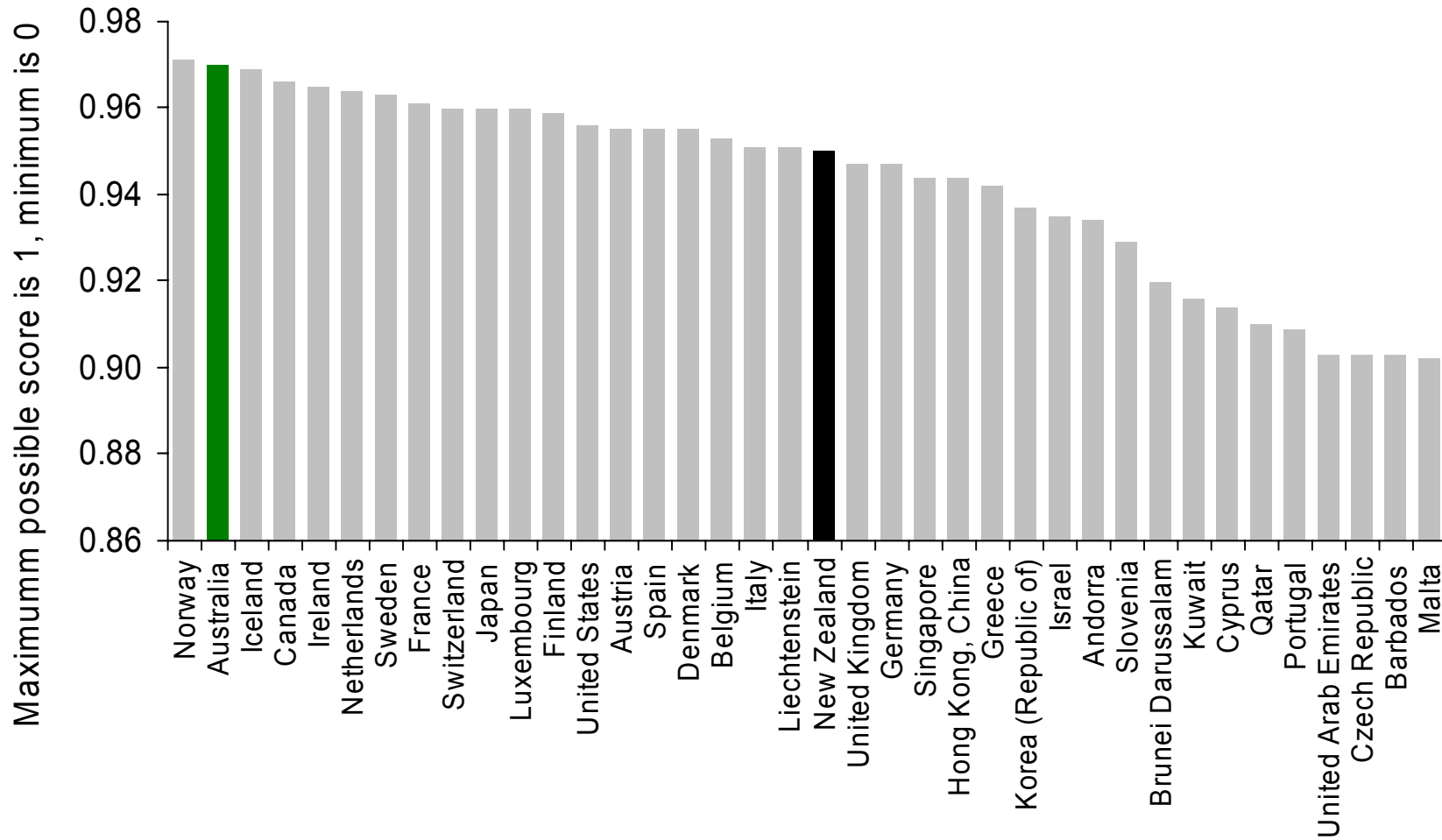
# To catch up to Australian growth rates is a huge challenge

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.



# The “great little country” is actually not so great at No. 20

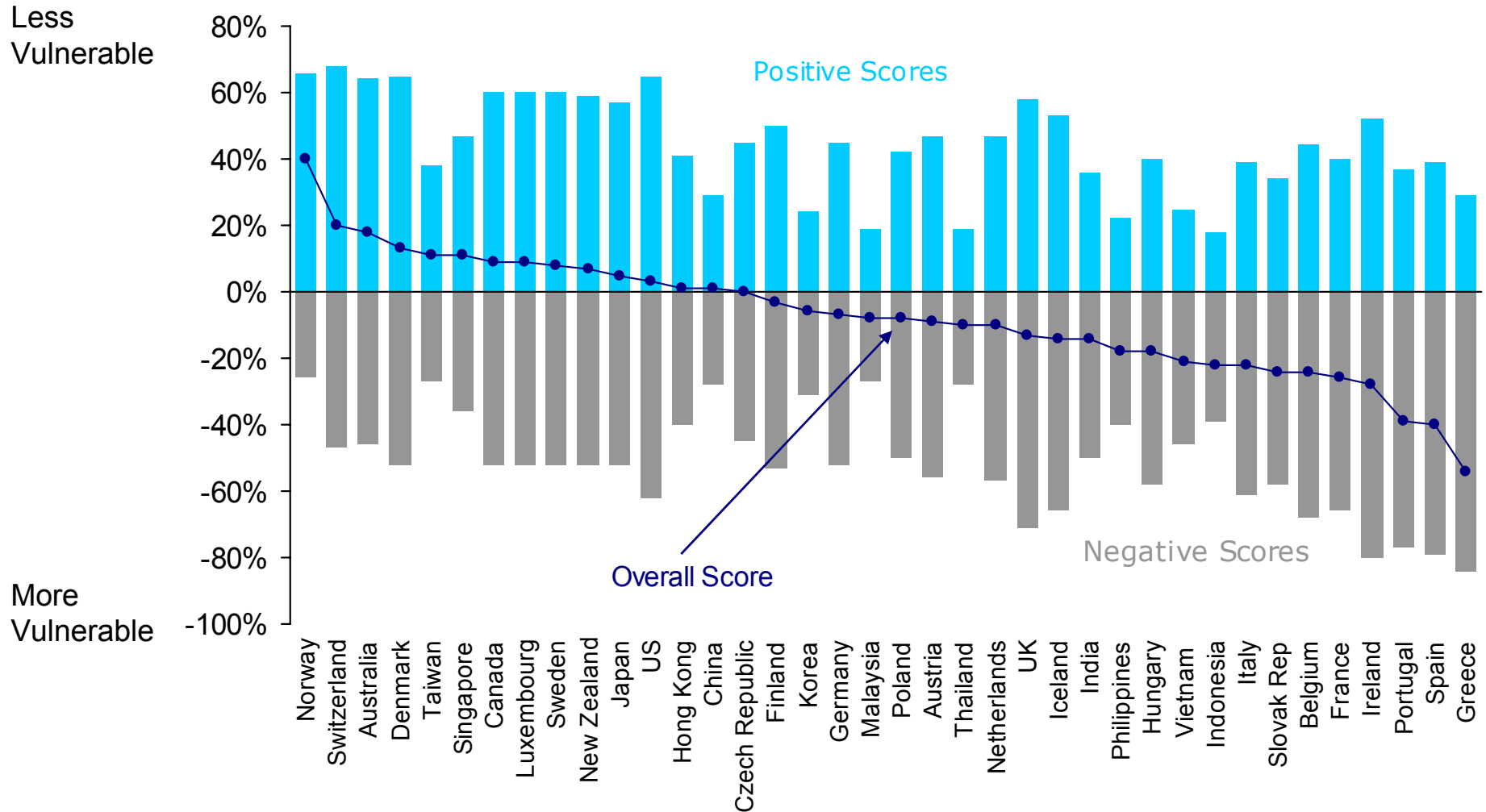
## UN Human Development Index, top 30 nations (encompasses longevity, health, knowledge and GDP per capita)



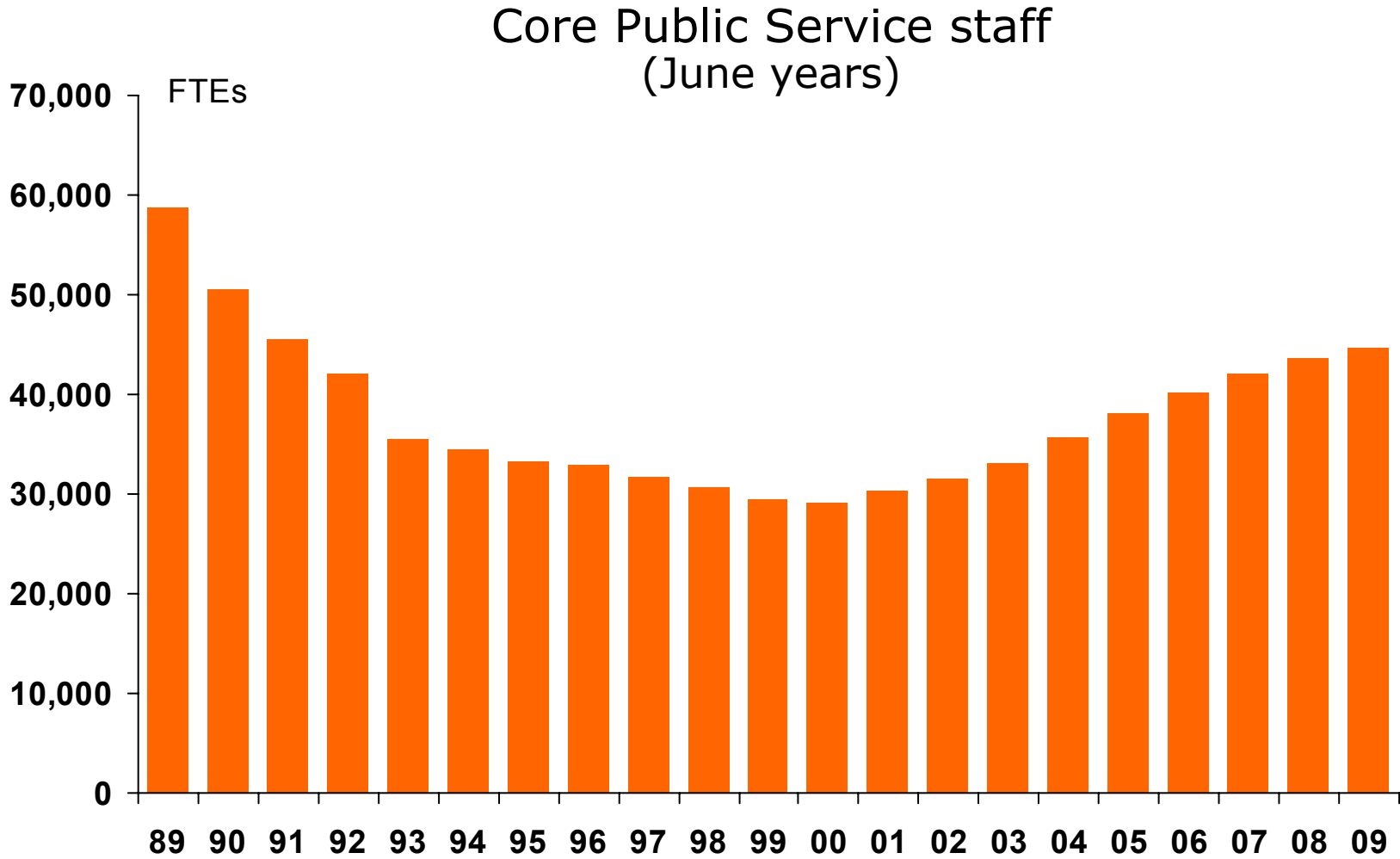
Source: United Nations, ANZ

# Moderate vulnerability ranking, a net positive but only just

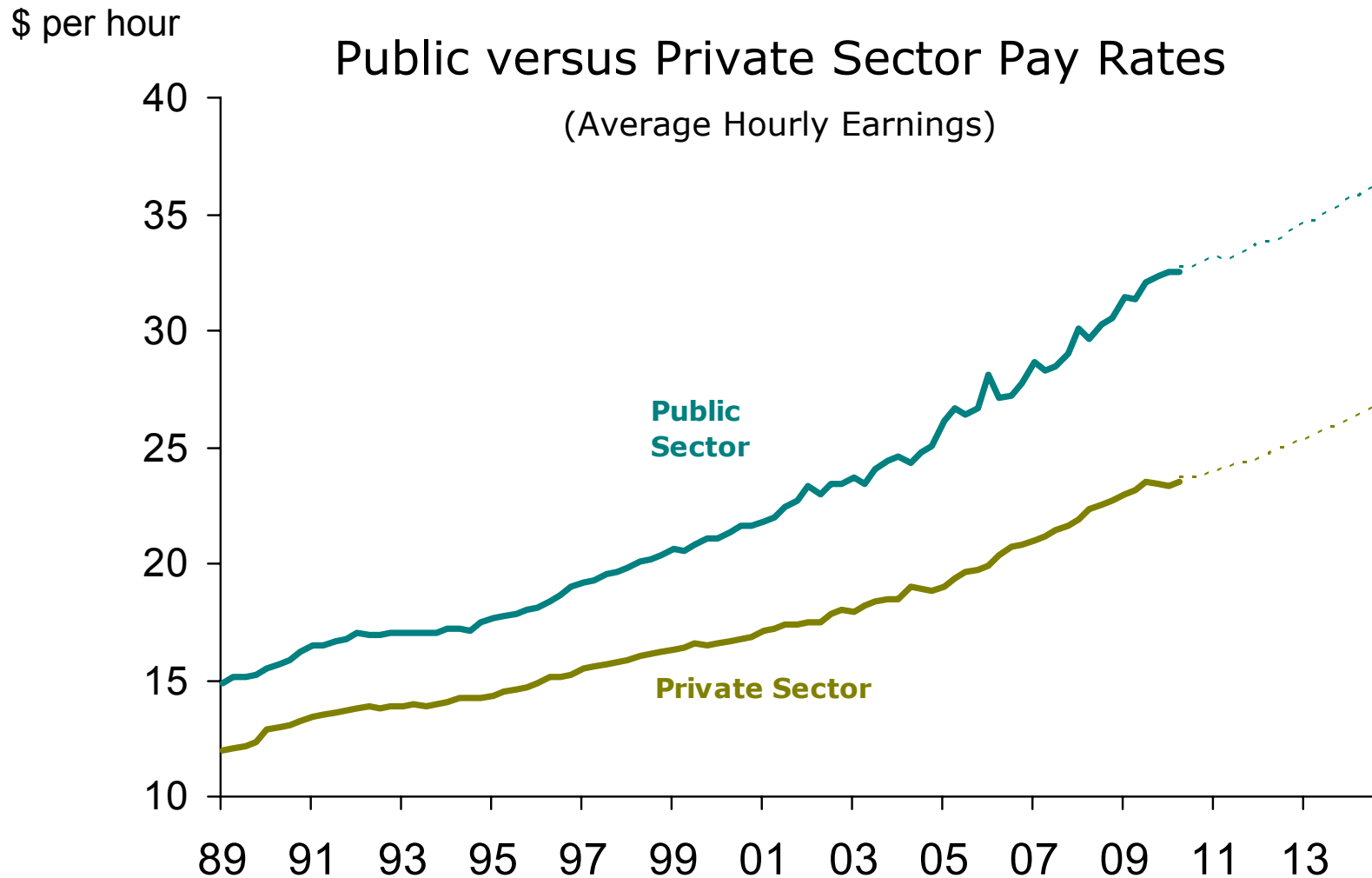
## Sovereign Debt Vulnerability Scores



# *The rebirth of growth in the core public service*



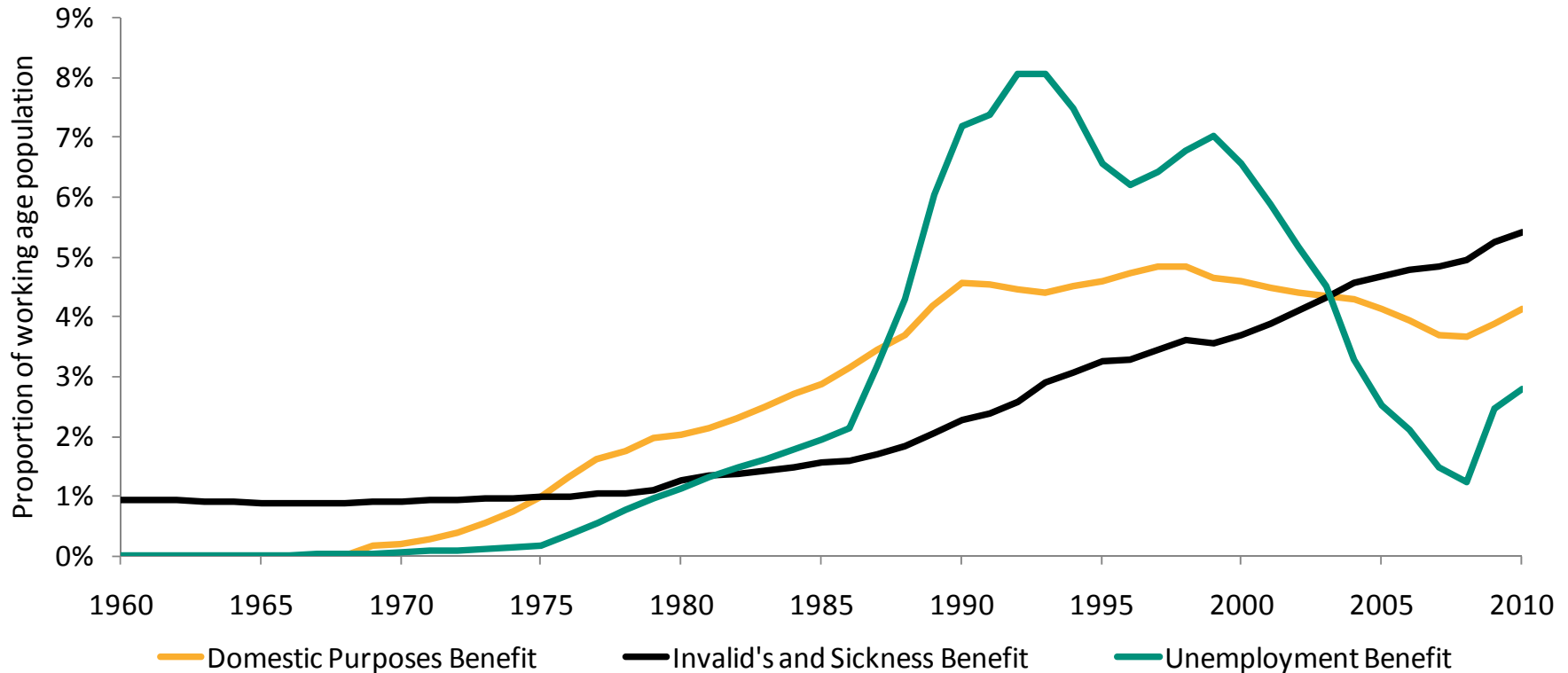
# ***Government pay rates are higher than private sector ..... and increase faster***



Sources: Statistics NZ, ANZ.

# Are Kiwis really this sick ?

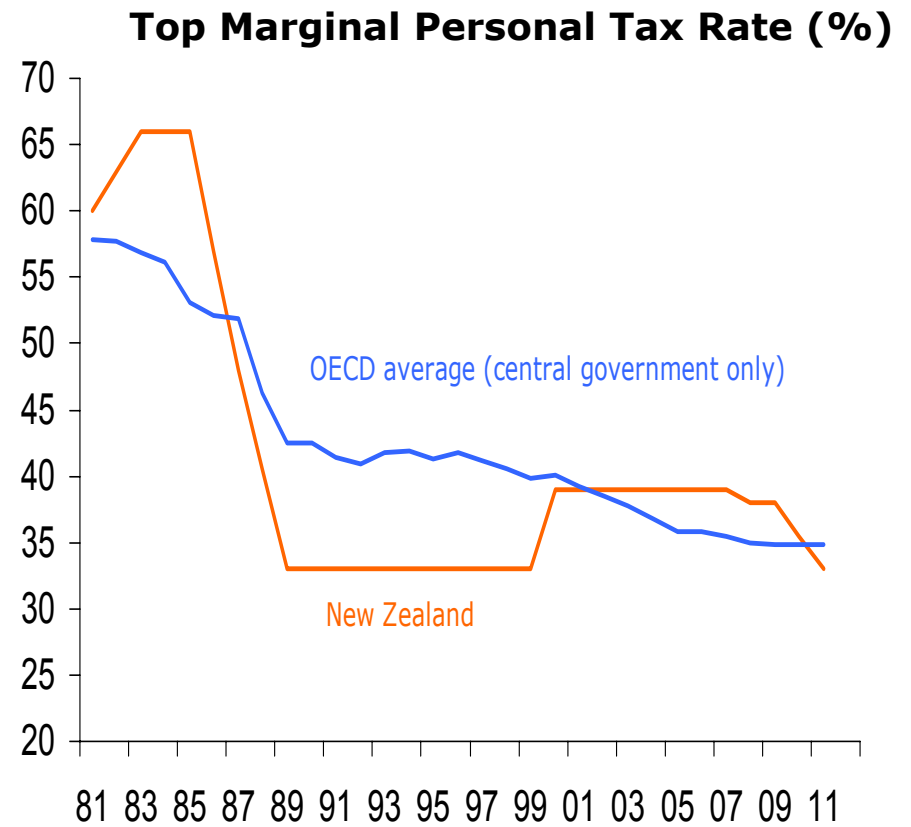
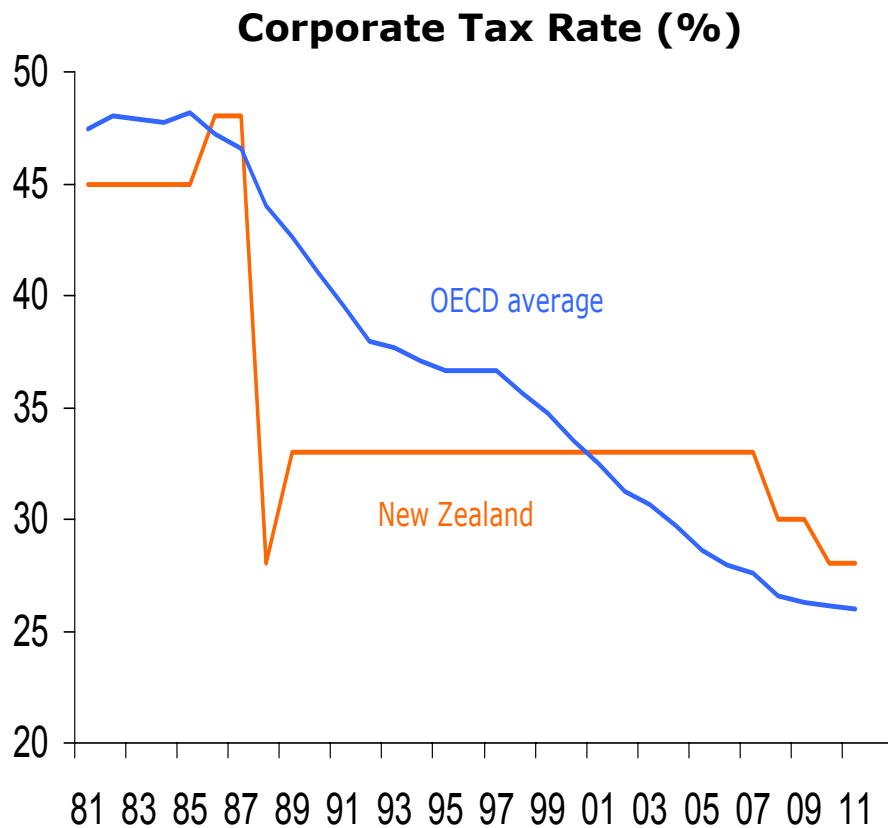
Trends in main benefit types among the working age population, 1960-2009



Source: Ministry of Social Development Statistical Reports and Statistics New Zealand population estimates.

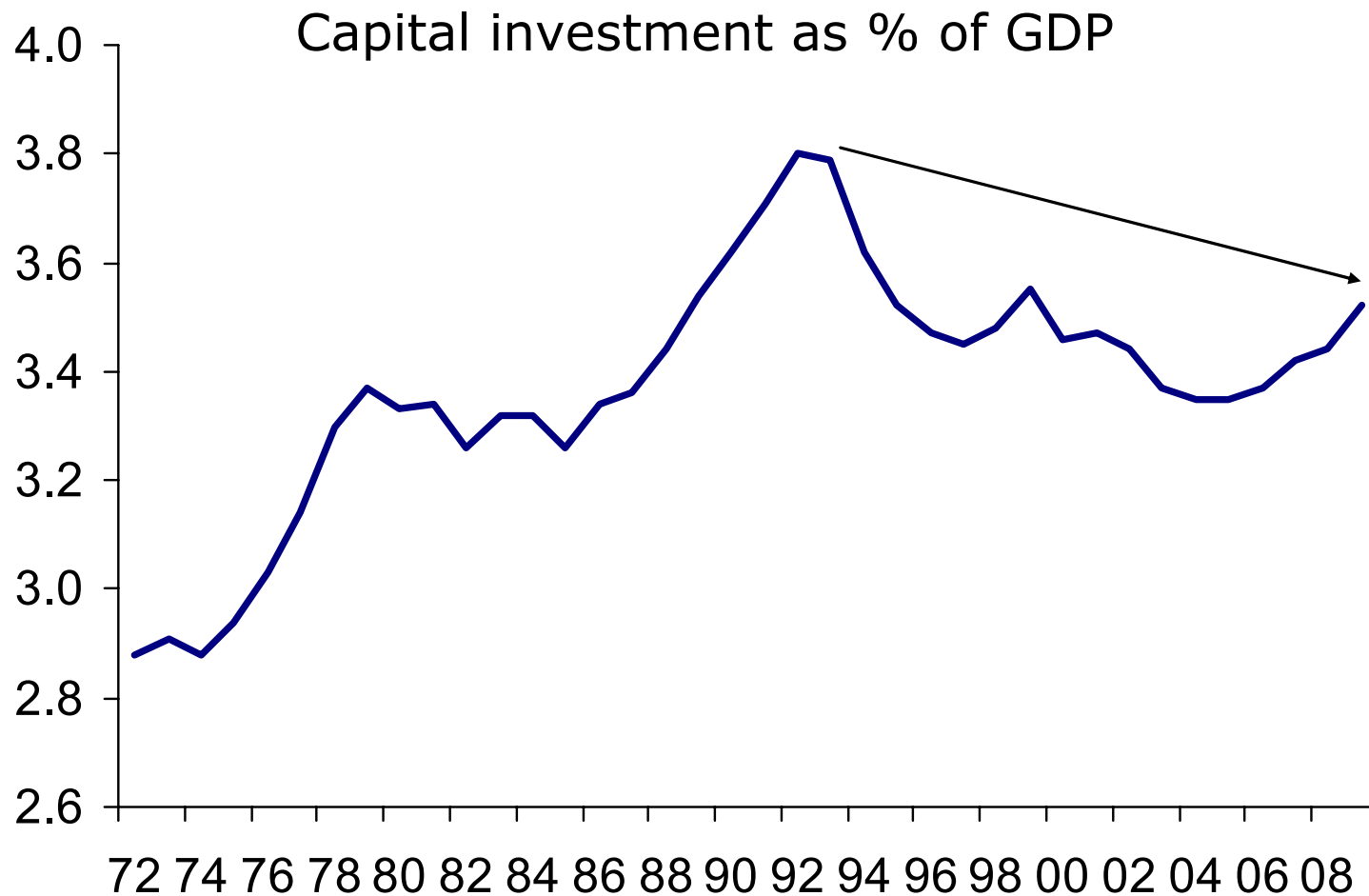
# ***NZ has allowed its tax rate competitiveness to be eroded***

## **NZ's Tax Rates versus the OECD**



Source: OECD, ANZ.

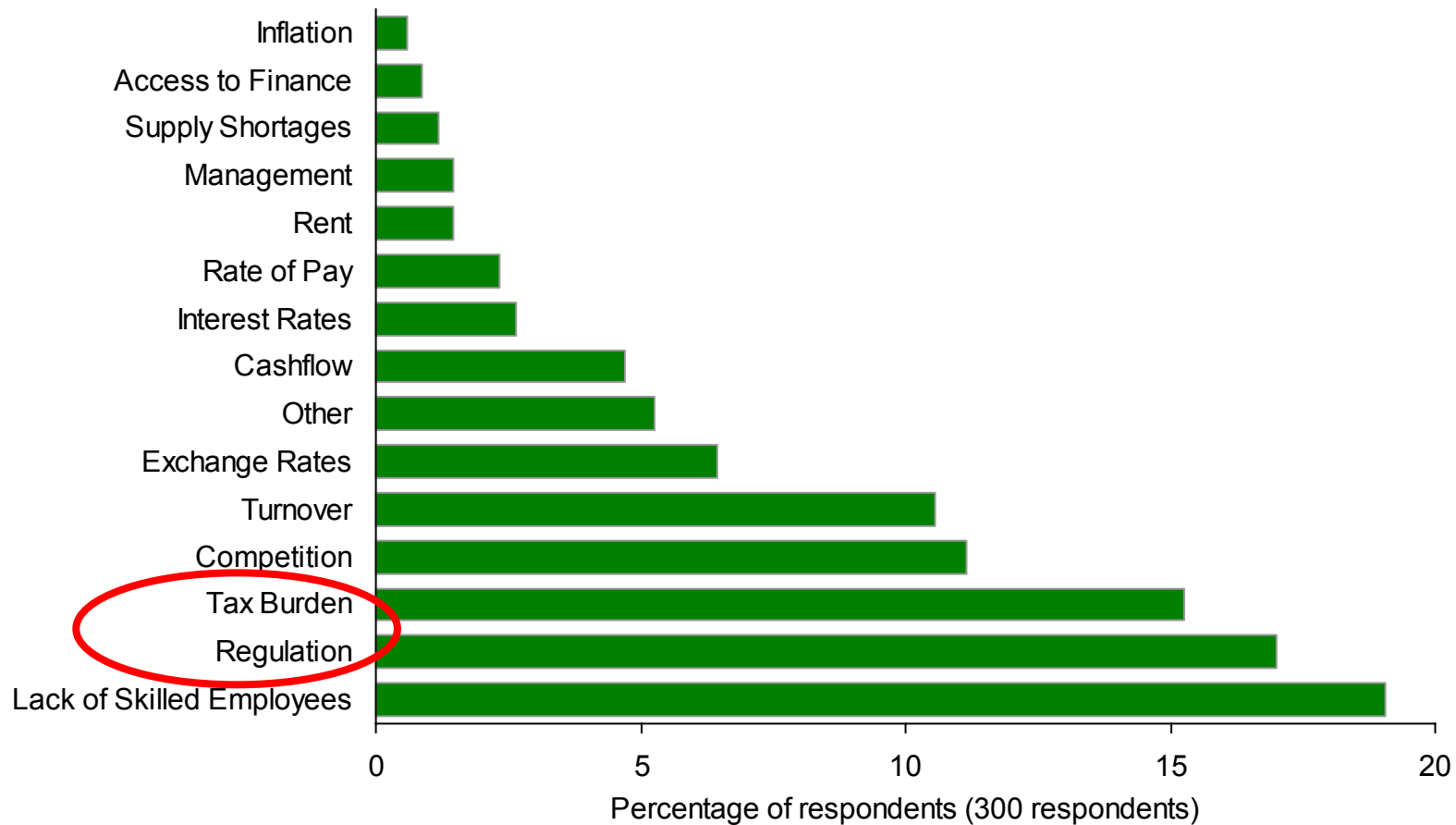
## ***We have been investing less over recent years***



Sources: Statistics NZ; ANZ, data for March years

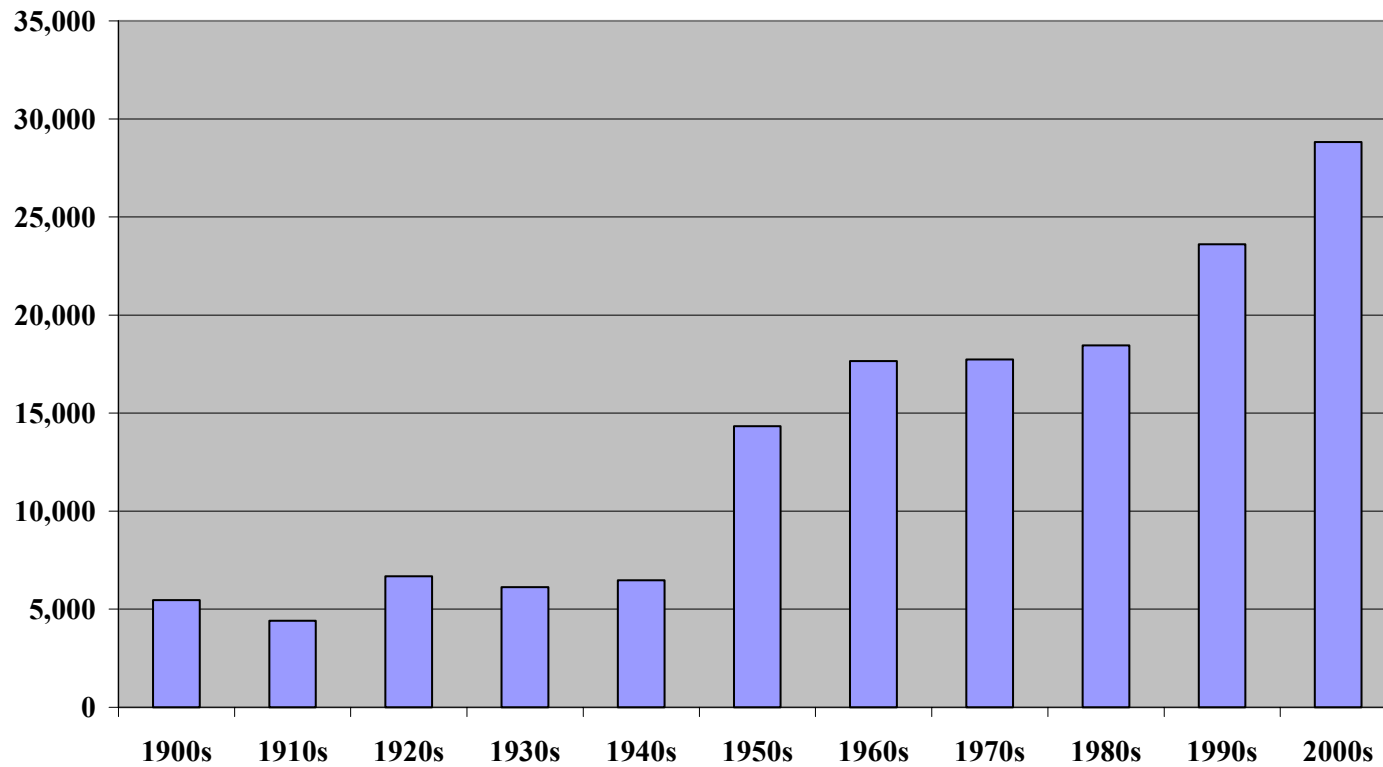
# *Regulation and taxes are the biggest problems*

## Biggest problem facing small business



# *Regulatory creep is an ever accumulating problem*

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

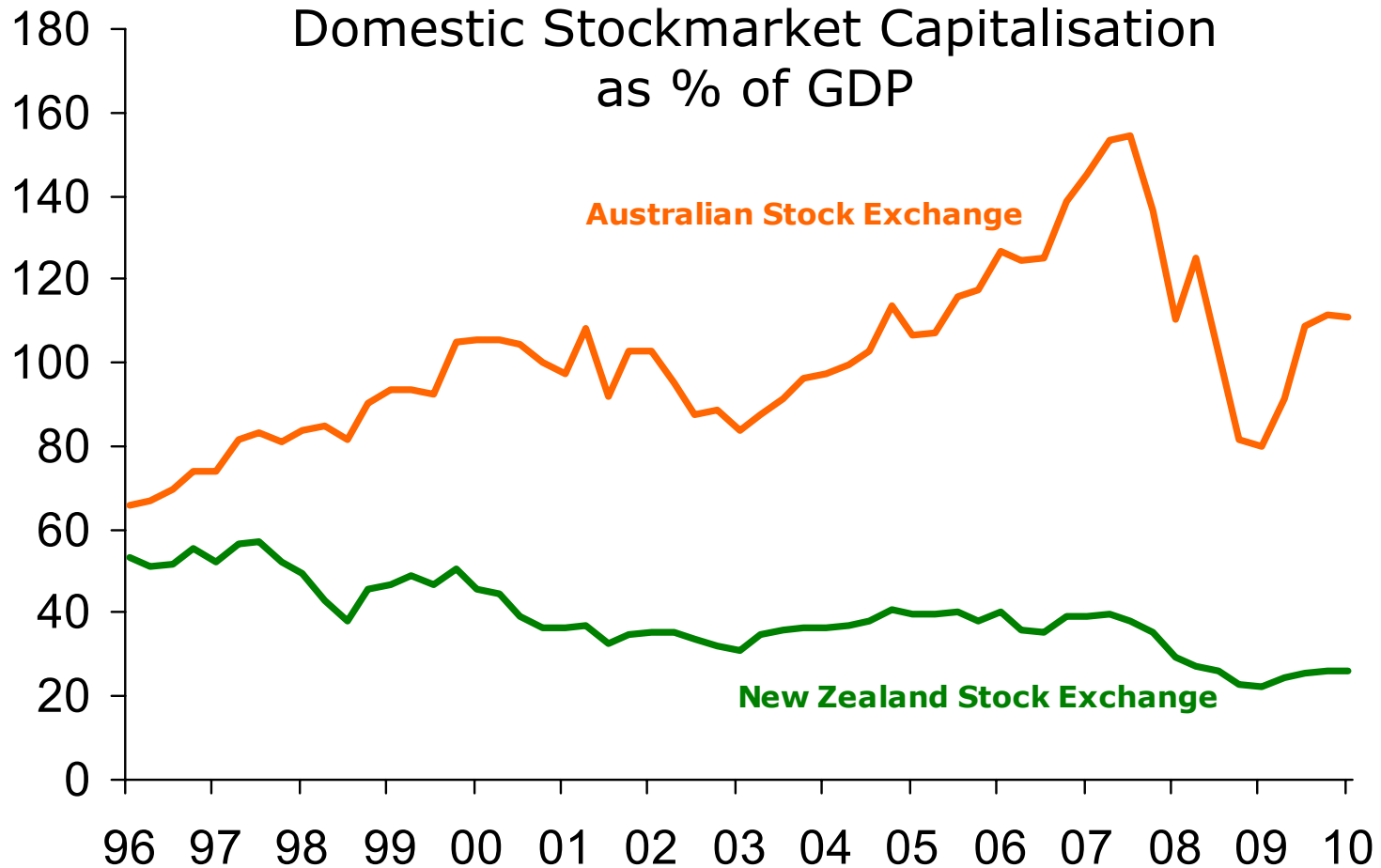


## ***Business adaptability has been severely eroded***

### **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***



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 dairy industry is a great growth engine

Education has heaps of potential

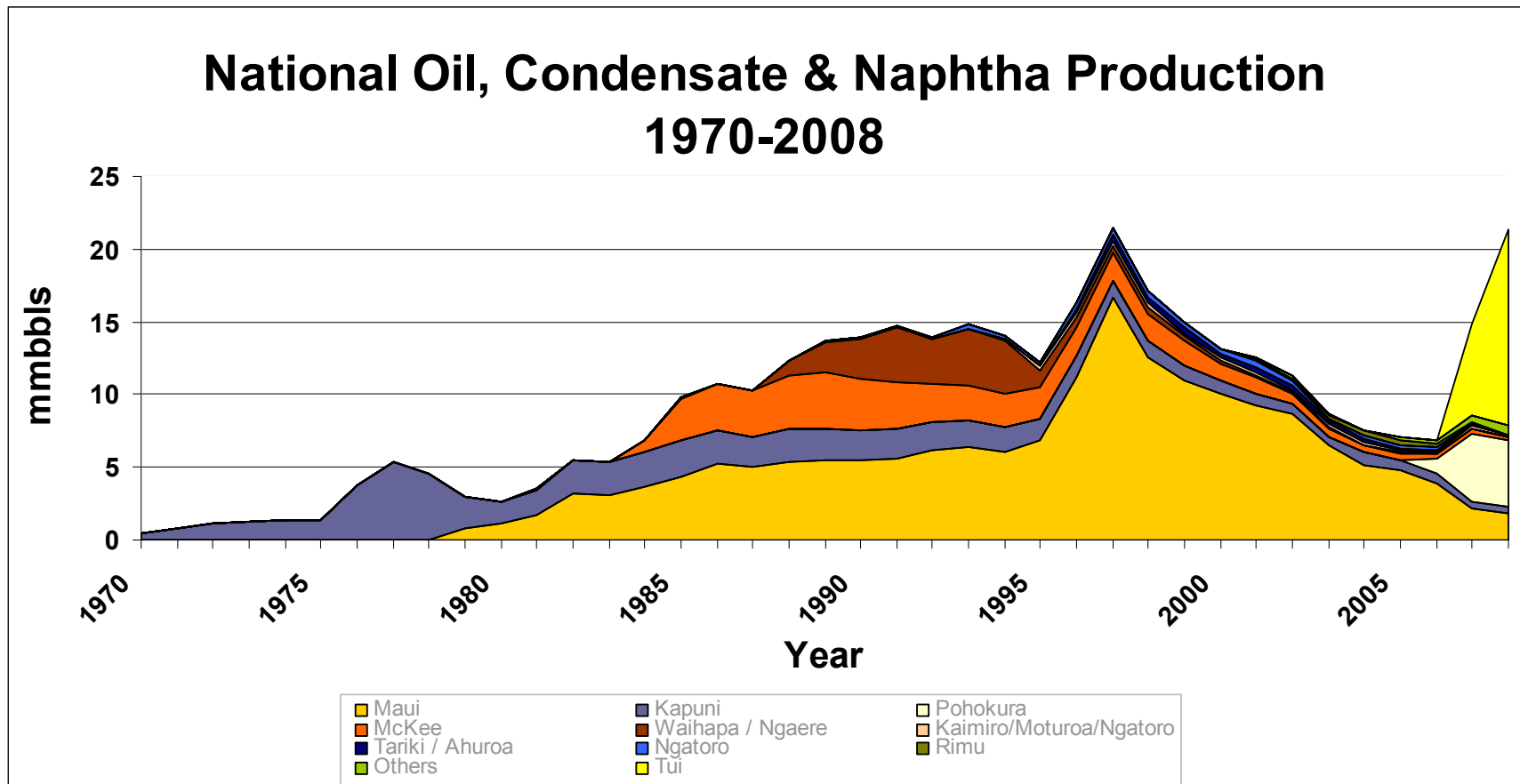
Tourism is fast growing and now sizeable

Australia, China, India and Asia are the future for us

## ***New Zealand is resource rich***

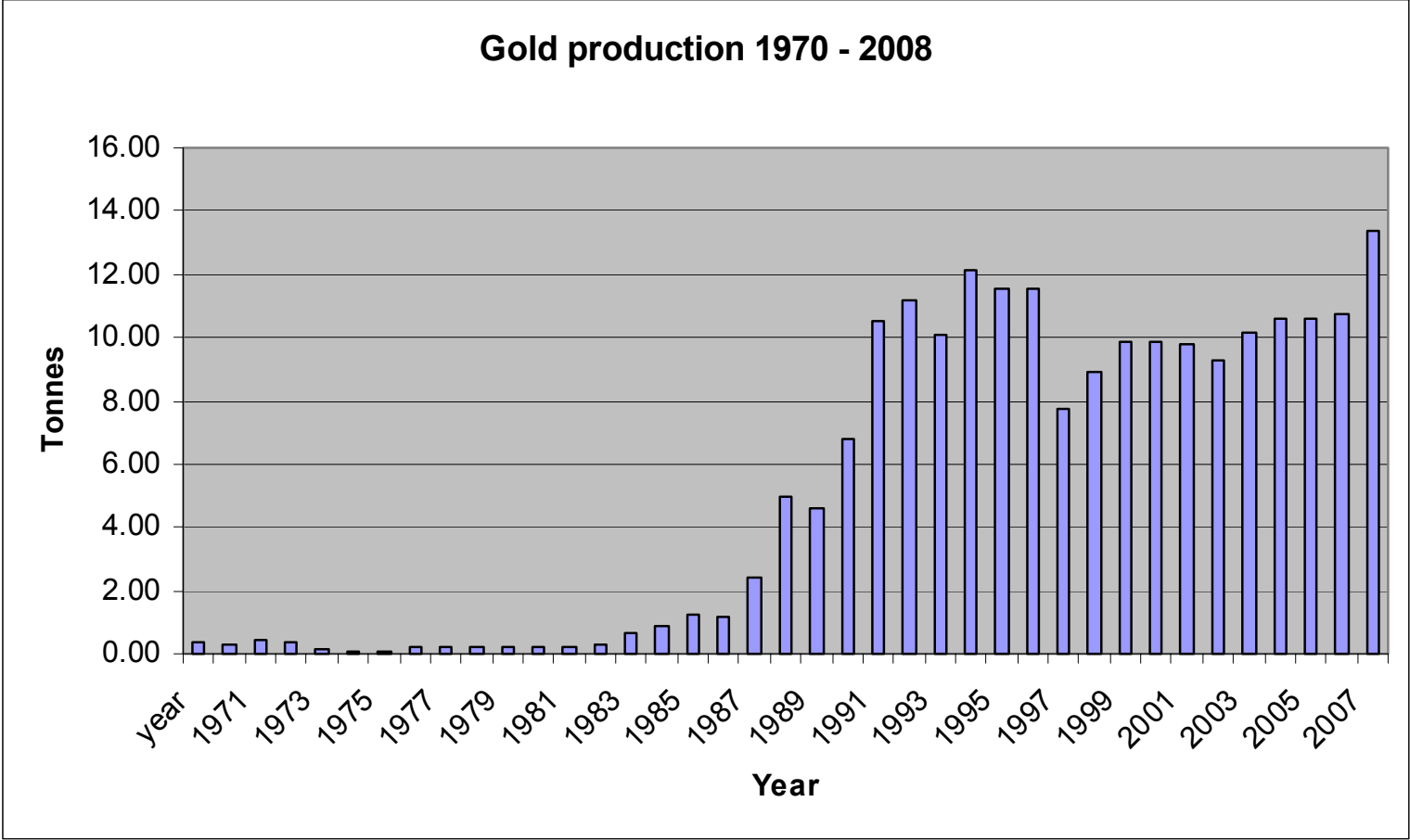
- Royalty payments for petroleum and minerals \$517m in 2008/09
- Petroleum exports were \$2.8 billion – 6.7% of total exports
- Petroleum and gold were at or close to record production levels
- 2009 was the busiest ever drilling season for petroleum with 37 wells drilled
- Global players are being attracted 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

## ***NZ: Oil production back to 1997 record of 21.3 million barrels***



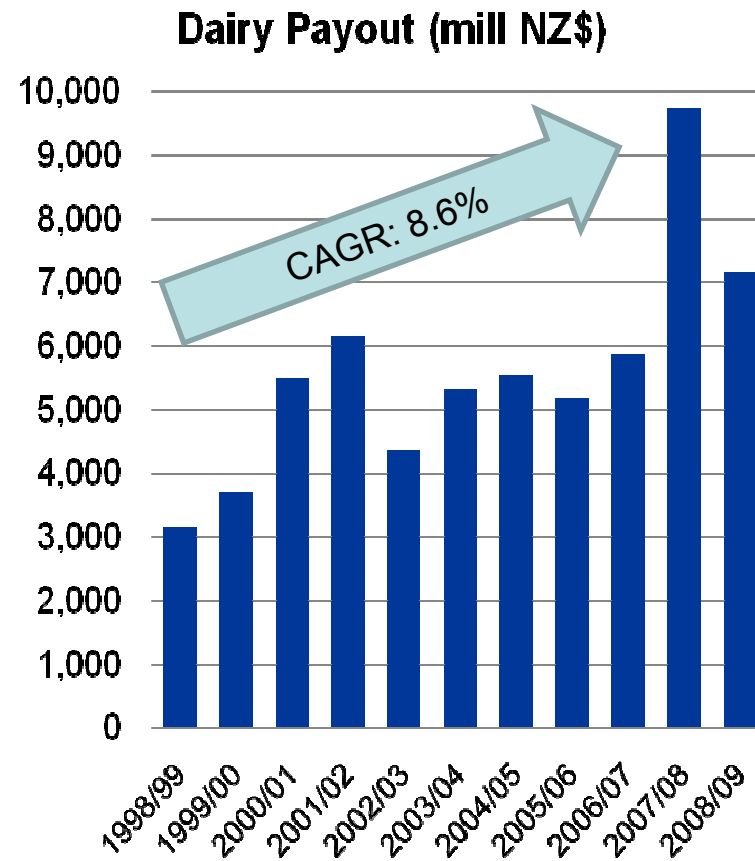
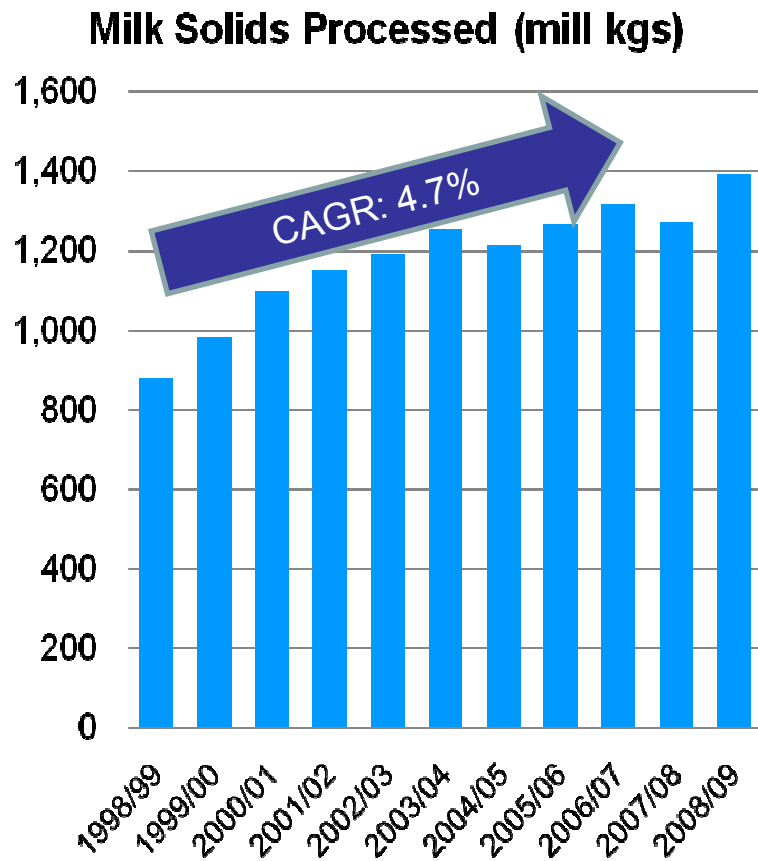
Source: Ministry of Economic Development

# NZ: Highest gold production in over 20 years



Source: Ministry of Economic Development

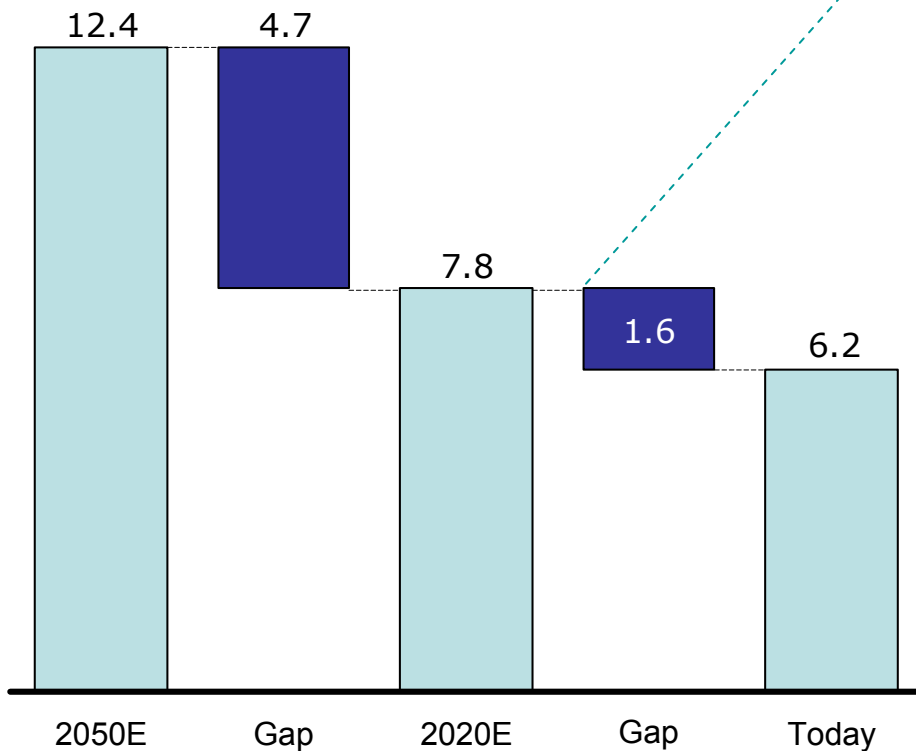
## ***Strong milk production and dairy payout growth ..... 5% and 9% p.a. over the past 10 years***



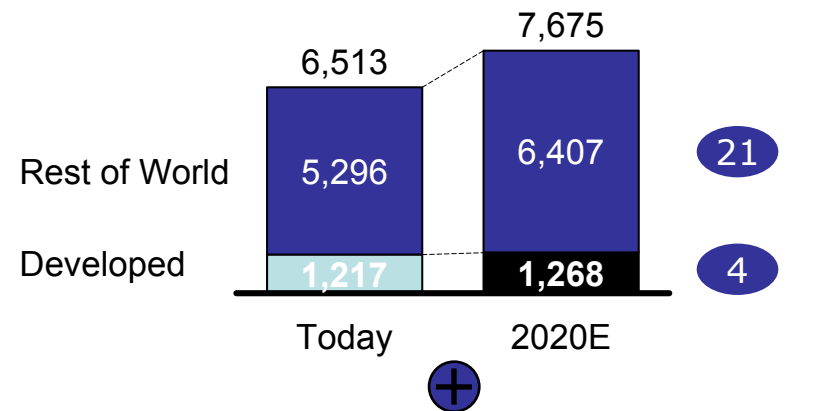
Note: Total Dairy Payout is in nominal dollars and assumes the average weighted dairy company total payout multiplied by total milk solids processed  
Source: Fonterra and NZ Dairy Statistics, [www.lic.co.nz](http://www.lic.co.nz); CAGR is compound average growth rate.

# World food demand will double by 2050, driven by growing population and rising incomes in the developing world

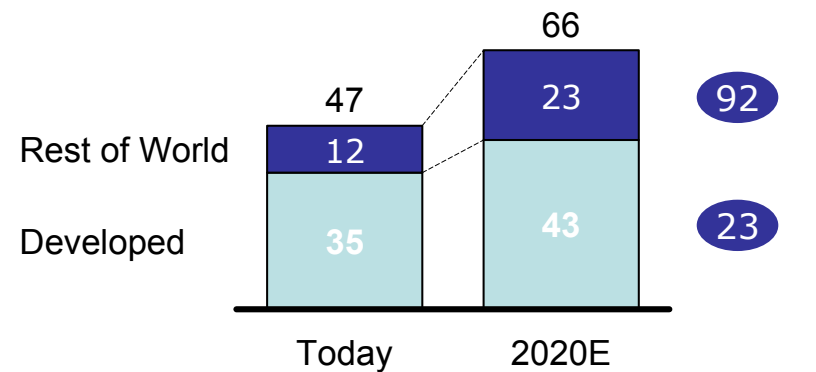
**Global food consumption**  
Billions; MT



**World population**  
Millions



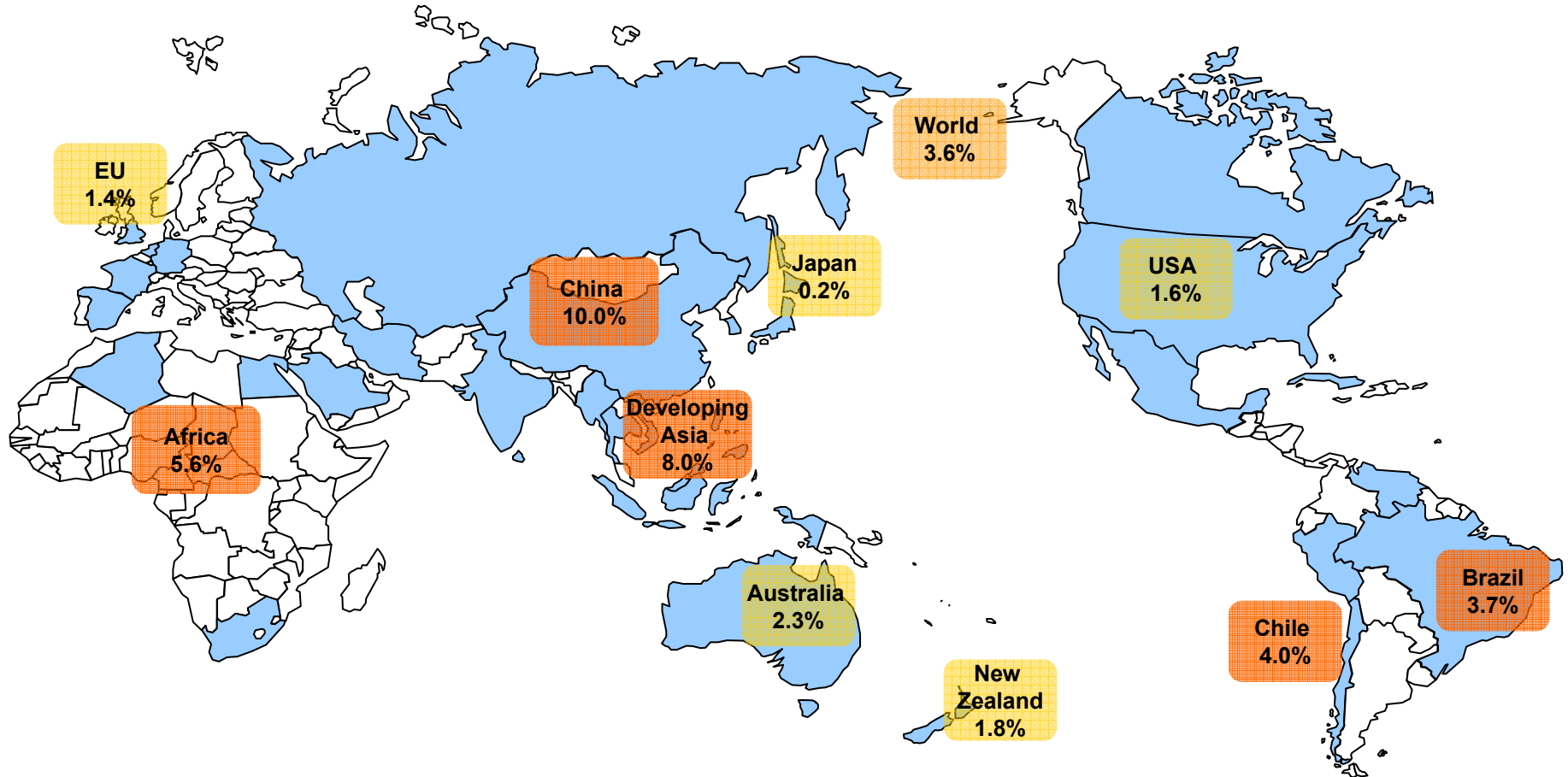
**Real GDP**  
USD, Trillions



Source: Fonterra and McKinsey

# Why Fonterra is so positive on dairy for the long term

Real GDP Growth 2004-2009 (average annual)

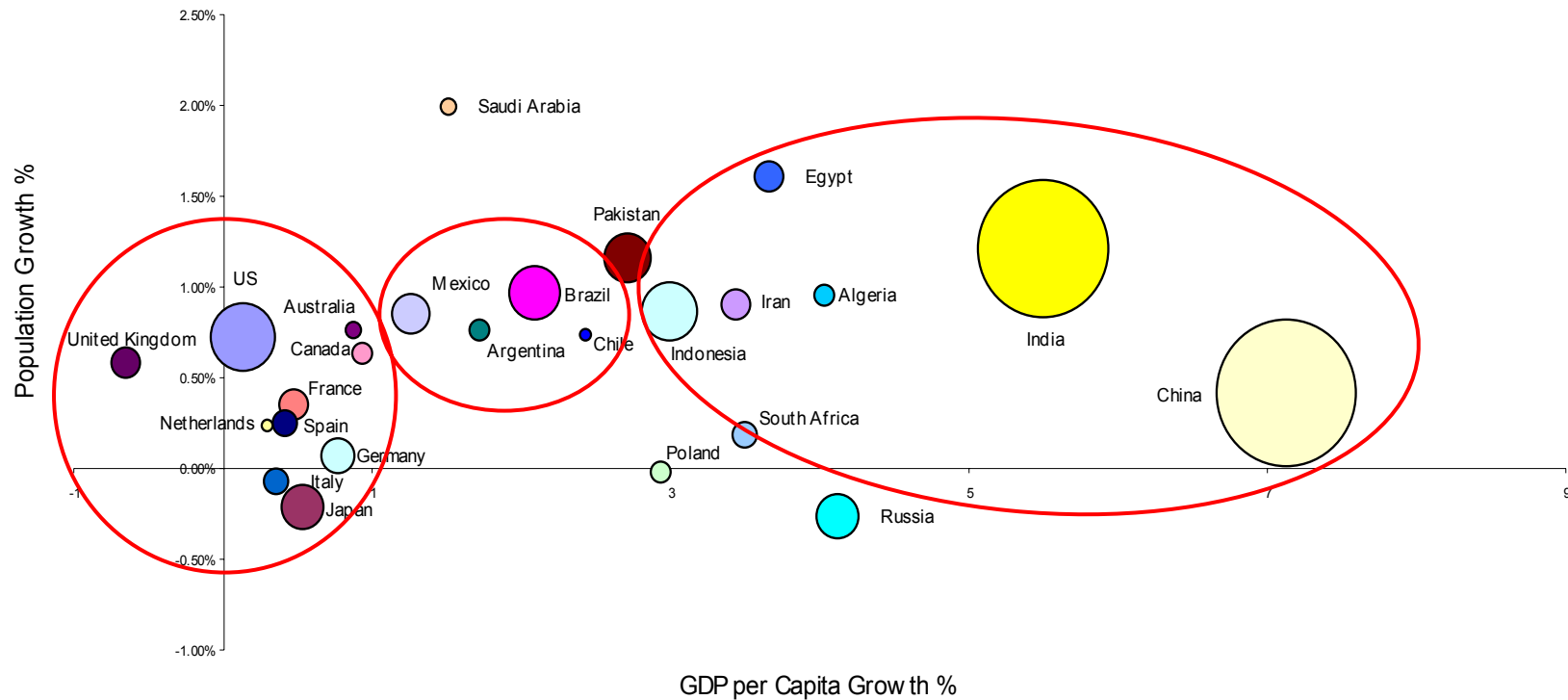


Source: Fonterra

# *Especially in developing nations with rapid GDP growth and growing populations*

## 'First World' Latin America

## Asia/Africa/Middle East

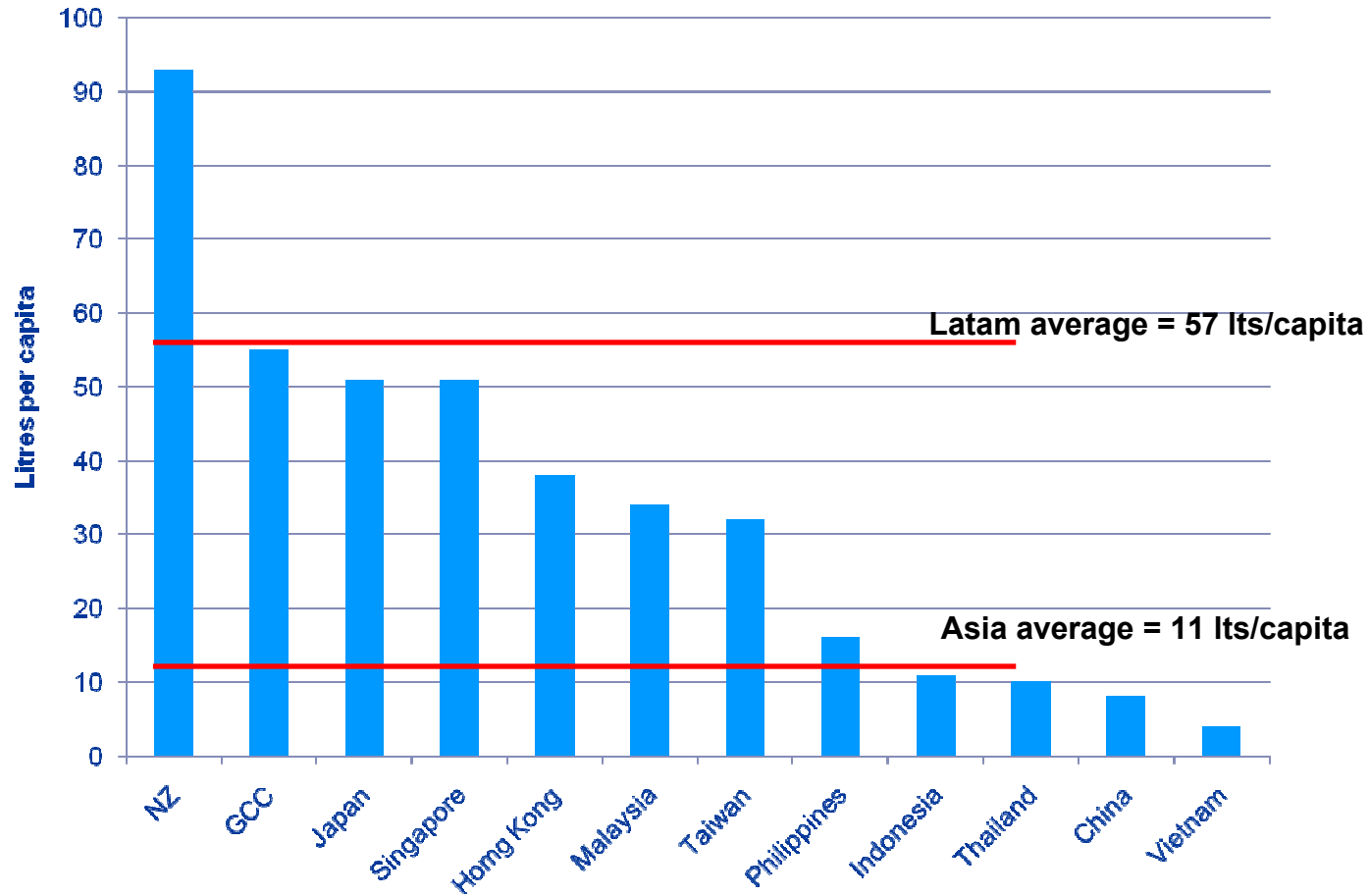


Growth rates based on 2009-2013 forecasted data - EIU

Source: EIU

# Dairy consumption in Asia has significant room for growth

Per capita milk consumption



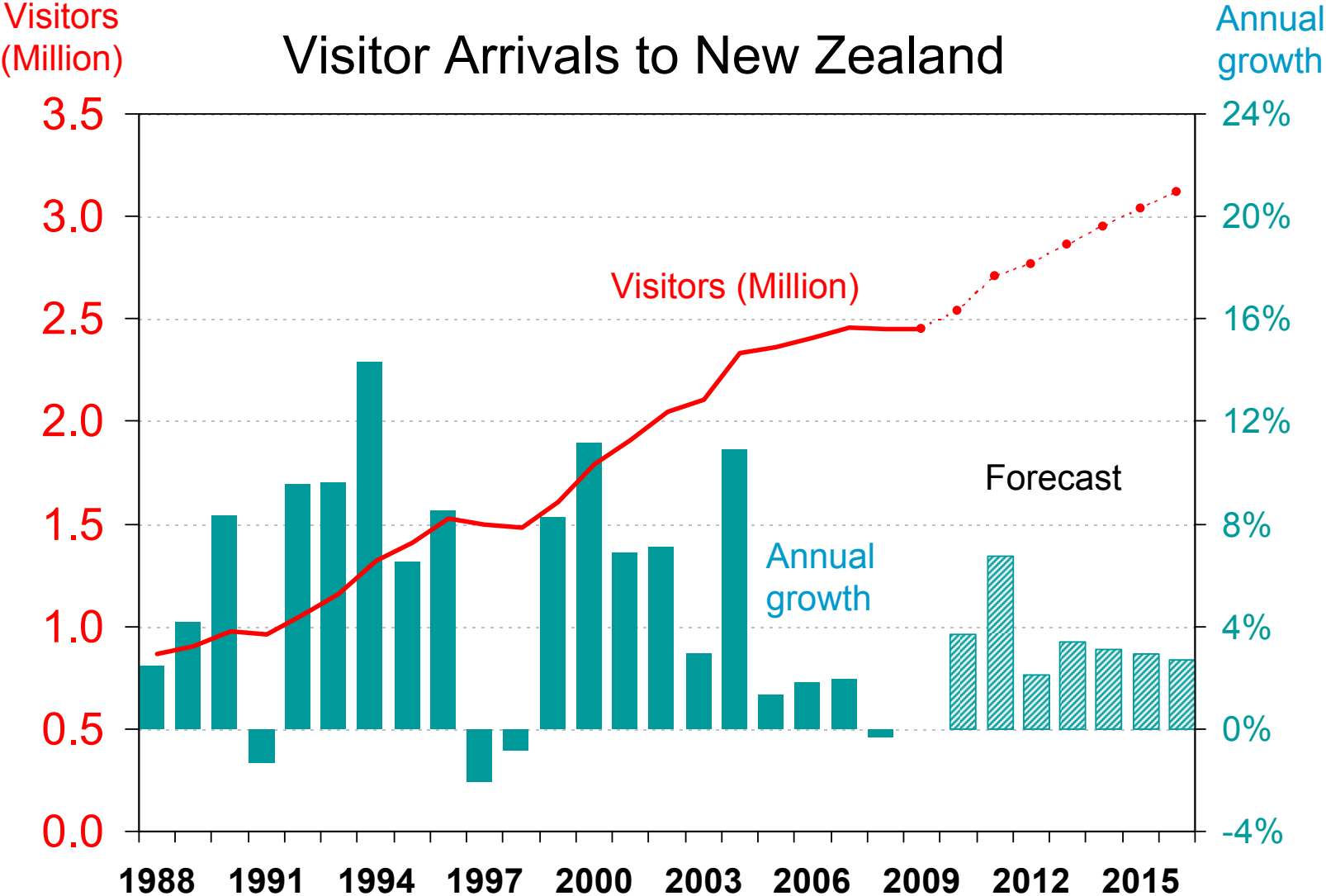
Note: GCC represents the Persian Gulf nations

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

# Tourism is another strong export growth industry



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**