

New Zealand economic forecast: “Things could turn ugly”

By John Braddock
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Fears of a global recession, amid the US trade war with China, financial instability and market volatility, are growing around the world. In New Zealand, Westpac bank economists this month downgraded their 2020 annual GDP forecast from 3.1 percent to 2.3 percent. They expect unemployment will rise again over the coming months.

The bank’s chief economist Dominick Stephens wrote that adjusting for population changes, annual per capita GDP growth is now just 1.1 percent, its slowest in eight years. Analysts had expected the economy to improve from mid-2019, due to low interest rates and increased government spending. Instead, activity has remained “subdued,” with recent indicators pointing to quarterly GDP growth of just 0.5 percent through the second half of 2019.

Stephens concluded his report on a foreboding note, declaring: “New Zealand is locked in a cycle of economic growth driven by ever-lower interest rates causing ever-higher asset prices, facilitated by ever-increasing household debt. This cycle can’t last forever, and when it ends things could turn ugly.”

This warning came after the NZ Reserve Bank (RBNZ) governor, Adrian Orr, on August 7 slashed the Official Cash Rate to a record low of 1.0 percent, citing rising global “headwinds.” The rate cut was double the 0.25 percentage point reduction widely expected.

Orr listed the US-China trade war, slowing growth in New Zealand’s export markets, and dampened business investment as key issues facing the local economy. Global economic activity, including trade, continues to weaken, easing demand for New Zealand’s goods and services.

The RBNZ revised down its 2019 GDP forecasts for the June, September and December 2019 quarters from 0.7, 0.9 and 0.8 percent respectively, to 0.5, 0.6, 0.7

percent. Orr told a press conference that households, businesses and the government should “wake up and go and spend” to prevent the economy nose-diving.

With China’s growth rate slowing, NZ’s largest exporter, the dairy giant Fonterra, announced this month expected losses of between \$590 million and \$675m this financial year. Last year, the farmers’ co-operative made its first-ever loss of \$186m.

Some 1,000 forestry jobs are under threat from a 15 percent fall in the price of logs sent to China. The timber industry provides NZ’s third most valuable export, accounting for \$3.6 billion. A blunt warning was issued in July that the important tourism boom is all but over as arrivals from key markets, including China, continue to fall.

Finance minister Grant Robertson tried to put a positive gloss on the economic situation, writing in the *Sunday Star Times* on August 11 that wage and employment figures showed the Labour Party-led government had “done its part to stimulate growth.” He said it had made “infrastructure investments” in health and education in the May budget, while “building up a surplus and keeping debt under control.”

However, economist Bernard Hickey noted on *Newsroom* that the government’s limited spending increases in health, education and welfare were more than offset by less capital spending over the years to 2021.

On taking office in 2017, Labour leader Jacinda Ardern promised a “transformational” agenda to address deepening inequality and poverty. In fact, her government has intensified the austerity drive against the working class, adhering to a strict net debt target of 20 percent of GDP.

The government continues to starve healthcare, education, housing and other services, contributing to a

severe social crisis. Recent figures revealed a budget blow-out across the 20 District Health Boards (DHBs) of \$112 million, or 36 percent, in a single month, to more than double the same time last year. All but one of the DHBs is in the red with total deficits expected to hit \$508 million this year, compared with official forecasts of \$390 million just months ago.

New Zealand's housing market remains the biggest single issue for the economy. New Zealand and Canada are the two countries with the most unsustainable housing markets in the world, according to *Bloomberg*. They have the highest cost of housing compared with wages, beating Australia, the UK, Norway and Sweden—which are also vulnerable—and the highest house price to rent ratio.

Inequality is continuing to widen dramatically. According to this month's *National Business Review* "Rich List," New Zealand now has nine billionaires and five billionaire families. There were 19 newcomers, adding to a record total of almost \$90 billion in wealth, up from \$81 billion last year. Property investors are prominent. NBR editor Duncan Bridgeman boasted: "the rich get richer and... are having a really successful period at the moment."

Meanwhile, conditions for the working class are severely deteriorating. Figures from the Ministry of Social Development released last month showed more than \$100 million was paid in emergency hardship grants in the last three months of 2018—a record. More than 385,000 individual grants were made—an increase of almost 95,000 on the same period the previous year.

Emergency housing grants went from \$6.6 to \$23 million, and there were 70,000 extra requests for assistance for food. Meanwhile, 134,000 were receiving jobseeker support, an 8.3 percent jump. The number of 18–24 year-olds receiving a benefit has increased by 10 percent. In May, PricewaterhouseCoopers reported that the average Auckland household's disposable income has fallen by an extraordinary \$5,000 from 2008 to 2018, due to housing costs.

While the official unemployment rate has dropped to 3.9 percent, it is still significantly above the 3.3 percent low reached in the December 2007 quarter. From a total population of 4.8 million, over 100,000 remain unemployed, with a further 200,000 who say they are underemployed and looking for full-time work.

Average hourly earnings increased 4 percent to \$32.37 in June, the biggest increase since 2009, but the impact has been effectively nullified by escalating housing and rent costs. A meagre 7 percent increase in the minimum wage has taken it to \$17.70 an hour, still too low to live on.

Collective agreements fought for by nurses and teachers have been the main driver of wage increases, but pay settlements imposed by the unions were much less than workers' demands. Over the past year, tens of thousands of nurses, teachers, doctors, transport workers and retail workers have taken unprecedented levels of strike action, demanding pay increases of up to 18 percent. Settlements imposed by the unions have enforced pay rises of no more than 3 percent per year for the life of contracts.

As economic conditions deteriorate, the New Zealand working class is part of the re-emergence of the class struggle internationally, including teachers and autoworkers in the US, the yellow vest movement in France and protests, now including key sections of workers, in Hong Kong.

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