The economic downturn – what’s next?

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I’m often asked what’s coming next for New Zealand in the economic downturn.

We are seeing a number of layoffs, although not in the large scale as in some other countries, and naturally, there are concerns that more may be on the way.

Meanwhile all the ideas from last month’s jobs summit are yet to be translated into reality.

In many ways we are fortunate. The jobs summit revealed the enormous amount of consensus there is in New Zealand about lessening the impact on jobs of the economic downturn.

For example there was widespread acceptance of the importance of helping people ‘stick’ in the labour market. It’s very easy for those with fewer skills to get unstuck from employment.

It’s important that those who are on the margins of employment – including young, less skilled Maori and Pacific men and women – keep stuck in the labour force, not spun off at the mercy of economic change.

It would be a waste not to use the downturn to upskill our people, so that we emerge into the upturn better skilled than before. The fact that the Government already plays a large part in tertiary education provision will help us in turning this ambition into reality.

Requiring training to be part of infrastructure projects is another way that we can use the downturn to improve our skills. If we are going to channel taxpayer money into providing roads, broadband, cycle tracks or any other infrastructure, it makes sense for us to use some of that money to train people as we go. After all, the value of infrastructure is not just in the physical assets that are created, but also in the related skills capital of New Zealanders.

Then there are other ideas, including an equity fund jointly backed by the banks and the Government to help companies get access to needed capital, and the possibility of the creative use of Maori land and assets to generate jobs.

What all these ideas have in common is that they are focused on our domestic economy. That’s great – it’s our economy we need to be concerned about. But it should be remembered that our economy is very small by international standards, and not large enough to furnish high living standards just from New Zealanders trading among themselves.

Regardless of whether we are in downturn or upturn, we need to trade internationally and earn those export dollars. So we should also keep a good focus on our external trading partners, particularly the ones that are coping with the downturn better than others - including Australia and China.

Australia has weathered the global financial crisis in reasonable health, with an economy that is still growing - although slowly - without the major banking collapses and company failures seen elsewhere. The banking system that is so highly inter-related between New Zealand and Australia continues to hold firm, in contrast with those in many other countries.

These bring at least some hope for the future of New Zealand exports. Australia’s performance provides a measure of how well New Zealand exporters are likely to fare, since a stronger Australian economy will generally ‘suck in’ imports.
Economic activity has continued to decelerate in Asia, largely because of reduced external demand. However it remains a region of comparative economic strength, particularly China, where GDP growth is still above 6%.

If New Zealand exporters are able to capture market share in Australia, China and other growing regions like India, this could be one of the pathways out of the economic doldrums.

So what is the outlook here in New Zealand?

Certainly the slump in global demand is beginning to be felt by businesses in terms of their own activity outlook and is starting to impact on the household sector as a result of redundancies and rising unemployment.

One bright spot is that the inflation genie is firmly back in the bottle. This is allowing the Reserve Bank to lower interest rates, although it is not a given that lowering the official cash rate will automatically result in one-for-one cuts to interest rates for households and businesses, because of the extent to which banks borrow on wholesale markets overseas.

There are other bright spots too. A significantly lower exchange rate that helps New Zealand exporters, overall declines in fuel costs and more tax cuts to come – these are all positive for business.

Moreover, Government debt is still low by international standards, unemployment is still low and there is still room for significant interest rate cuts if necessary. We do not have a surplus of housing stocks nor have banks, in general, supplied finance to those unable to service housing debt. Although commodity prices are continuing to drop, New Zealand sells the kind of things that the world wants - food and fibre. And the Government’s fiscal stimulus package can be used for constructive infrastructure investment rather than being poured down bottomless pits as has occurred in a number of overseas bailout packages. The reform measures that we have seen so far have been generally positive and targeted towards reducing blockages in the economy and improving overall productivity.

We should not underestimate the severity and depth of this global downturn, but we should also celebrate the positives for New Zealand and build on them to come out of the downturn stronger and sooner.

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