New Zealand Economic Overview

New Zealand Economy

New Zealand has a population of approximately 4.5 million people and a land area which is slightly larger than the United Kingdom. The economy, which is somewhat restrained by population size and geographic remoteness, has a GDP of approximately $NZD 244 billion. This ranks New Zealand as 53rd in the world in terms of GDP, compared to the USA which is ranked first with a GDP of $NZD 26 trillion. The New Zealand dollar remains relatively high and has been increasing gradually since 2015. Despite this, however, there has been a gradual decrease in New Zealand’s terms of trade over the past few years.

Operating as a relatively small free market economy, there is high dependence on international trade and the domestic construction industry. While traditional sectors such as tourism, agriculture and construction remain important to the economy, other export sectors such as IT services and high-technology manufacturing are also emerging.

Resources and Trade

New Zealand is particularly rich in agricultural and natural resources; a significant advantage for its primary sector. New Zealand’s primary exports are diverse and contribute to over 50% of total export earnings. Approximately 70% of commodities exported are primary products. Services are also an important export for New Zealand, with travel and transportation services accounting for approximately two thirds of service exports.

New Zealand is able to leverage its ‘clean and green’ image in addition to its unique indigenous Maori culture to attract international visitors from all corners of the world. Total international tourism expenditure has gradually increased to $NZD 11.8 billion for the year ended March 2016, an increase of 17.1% from the previous year. Tourist destinations such as Hobbiton and Queenstown are immensely popular tourist destinations. Factors such as these have led to tourism overtaking dairy as New Zealand’s largest export in 2015.
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Such heavy emphasis on export earnings means that the growth of the economy is dependent on demand from key trading partners such as China, Australia, the United States and Japan. New Zealand has some key trading agreements with its major trading partners. Examples of these are the long standing Closer Economic Relationships (CER) with Australia, the New Zealand-China Free Trade Agreement, and the more recent New Zealand-Korea Free Trade Agreement. Additionally, the Trans-Pacific Partnership (TPP), which aims to create a regional free trade agreement between 12 participating Asia-Pacific countries, was signed in 2016. However, the TPP is unlikely to deliver previously expected levels of benefit with the United States expected to pull their support.

![Main New Zealand Exports 2015](image)

Foreign Investment

In a turbulent economic world, New Zealand stands out as a reassuringly sturdy beacon of stability, openness and fair dealing for foreign investors. The country has a stable democracy, strong institutions and a diverse economy. These factors have resulted in New Zealand consistently placing near the top of the Forbes Best Countries for Business List, Transparency International’s Global Corruption Index and the World Bank’s 2016 Doing Business Report (which measures protection of investors). In addition, New Zealand’s legislature facilitates an environment in which it is easy to do business. The banking sector is a good example of this, with four of the five major retail banks being foreign owned. New Zealand has one of the world’s lowest customs rates and research & development is 100% tax deductible for corporates.

Economic Outlook

The short term outlook for the New Zealand economy remains positive. With falling unemployment and low inflation, the annual GDP growth is expected to average 2.4% in 2017.

Business confidence and consumer spending are currently high and household income is expected to increase due to an improving labour market. The construction sector also expanded rapidly following the Christchurch earthquakes in 2010 and 2011. However, its effects are starting to fade after the rebuild peaked in 2016. The Auckland housing boom continues and forecasts suggest there will be no decline until 2018.
Risks to the Economy

As with any positive economic outlook, there are several risks and uncertainties. The main issues facing the New Zealand economy include:

• **The Auckland Housing Market Boom**
  This rise in housing prices throughout Auckland has caused policymakers to take action to avoid a "housing bubble". While policy decisions such as Loan to Value requirements enacted by the Reserve Bank of New Zealand are predominantly designed to reduce property speculation in Auckland, they invariably affect other regions as well.

• **Dependence on Trade**
  In a still fragile global economy, New Zealand’s dependence on exports bears several risks, particularly in relation to global dairy prices. There has been much talk about moving to a "high value" economy, since a considerable amount of exports are relatively unprocessed such as meat and dairy. Australia and China are our main trading partners and account for around 40% of our merchandise exports. As such, New Zealand is particularly vulnerable to recent slow-downs in the Chinese economy.

• **Low Dairy Prices**
  New Zealand is the world’s largest exporter of whole milk powder (WMP) and supplies 90% of China’s milk powder. The global price of WMP has fallen sharply from a peak of $USD 5,200 per metric tonne in 2013 to $USD 2,400 per metric tonne in 2015. Since then, however, it has gradually risen to $USD 3,600 per metric tonne in 2016.

• **Uneven growth**
  The majority of New Zealand’s economic growth is taking place in Auckland (by far the largest city with a population of 1.4 million) and Christchurch (due to earthquake rebuilding). Smaller towns and rural areas are not faring as well and this uneven growth is a talking point.

• **Debt levels**
  While New Zealand public debt is comparatively low at 24.6% of GDP in 2016, the level of private debt is high.

Further Information

For additional background on the current and forecasted New Zealand economy, please see the following links:

- Global Dairy Trade [https://www.globaldairytrade.info/](https://www.globaldairytrade.info/)
- The National Business Review [https://www.nbr.co.nz/](https://www.nbr.co.nz/)
- New Zealand Trade and Enterprise [https://www.nzte.govt.nz/](https://www.nzte.govt.nz/)
- New Zealand Herald [http://www.nzherald.co.nz/](http://www.nzherald.co.nz/)