

# The New Zealand Economy: 1970-2016.

30<sup>th</sup> May, 2016

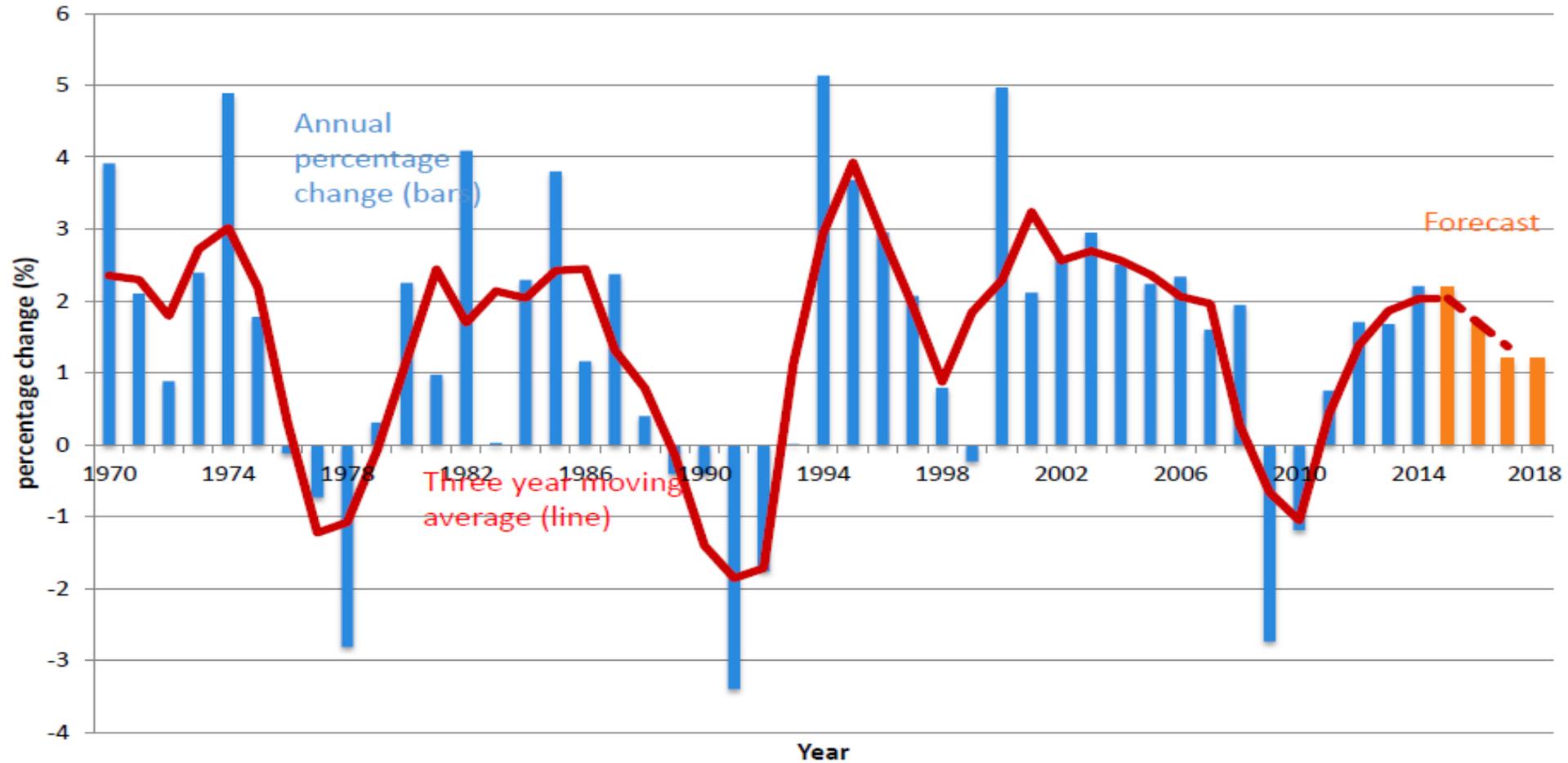
*Robert MacCulloch*

*Matthew S. Abel Chair of Macroeconomics  
Auckland University Business School*

# Some Economic and Non-Economic Indicators

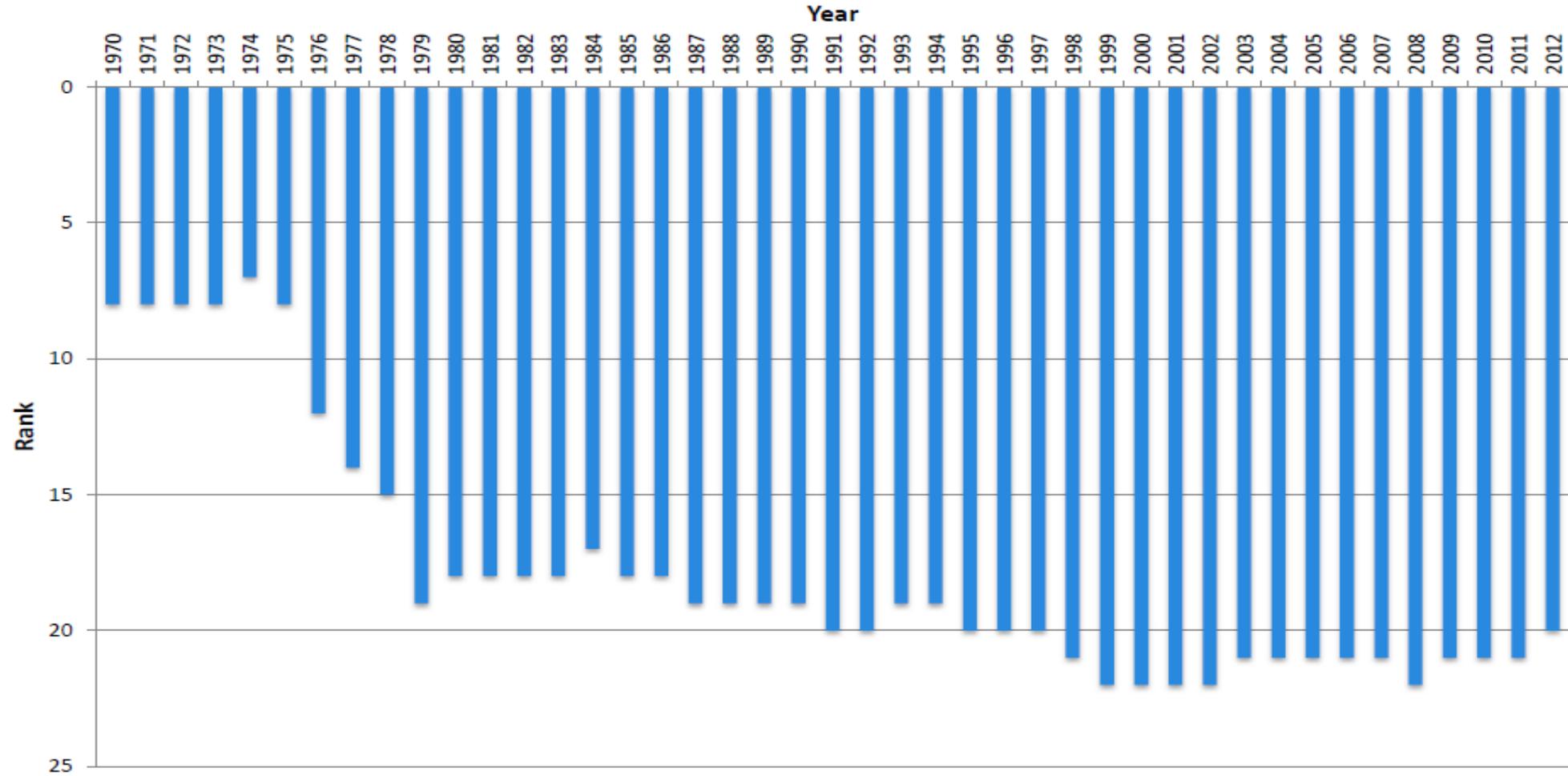
# A story of fluctuating rates of economic growth

## NZ GDP per capita



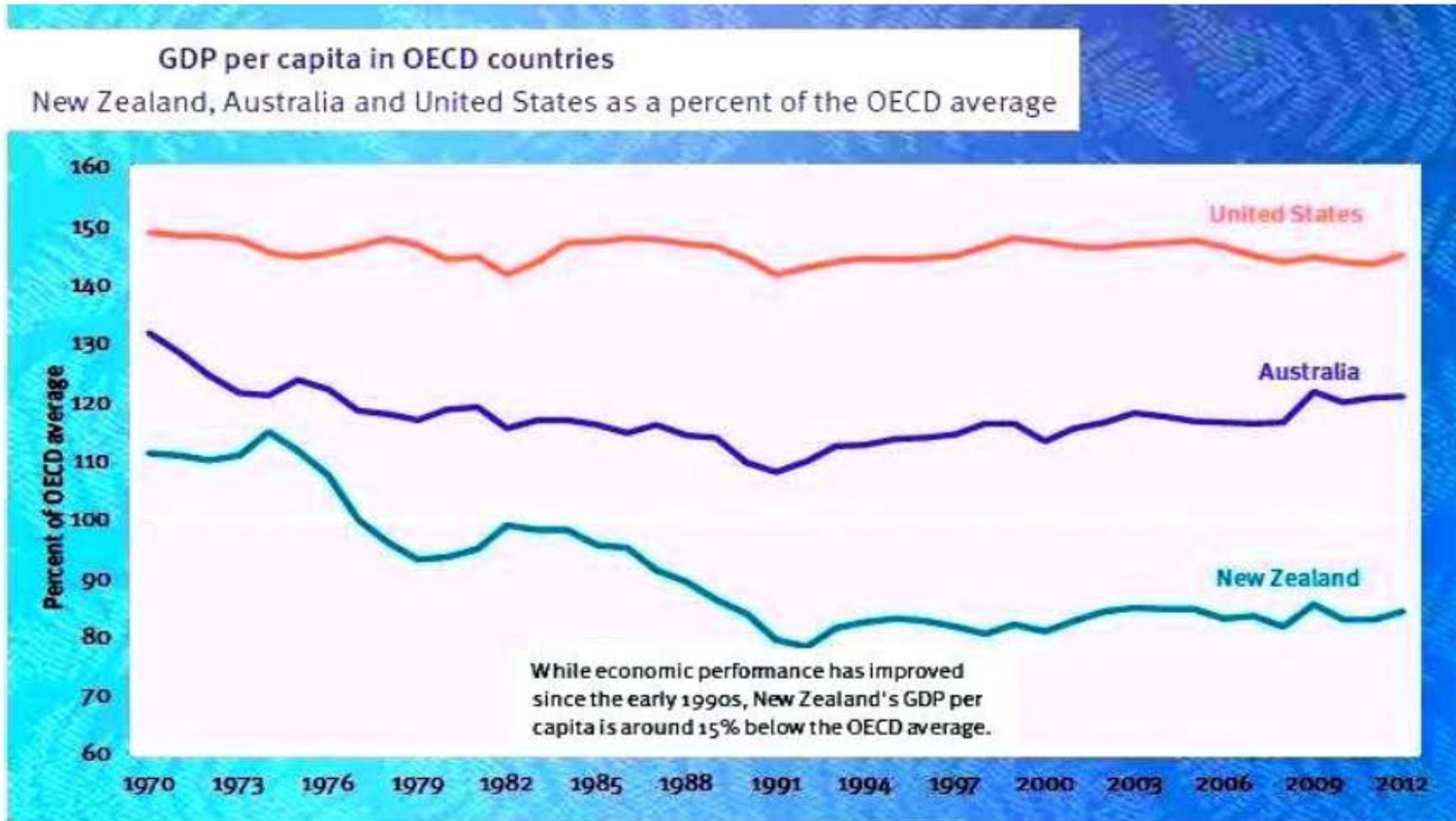
Source: Statistics NZ; Treasury

# Large decline in NZ GDP per capita ranking



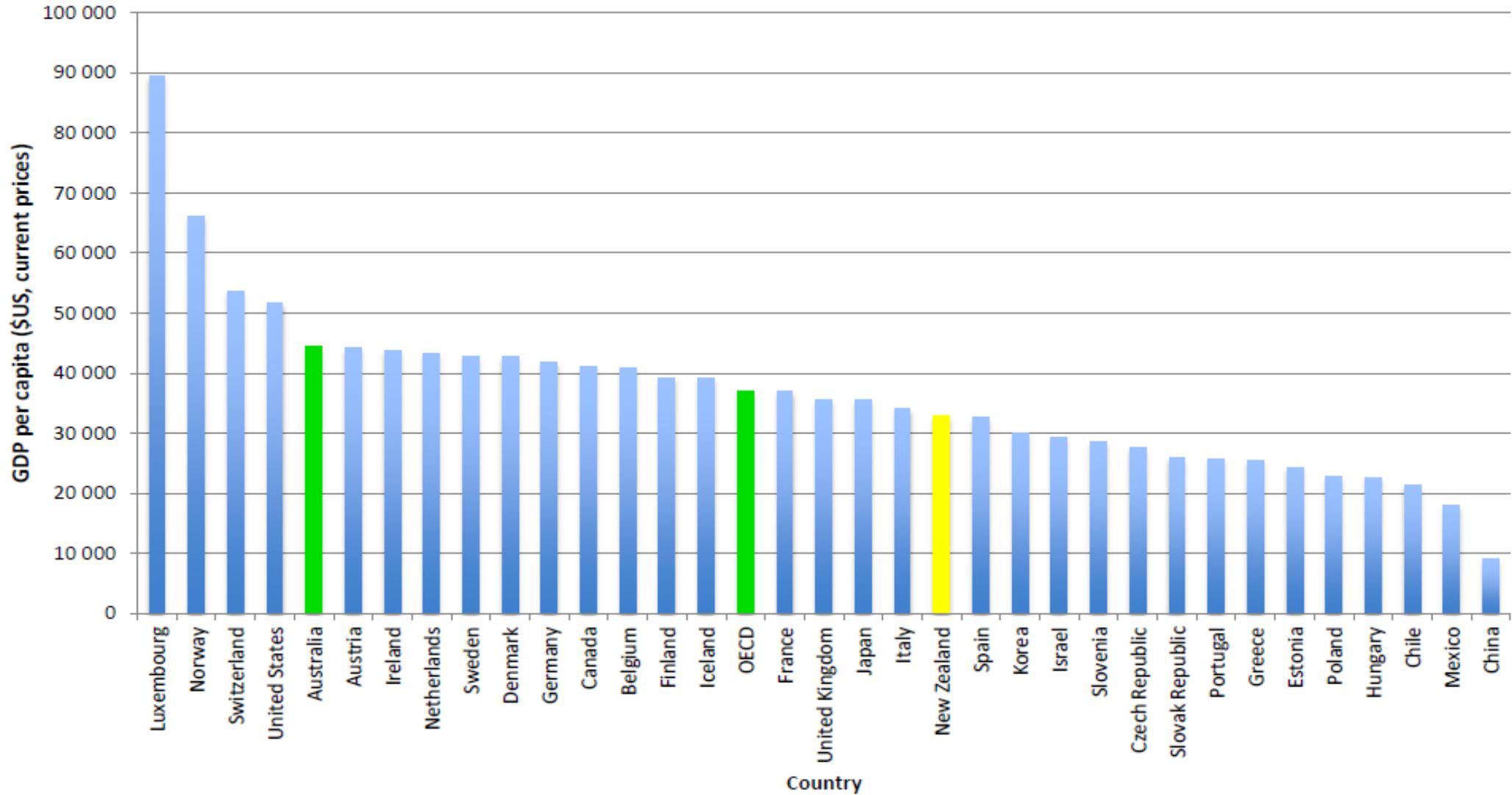
Source: OECD

# GDP per capita below most other OECD Countries



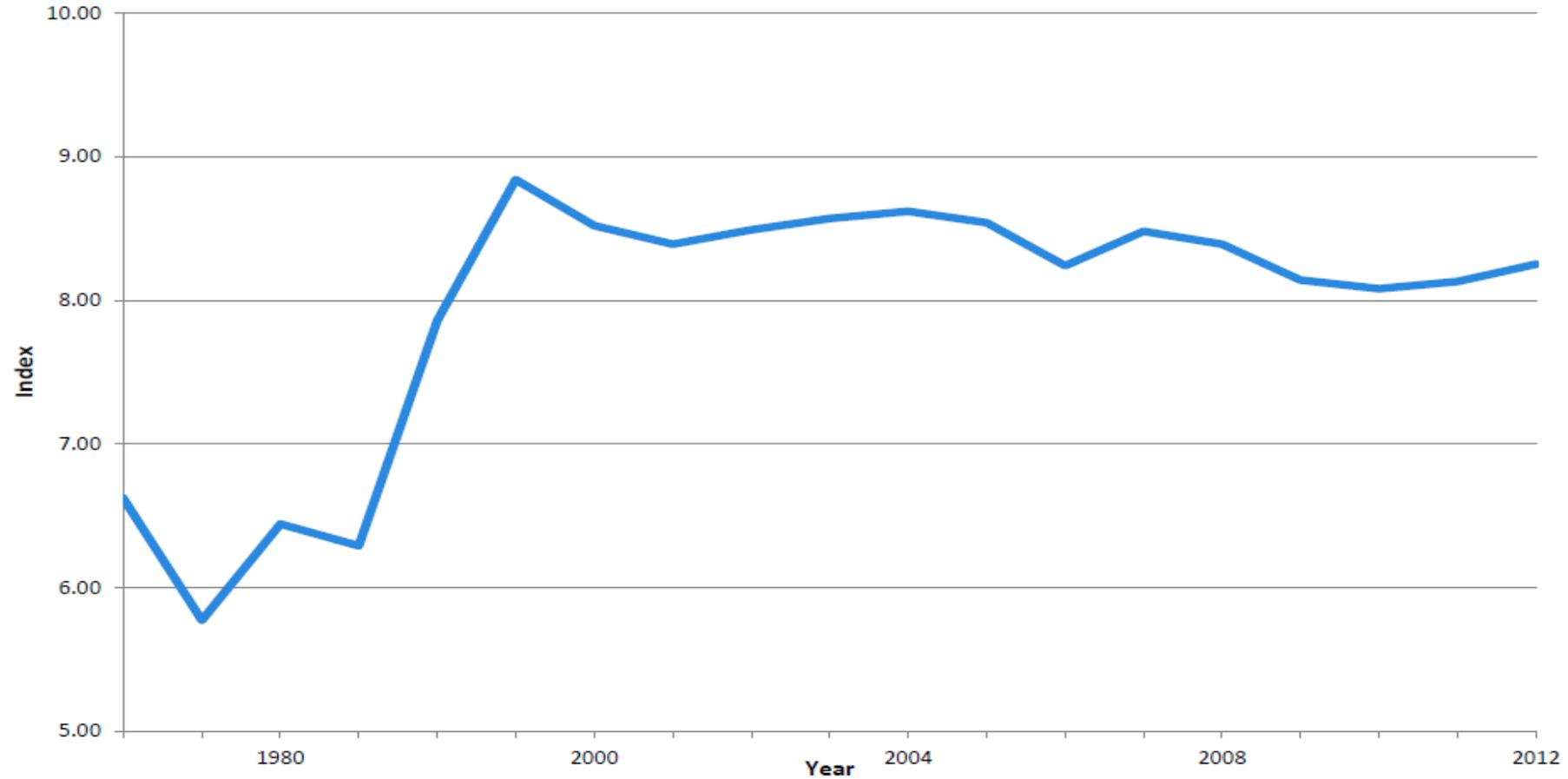
Note: US dollar and purchasing power parities (PPPs).

# NZ is No. 21 in OECD per capita rank 2012



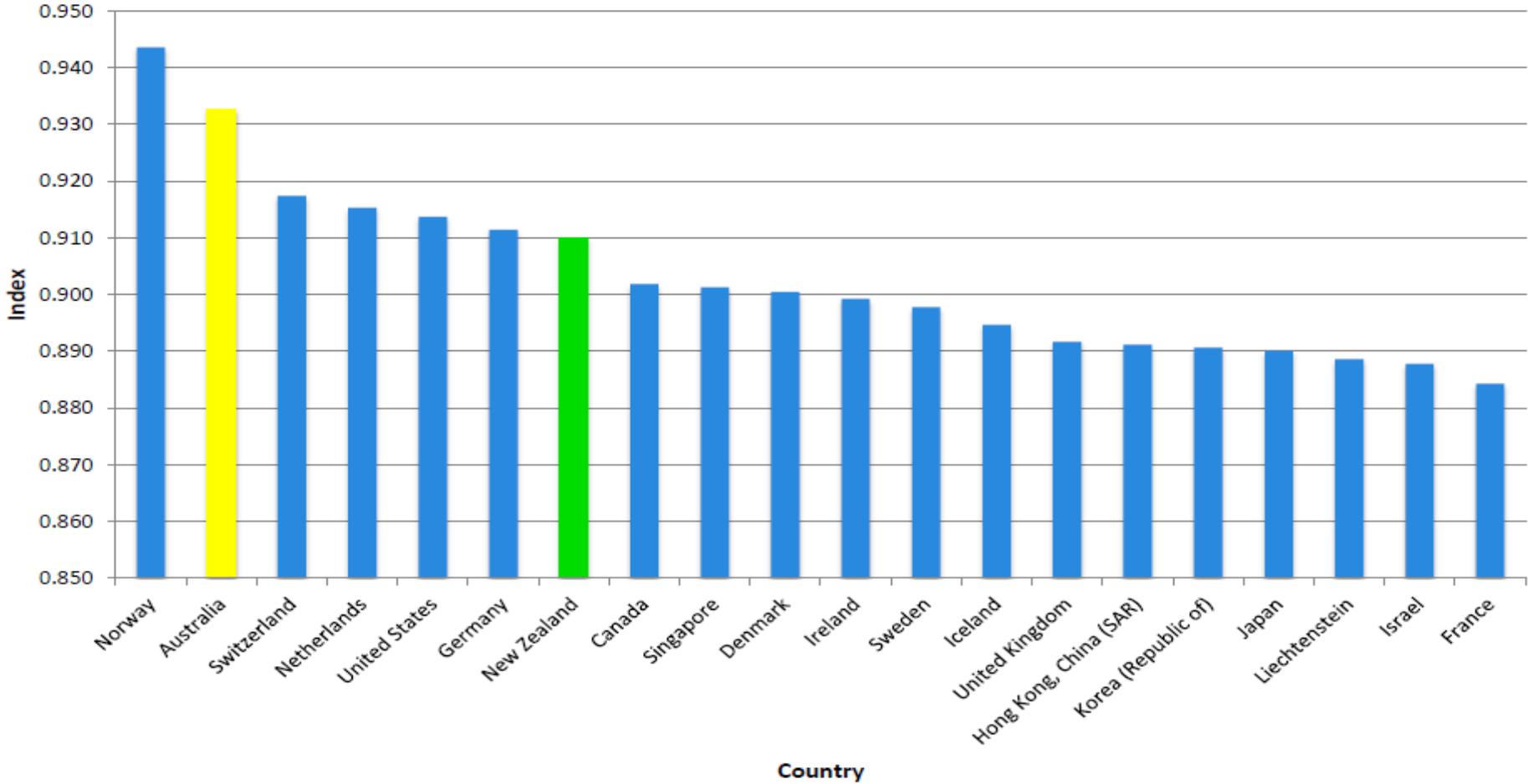
Source: OECD

## NZ ranked No. 3 in the world based on the economic freedom index in 2012



Source: Frazer Institute 2014 Report on 152 countries, maximum score 10.00

# NZ No. 7 on the Human Development Index 2013



Source: United Nations

# Income Inequality in NZ

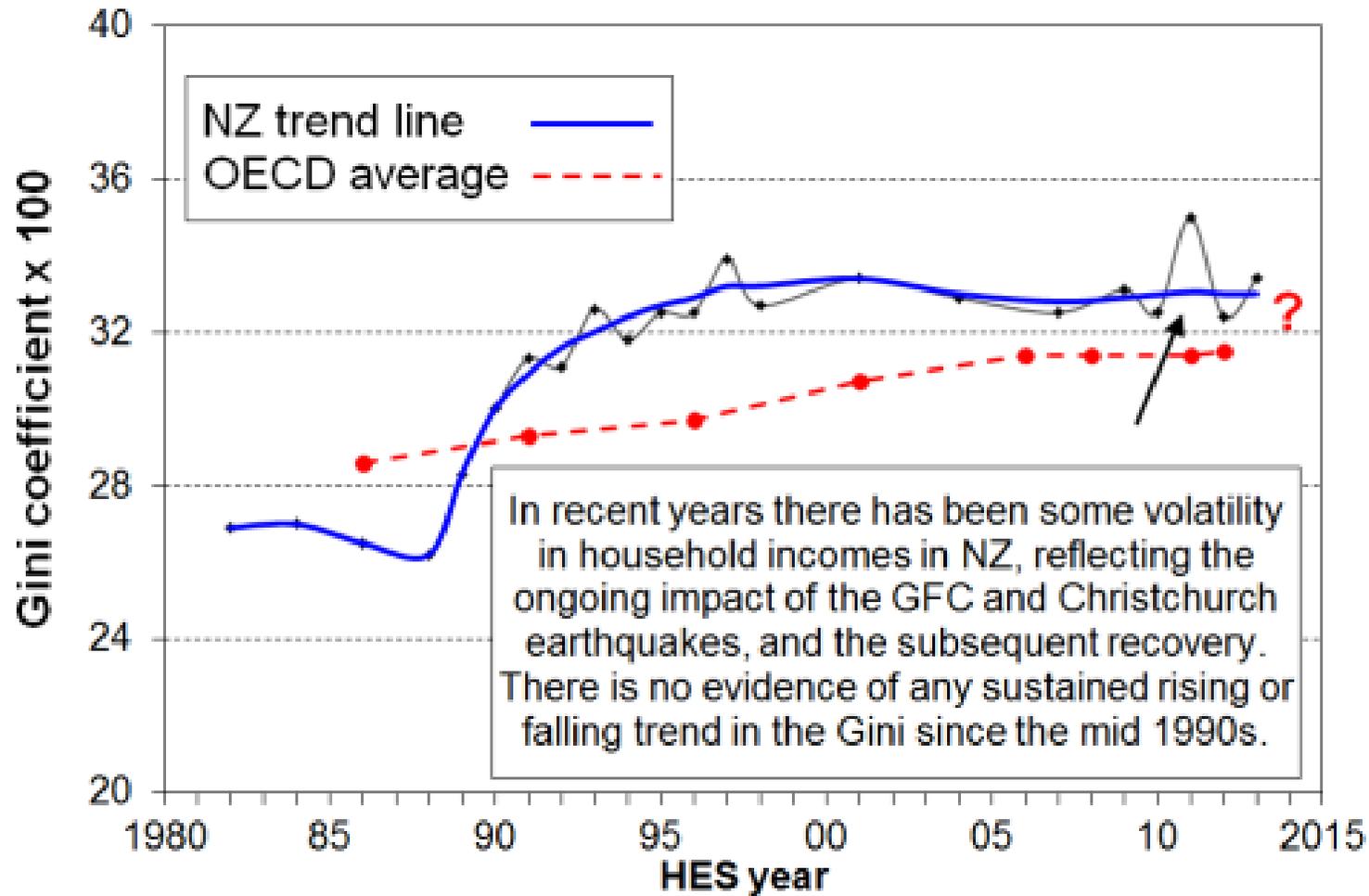
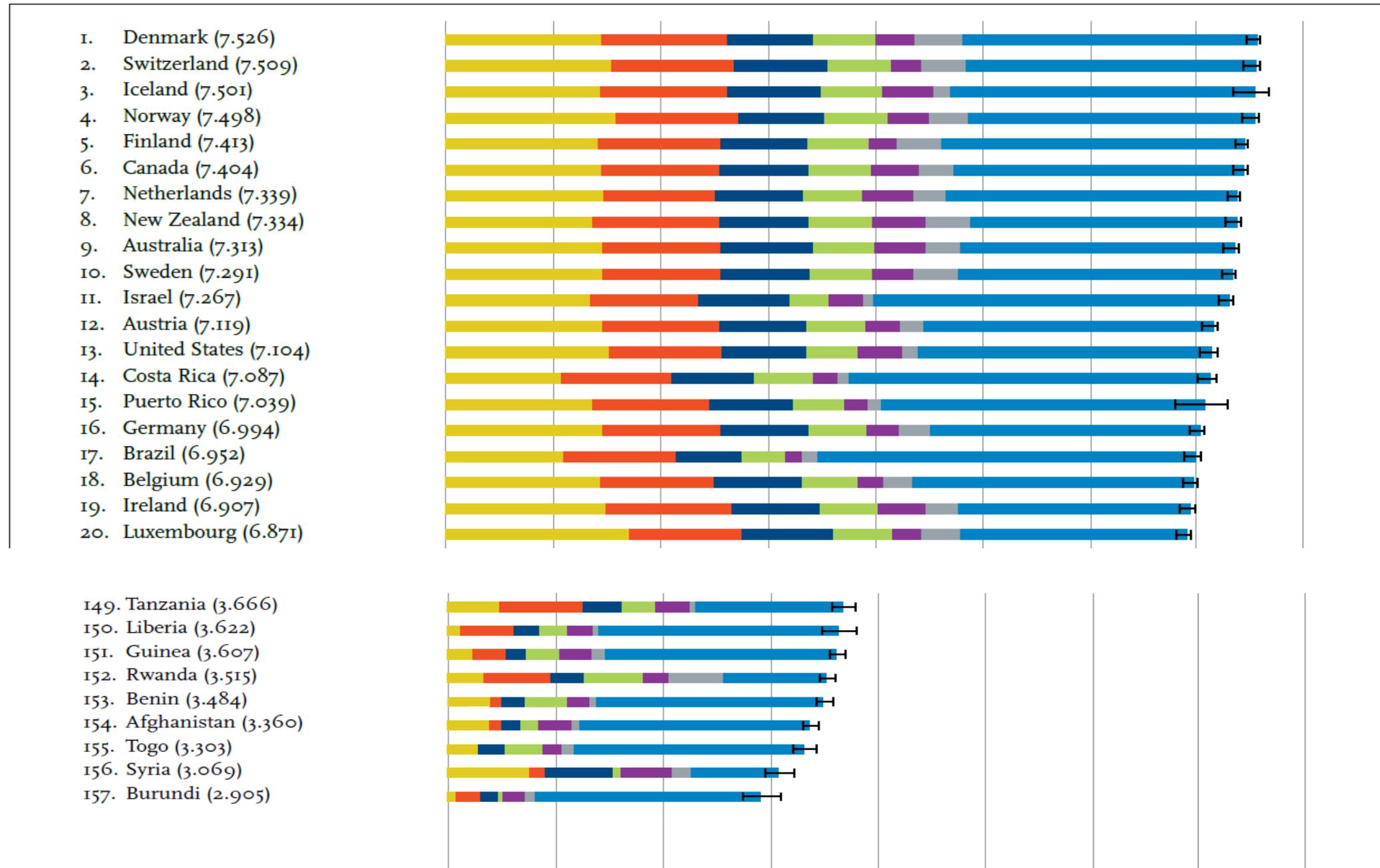


Figure 2.2: Ranking of Happiness 2013-2015 (Part 1)

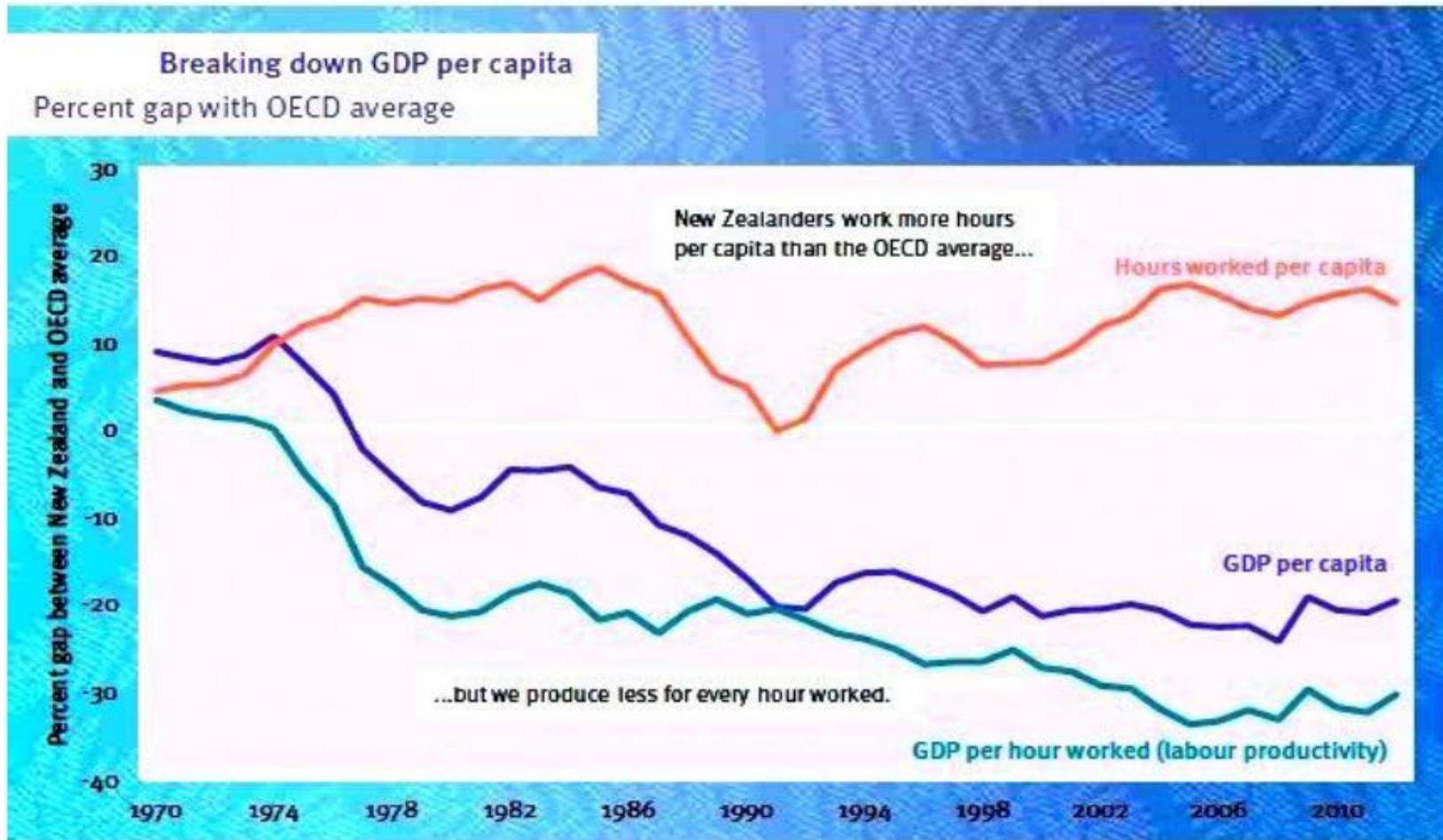


## **But NZ is historically a poor growth performer**

- In terms of GDP per head:
- In the 1950's NZ was in the top 5 countries
- In the 1970's we were in the top 10
- Now we are No. 21 in the OECD
- IMF ranks us no. 32 across all countries (GDP PPP basis)
- We are a long way behind Australia
- And we are below Singapore, Hong Kong, Taiwan, Sth Korea
- Many developing countries are growing much faster than us
- Nonetheless we rank well on economic freedom
- And on human development, social progress and happiness

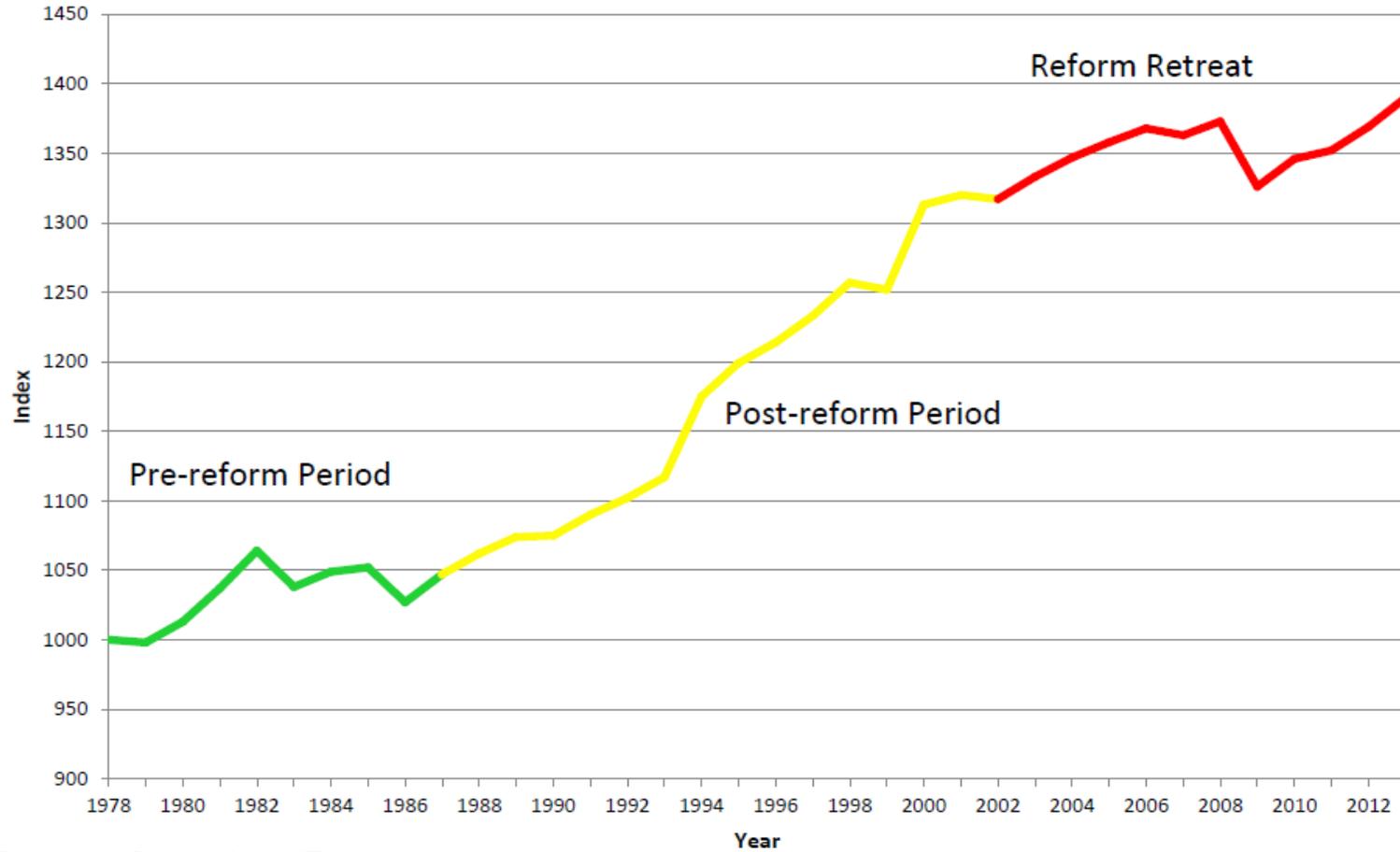
Why has NZ's Relative income per capita ranking been declining ?

# NZ works harder but produces less than OECD average



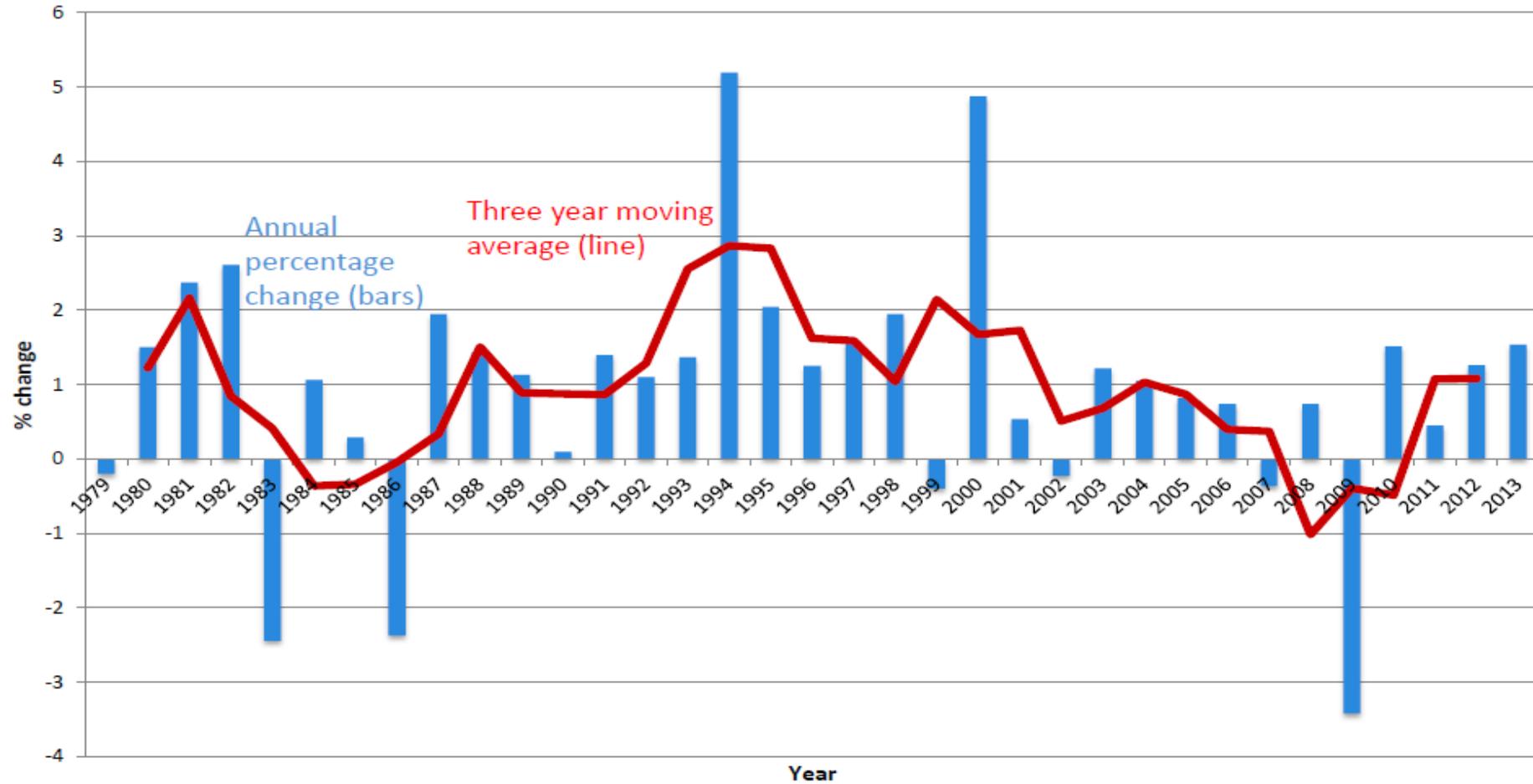
Source: Conway and Meehan (2013), OECD

# Multi-factor productivity growth: the reforms mattered



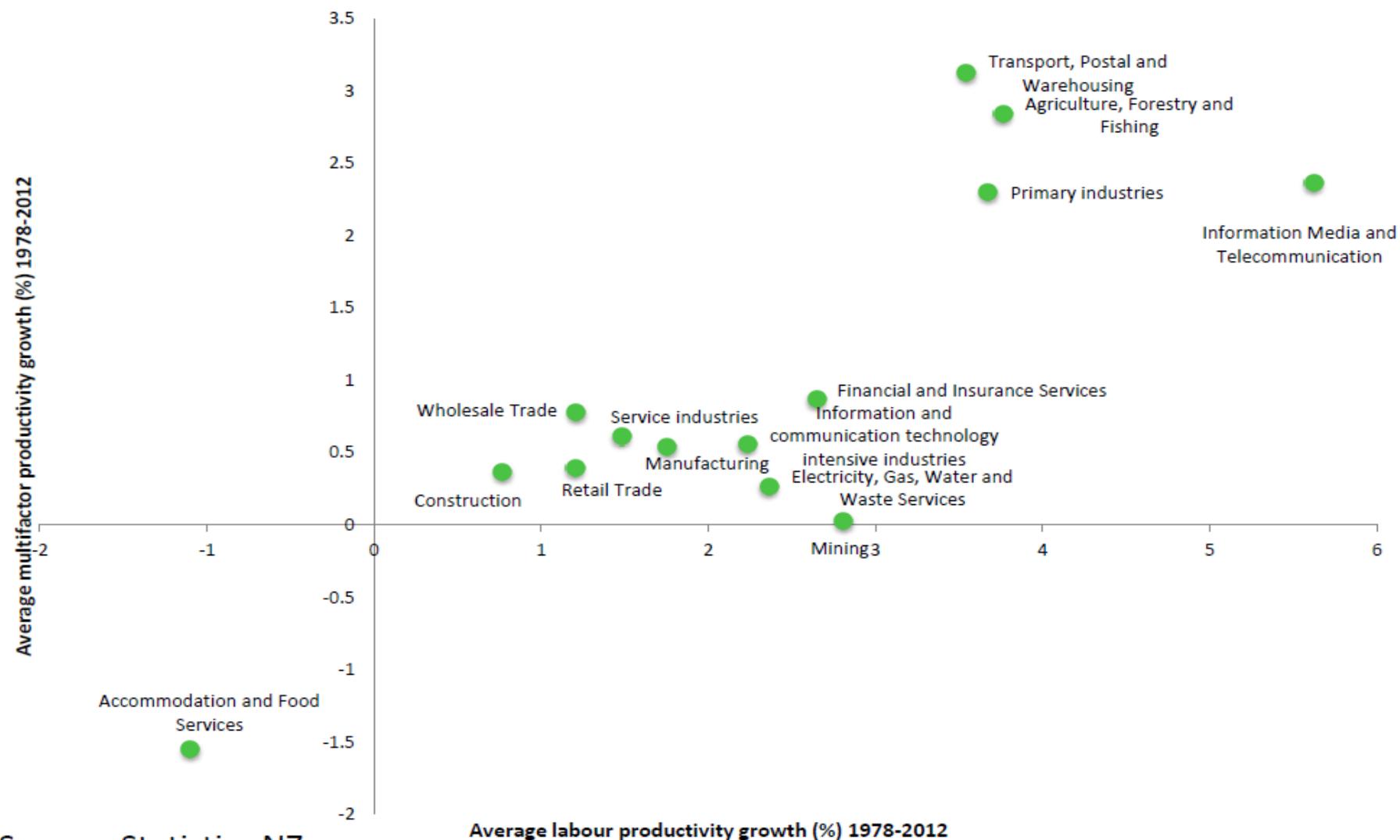
Source: Statistics NZ

# Slowing growth rate for multi-factor productivity



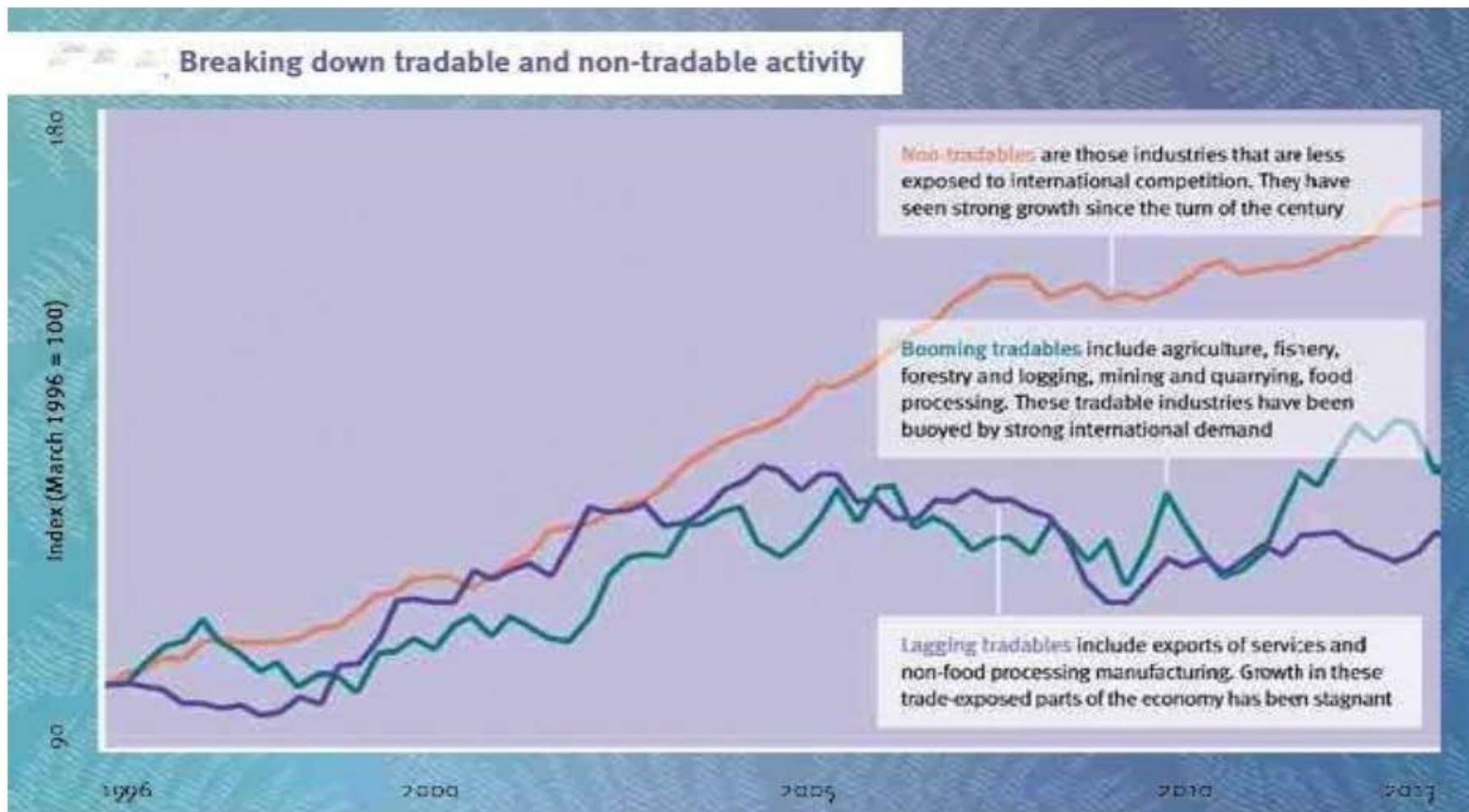
Source: Statistics NZ

# Labour and multifactor productivity by Industry



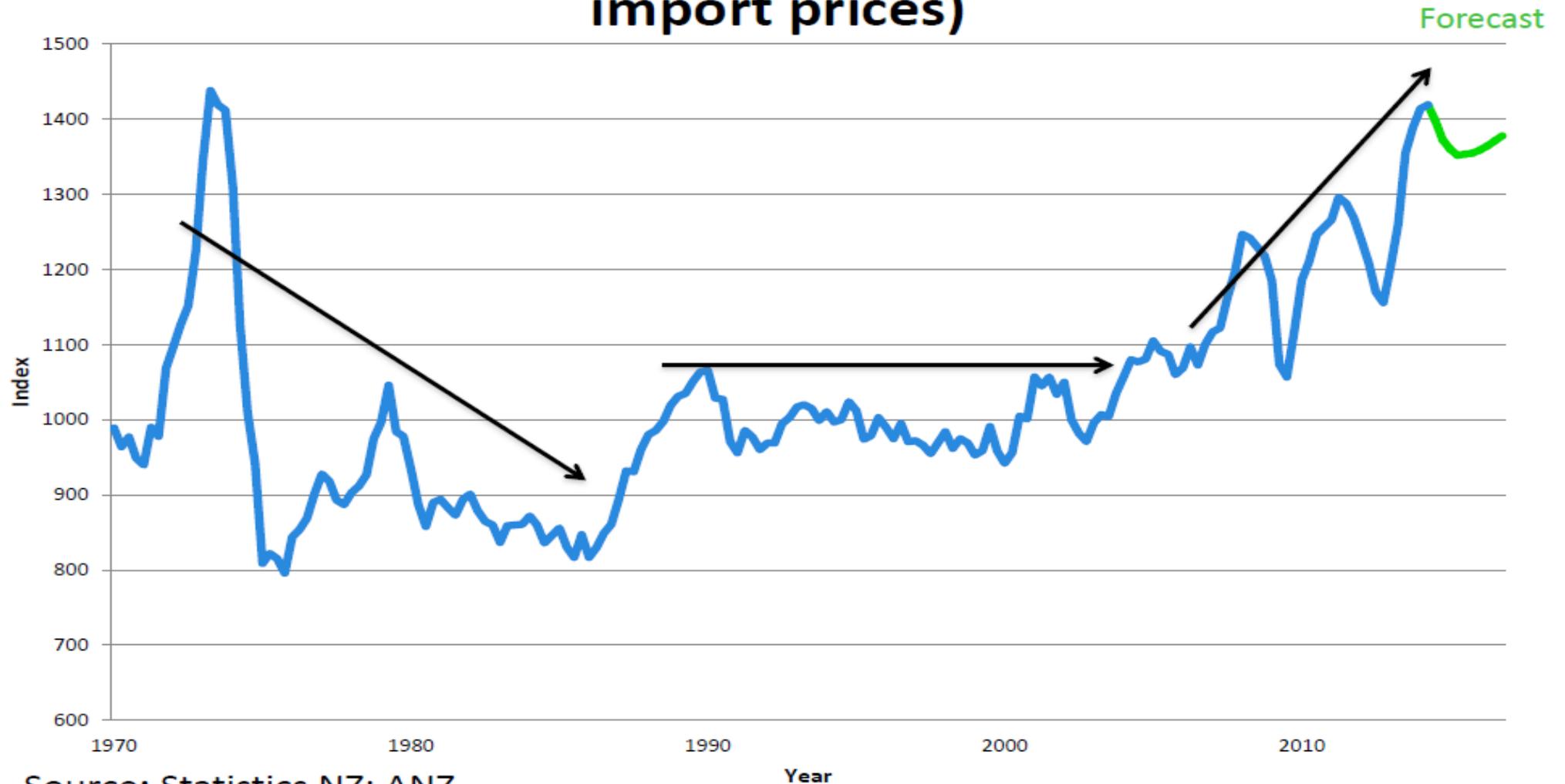
Source: Statistics NZ

# Non-tradables have risen much faster than tradables



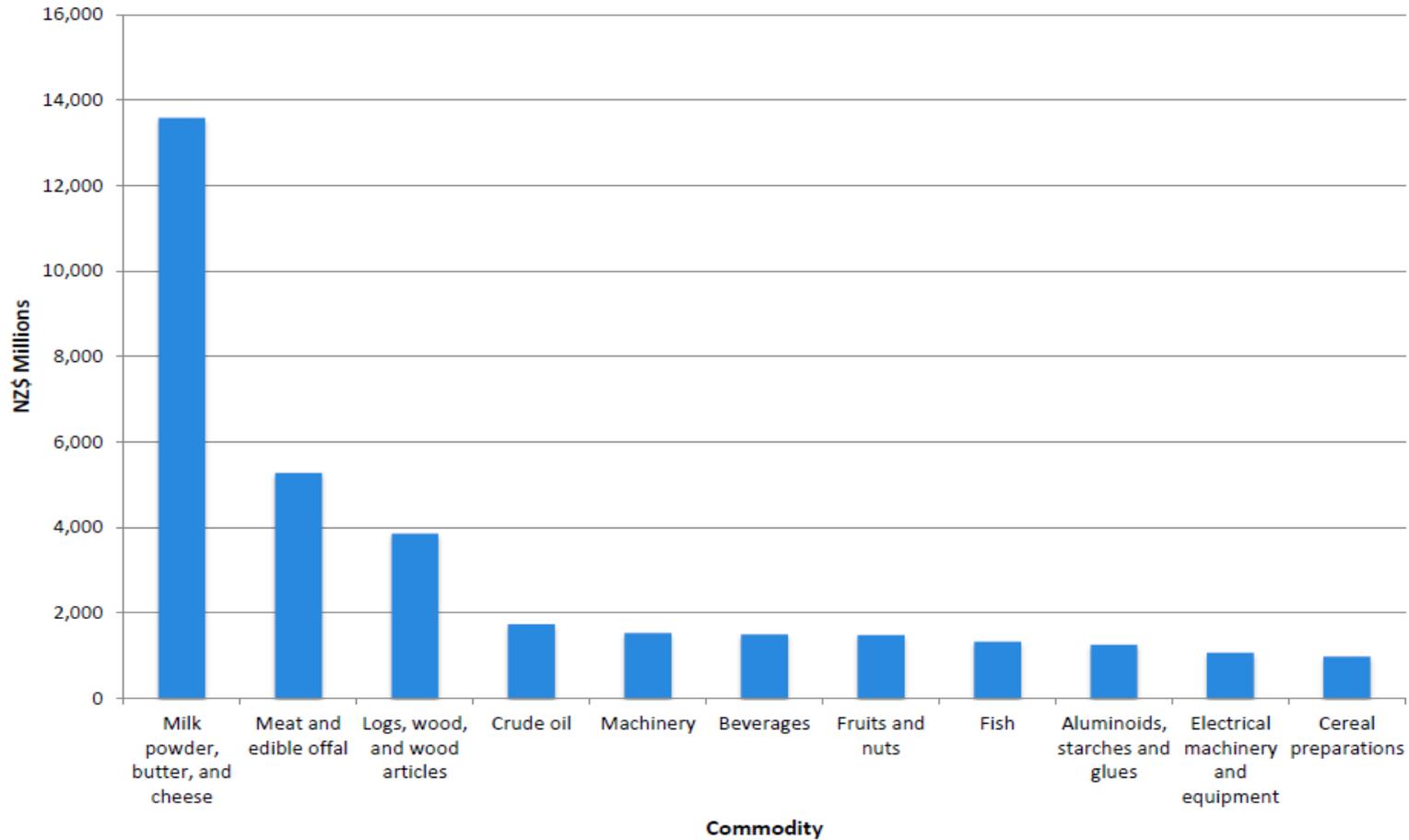
Source: Statistics New Zealand and the Treasury

# NZ has benefitted from rising terms of trade for the past decade (the ratio of export to import prices)



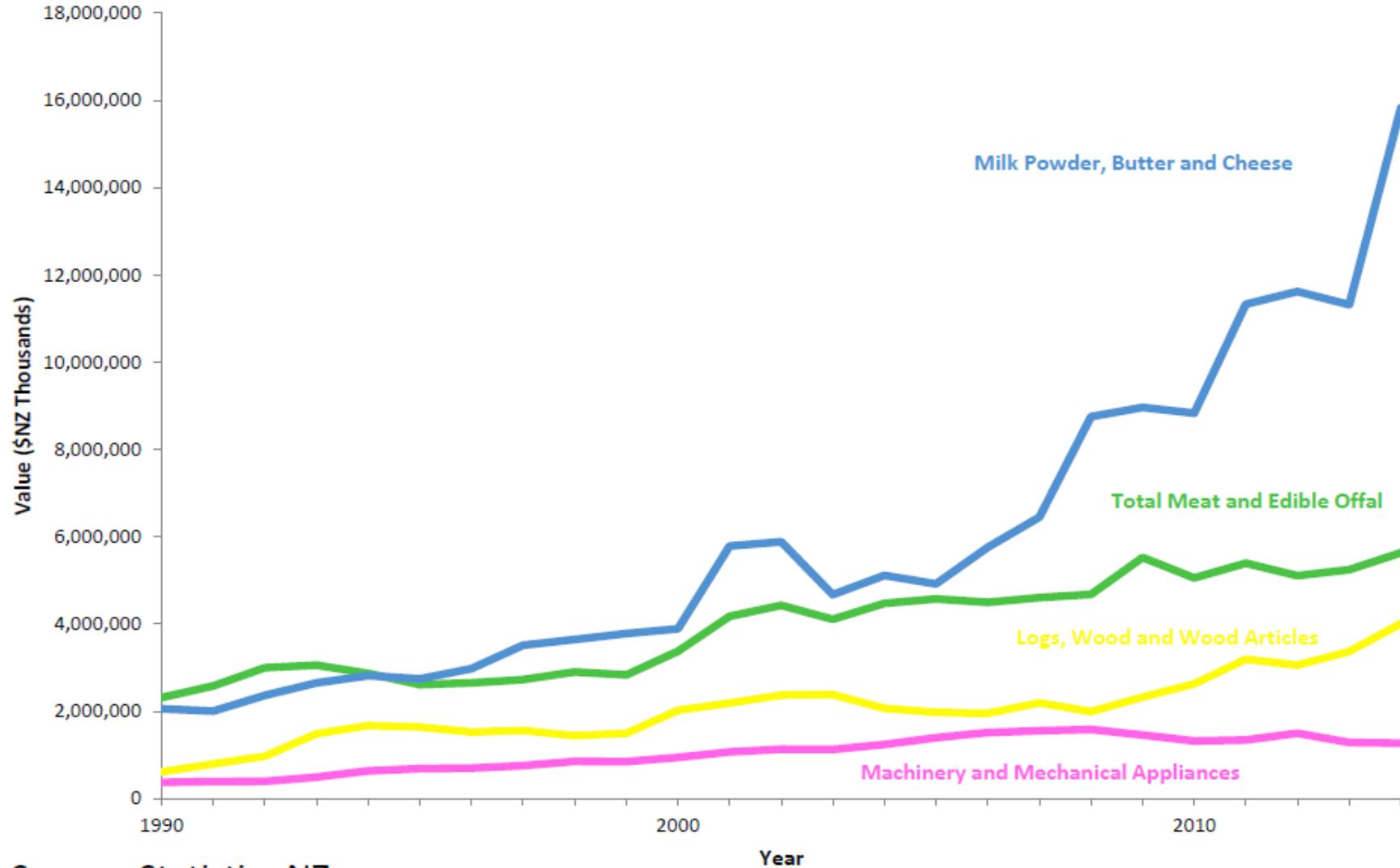
Source: Statistics NZ; ANZ

## Dairy dominates top 10 NZ export commodities 2014



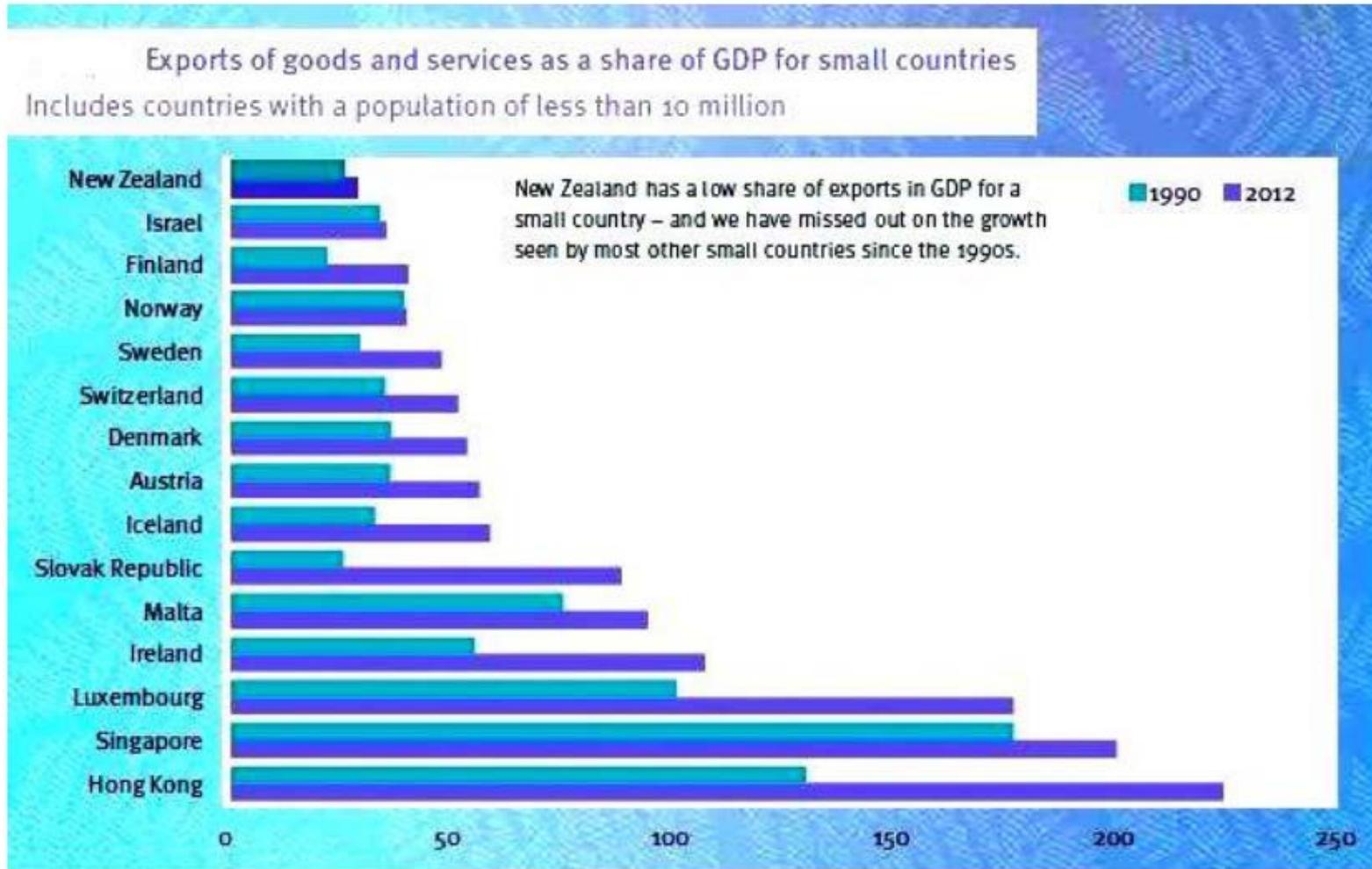
Source: NZ Trade and Enterprise

# Principal export values for NZ over time



Source: Statistics NZ

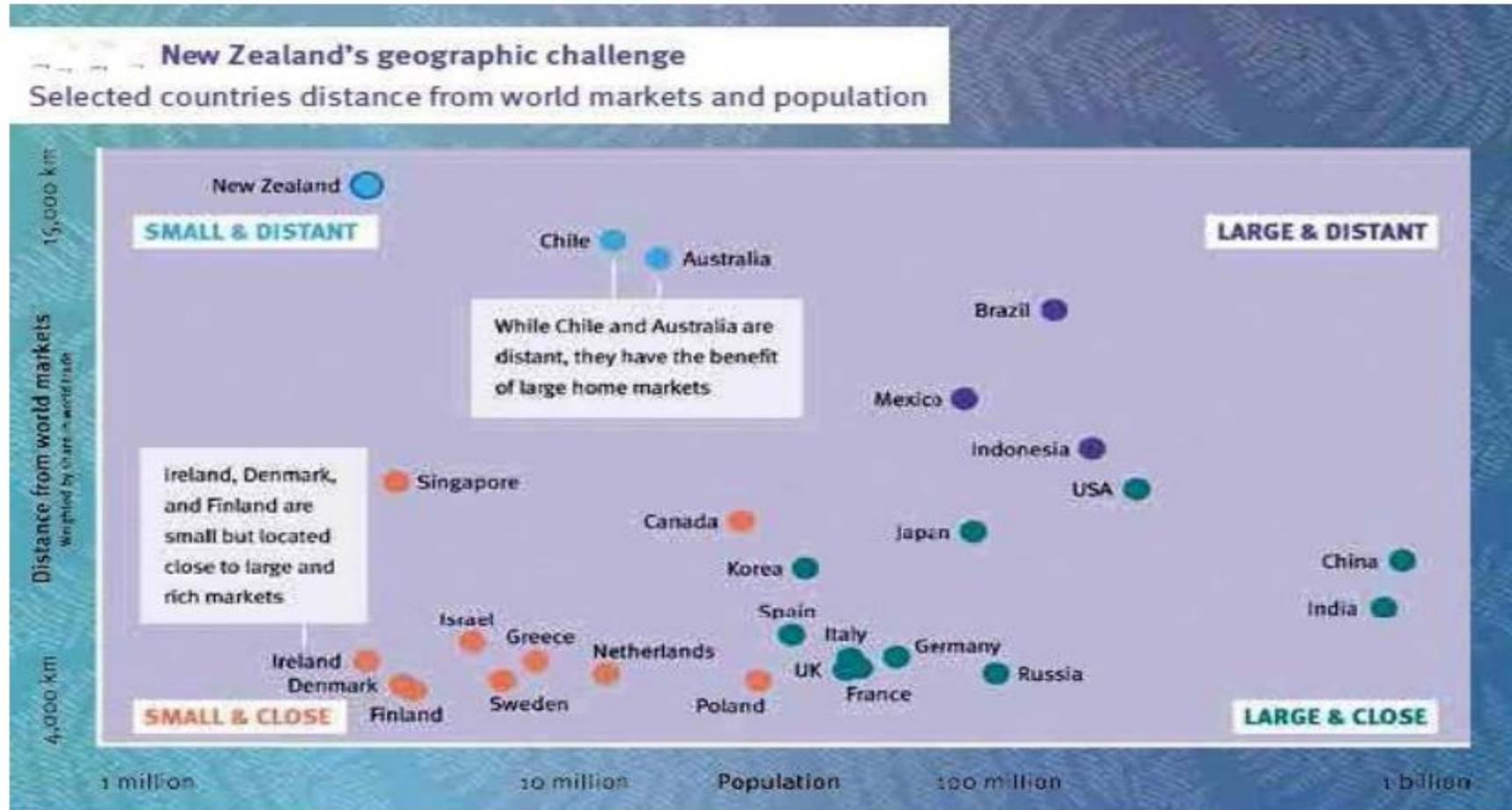
# NZ exports low as % GDP v other small countries



Note: The Data for Slovak Republic and Malta is 2011.

Source: World Bank

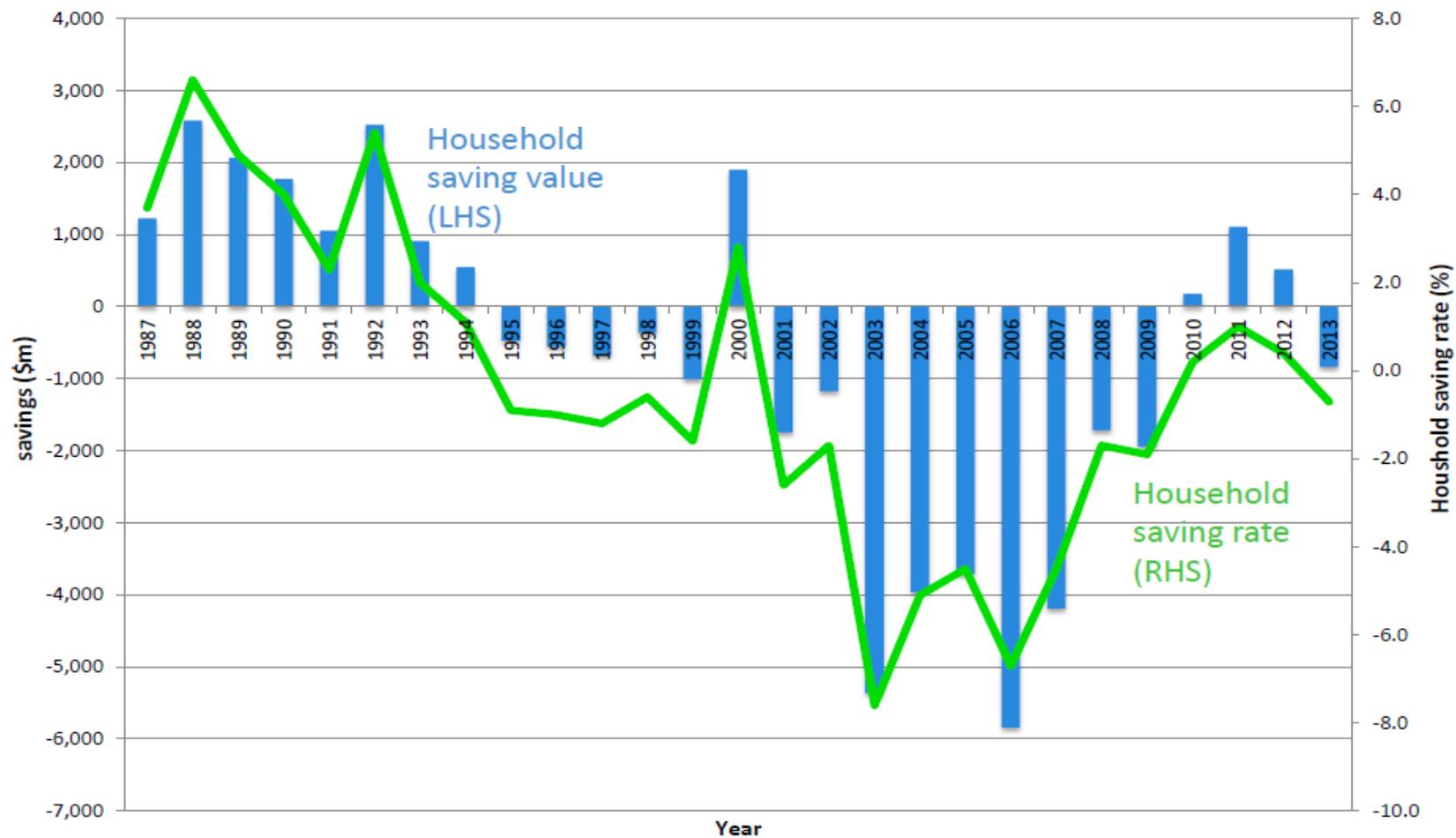
# Distance to markets by country: NZ small & distant



Note: The x axis is scaled so that each marker is ten times the magnitude of the previous one.

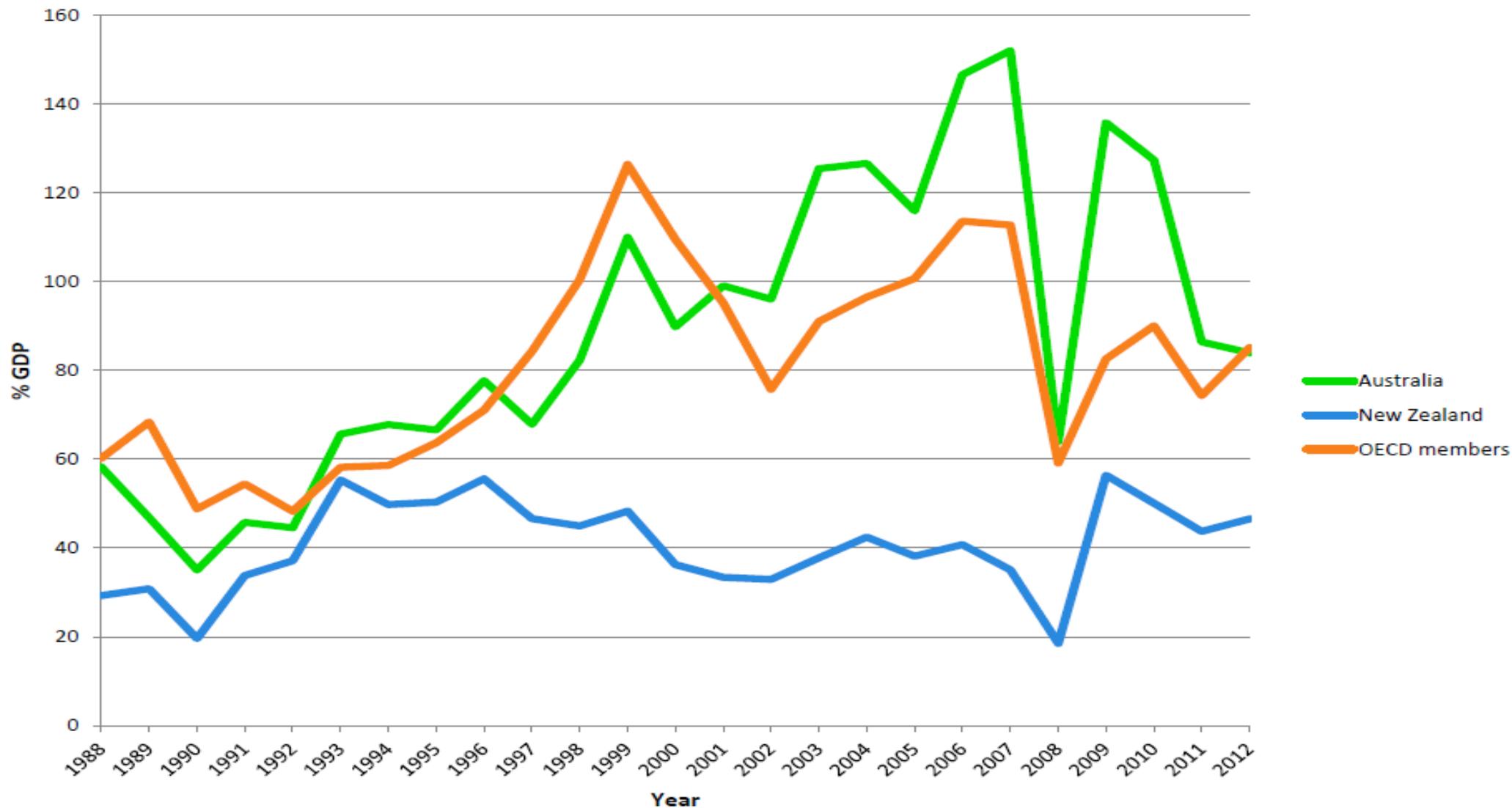
Source: World Bank: World Development Indicators, ITC: Trade Map, CEPII

# NZ has low household saving



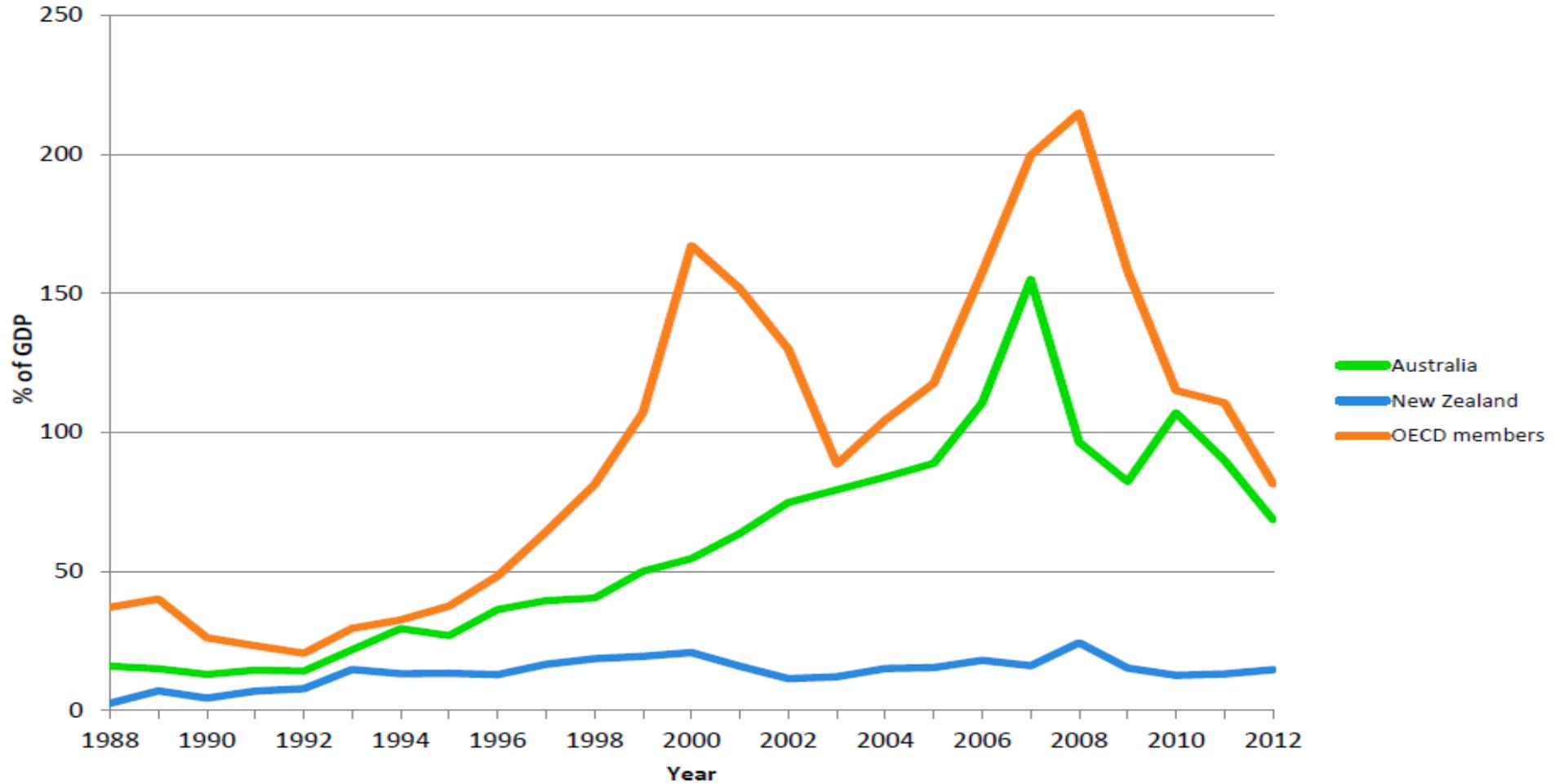
Source: RBNZ

## NZ has very low share market capitalization



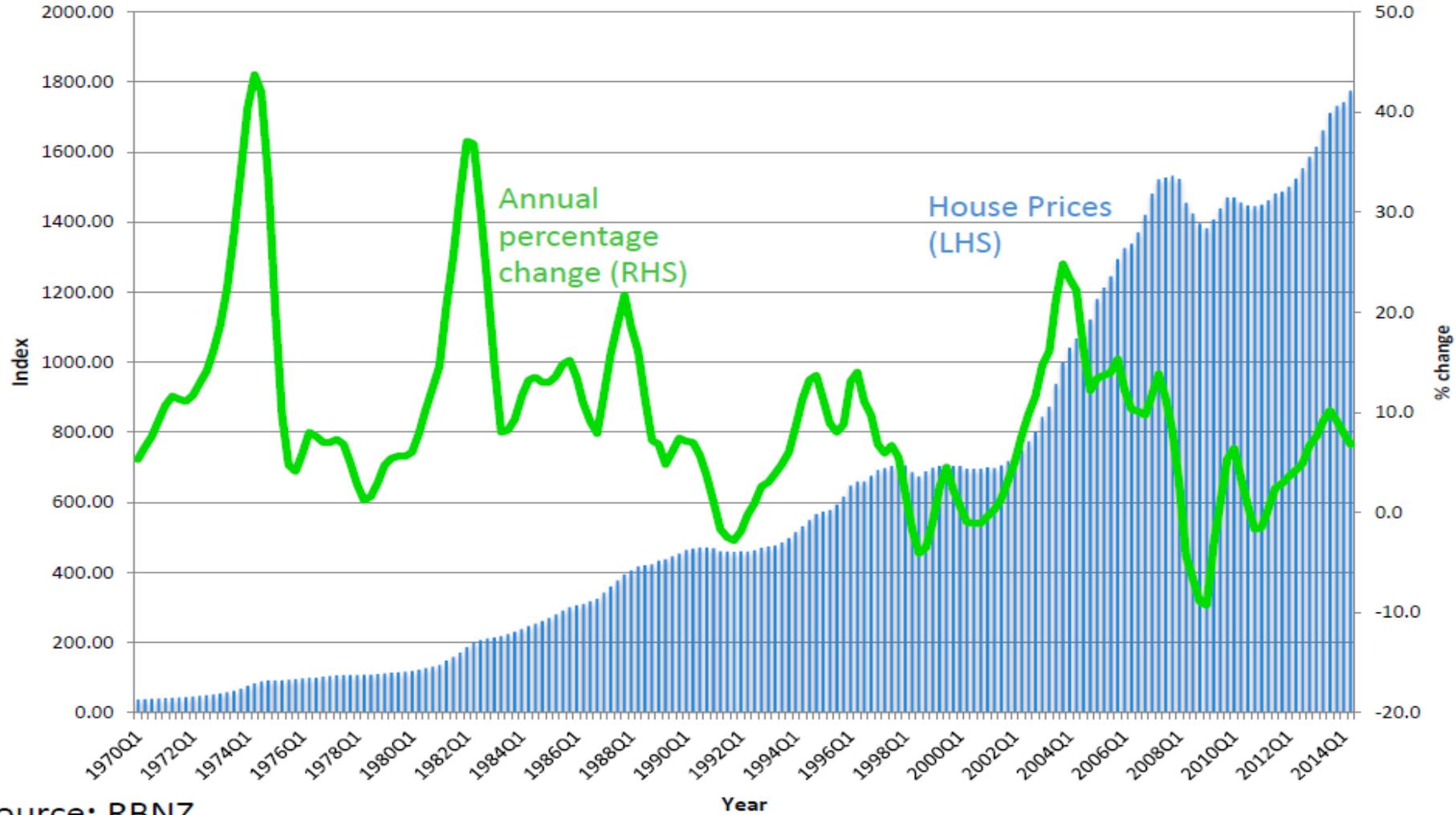
Source: The World Bank

## And a low proportion of stocks traded



Source: The World Bank

# The challenge of ever rising house prices

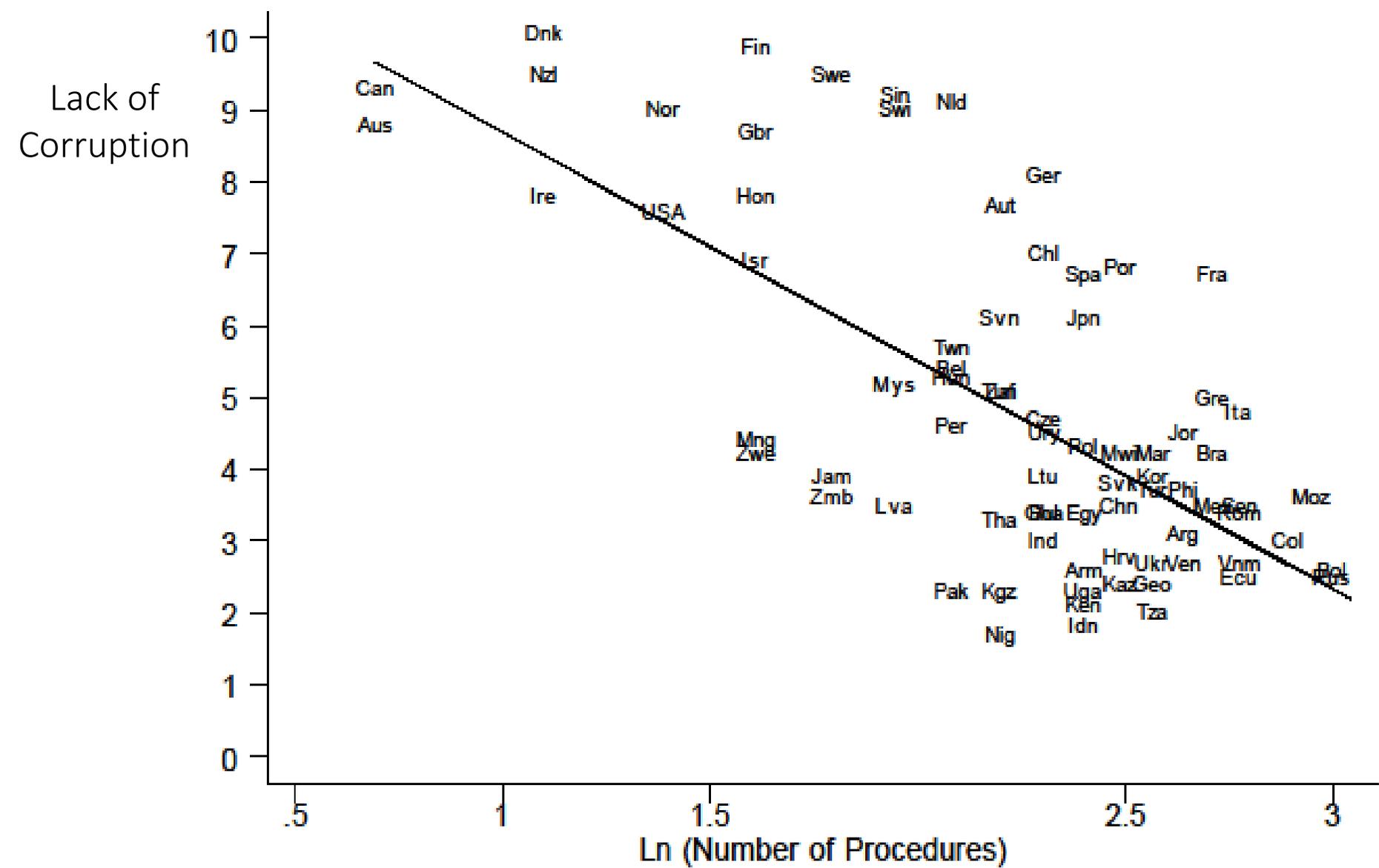


Source: RBNZ

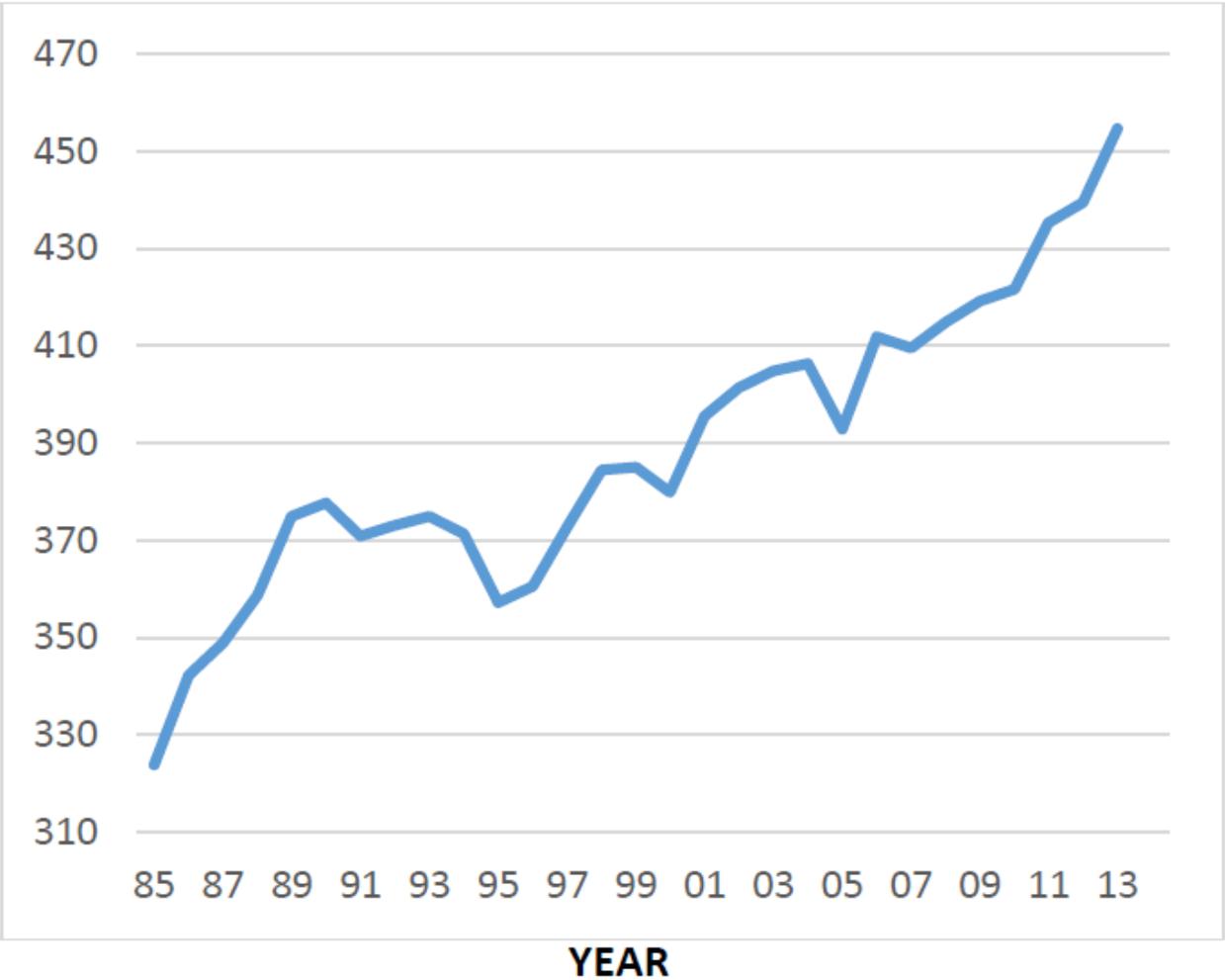
Have our Institutions (e.g., laws, rules, courts, government, culture) been holding back our productivity growth these past several decades?

NZ is practically the least corrupt country in the world.

# (Lack of) Corruption vs Number of Procedures to Start a Business: 79 Countries in 1999.



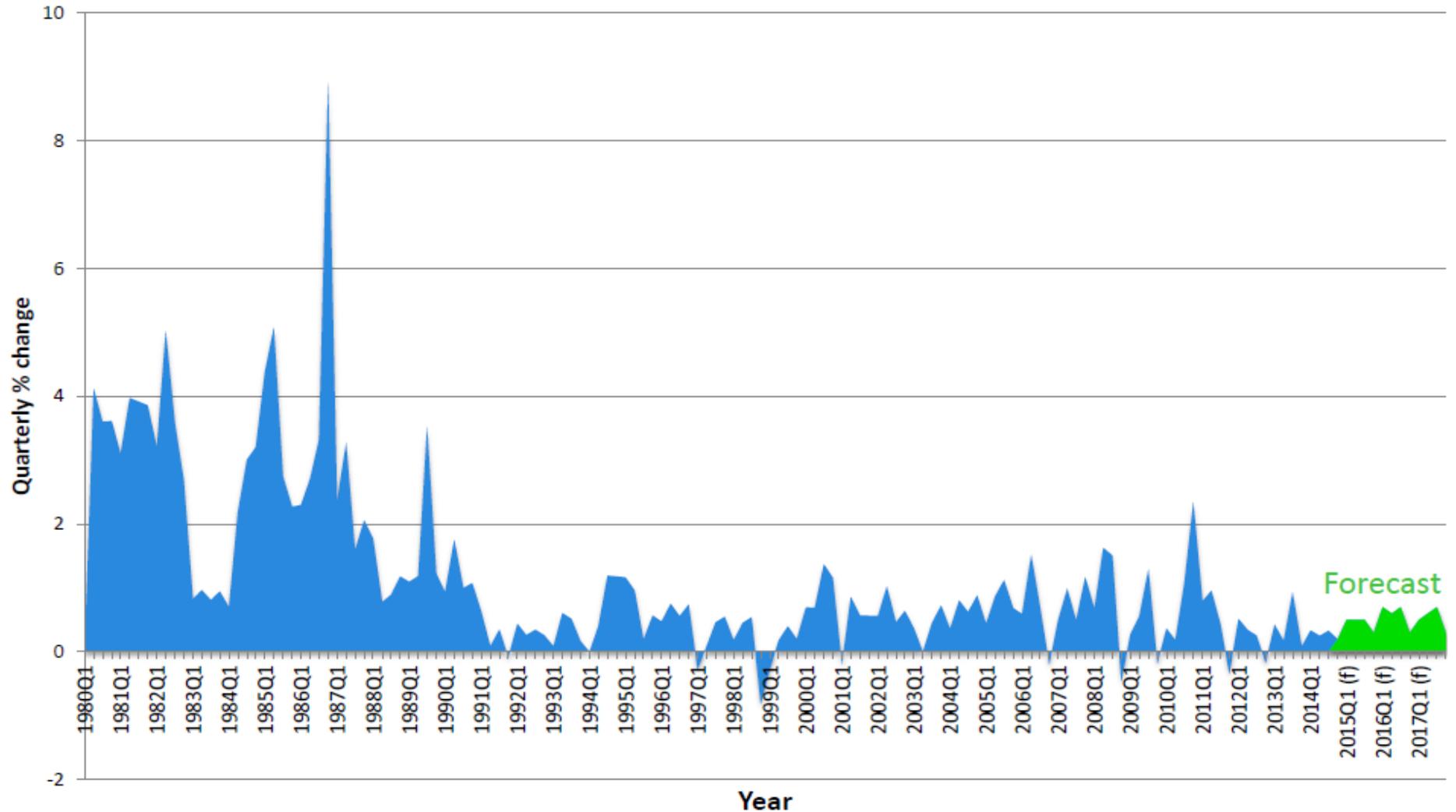
# Number of Statutory Regulations Made Per Annum from 1985 to 2013 in NZ



Note: Six year moving averages reported

# Like other countries, inflation has been tamed

## CPI Quarterly Percentage Change



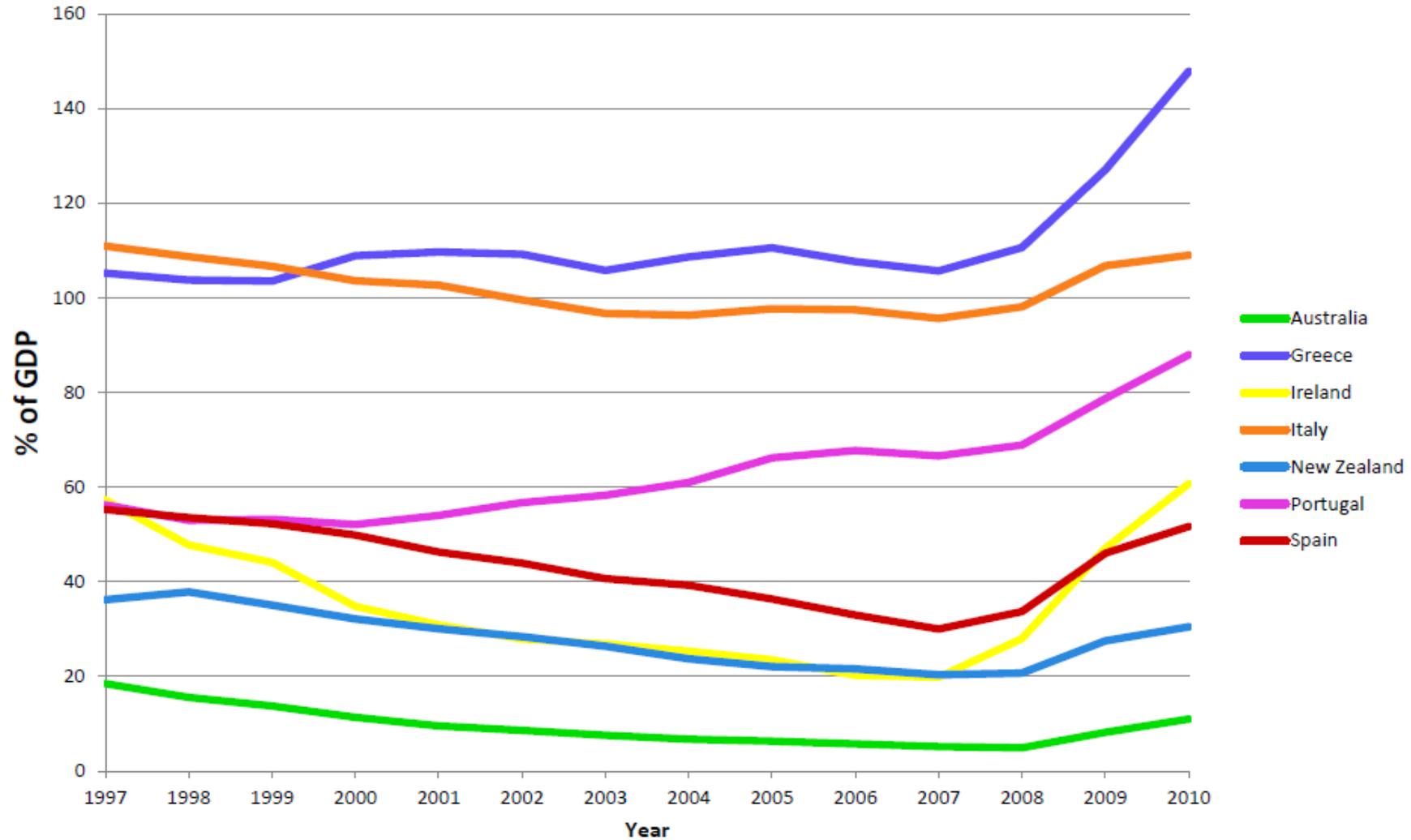
Source: Statistics NZ; ANZ

## General Government financial balance also improving in NZ



Source: OECD

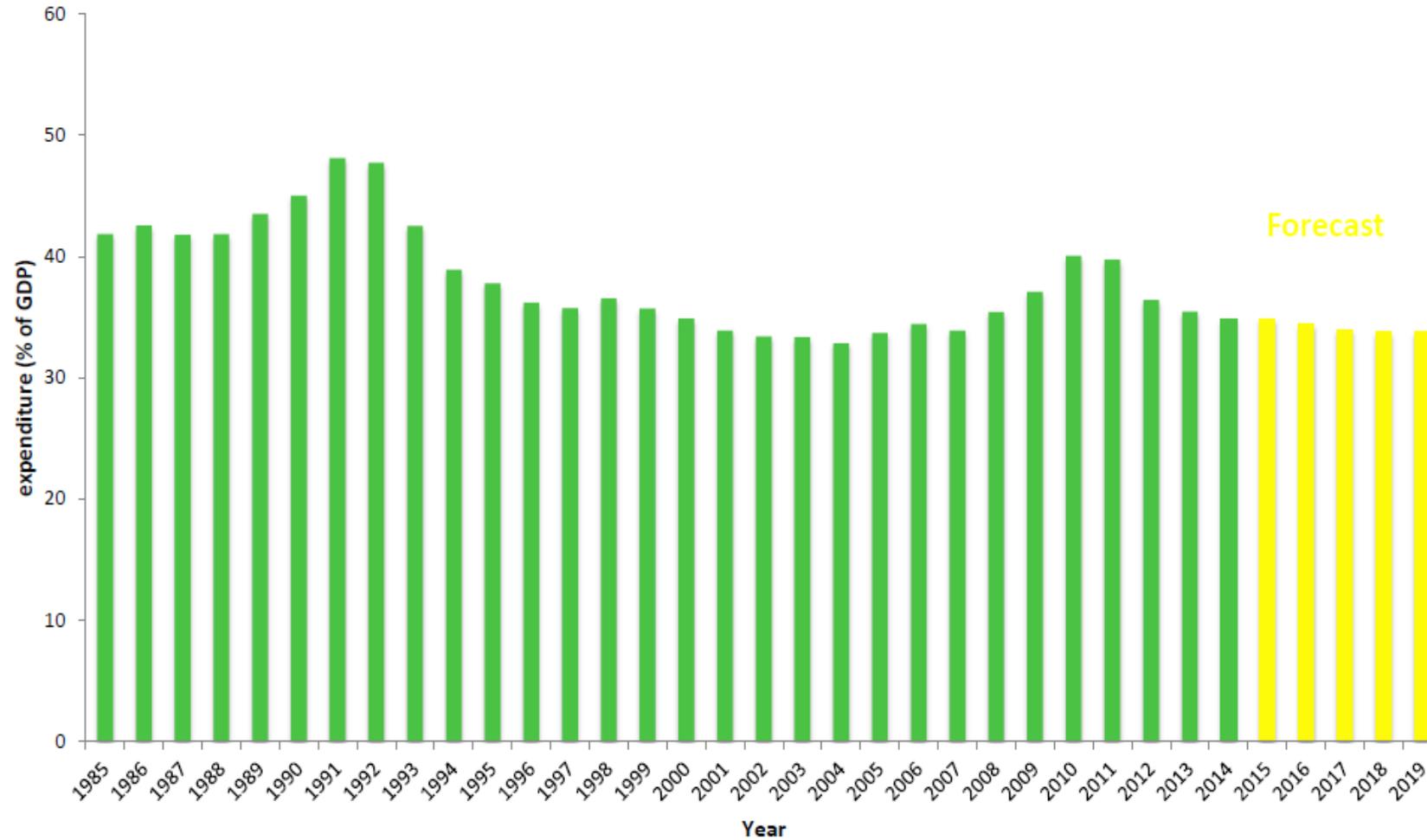
# Total government debt ratios across countries



Source: OECD

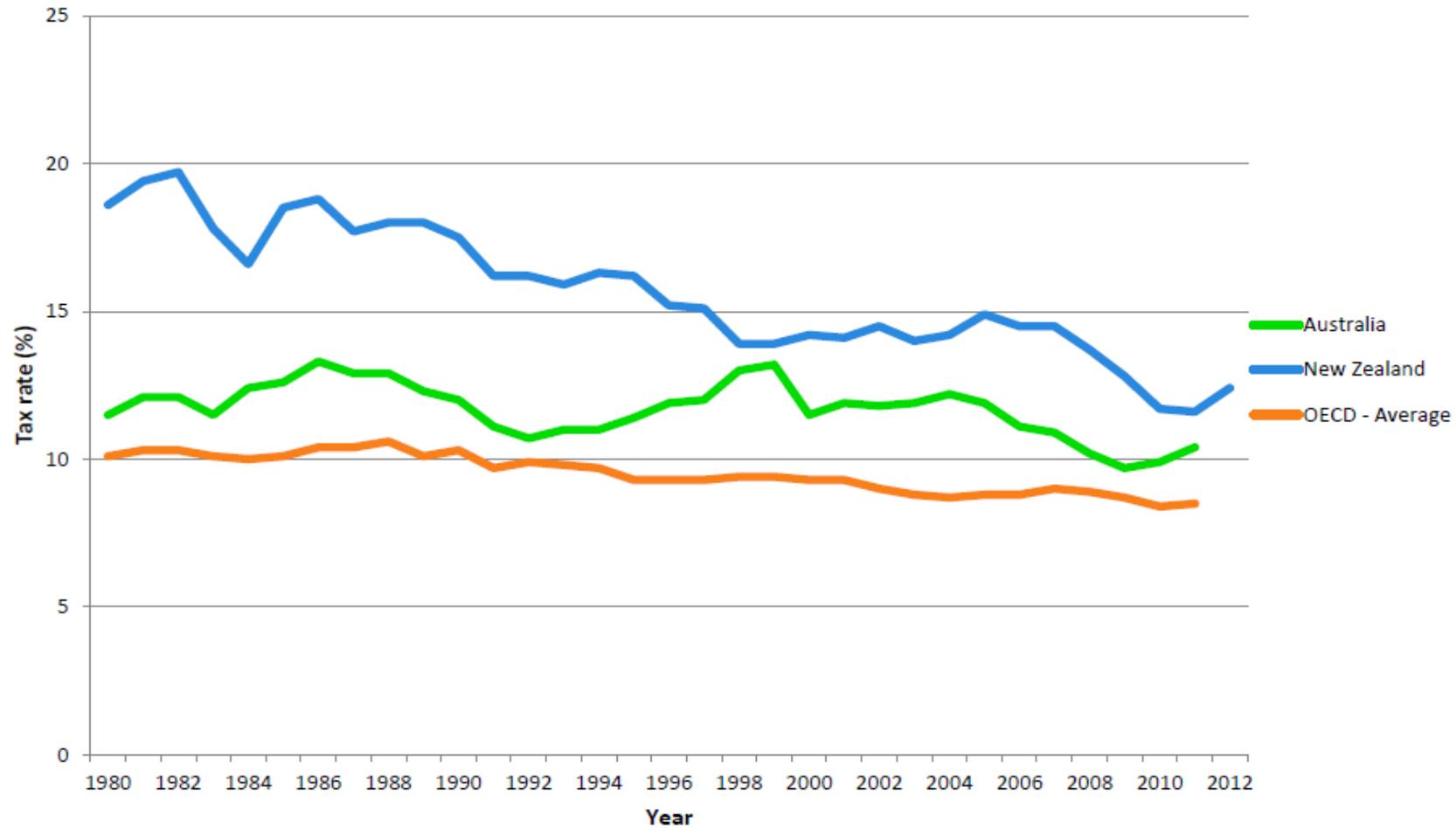
# NZ Government total expenditure as % of GDP

## reducing again



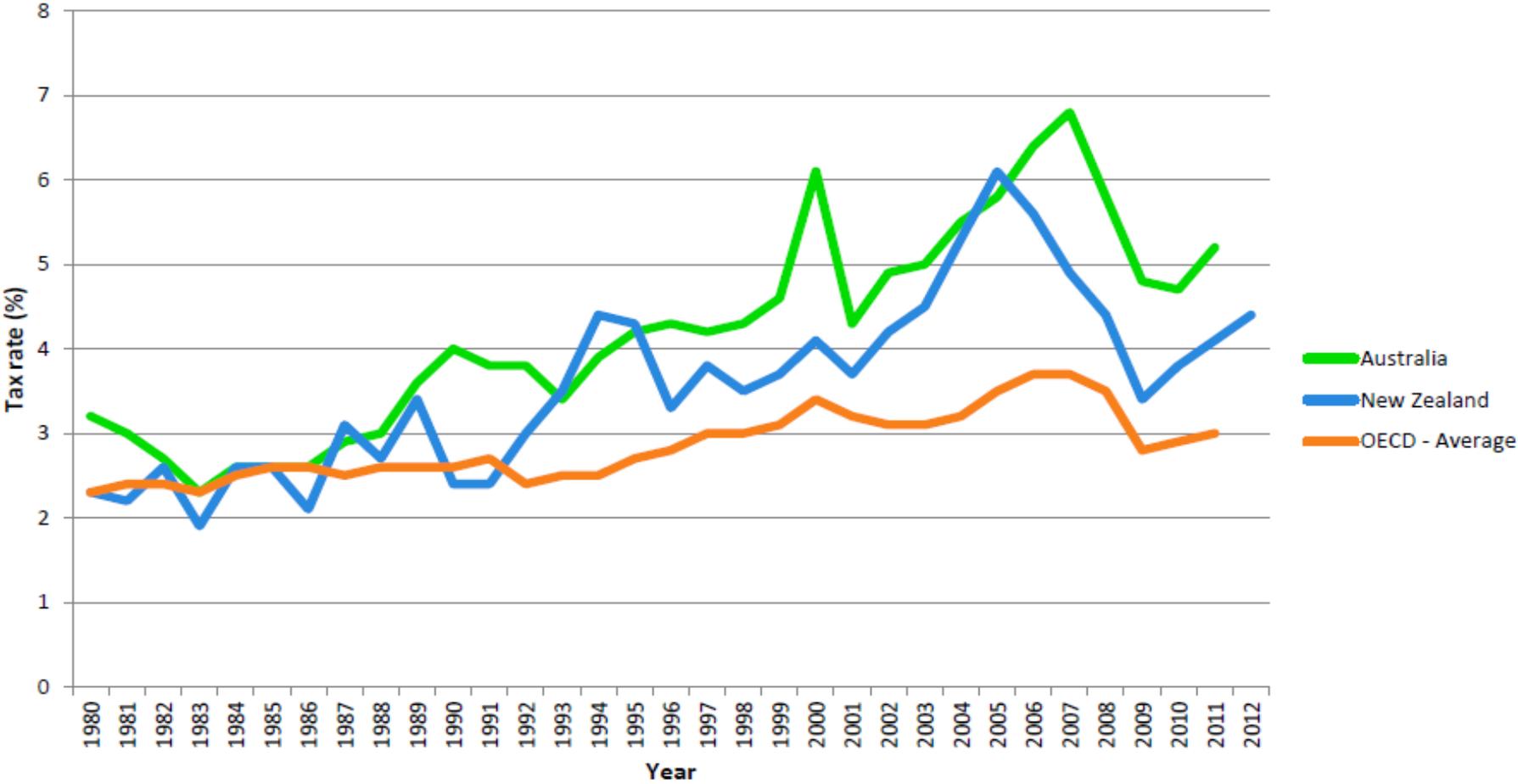
Source: IMF

## Average tax on personal income: NZ v OECD



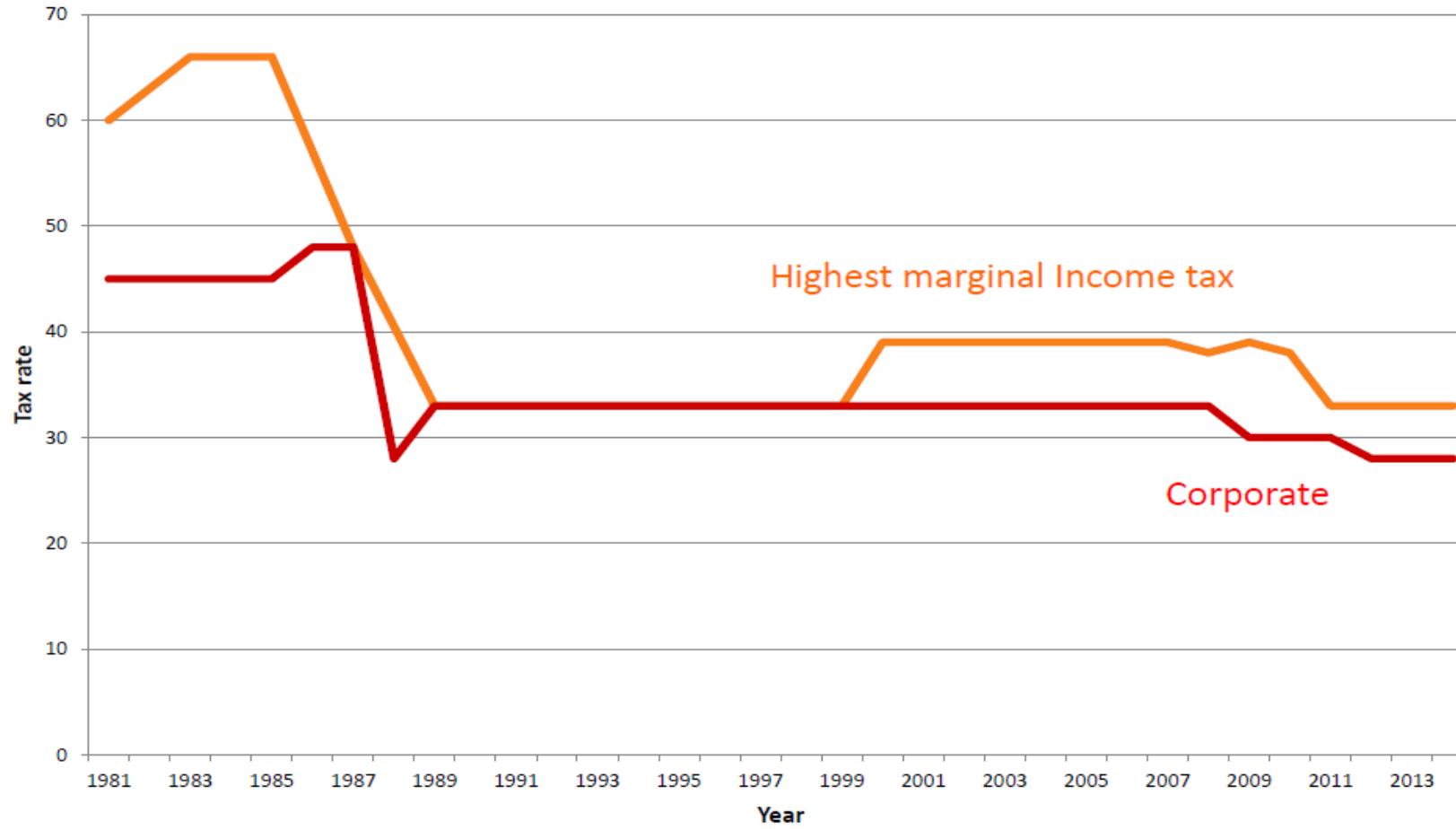
Source: OECD

# Average tax on corporate income: NZ v Australia v OECD



Source: OECD

# NZ tax rates over time



Source: OECD, IRD

- In summary, NZ has fallen dramatically down the world GDP per capita rankings. Productivity growth has disappointed over many decades, beginning in the 1970s.
- That being said, Kiwis report themselves as having extremely high well-being, amongst the highest in the world.
- No-one knows why productivity growth has not been faster, especially in light of the free-market reforms of the 1980s.
- Is there a problem relating to our geography / isolation?
- Is our regulatory framework is flawed? Regulations appear to have been rapidly rising the past two decades.
- Why have we been unsuccessful at diversifying our exports away from primary products?