Deteriorating economic forecasts ahead of New Zealand election

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3 September 2023

As New Zealand heads into a crisis election on October 14 with the Labour government and the opposition National Party both deeply unpopular, deteriorating economic conditions portend intensifying attacks on the social conditions of the working class, whoever takes office.

Last week the International Monetary Fund (IMF) issued a blunt warning on behalf of international finance capital. In its final “report card” on the country’s economy, the IMF said that New Zealand is at risk of falling into a deeper recession. The coming quarter is already heading towards a downturn after a previous recession from October 2022 to March 2023.

According to the IMF, New Zealand’s economic growth rate next year will be the lowest in the Asia Pacific region and among the lowest in the world. The economy will slow to near 1 percent growth in 2023 and 0.8 percent 2024, led by “weakness” in private spending. The jobless rate, currently at 3.4 percent, will rise to 5 percent by 2024.

The NZ Reserve Bank told a parliamentary committee last November that it was deliberately engineering a recession. In May, the central bank raised the official cash rate by 25 basis points to 5.5 percent, the latest in 12 consecutive rate rises since October 2021. Last month it warned the rate would need to remain “restrictive” for the foreseeable future, with the likelihood of a further hike in the fourth quarter.

To bring about a “necessary slowdown,” the IMF said the government needed to slash spending, warning that high inflation could last until 2025. According to the report, the economy had slowed, but significant “labour market restraints” had put upward pressure on wages.

The IMF is demanding an intensification of the same class war policies imposed by the US Federal Reserve and other central banks. The “necessary slowdown” means an escalating assault on the working class, placing increasing pressure on jobs, pay and conditions by driving up unemployment to beat back an emerging movement for substantial wage increases to make up for years of below-inflation pay deals.

The IMF’s mission chief to New Zealand flatly advised against a Labour policy to remove GST from fruit and vegetables—which would only save the average household about $5 a week—and reiterated that cuts to the punishing interest rate regime should be off the table. It declared that any cost-of-living support for “vulnerable groups” should be “targeted and temporary” and implemented using means testing—in other words, as meagre and insubstantial as possible.

Separately, global credit rating agency Fitch reaffirmed the country’s AA+ rating but warned that high household debt and a large current account deficit are “risks.” The rating is the agency’s second highest, which it said reflected the government’s commitment to “fiscal discipline” including returning to budget surpluses and reducing the debt-to-GDP ratio.

Fitch warned the economic outlook was “challenging” with growth falling because of worsening trade, higher debt servicing costs and weak consumer sentiment, with a fall in house prices and an “easing” labour market.

In August the NZ dollar dropped to a seven-year low against the British pound and a six-month low against the US dollar. Bank of New Zealand market strategist Jason Wong said the dollar was likely to remain under pressure, while problems in China’s economy had driven down commodity prices to three-year lows. A low NZ dollar exchange rate usually benefits exporters but any gains would be more than offset by weak commodity prices and increasing inflationary pressures, he told Radio NZ.

New Zealand is highly exposed to the downturn in China. The world's second largest economy accounts for over a quarter of New Zealand's exports, primarily dairy products, valued at $NZ21.45 billion and $3.4 billion in services. Two-way trade totalled $40.31 billion in the year ending December 2022, making China the country's largest trading partner.

Market analyst Rodney Jones told TVNZ on August 27 that the outlook for the rural sector, in particular, is "dire" with all the indicators "pointing the wrong way." "We've remained a bulk-commodity exporter," Jones said "and you look at those auctions, Chinese demand is important, and they're not turning up. We've done well in terms of exporting over the last few years—that's starting to change."

Jones warned there were no guarantees dairy prices would not go lower and that NZ was in the "front line" of any shock. Dairy prices slumped by 7.4 percent at last month's Global Dairy Trade auction, led by a 10.9 percent fall in whole milk powder to $US2,548 a tonne, its lowest point in almost five years. Major companies Fonterra and Synlait cut their forecast milk price to $7 per kilogram of milk solids, which will remove around $5 billion from the economy.

With formal election campaigning now under way, the major parties have turned the "debate" into who will slash government spending the most. Labour's Prime Minister Chris Hipkins has ruled out any wealth or capital gains taxes to increase revenue.

On August 28 Hipkins announced spending cuts of $NZ4 billion over the next four years, on top of $4 billion in cuts announced in the May budget. The government will reduce contractors and consultants, spending allowances and slash more than $1.4 billion in operating and capital savings. Included is a $236 million cut from climate initiatives.

The cuts will intensify the crisis in the public sector. Health and education are dealing with severe understaffing, years of under-funding and regular emergencies.

The unions rushed to endorse the move. The Public Service Association released a craven statement which declared: "…we understand as revenue falls during challenging economic times, savings need to be found."

Last week the opposition National Party released a tax package which it claimed would address the precarious financial plight of the "squeezed" middle class. It offers tax cuts that will mainly benefit the rich, paid for by increased costs for basic necessities, including prescription charges and public transport fares. Meanwhile, a proposal to lift restrictions on the purchase of homes by wealthy foreign investors, which will attract a new tax, threatens to re-inflate the overheated housing market.

The far-right ACT Party, which could join National in a governing coalition, is setting the agenda for sweeping attacks. It calls for increased privatisation of the health system and the reintroduction of privately-run charter schools; massive tax cuts for the rich; $9 billion in cuts to annual government spending, including slashing the public service workforce by 30 percent; and measures to push people off welfare.

The one area that will remain untouched by any of the main parties is defence. Labour aims to increase defence spending from 1.4 percent to 2 percent of GDP, as the government continues to help train Ukrainian forces for the US-NATO war against Russia and prepares for an even more calamitous confrontation with China. The country's ruling elite is unified in its commitment to this course.