New Zealand economy in deepening slump

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New Zealand's gross domestic product (GDP) fell by 1 percent in the September quarter, a much larger decline than economists had expected. The slump came after a revised 1.1 percent drop in the June quarter, according to figures released by Stats NZ on December 19.

The report points to an accelerating decline in the position of New Zealand capitalism. Amid geo-strategic tensions globally including the drive to war, the ruling elite is preparing to wage an intensifying assault on the living standards and basic democratic rights of workers and youth.

The two successive negative quarters place the country in the deepest downturn since the COVID-related slump in 2020–21. The falls were the biggest since late 2021 at the height of the pandemic lockdowns. Excluding those, the six-monthly fall was the largest since mid-1991.

GDP per capita, a measure of economic output per person, fell 1.2 percent during the September quarter—the eighth consecutive fall in the series. As a measure of historic decline, New Zealand was third in the world in terms of GDP per capita in the 1950s but is now ranked 37th.

September quarter economic activity declined in 11 of the 16 industries that measure GDP. The main contributors were a 2.6 percent fall in manufacturing, 3.7 percent in electricity and gas, 2.8 percent in construction and a 1.1 percent decline in retail. The fall in manufacturing in part reflected the mid-winter energy crisis which forced some businesses to reduce or halt production.

The recession is the second in less than 18 months. The economy had officially contracted by 0.1 percent, and 0.7 percent per capita, in the December 2023 quarter, following a 0.3 percent contraction in September. GDP figures had shrunk in four out of five quarters, with a stagnant annual growth rate of just 0.6 percent.

The weakening New Zealand dollar fell by a third of a US cent to US56.30c on the back of the worse data. Economic activity is the weakest of all the country's major trading partners and is ranked 33rd out of 37 by the Economist. Of OECD economies, New Zealand is placed ahead of only Finland, Latvia, Turkey and Estonia.

Two days before the GDP figures were released, Finance Minister Nicola Willis delivered the Half Year Fiscal Update (HYEFU) revealing the government's books are also worse than most economic forecasts.

Treasury now predicts sharply slowed economic growth with unemployment, currently 4.8 percent, rising to 5.4 percent next year. Far from heading towards promised budget surpluses by 2028, the government's books will be in the red for at least the rest of this decade.

Willis told parliament; "The downturn started earlier, was deeper and persisted for longer than previously expected." In fact, the deteriorating economic situation is a direct product of the austerity agenda pursued by successive Labour and National Party governments and intensified by the current far-right National-NZ First-ACT coalition following the October 2023 election.

While Crown expenses are $1.4 billion higher than expected due to welfare, superannuation and education costs, nearly $5 billion is going to the military this year amid the US-led drive to war. The Ministry of Foreign Affairs and Trade, which oversees these preparations, is the only department to escape major funding cuts.

The government expects to borrow an extra $57 billion over four years. The gross debt-to-GDP ratio will hit 46.1 percent in 2027/28, up from 41.8 percent forecast in the May Budget. Government debt is expected to rise to $234.1 billion by 2029, up $24.3 billion from the Budget forecast.

Tax revenue is $NZ13 billion lower due to escalating unemployment, lower Goods and Services Tax from falling retail sales and lower business taxes. The Budget handed major tax cuts to the wealthy, including residential property investors. Landlords can now deduct tax on 80 percent of their loan interest, cutting their tax obligation by a total of $2.1 billion. From April 2025, the deduction will lift to 100 percent.

Behind the dismal figures is a deepening social disaster with the costs imposed on the working class.

Like capitalist governments around the globe, National, ACT and NZ First have launched a scorched earth assault on jobs and services across the public sector with a view to privatisation. Willis imposed funding cuts of 7.5 percent on almost all ministries. Some 10,000 public sector jobs have already been axed, including more than 2,000 in the health sector.

Employers based in Wellington have shed around 19,500 jobs since January, 11.6 percent of the capital city's workforce. Auckland has lost over 10,000 jobs. Radio NZ reported on December 2 that business insolvencies are running at more than double the rate of last year, with one economist saying the failure rate exceeds that of the 2008 Global Financial Crisis (GFC).

While official unemployment stands at 148,000, there are 204,765 people, or 6 percent of the population, receiving the Jobseeker benefit. The number of working-age people on a main benefit, including health and disability payments, is approaching a record 400,000. This represents 1 in 9 people (11.4 percent), almost the same proportion as after the GFC.

Jobless figures would be much higher if not for the exodus of people leaving the country. A record 79,700 NZ citizens permanently departed in the year to September, with half going to Australia. A net immigration gain of 44,900, mainly from Asia, was sharply down from 136,300 in 2023. The numbers going overseas could well exceed those entering next year.

Direct attacks on the working class are underway. Last week, Workplace Relations Minister Brooke van Velden announced a real-term pay cut for minimum wage workers, the second in a row. From next April the minimum wage will rise by 1.5 percent to $23.50—below the 2.2 percent inflation rate. It is the smallest rise in dollar terms since 2013, and the smallest percentage increase since the 1990s. Training wages and starting wages will increase to just $18.80, 80 percent of the adult minimum wage.

Van Velden is introducing a range of legislation to attack fundamental workers' rights and conditions. She has vowed to "simplify and clarify" already anti-worker laws to enable pay deductions for partial strikes, which could lead to workers losing pay even for running "work-to-rule" campaigns, and to gut occupational Health and Safety regulations.

The trade unions have played a central role in enforcing the assault on jobs and wages. No unified industrial and political campaign against the government has been mounted. Nevertheless, key sections of the workforce are beginning to fight back. Some 36,000 nurses have been striking this month against a pay offer from Health NZ of 0.5 and 1.00 percent over two years.

The Treasury predicts real wage growth to fall from a paltry 1.7 percent per annum to an average of under 1 percent over four years. Workers have already suffered under the drive by the Reserve Bank, among the most aggressive central banks in the world, to engineer a recession. Beginning in March 2020 the Official Cash Rate was progressively lifted to 5.5 percent before being eased in August.

The result has been a massive increase in household costs of 5.4 percent in the 12 months to June, driven by mortgage payments, rent and other expenses.

Treasury predicts tepid growth to 1.7 percent in the year to June 2025 then picking up to average 2-3 percent over the following years. But no one is factoring in the dramatic decline in the Chinese economy, on which the ruling class depends as its largest export market, or US President-elect Donald Trump's threats of a catastrophic global trade war.