Prospects for 2016

Kirk Hope

2016 may see better economic prospects in New Zealand than in many other places.

The New Zealand economy has good momentum, while in comparison the global economy is more uncertain.

New Zealand's growth rate – a bit below 3 percent – is relatively strong by current international standards, and is forecast to continue.

Our current growth comes from a broad range of sectors including tourism, construction, international education, ICT, high-tech manufacturing, services and a number of primary industries.

International factors are helping our prospects in some areas -for example lower oil prices driving down shipping rates are making our log exports more competitive; and falling international prices for alumina are making aluminium production a bit more profitable.

And despite the poor prospects for dairy – with about 85% of dairy farmers expected to post a loss this season - business sentiment is otherwise reasonably positive.

Most risks to economic growth in New Zealand come from offshore.

Many world markets have come to rely on China's rapid growth, and its recent slowdown has reduced commodity prices and created uncertainty.

Lower oil prices and oil oversupply are creating further doubt in industries such as energy exploration.

Internationally, mergers and acquisitions are increasing, as companies seek to buy growth prospects or move tax headquarters for easier tax regimes, and volatile stock markets are adding to the ambiguity of the world scene.

The world is changing fast and full of challenges.

A key challenge is debt. After the global financial crisis a number of countries tried to stimulate their economies by increasing money supply and this along with very low interest rates brought a big increase in borrowing.

The resulting debt-to-GDP ratio in a number of major economies is very high, and there is also estimated to be a high level of non-performing loans in China.

High debt levels are a drain on economic activity and contribute significantly to instability.

Here in New Zealand we avoided quantitative easing and also benefited from conservative bank management during and after the global financial crisis, so our situation is more stable.

While other countries have used their central bank to attempt to prime their economy, New Zealand has taken the alternative road of investing in infrastructure.

Infrastructure investment can help economic growth, give business the confidence to invest, and contribute to new jobs.

Our ongoing investment in road, rail and broadband infrastructure over the next 10 years will provide a good platform for growth in New Zealand.

New Zealand faces global challenges, but global challenges are not new. With our resilient economy and good economic settings, we should be able to cope and thrive.

What are we likely to see in 2016?

We can expect to see the continuation of low inflation, and possibly more cuts in interest rates – a good basis for business investment.

Housing pressures in Auckland may not amenable to a quick fix in 2016 unfortunately. Expansion of housing supply may require significant change to regulation including the Resource Management Act and Local Government Act. Getting reform of these key pieces of legislation will be important for improving Auckland's economic performance.

We may see movement on the TPP near the end of the year. For the deal to proceed it requires ratification by the US, which is only likely to occur in late 2016 in the final stages of the Obama Presidency. If this happens New Zealand will begin to get greater access to large markets and more profitability from reduced tariffs – a great benefit for a trading nation.

A key element making a difference in 2016 will continue to be the performance of New Zealand businesses. Whether trading internationally or serving the domestic economy, it is productive, innovative, smart, connected, hard-working New Zealand business operators who will drive our economy and enhance our community in 2016.

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