New Zealand's Economic Outlook

PFSO Annual Meeting

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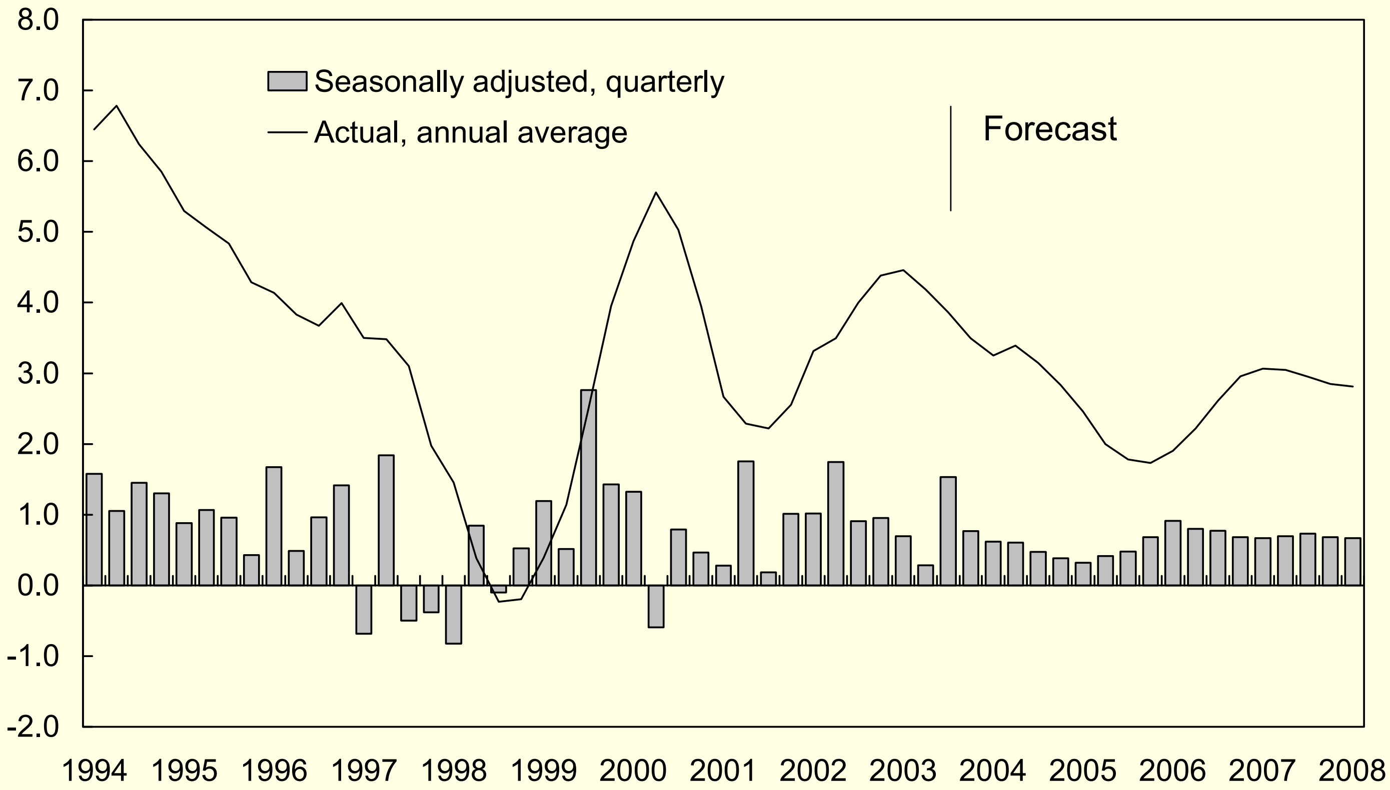
Hanoi, May 2004

The past year

- War and terrorism
- Energy price spikes
- SARS
- Appreciation of the New Zealand dollar
- Net migrant inflows
- Strengthening world growth

Economic growth

Percent change



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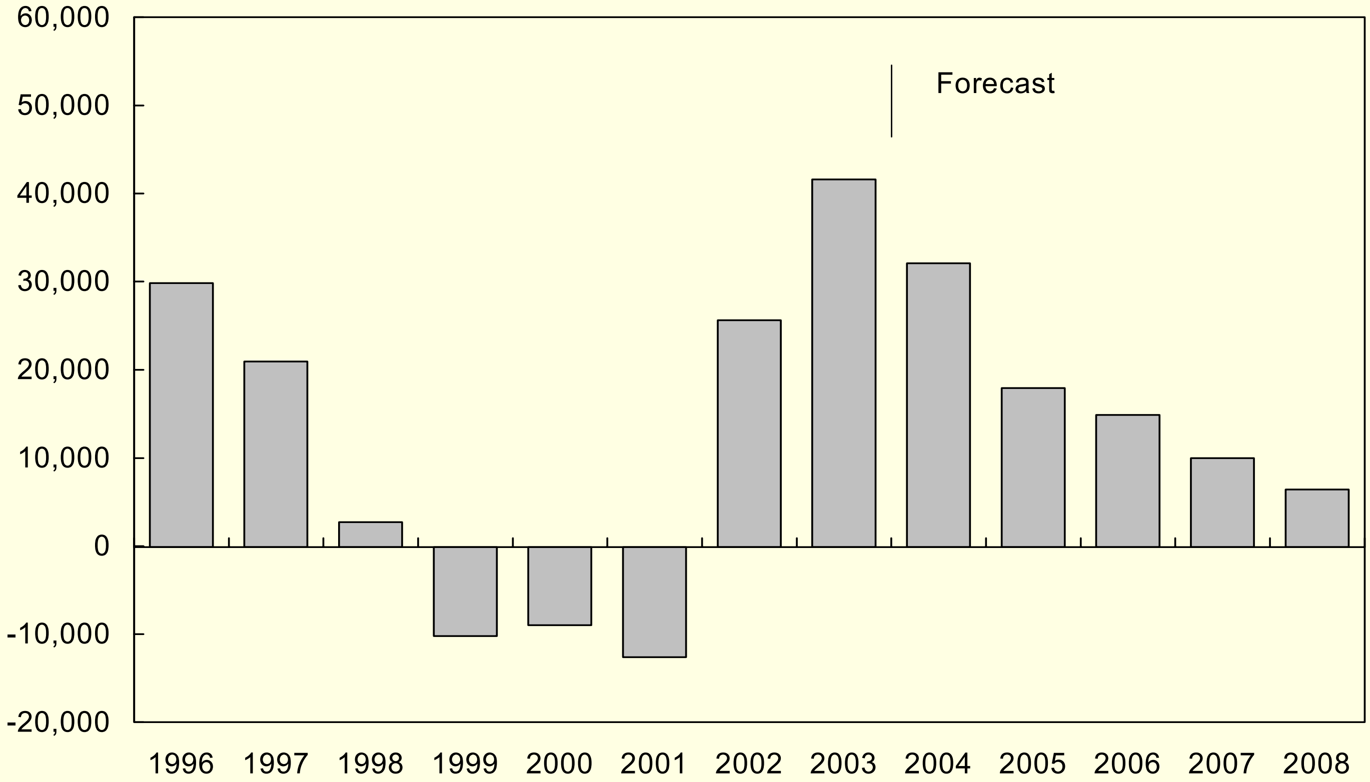
Net migration

Annual totals, March years



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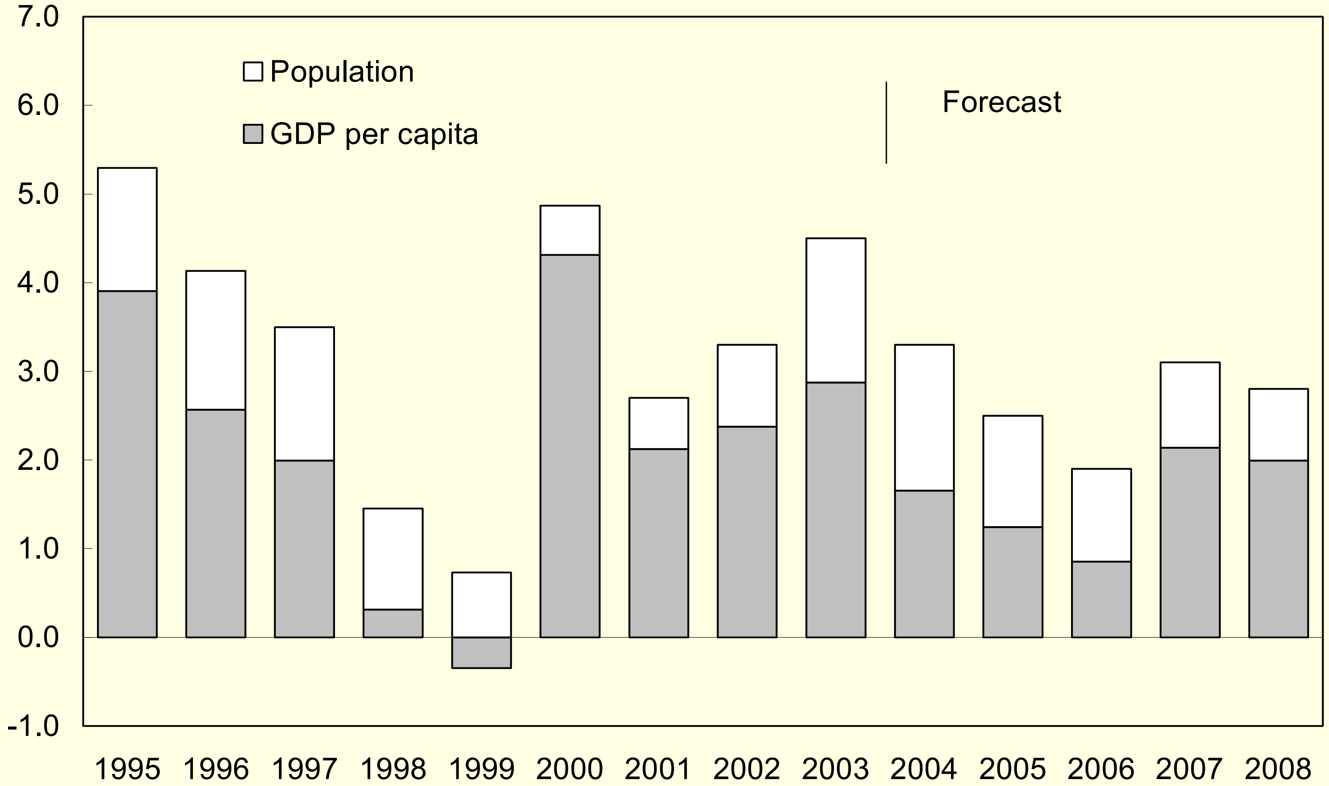
Population and growth

Annual average percent change, March years



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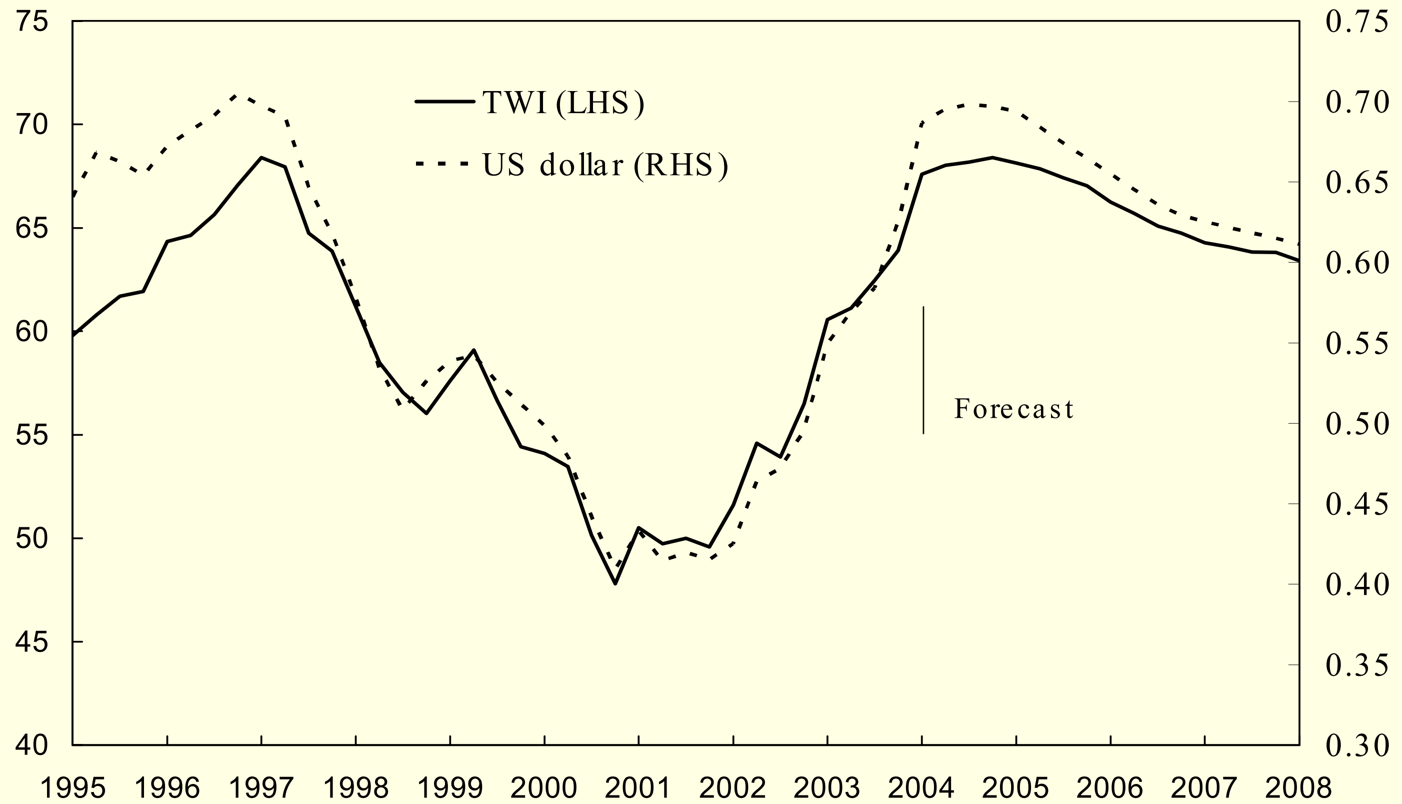
New Zealand dollar

Quarterly average: TWI index (LHS), US dollar (RHS)



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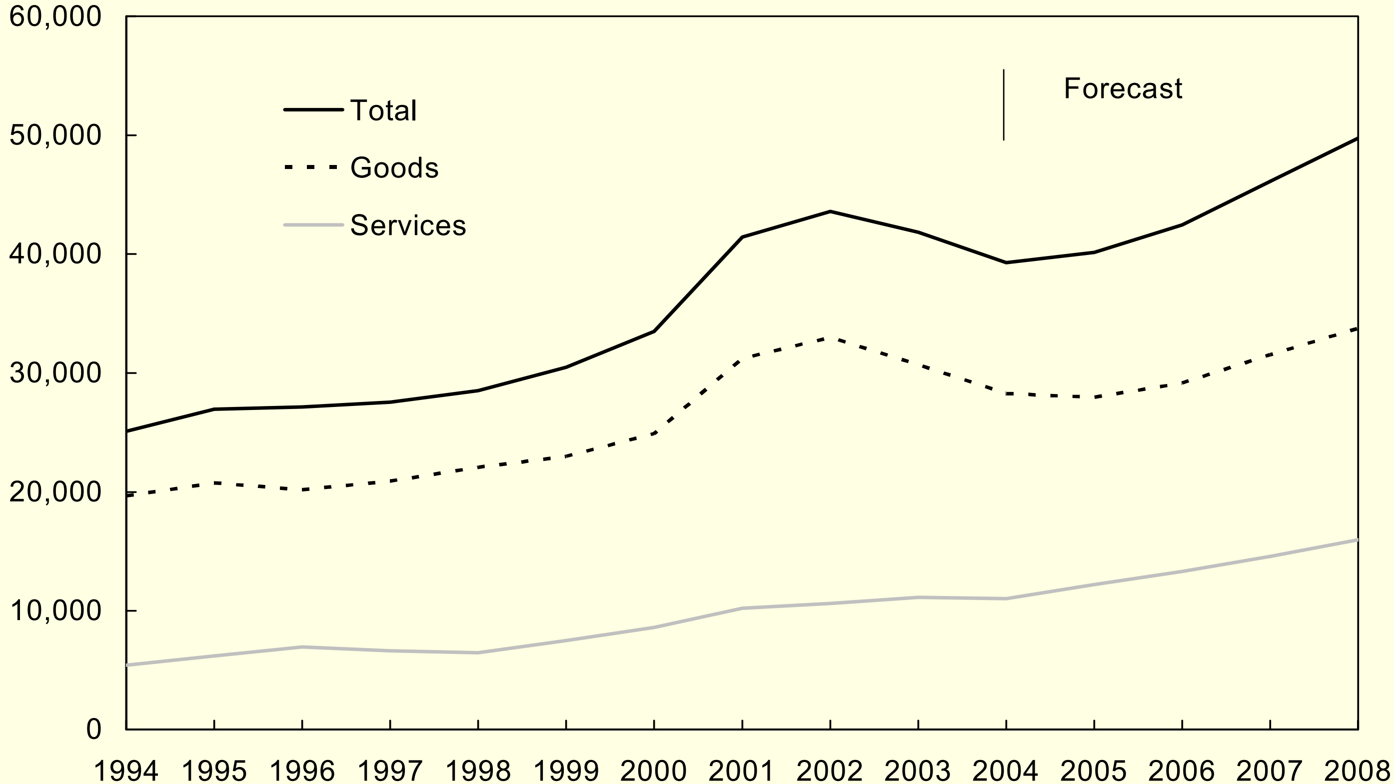
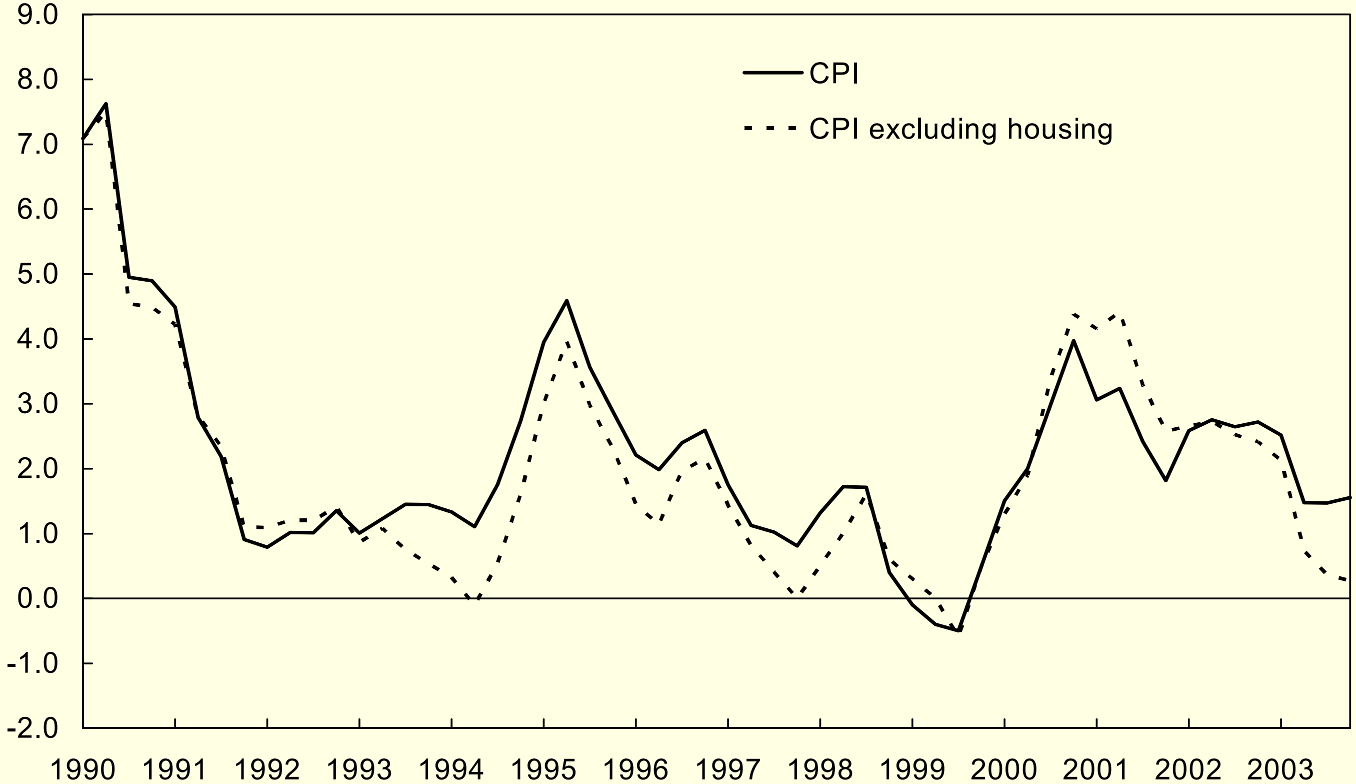
Export revenue

Dollar millions



Consumer inflation

Annual percent change



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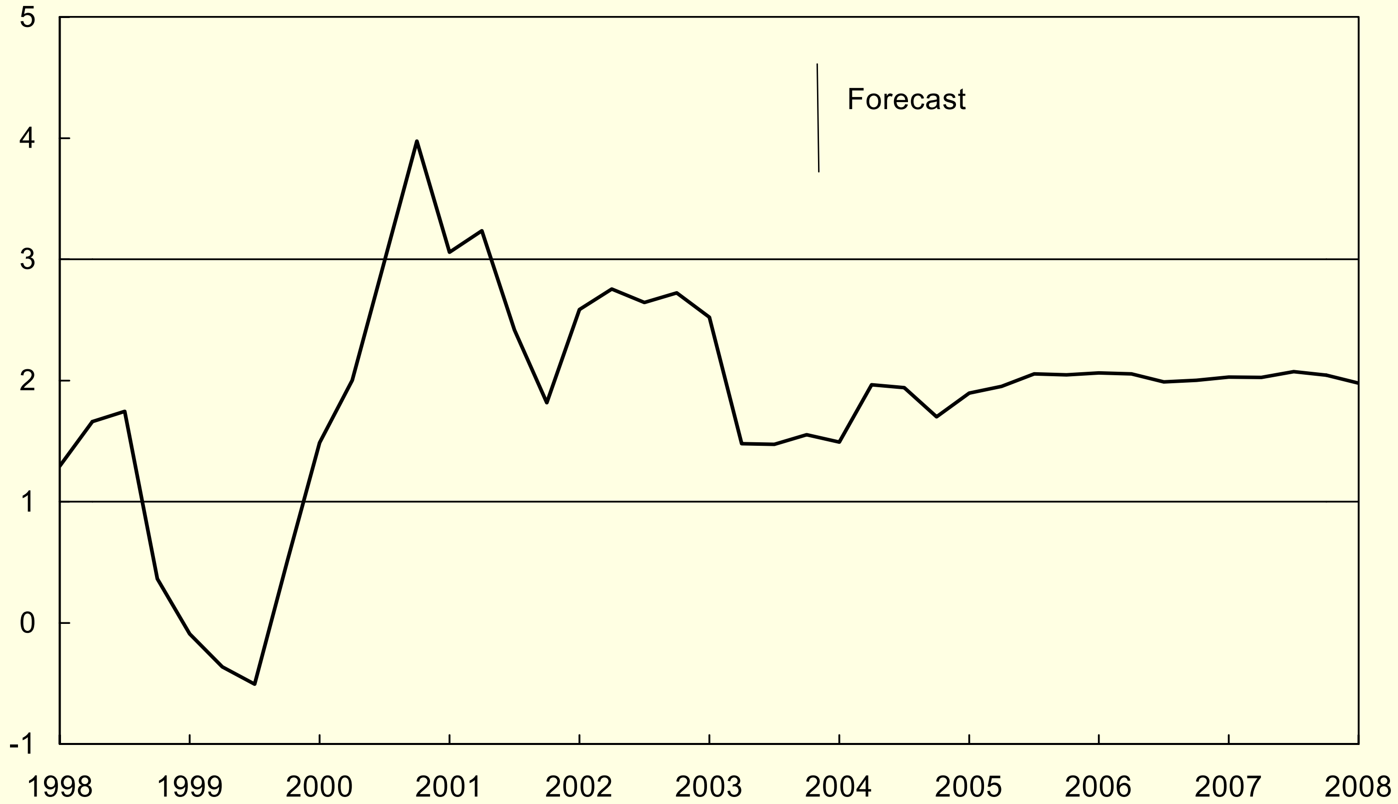
Consumer inflation

Annual percent change



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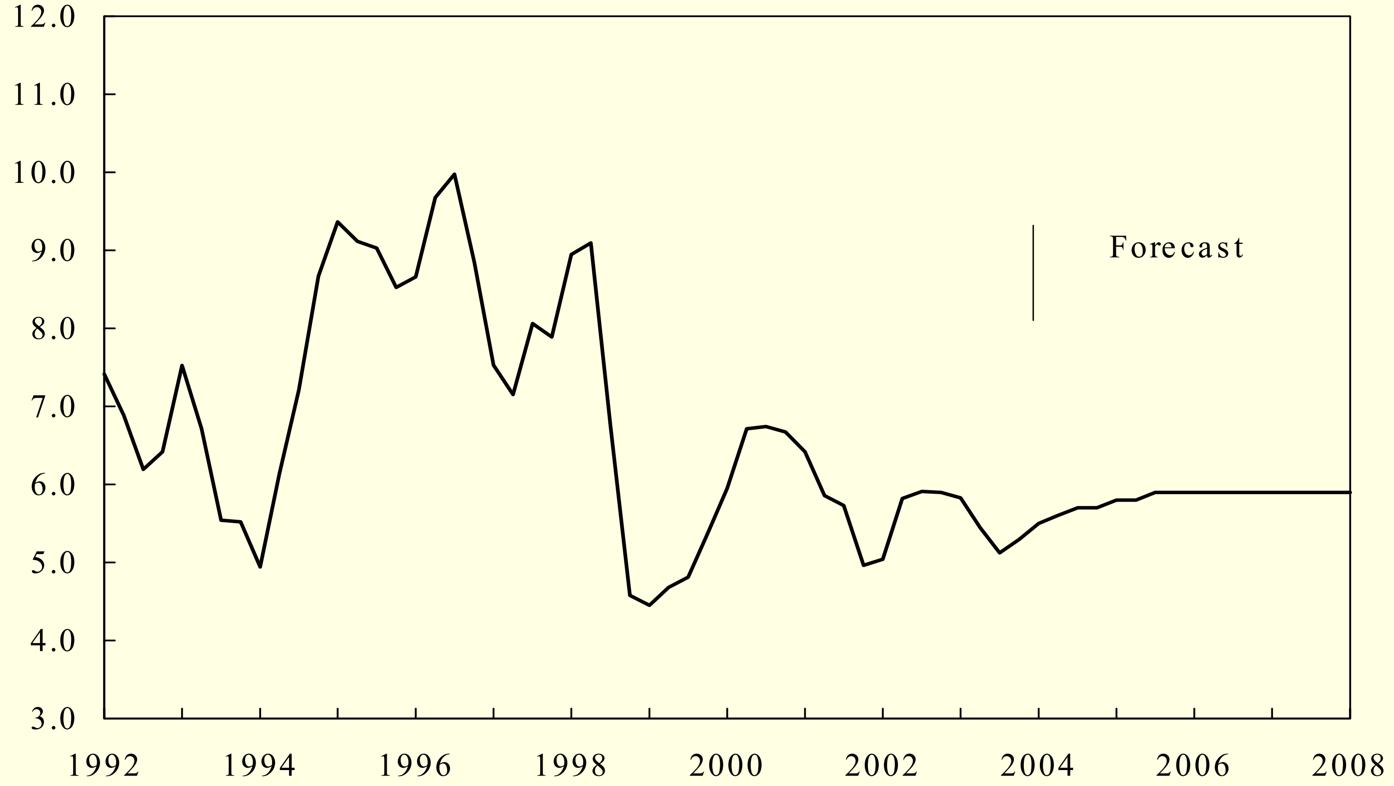
Interest rates

90 day bank bill, percent



Key points

- Economic growth is forecast to slow over the next two years
- Reduction in house building as a result of fewer migrants key to slowdown – GDP growth excluding house building is forecast to rise
- Previous declines in export returns will hinder economic growth
- World growth has improved – key markets of Australia, US, Japan, and China are all showing good growth
- Tourism will be a star in a lacklustre export sector

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Role of Infrastructure in New Zealand's Food System

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Background

- Food and beverage (F&B) manufacturing NZ's largest manufacturing sector
- Accounts for
  - 40% of manufacturing output
  - 50% of merchandise exports
- 53% of F&B production exported
- Imports account for 8% of F&B consumption
- Export and import intensity increasing over time
- New Zealand a long way from (nearly) anywhere

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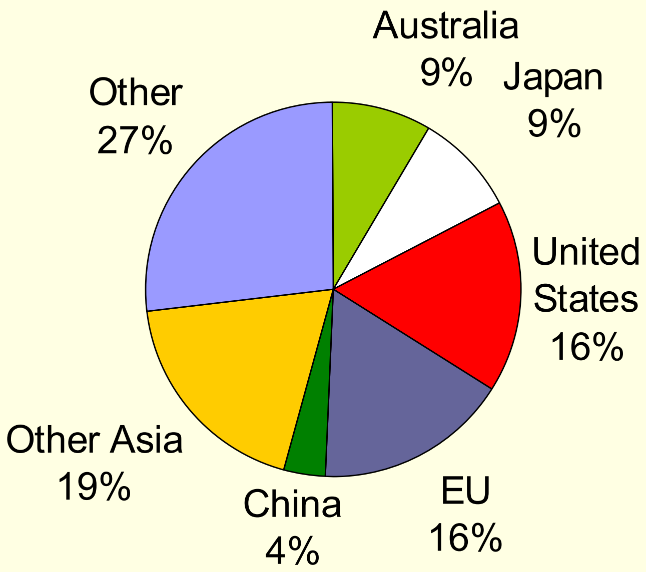
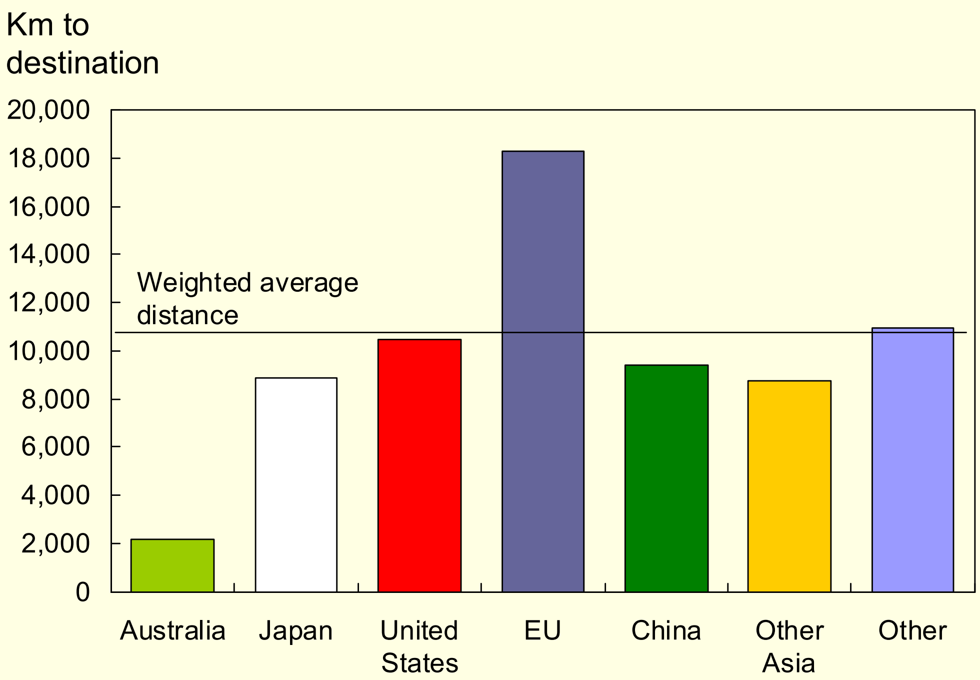
Destination of F&B exports





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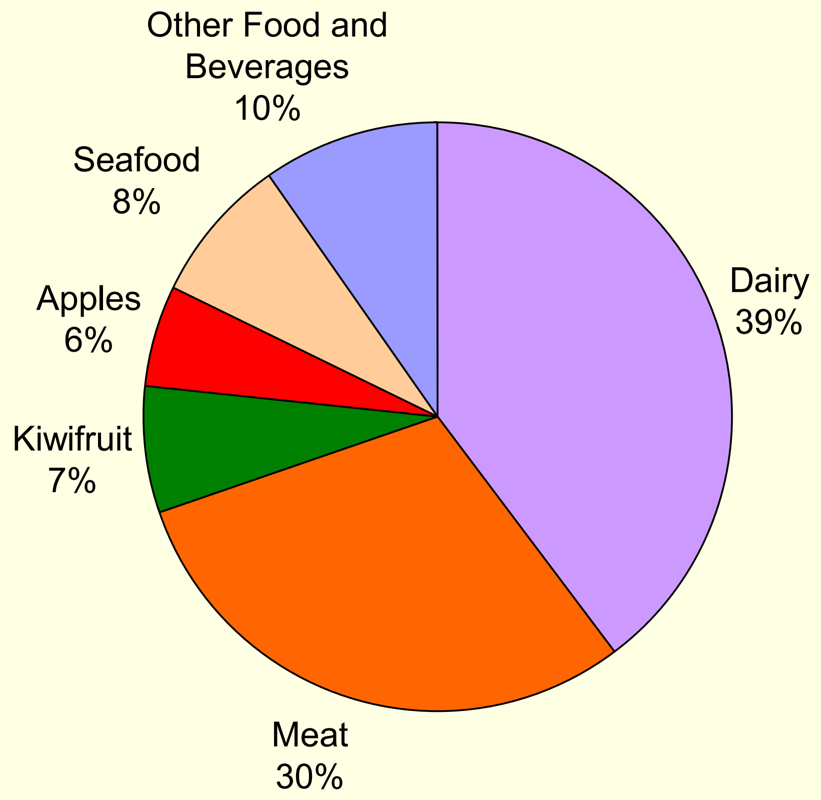
Composition of F&B exports



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History of infrastructure

- 1970s: state ownership and publicly funded expansion: transport, energy ("Think Big"), telecommunications
- Mid-80s: beginning of process of liberalisation: corporatisation/privatisation
- 1985-1992: postal services, telecommunications, banking services, electricity, gas/coal/oil production, air transport, port services
- Some reversal: Air NZ (2001), rail lines (2003)

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Contribution of infrastructure to total costs (% of total costs)

	Agriculture	Food processing	Export intensive	Economy wide
Energy	1.3	1.8	3.6	2.0
Transport	2.5	4.8	6.0	4.4
Communications	1.1	0.6	0.7	2.4
Water and waste	0.0	0.4	0.3	0.4

Transport

- Domestically: mainly rail and road
  - Road typically preferred for perishables, that is, most food items
- Internationally:
  - Heavy reliance on sea freight
  - Airfreight employed for delicate cargos: cherries, some seafood items
- Transport availability and cost viewed as biggest constraint to business (2003)
- Generally private sector ownership

Transport

- **Rail:**
- Skeletal network
- Privatised, including rail lines, 1993
- Struggling to compete with road transport alternatives
  - String of losses
  - Rail lines not maintained
  - > Govt repurchased rail lines in 2003
- Rail still tends to be bulk carrier – not food in NZ

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Transport

- **Road**:
- Intensively used by some food producers
  - for example, dairy: milk from farm to processor
- Very price-competitive vis-à-vis rail
- Proposed extension to weight/length restrictions
- But NZ roads tend to be narrow & twisty – not necessarily suited to heavier and longer vehicles
- Congestion a growing problem in Auckland

Transport

- **Air:**
- Main carrier (then) privatised 1989
- Domestic market deregulated by 1990
- Number of both domestic and international carriers increased significantly in last decade
- Air New Zealand to brink of collapse in 2001: govt bail out
- Role in food system relatively small
- But: significant for some exporters: cherries, berries, seafood, cut flowers

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Transport

- **Marine:**
- Carries around 85% of exports by value
- 13 main ports, some with speciality function (for example, ironsands, alumina/aluminium
- Coastal waterways open to, and dominated by, foreign carriers
- Ports very competitive – investment in coolstores and other specialised handling facilities to attract new business

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Energy & water

- More than 70% of NZ's electricity from major hydro stations
- Hydro cheap, but: supply and prices susceptible to rainfall fluctuations
- Govt grappling with issue of how to best to encourage private-sector investment to secure supply
- Electricity vs. water: major hydro project recently cancelled, in part due to difficulties ensuring water flow

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Energy & water

- Conflicting water uses: electricity generation & irrigation
- Water issue not one of supply, but of infrastructure, that is, storage and irrigation channels
- But: govt exploring all options, including establishment of tradable water rights

Communications

- Problem with rural Internet access:
  - Long, old, isolated lines
  - Interference: electric fences, generators, lightning disruptions
  - > even 56kpbs hard to achieve
- Farmers prefer to have phone line available at all times for customer/supplier contact
- >Provincial Broadband Extension (PROBE)
  - Govt initiative to make broadband access available in all rural communities
  - Behind schedule, but progressing

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Communications

- Evidence that IT use removing need for middlemen:
  - Online brokering more prevalent
  - For eample, for high-value horticultural exporters: cherries
  - Direct contact with off-shore buyer

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Challenges & outlook

- Challenges to food infrastructure:
  - Water rights: Current legislation ill-equipped because it does not have allocation mechanism. Tradable rights an option?
  - Electricity price fluctuations: dairy
  - Road congestion: Transport difficulties forcing businesses to pursue their own solutions, for example, night-time deliveries, more flexible working hours, inland ports
  - NZ exporters at mercy of shipping rates, oil prices
- Govt making right moves in some areas (water, IT rollout) but is slow in others (electricity, road congestion)

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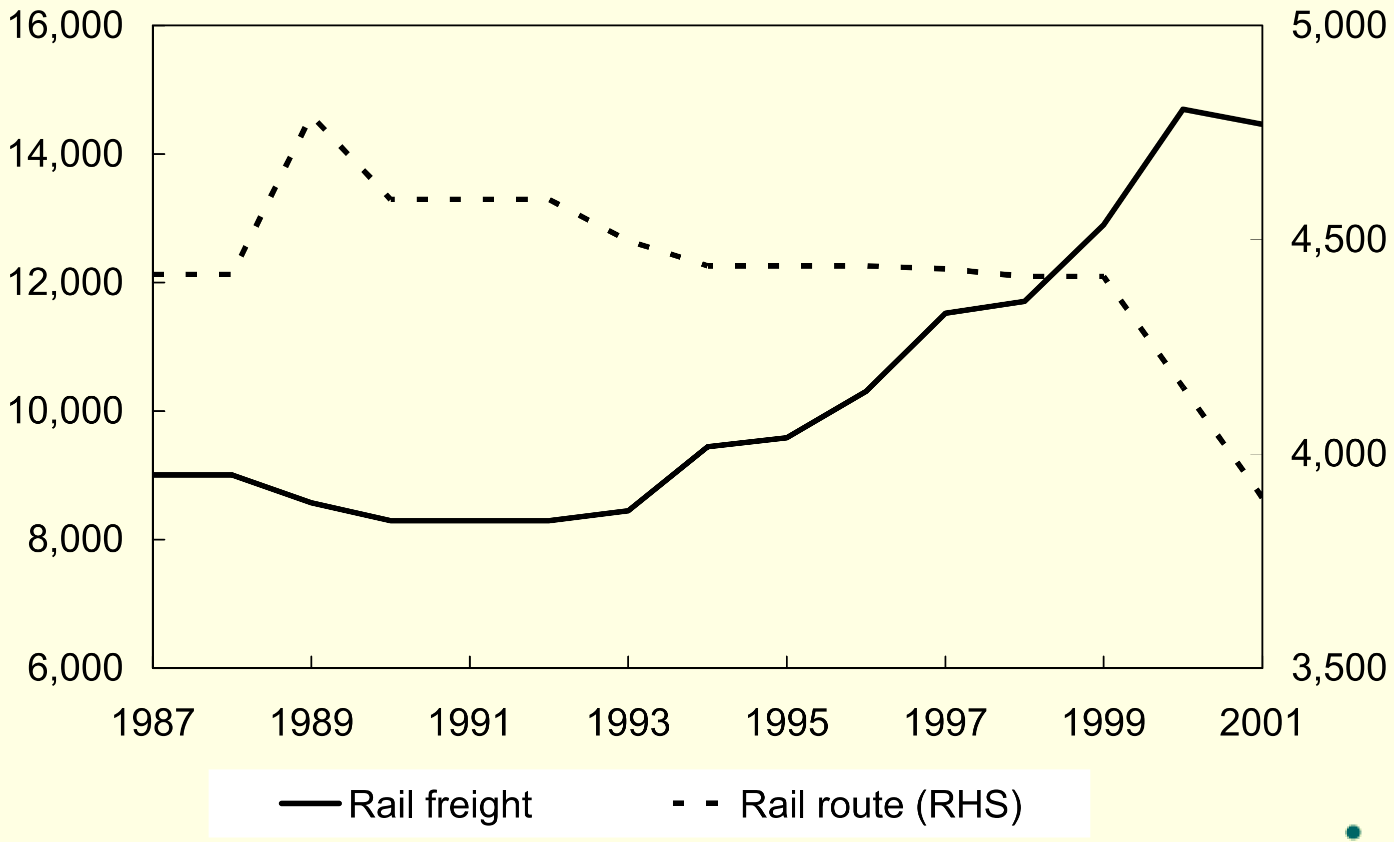
Rail freight & network



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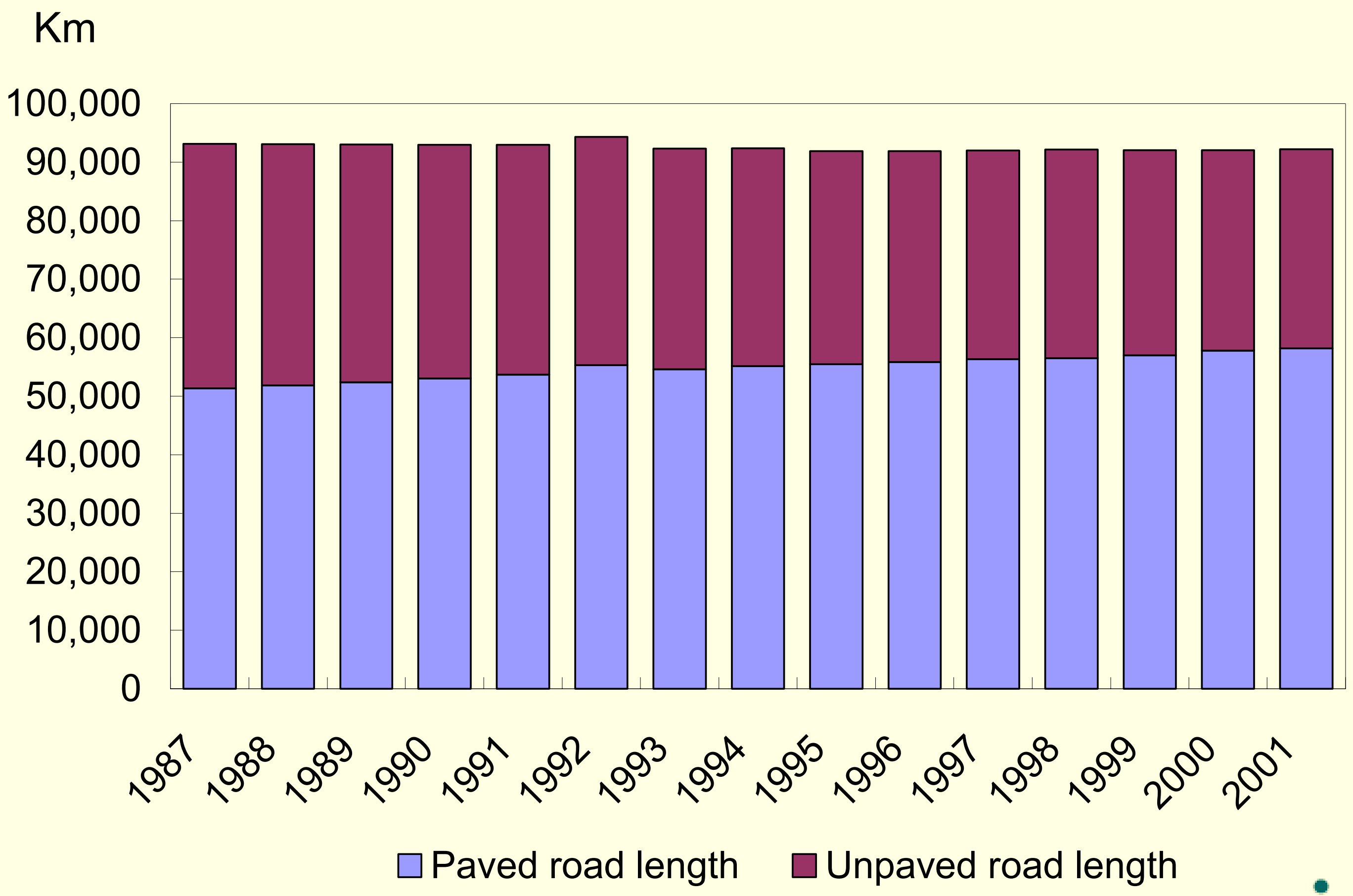
Road network



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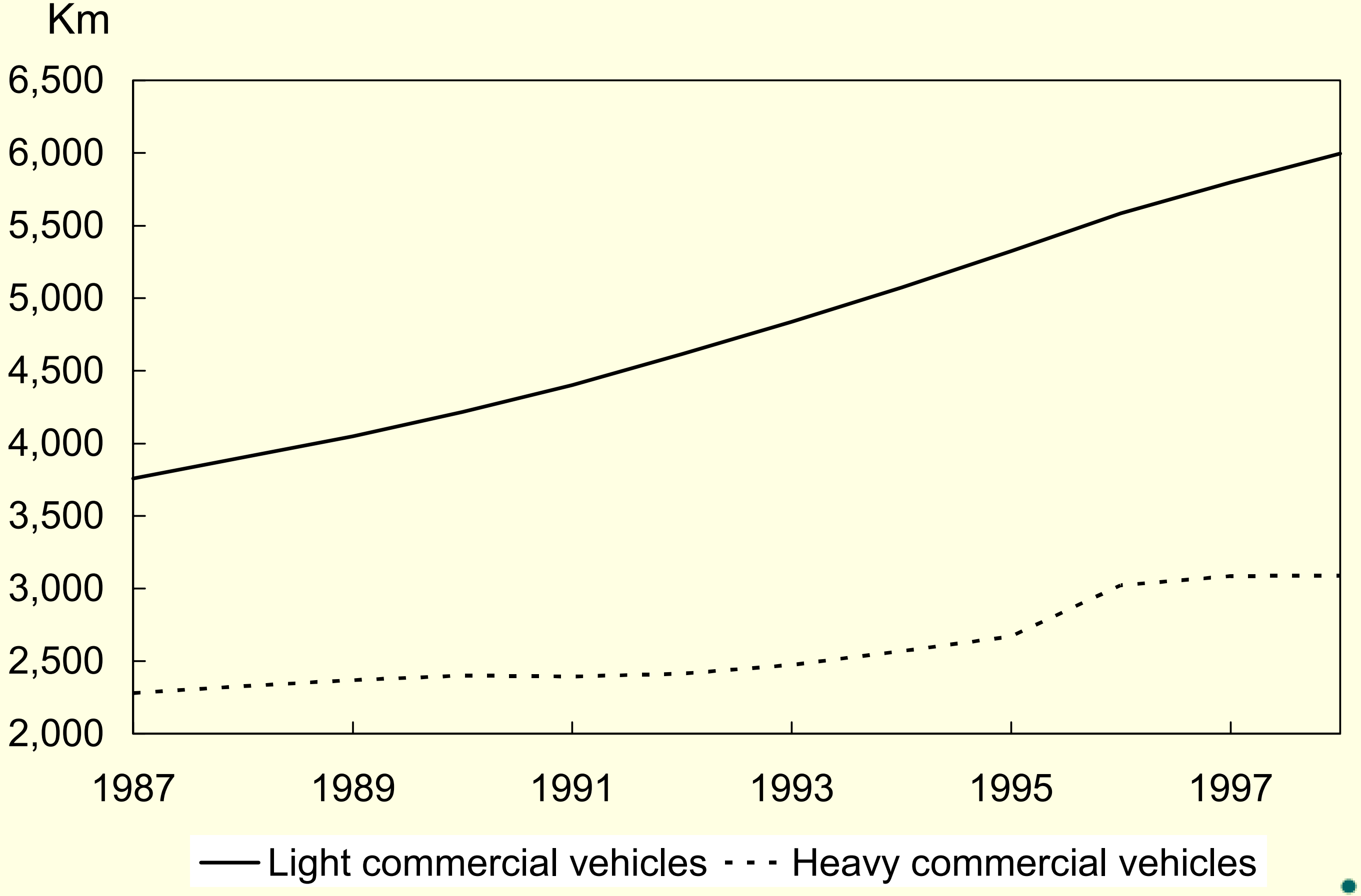
Road freight distance carried



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Electricity price