

Global Women Thinking Globally

“Lessons from the economic crisis: How thinking globally will propel New Zealand

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1.45am

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Today's Presentation

- Background to the New Zealand Crisis
- The Role of the Reserve Bank of New Zealand
- The Business Sector
- The New Technology Based Manufacturing

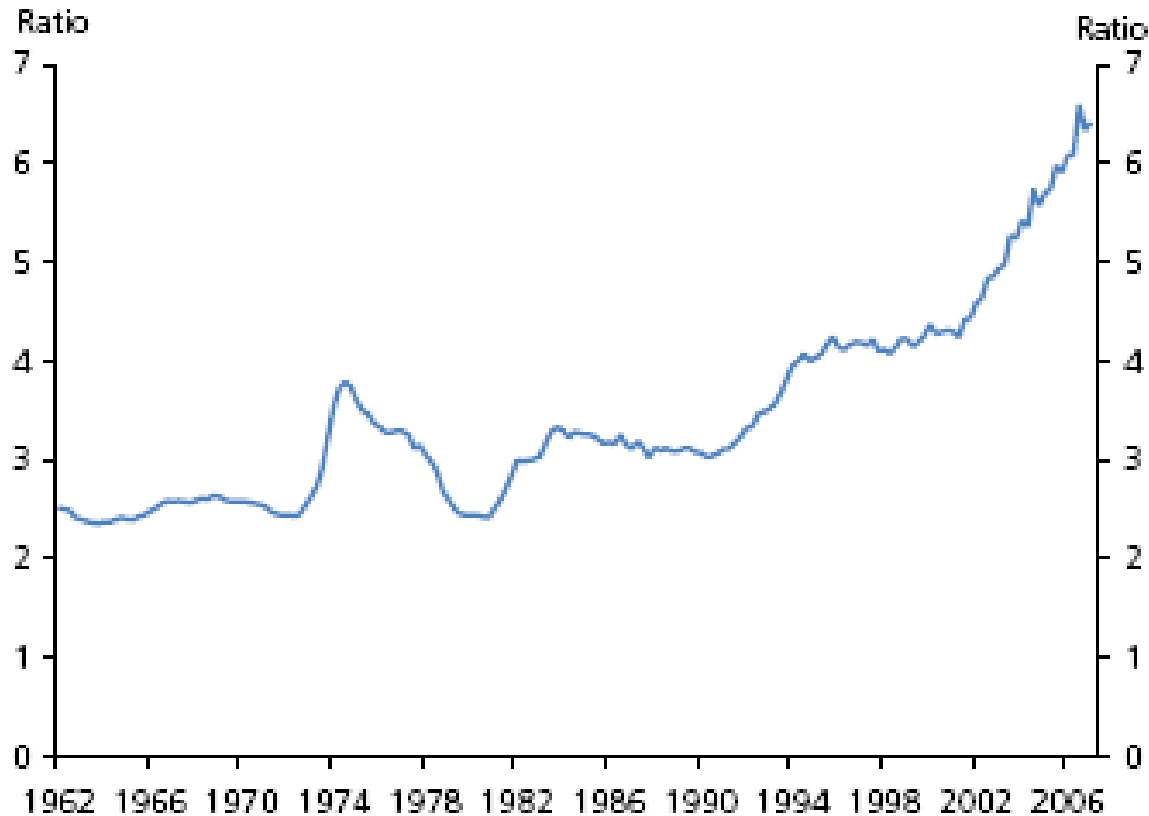
Background to the New Zealand Crisis

Housing boom and bust

- During the decade of the 1990s, New Zealand residential house prices rose by 50 percent.
- Over the period 2000 to 2007, house prices doubled.
- House prices rose from four times average annual household disposable income to over six times by 2006.

Background to the New Zealand Crisis

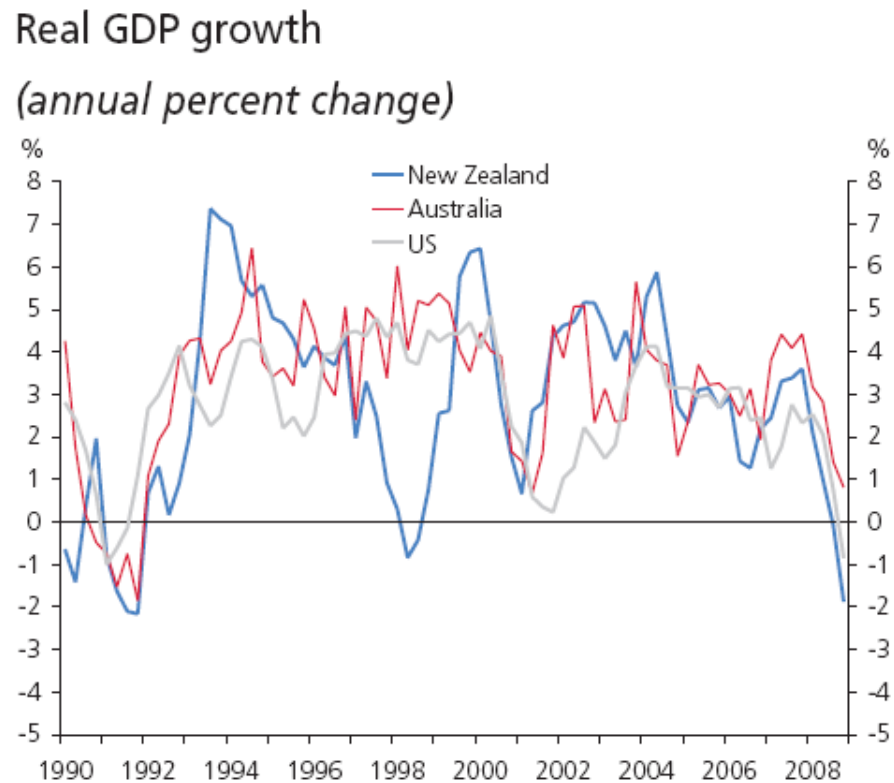
Ratio of Average House Price to Average Household Disposable Income



Source: Quotable Value, Statistics New Zealand, RBNZ.

Background to the New Zealand Crisis

New Zealand's real GDP declined more than Australia and the US.

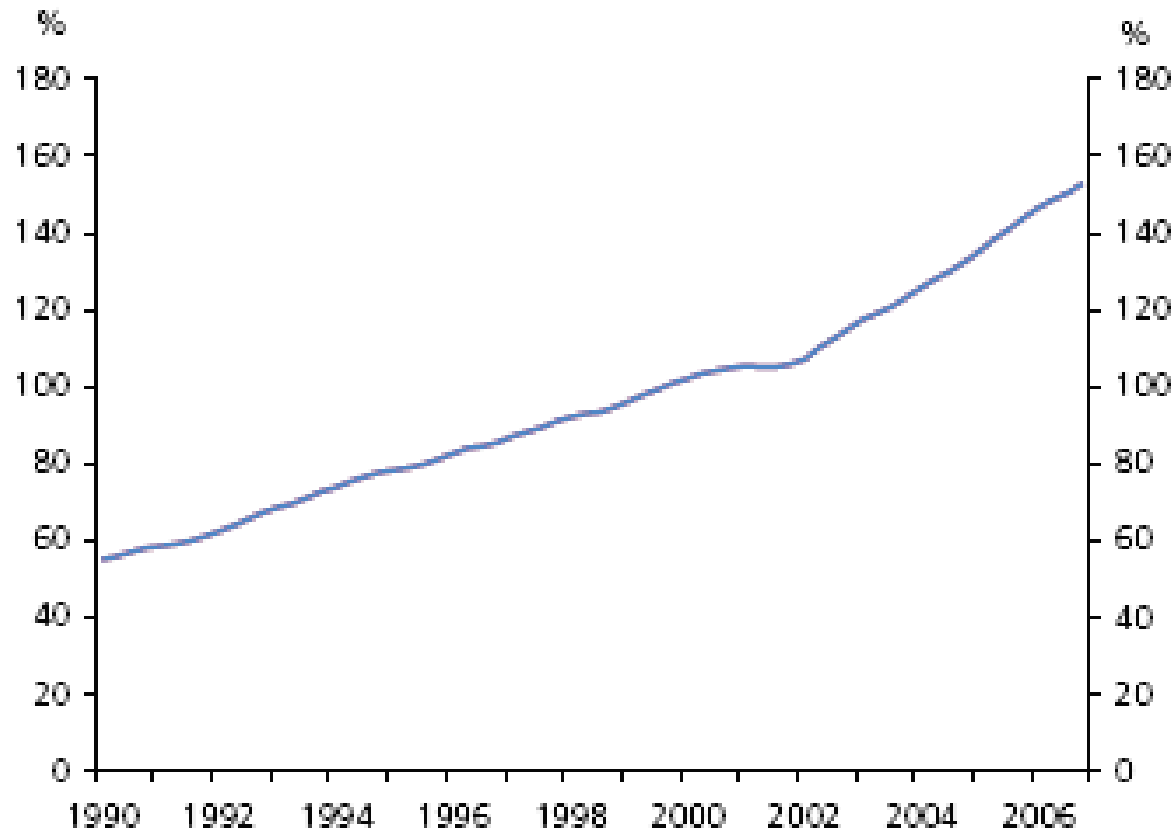


Source: RBNZ Financial Stability Report May 2009.

Background to the New Zealand Crisis

Household debt has risen over several years

Household debt as Percent of Household Disposable Income

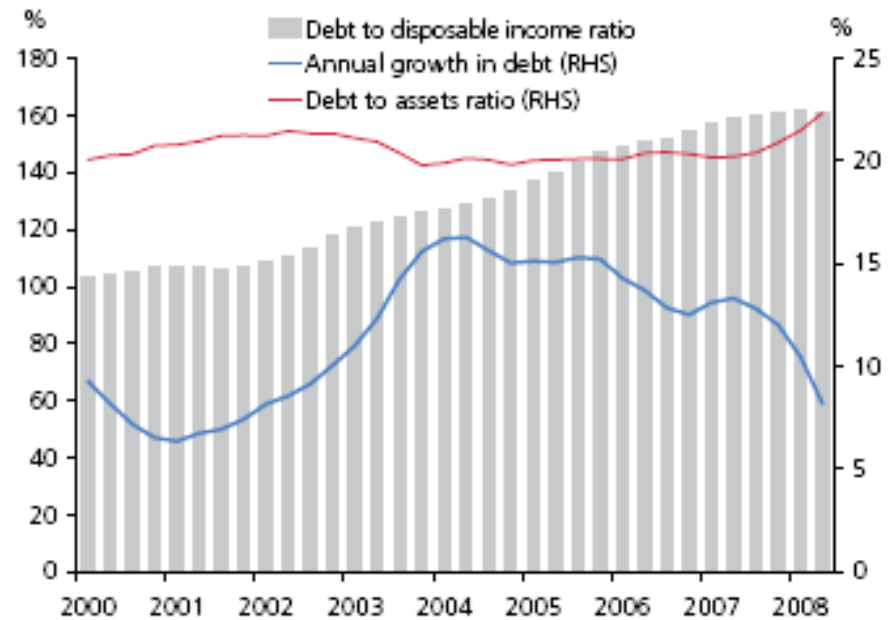


Sources: RBNZ, Statistics New Zealand.

Background to the New Zealand Crisis

When updated to 2008, debt is measured as a declining proportion of disposable income and the debt to assets ratio also decreased until recently.

Household Debt



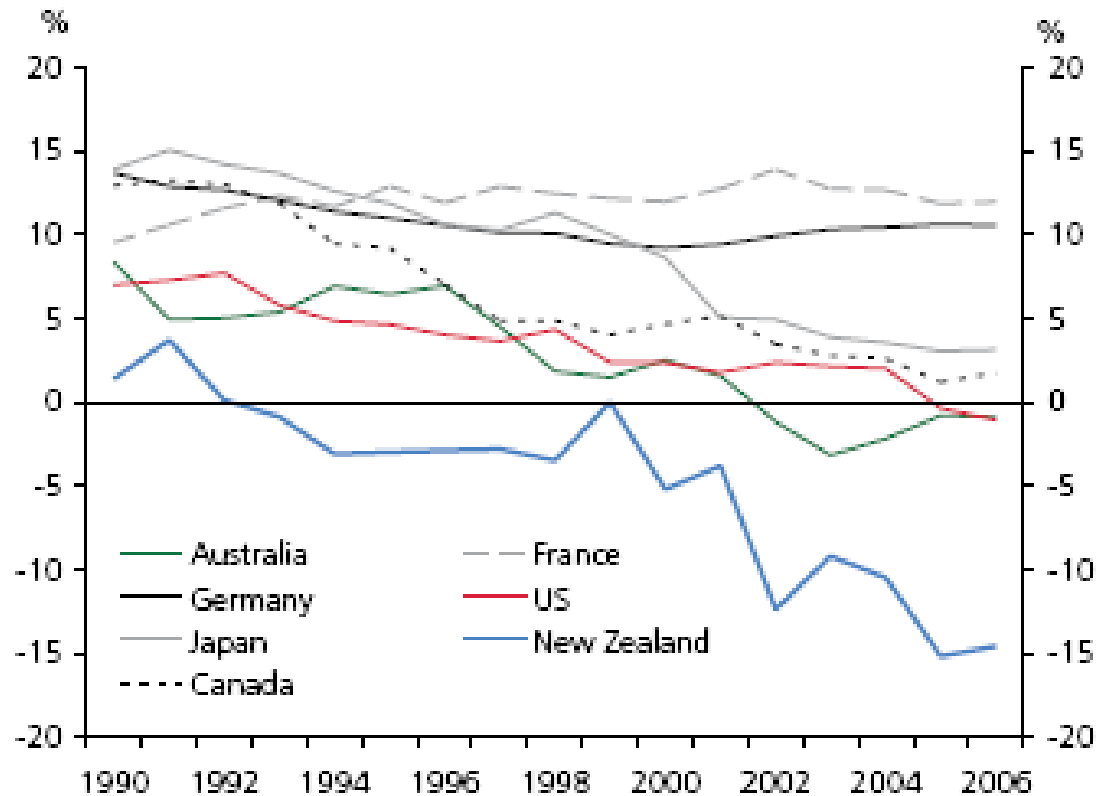
Source: RBNZ.

Note: Household disposable income is gross before deduction of interest paid and consumption of fixed capital. Quarterly household disposable income data have been interpolated from March-year national accounts data.

Background to the New Zealand Crisis

Based on the previous 2 figures, it is not surprising to see that the OECD figures show New Zealand household savings are low, and considerably below Australia, the US and Canada.

Household Saving as Percent of Household Disposable Income



Source: OECD, Statistics New Zealand.

Background to the New Zealand Crisis

Residential housing has a large influence both on asset prices and on the financial sector.

The value of the New Zealand's residential housing asset class was \$617 billion in 2008 [RBNZ, 2008].

- Value of New Zealand Stock Exchange \$52 billion
- Funds under Management \$74 billion

Compare with housings value of \$617 billion

Background to the New Zealand Crisis

- In August 2007, the United States sub-prime crisis caused an adjustment in world financial markets, spreading particularly rapidly into the UK and Europe.
- As economist Joseph Stiglitz told New Zealand audiences at last years March 2008 Readers and Writers week, the problem with the sub-prime products was that they bundled loans with a range of risk, and then further increased risk by making it impossible to link a loan to the current lender.

Background to the New Zealand Crisis

- A factor setting off the crisis in New Zealand was the collapse of finance companies.
- Until 2009, these non-bank finance companies fell outside the Reserve Bank's prudential supervision.
- A number of the finance company collapses were sparked by the failure of property developers to keep up-to-date with loan re-payments because of falls in housing demand.
- In May 2008, building consents were over 40 percent below consents issued the year before.

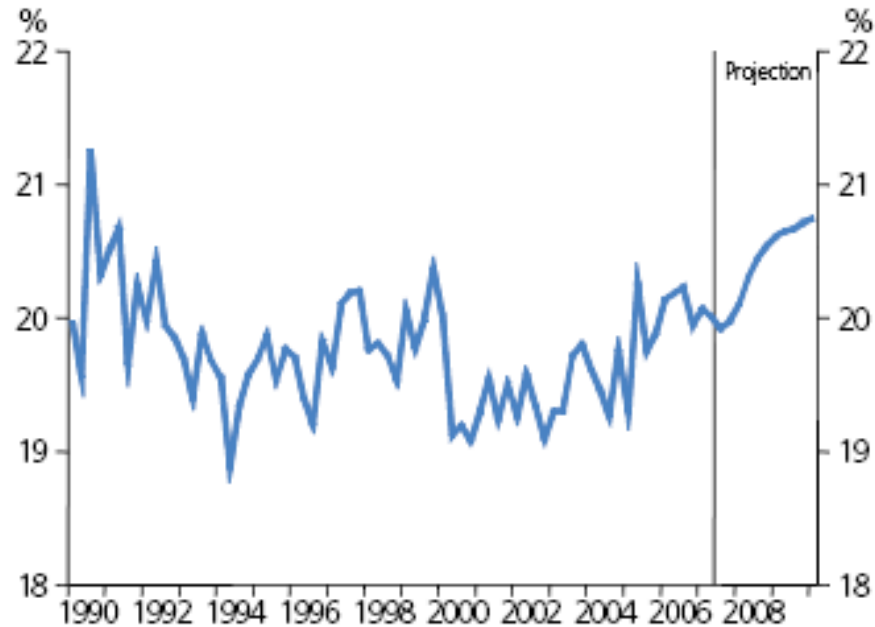
Background to the New Zealand Crisis

- Falling house values means less owner equity – how many businesses relied on this for finance?
- Initially high priced imports because of weakening exchange rate and then low returns to exports because of strengthening exchange rate
- Pressures on jobs, wages and salaries
- All leads to falling household consumption
- The New Zealand economy slowed – but is this going to be a drawn out low growth period instead of a dramatic downturn?

Central Government Position

Government investment in infrastructure will offset some of the recent decline in household consumption.

Government Consumption and Investment (excluding transfer payments and military spending, percent of trend output)

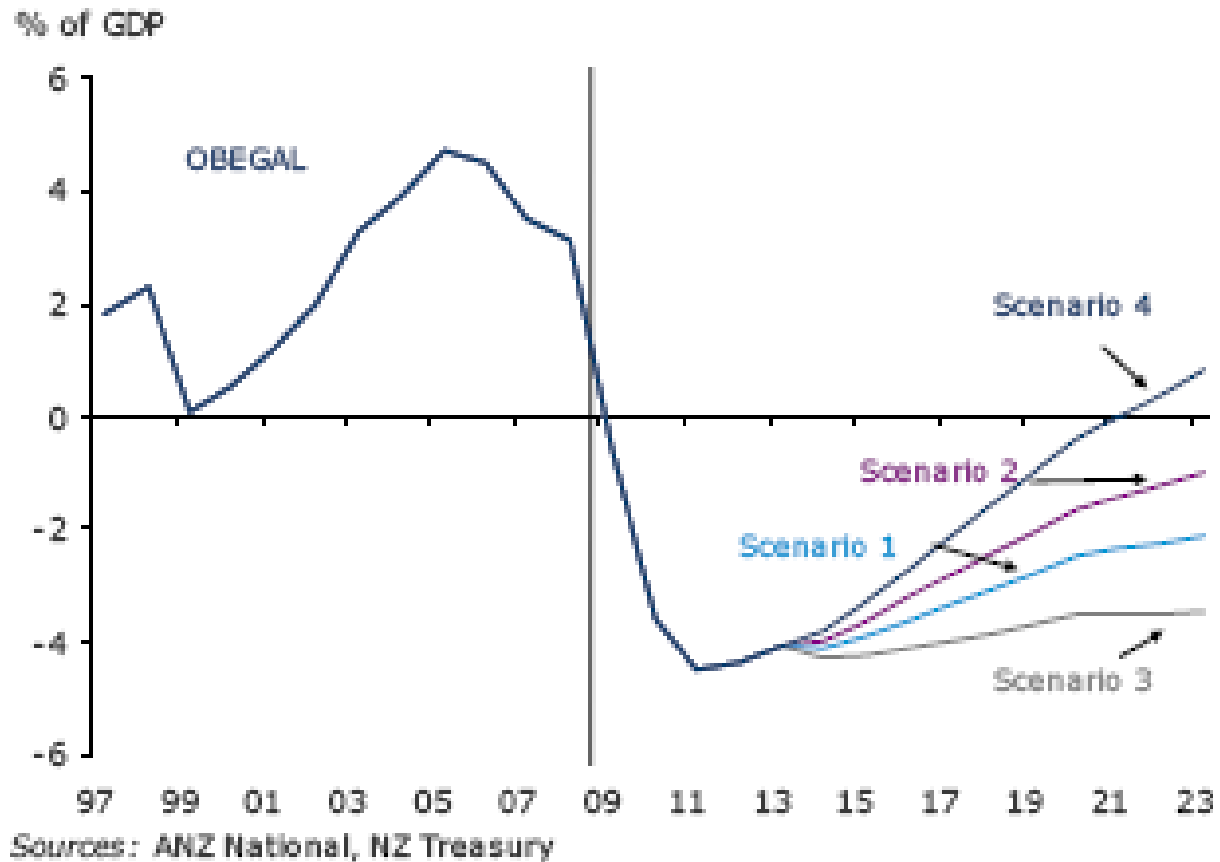


Source: Statistics New Zealand, RBNZ estimates.

Central Government Position

New Zealand Central Government Fiscal Scenarios

- Operating balance before gains and losses (OBEGAL)



The Role of the Reserve Bank of New Zealand

- The approach used by the RBNZ for managing price stability is to adjust the Official Cash Rate (OCR).

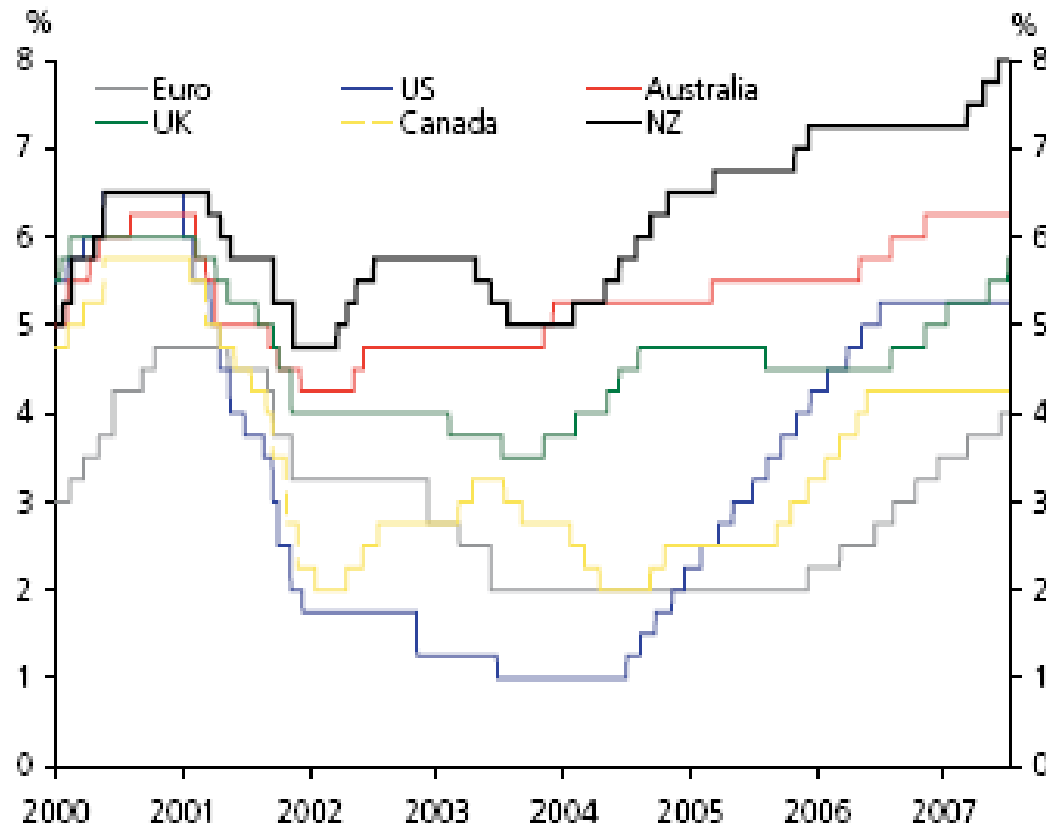
The OCR is the interest rate set by the Reserve Bank to meet the inflation target specified in the Policy Targets Agreement. The agreement signed in September 2002, between the Minister of Finance and the Governor of the Reserve Bank, requires the Reserve Bank to keep inflation, on average over the medium term, at between 1 and 3 percent per annum.

- The OCR was only adjusted upwards for several years, going from 5% in 2003 to 8.25% in July 2007 where it was held until July 2008.

The Role of the Reserve Bank of New Zealand

During this decade, the RBNZ has maintained the official cash rate at high levels compared to other overseas central banks.

Overseas Official Interest Rate. 2000-2007



Source: Datastream

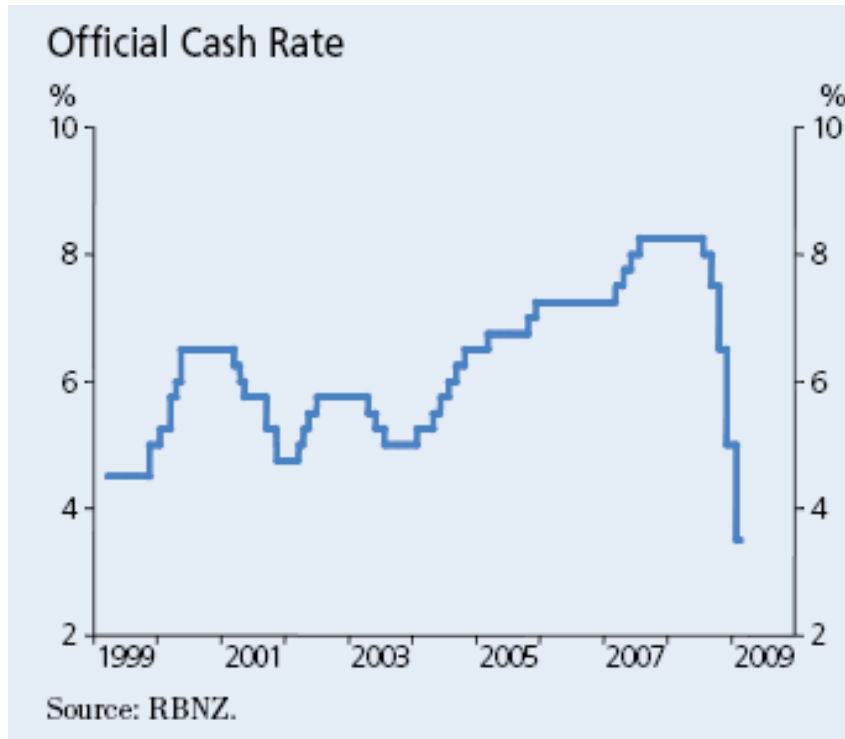
The Role of the Reserve Bank of New Zealand

- For 12 months between July 2007 and July 2008, the OCR was kept at 8.25%.
- On 24 July 2008, the Governor of the Reserve Bank reduced the Official Cash Rate – the OCR - by 0.25% to 8%.
- The OCR was adjusted to 3.00%, on 11 March 2009.

The Role of the Reserve Bank of New Zealand

The figure below illustrates the sharp downwards adjustment in the OCR compared to where we've been.

New Zealand Official Cash Rate, 2000-2009



The Role of the Reserve Bank of New Zealand

- Continuing to focus on maintaining price stability
- Greater prudential supervision role
- Expecting registered Banks to respond with lower cost of borrowing
- Monitoring international monetary trends – what are the Chinese doing?

Impact on the Business Sector

- The house price boom, taking place in otherwise historically favourable economic conditions in New Zealand, may also have overheated consumer spending;
- Using monetary policy to manage the housing 'bubble' led to international borrowing by New Zealand banks during the boom period which impacted on the exchange rate;
- The recent collapse of financial markets, sparked off in New Zealand by the fall off in building development, has made access to lending harder for New Zealand-based businesses;
- Lack of finance and the depressed residential building sector may have slowed a normal driver where new building leads to an upturn.

Impact on the Business Sector

- The reduction in household spending has led to rising unemployment;
- There is a decline in central governments' revenue from taxation;
- Drops in financial sector asset values has affected financial markets;
- Businesses, facing flatter or declining demand for their products, will have lower earnings.

Impact on the Business Sector

There are opportunities:

- The world needs food and the re-balancing of trade into China and Asia has led to an increasing propensity to consume
- A refocus by the world's consumers on quality of life products, cleantech, natural products
- The new technology-based manufacturing suits New Zealand's aspirations – quality jobs in areas of weightless exporting

The New Technology Based Manufacturing

- 1) Positioning centres of excellence as drivers
- 2) Fostering commercialised entrepreneurship
- 3) Increasing access to capital

This means working together and providing an eco-system where there are opportunities to learn, make mistakes and to select the successful commercialised services and products.

The New Technology Based Manufacturing

The keynote speaker at this month's Animfx 2009 digital effects conference in Wellington was Hollywood special effects guru, Jeffrey Okun who said:

“The coming digital showcase feature *Avatar*, a \$300 million project by director James Cameron, largely shot and produced in Wellington, would be released in 259 different versions in December...that's thanks to digital.”

As well as being a 3D view, *Avatar* also supports 3D sound.

“The capabilities available to programme and game makers through technology meant Hollywood was no longer a necessary gateway... you can do it all on your laptop.”

Yes, even with the current crisis, we can
globally propel New Zealand business!

Thank you

