



Economic Development

(New Zealand's Potential)

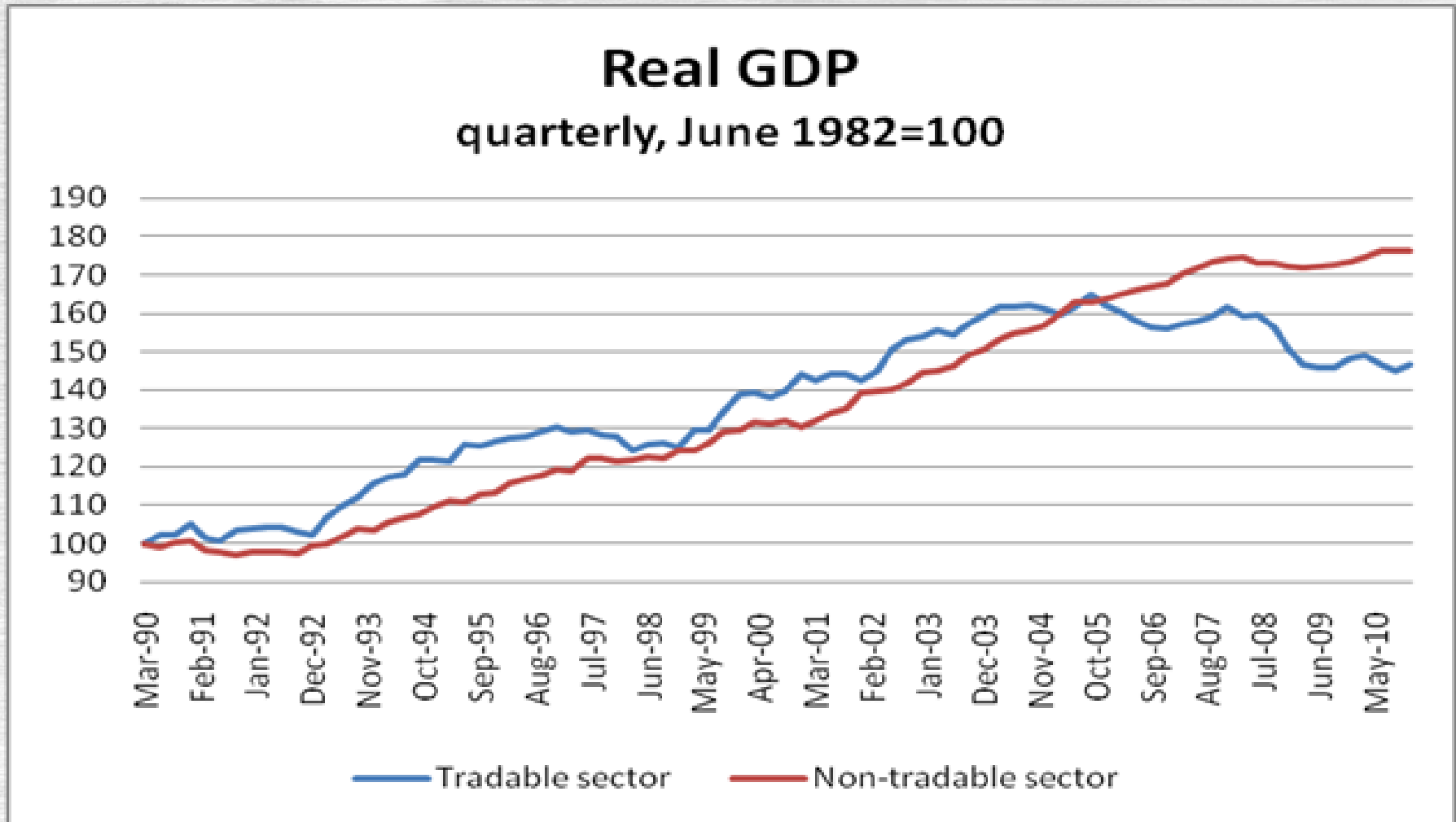
July 2011

www.nzmea.org.nz, www.johnwalley.co.nz, www.realeconomy.co.nz.

Higher or lower...



Not doing too well...

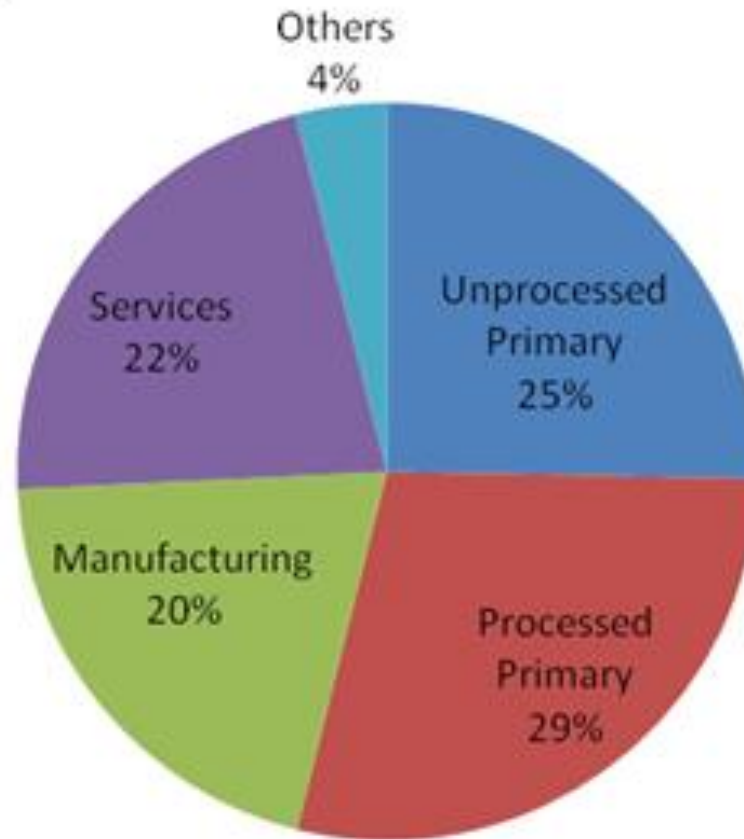


Added value matters...

Sector	GDP(m)	Employment	GDP per worker (\$)
Tourism	6,500	182,400	35,636
Manufacturing	16,466	248,600	66,235
Agriculture, forestry, fishing and Mining	10,055	157,100	64,004
Not Traded	99,646	1,582,500	62,967

More than cows...

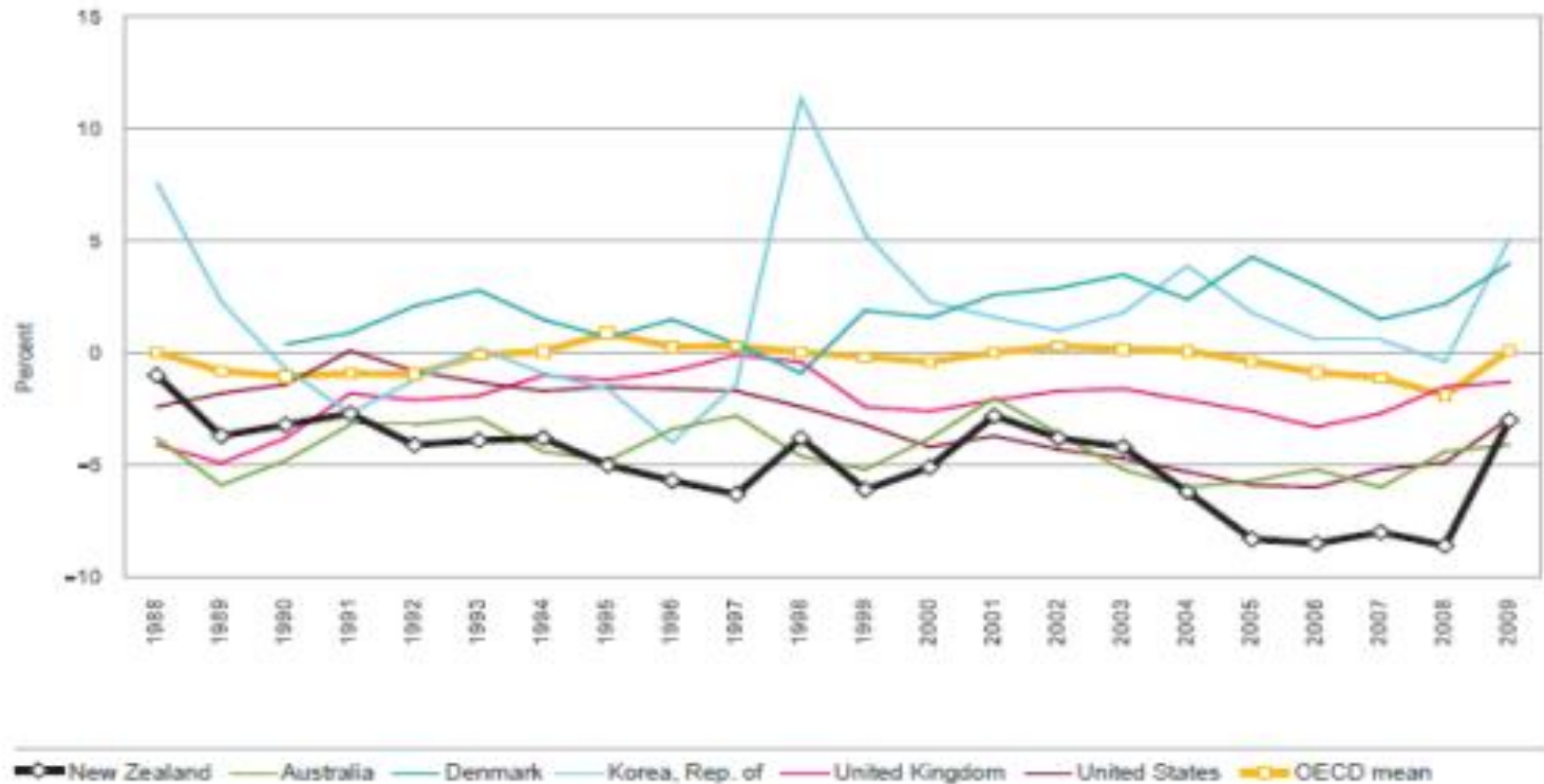
Export Profile in New Zealand 2010



Race to the bottom...

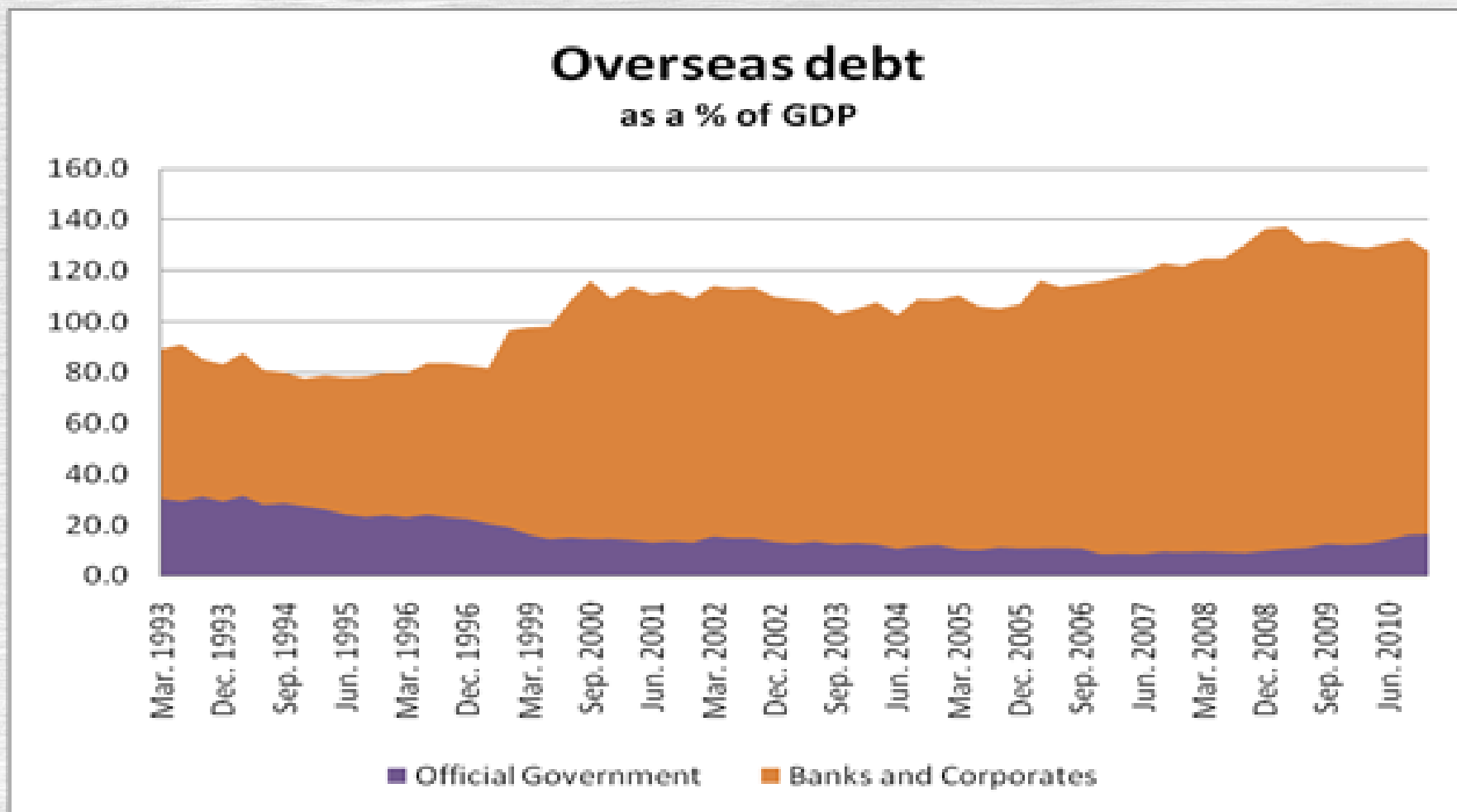
FIG

5.4.10 Current account balance as a percentage of nominal GDP

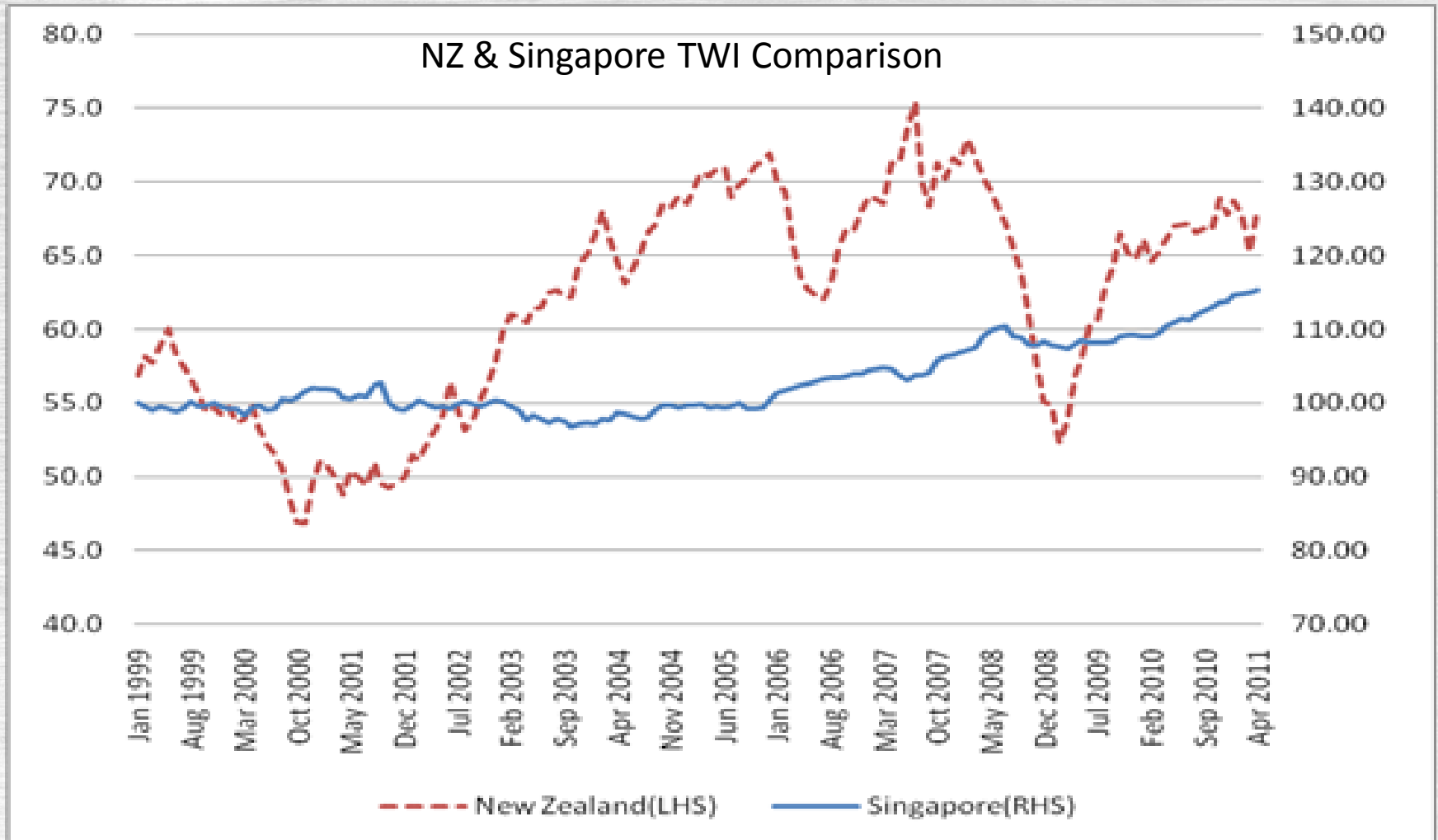


Source: OECD database, General Statistics, Key short-term economic indicators

Catches up in the end...

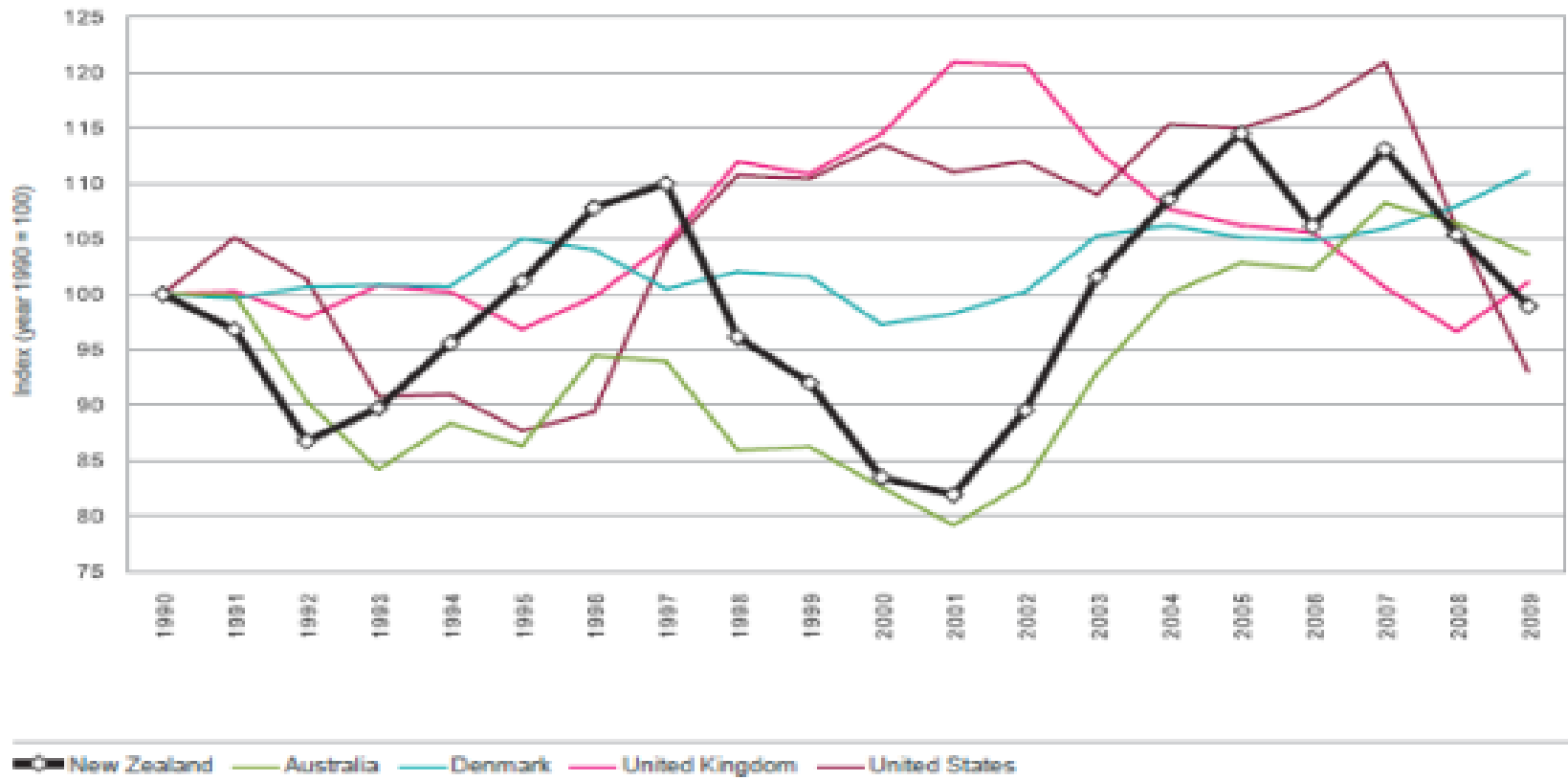


It can be done better...



If you don't care...

FIG 5.47 Real effective exchange rate index



Source: IMF stats database, International Financial Statistics (2005 = 100) based on relative consumer prices

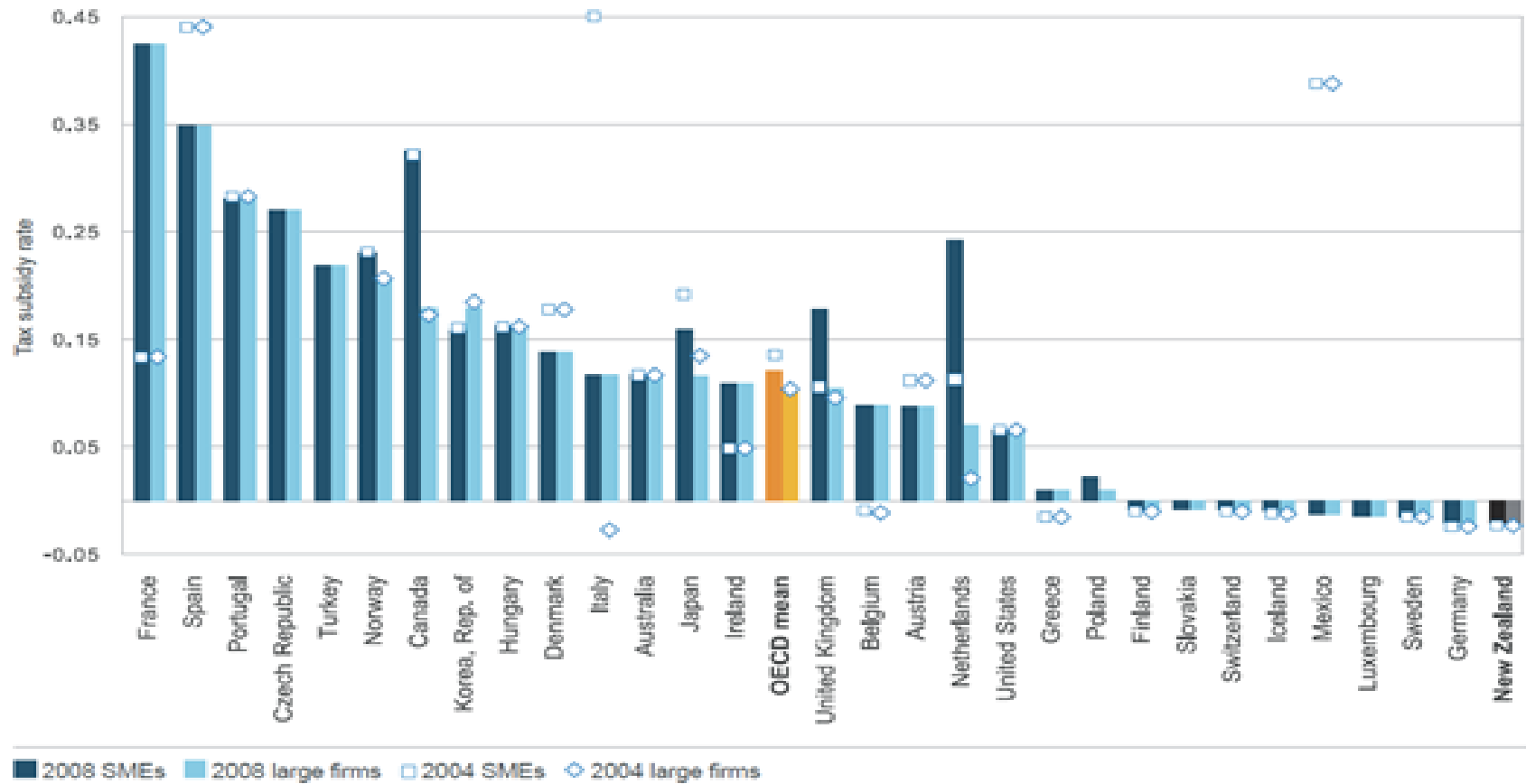
More equal than others...

	General Manufacture	Average Dairy Farm	Software Company
Sales	\$10,000,000	\$850,000	\$1,500,000
Capital Employed	\$3,000,000	\$4,500,000	\$50,000
R&D Spend	\$1,000,000	0	\$300,000
Jobs	80	2.6	6
Associated Jobs	5x	5x	Not many
Exports	50% - 95%	90%+	95%
Natural Hedge	20 – 50%	some	little
Volume Growth 2011	+10%		17%
Revenue Growth	-ve	~18%*	-7%
Footprint	3600 m2	1,350,000m2	100m2

* 2009/10

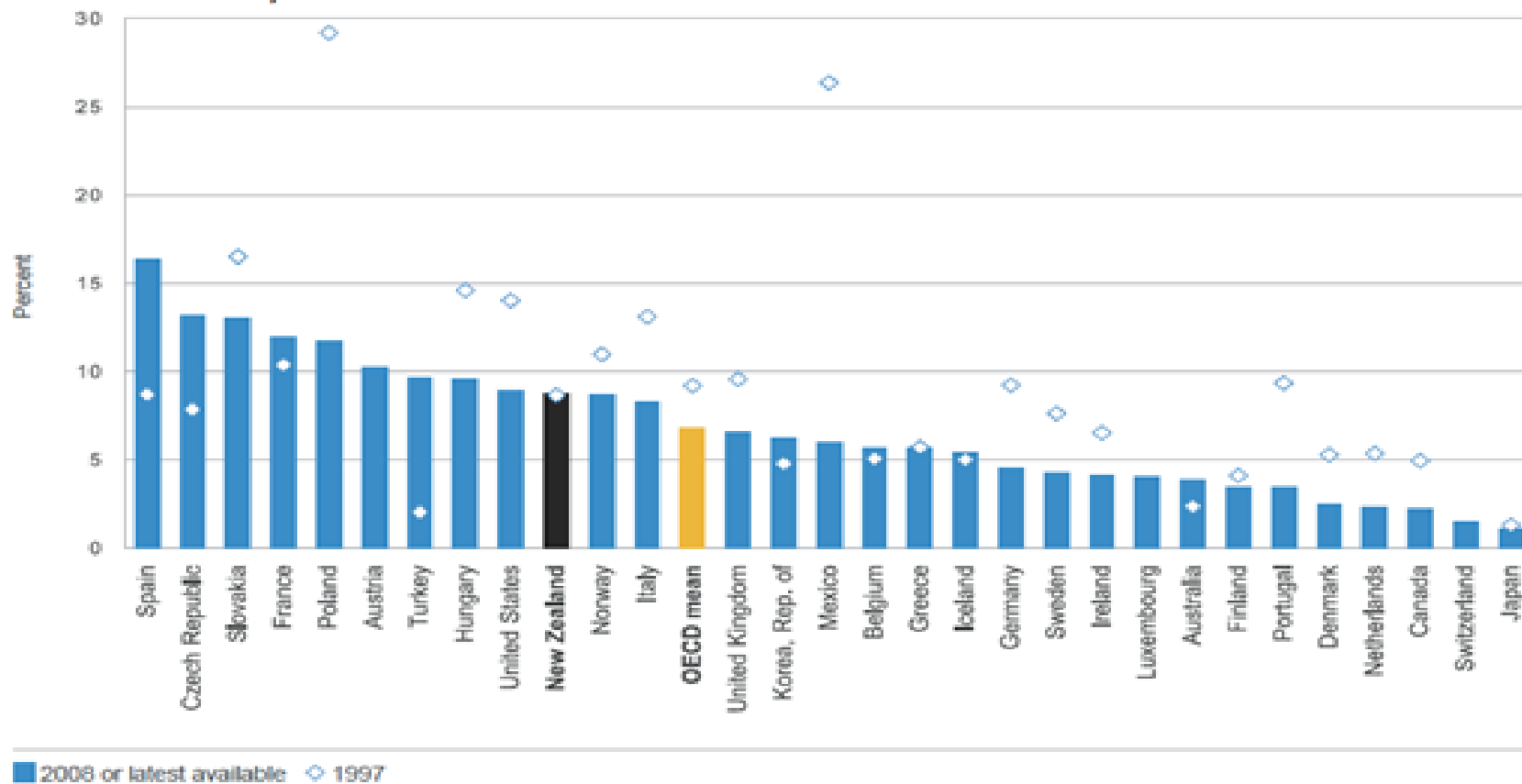
FIG

4.1.10 R&D tax concessions for large firms and SMEs,⁶² 2004 and 2008



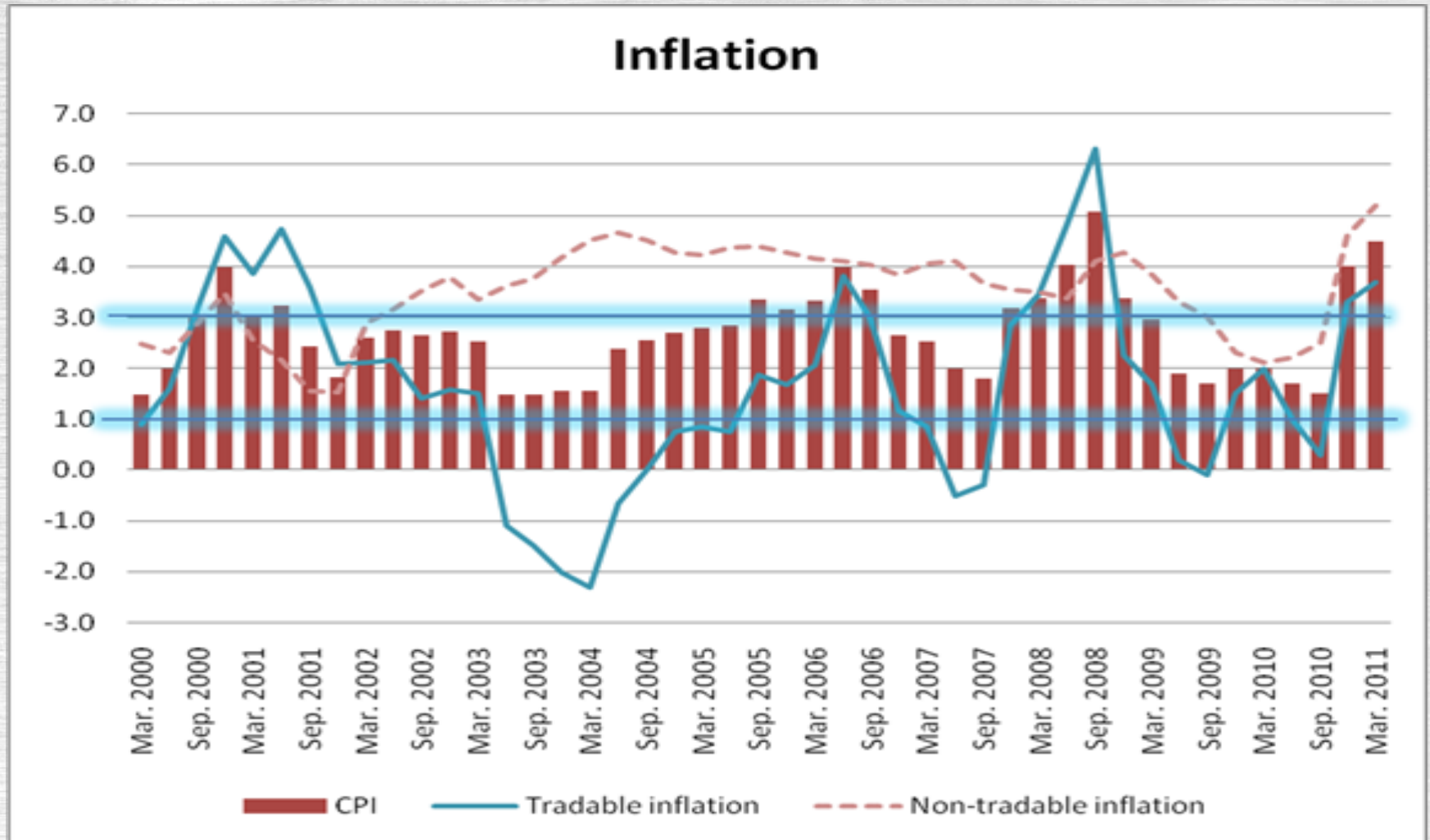
Sources: OECD Science, Technology and Industry Scoreboard 2009, Tax subsidy rate for USD of R&D large firms and SMEs, 2008; OECD Science, Technology and Industry Scoreboard 2005, Rate of tax subsidies for USD of R&D large firms and SMEs, 2004

FIG 4.1.11 Grants and subsidies as a percentage of BERD, 1997 and 2008 (or latest year available)



Source: OECD database, Science and Technology Patents, Main science and technology indicators 2009

Tradeables and the rest...



Well the house is worth more...

NZ wealth creation					
Borrow offshore and buy residential property					
(\$ billion)	NZ Overseas debt	Household debt	Housing values	NZX value	Managed funds
Sept 2010	253	183	599	53	64
Dec 2009	241	180	606	49	62
Dec 2008	251	175	568	41	56
Dec 2007	217	168	614	62	65
Dec 2006	192	149	559	64	64
Dec 2005	170	132	506	60	57
Dec 2004	163	114	429	61	54
Dec 2003	146	99	370	50	47
Dec 2002	144	86	282	41	44
Dec 2001	135	78	246	43	49
Dec 2000	127	73	232	42	50
Dec 1995	75	45	183	49	34*
1995 to 2010	+237%	+307%	+227%	+8%	+88%

*March 1996
Herald graphico

Summary

- NZ is a small, export exposed, economy pretending to be something else.
- If the tradeable sector is to grow there is no option other than think like a developing economy:
 - Reform monetary policy with the exchange rate as a policy target.
 - Reform fiscal policy to remove tax harbours and support added value development in way other jurisdictions do.