Euler Hermes Economic Research

Country Report

New Zealand

Solid economic fundamentals

General Information

GDP	USD185.788bn (World ranking 54, World Bank 2013)
Population	4.47 mn (World ranking 122, World Bank 2013)
Form of state	Parliamentary Democracy (Commonwealth)
Head of government	John KEY (National party)
Next elections	2017, legislative

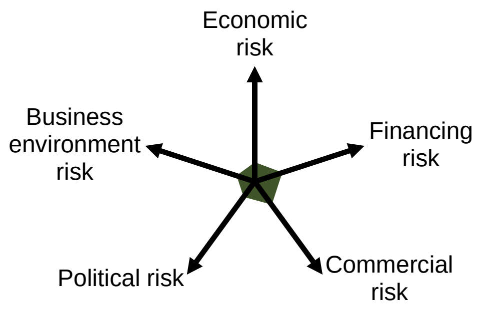
Strengths

- Strong economic growth
- Sound public finances
- Proximity to Asian markets
- Favourable demographics
- Opportunities in tourism industry

Weaknesses

- Lack of skilled workers
- Dependence on agricultural exports
- High level of household debt
- Large external debt
- Vulnerability to natural disasters

Country Rating AA1



Source: Euler Hermes

Trade Structure

By destination / origin (% of total)

Exports		Rank		Imports
China	20%	1	17%	China
Australia	18%	2	12%	Australia
United States	9%	3	11%	United States
Japan	6%	4	7%	Japan
South Korea	4%	5	5%	Germany

By product (% of total)

Exports		Rank		Imports
Dairy products and birds' eggs	25%	1	18%	Petroleum, petroleum products
Meat and meat preparations	12%	2	10%	Road vehicles
Cork and wood	6%	3	5%	Miscellaneous manufactured articles, n.e.s.
Vegetables and fruits	5%	4	4%	Electrical machinery, apparatus and appliances, n.e.s.
Petroleum, petroleum products	5%	5	4%	Other industrial machinery and

Sources : ITC, Chelem

Economic Overview

Economic growth is comfortable

New Zealand grew at a comfortable 3.2% rate in 2014 coupled with an unusually low inflation of 0.8% y/y in Q4. In 2015, Economic growth is set to remain strong driven by domestic demand with annual consumption growth increasing by +3.2% supported by record-low unemployment. Investment will remain a key driver but at slower pace (6.2% compared with 8.5 % in 2014) reflecting the fading of the rebuild effort made after 2011 to 2013 earthquakes. Moreover ongoing government efforts to reach a fiscal surplus in 2015-2016 will act as a drag on growth with a deceleration in public spending. Exports are unlikely to be supportive for growth in the short run with decreasing dairy prices.

Economic forecasts

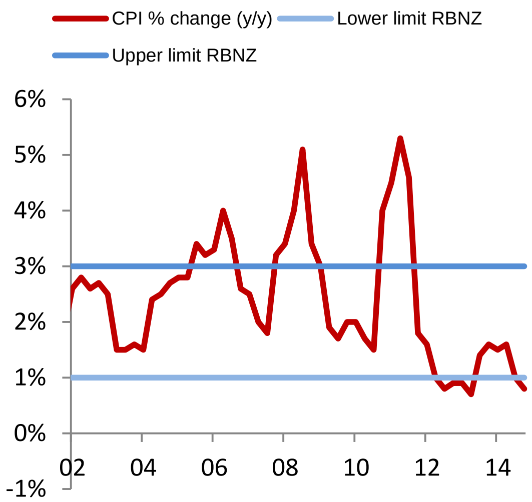
	2013	2014e	2015
GDP growth (% change)	2.5	3.2	2.8
Inflation (%, year average)	1.6	0.8	1.6
Fiscal balance (% of GDP)	-0.7	-0.7	-0.4
Public debt (% of GDP)	36.1	34.9	34.3
Current account (% of GDP)	-3.3	-3.5	-5.0
External debt (% of GDP)	104	94.5	92.1

Sources: IHS, national sources, Euler Hermes, IMF

Macro-policies are appropriate

Macro-prudential risks remain low. Credit growth is moderate (lending to the private sector in 4%-5%y/y range) and the economy is gradually deleveraging compared with its pre-crisis imbalances. Moreover public finances are under control and the fiscal deficit remains modest. Public debt is low by international standards, estimated at 34.9% of GDP in 2014. Inflation has been very low reflecting global deflationary forces. However there is no strong evidence that the central bank will ease its monetary policy. The institution entered a tightening cycle, raising its key rates 4 times in 2014. But since July 2014, with key rates at 3.5%, the institution has adopted a “wait and see” stance, with little inflationary risk, the benefit of the tightening on the economy remains unconvincing. With the economy expected to perform well in the short run, we expect monetary policy to remain neutral even though the inflation will likely remain in the lower limit of the inflation target range (1%-3%).

Inflation and National Bank’s target



Sources: IHS, Euler Hermes

External risks are limited

However we see some vulnerability on the external front for New Zealand. Firstly because of its geographic specialization: China absorbs more than 20% of its total exports (which could turn problematic against the background of a slowing Chinese growth). Secondly New Zealand’s economy relies much on agricultural exports. The beef sector benefited from record-high prices and from a growing US demand in 2014 but the sharp decrease in dairy prices could hamper the economic activity if this trend proves to last. Current account deficit is set to remain large (close -5% GDP). However, the strong economic outlook and appropriate macroeconomic policy will likely prevent the NZD from sharp depreciation (compared to other economies in the region). While currency resilience can be positive news in the short-run, it would be a drawback for exports competitiveness dragging on exports growth. External debt is large but not compared to much of the OECD. It has also been on a downward trend over the 2 past years and small share attributed to the public sector (public external debt close to 20% GDP).

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Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Last review: 2015-03-19
Country Risk Analyst:
Mahamoud Islam
mahamoud.islam@eulerhermes.com