

NEW ZEALAND
OCTOBER 2009

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt recovery
1A	→/↑	→	Debt collection should be made either through a collection agent or via the legal channels.

Credit Guarantee Experience

We are open for cover without any restrictions in this market where we have a favourable experience. However, exporters should never assume that any particular market is risk free and as such should take the necessary precautions in managing the payment risks.

Political Highlights

- ❑ Chief of state of this parliamentary democracy and Commonwealth realm has been Queen Elizabeth II and is represented by Governor General Anand Satyanand since August 2006. The governor is appointed by the monarch. Head of Government is Prime Minister John Key. Legislative elections are due by November 2011.
- ❑ New Zealand is a wealthy Pacific nation that is characterized by two dominant cultural groups, New Zealanders of European descent and the minority Maori whose Polynesian ancestors arrived on the islands around 1,000 years ago.

Recent Economic Highlights

- ❑ New Zealand has a population of 4.2m people with an expected population growth rate of 0.9% in 2009.
- ❑ New Zealand has transformed from an agrarian economy dependent on concessionary British market access to a more industrialised, free market economy enabling per capita income to increase for nine consecutive years to \$27,900 in 2008.
- ❑ The central bank governor had noted that the economy had reached a turning point toward a recovery that is likely to be fragile. The recession that began in New Zealand in early 2008 is dependent on the recovery of the US. The central bank sees the economy returning to growth in the final quarter of this year and is expected to shrink 1.8% in the year through March 2010 before expanding 3% in the following twelve months. The IMF expects an annual contraction of 2% in 2009. Unemployment is expected to continue to rise with the jobless rate expected to peak at 8% late next year.
- ❑ The country's business confidence rose to the highest level in more than four years, after a net 26 companies surveyed expected sales and profits to increase over the next twelve months. The confidence hit a five-year high with the construction industry heading renewed optimism. A net 64% of the surveyed respondents in the construction industry expect better times ahead – a level not seen since the early 1990s.
- ❑ A new study submitted by the Health Ministry suggested that healthcare costs are out of control and will become a major lug on the economy unless some tough decisions are made. Public-sector healthcare spending is approximately \$11.3bn and accounts for 20% of the core Crown expenses budget. Private-sector spending and other costs such as training and environmental controls add a further \$8bn, making health spending 9% of GDP. It is expected to reach \$30bn by 2026 and will account for about 40% of Government core spend.
- ❑ The Meat and Wool Board New Zealand's latest outlook expects the exchange rates to likely have the greatest impact on the forecasted price to be paid for lamb this season. Uncertainty in the global economy and the timing and strength of New Zealand's economic recovery made it extremely difficult to forecast where the NZ dollar would go during the next year and how farm-gate returns would be affected. Based on an optimistic exchange rate forecast, the price per head of lamb of NZ\$80 was down 10% on the 2008/09 seven-year high of NZ\$89. Beef pieces would be expected to be down 11.7% based on a mid-point exchange rate. A higher exchange rate of 67c:\$1 would see beef prices drop 17.1% and lamb prices drop 18% per head. It costs between NZ\$50 and NZ\$60 to produce a lamb. Lambs fetched as much as NZ\$110 in 2008. The board has proposed an increase in sheep and beef levies and the fall in wool levies to be phased in over the next five years. A farmer with an output of 3,400 sheep, 100 cattle and 15,000kg of wool would be levied NZ\$2510 in the coming year, increasing to NZ\$2950 after five years from NZ\$2507 last year.
- ❑ The Meat and Wool New Zealand board says that drought and dairy expansion have continued to reduce sheep numbers, resulting in a 2.8% drop to 33.14m for the year to June 2009. Total lamb crop this spring is expected to be 2% higher than last year, but the number of lambs available for export will be lower as farmers previously affected by droughts will retain more lambs than last year as replacements to rebuild sheep numbers. Cattle numbers decreased 1.7% to 4m. Wool exports receipts are expected to decrease 5.2% in the 2009-10 season to NZ\$539m. Lamb export receipts are expected to decrease 7.9% to NZ\$2.5bn during the same period, while beef export receipts will fall 11.4% to NZ\$2.1bn.
- ❑ Tourism New Zealand invested \$3m in the US market during its peak holiday season in April with the launch of its '100% Pure New Zealand' brand campaign with the Discovery Networks and Travel Channel as exclusive broadcast partners. Research investment is expected to help tourism and keep ahead of fast-changing consumer demands and grow its position as one of the

country's biggest export earners. The ministry of tourism will contribute \$500,000 to a three-year programme, with the rest of the money sourced from the Foundation for Research, Science and Technology.

- ❑ Air New Zealand, the country's biggest airline, plans to cut capacity and other costs to halt the slide in earnings amid falling passenger numbers. The airline will cut capacity on its long-haul routes by 9% in 2010 following a 9.4% cut in the year to June 2009. Air New Zealand has cancelled some services and is using smaller aircraft on routes to Asia and North America due to falling demand. The airline expects demand to stabilise once the global economy starts to recover, which may spark tourism and business travel.
- ❑ Wind energy is a dynamic and quickly growing industry. New Zealand has nine operating wind farms, two of which are being expanded and a tenth under construction and many more in various stages of development. Wind energy currently provides about 3% of New Zealand's electricity – 1.040 GW hours in the year to March 2008. On an annual basis, this is enough electricity to meet the demand of 160.000 homes. New Zealand will have 2.500 to 3.000MW of installed wind energy capacity by 2025, which will supply 15% to 20% of the country's electricity. New wind farmers also deliver ongoing regional economic benefits of over NZ\$20m (\$15m) per year and create highly skilled jobs.

Trade Developments

- ❑ New Zealand has a diversified exports market and has developed strong trade links with Australia, US and Japan. Other trade partners include China, UK, Singapore and Germany. New Zealand became the first western country to sign a free trade deal with China. Exports include dairy products, meat, wood and wood products, fish and machinery while imports include machinery and equipment, vehicles and aircraft, petroleum, electronics, textiles and plastics.
- ❑ The annual trade deficit posted in July was the smallest in six years as the worst recession in three decades led to a slump in imports. The shortfall narrowed to N\$2.48bn (\$1.7bn) in the twelve months to 31st July 2009 from a revised N\$3.11bn in the year to June. Demand for imports has slowed as companies cut investments and as the highest unemployment rate in nine years prompts consumers to reduce spending. As domestic demand slows, New Zealand has been looking for overseas sales of commodities such as butter, meat and cheese to fuel economic growth. Diesel, crude oil, machinery and passenger car imports fell 21% from a year earlier to N\$3.34bn, the second largest decline since 1993 after a 22% drop in May this year. Exports fell N\$3.18bn led by crude oil, meat and aluminium.
- ❑ SA's exports to New Zealand totaled R1bn in 2008 from R757m in 2007. Year-to-June 2009 exports totaled R219m.

Researched and Compiled by Lily Maharaj, Economic Services - Credit Guarantee Insurance