

After extremely limited growth during the first half of 2000, the New Zealand economy is expected to grow at about 3 percent a year for the next several years. Most, if not all, of the growth is linked directly to the weak New Zealand dollar. The impact of the weaker Kiwi dollar is evident in the pace of exports, currently running 20 percent above year-ago levels. Against the US dollar, the value of the Kiwi dollar is down 16 percent from last year and 25 percent from two years ago.

Several factors have combined with higher import prices, brought on by the weak Kiwi dollar, to start forcing up the Consumer Price Index. These factors include high oil prices and increased domestic taxes on cigarettes and alcohol. In combination, the CPI inflation rate was 3 percent for the year ending September 2000. Expectations are that inflation will move toward 4 percent before the end of 2002. However, the Reserve Bank apparently is not as concerned about inflation as the European Central Bank is, and moved interest rates down in mid-April of 2001. Nevertheless, the weaker dollar, higher energy prices, increased pressure for wage increases, and higher taxes all point toward continued cost-push inflation pressure during the next several years.

In the domestic petroleum market, despite the fact that two new retailers have entered the local market, petroleum prices edged up approximately 20 percent during the past year. While the increase in oil prices is generally in line with the increase experienced by other countries, the weak New Zealand dollar has multiplied the impact of higher oil prices on the economy. New Zealand's distance from both export destinations and import origins means the higher transportation cost has a significant impact on the economy.

Strong international demand for New Zealand food and agricultural products is seen lasting at least through mid-2002. Since the New Zealand economy is so closely aligned with the economies of Australia and the United States, it is those countries that must continue demonstrating economic strength if the New Zealand economy is to remain vigorous.

Finally, it is recognized that the health of the New Zealand economy is based on external factors, not on domestic leadership. Not all economic problems in New Zealand can be attributed to external factors, however. Economic reforms enacted more than a decade ago have not resonated in New Zealand as well as they have in the United States. As a result, offshore expectations of the country becoming a "Switzerland of the South Pacific" have not been met. Investors, both domestically and offshore, will continue to look elsewhere to invest.

Eight years ago, the New Zealand share market broke through the 2000-point level. Since then, while share markets elsewhere have grown, the domestic share market has remained in a narrow trading range slightly above the 2000-point level. There are few signs the market will grow during the next several years. However, because it did not grow as spectacularly as world markets did, recent declines in the

New Zealand share market have been much less than declines in share markets elsewhere in the world.

Food Prices and Consumption

In February 2001, the Bank of New Zealand reported that the core Grocery Index of the Food Price Index had had its largest rise since 1988. When combined with a 5.6 percent increase in fruit and vegetable prices, food prices began 2001 at 4 percent above the previous year's level. With a significant part of the country's food imported, the weak dollar, combined with higher costs of production, higher transportation costs, and unsettled weather in some parts of the country, point toward continued upward pressure on food costs. Forecasts suggest increases in food costs during 2002 will be equal to or greater than the expected 4 percent rate of inflation.

An additional, but so far unquantified, aspect of upward pressure on food costs is the impact of tourism. The weak dollar and a strong Asian economy have combined to bring a record 1.8 million tourists into the country during 2000: 182,000 visitors, or 11 percent, more than in 1999. 1.8 million tourists equals almost 50 percent of New Zealand's population. Foreign tourists to the United States during the same time were about 50 million visitors, or less than 20 percent of that country's population. Occupancy at hotels and motels throughout New Zealand is also at record levels. Not unexpectedly, this surge in tourism has increased demand for food and ingredients from the hotel trade. With much of the food purchased from local suppliers, this new and growing demand component will also add to upward pressure on food prices.

Finally, with strong demand internationally for New Zealand production, domestic consumers will need to bid against offshore markets for locally produced products. For example, lamb producers are receiving the highest prices in about 30 years, venison prices are 47 percent above 1999 levels, and beef prices are the highest since 1992. The strong prices are a combination of a weak dollar, quality product, and good marketing. Even if the dollar strengthens appreciably during the next 18 months, the impact on meat prices is expected to be limited. Late in 2002, regardless of the position of the dollar, increased production will begin to soften prices.

Food Processing and Marketing

The trend toward food industry consolidation seen elsewhere in the world has also taken place in New Zealand. The largest segment of the food industry, the dairy industry, is the most recent example. Several years ago, 13 cooperatives provided processed dairy products sold internationally by the New Zealand Dairy Board – a single desk seller. As of April 2001, there were 4 cooperatives, soon to be 3. The two largest cooperatives are merging to form what is today referred to as Global Dairy Company. The new venture will export dairy products

that constitute 20 percent of New Zealand's total exports and 7 percent of the country's Gross Domestic Product. In exchange for the government waiving the need for a review of the impact of the merger on the domestic retail dairy market, the industry has agreed to relinquish its long history as a single desk seller (see below).

The positive environment currently enjoyed by the dairy industry could be placed in jeopardy if the difficult task of blending together industry participants is not done in a timely manner. Industry leaders intend to have all issues, including a new industry marketing arm, resolved by the end of 2001.

Although the dairy industry merger was driven by the need to strengthen the industry's export potential, the merger has considerable potential impact on the domestic dairy processing and marketing segment of the industry. The two cooperatives seeking to merge have sought to avoid scrutiny by the Commerce Commission. The Commission's task is to ensure that "consumers and producers benefit from healthy competition." Last year, a ruling by the Commission prevented the initial attempt of the two cooperatives to merge. This year, the industry decided to go around the Commission. The impact of the dairy merger on domestic prices is expected to push up domestic dairy prices. Retail fluid milk prices were raised 10 cents a liter the day the merger was announced. The potential for similar moves toward consolidation in other food industries is very probable, particularly in the meat processing industry.

Agricultural Production and Trade

All indicators point to continued strong and profitable production in most of the agricultural sector through 2002. An example of the growth potential in the industry has been the significant increase in the price level at which farms are being sold. The average selling price of a dairy farm during early 2001 was approximately NZ\$780,000, compared with the February 2000 average selling price of NZ\$525,000. With lower interest rates and forecasts of dairy sector returns to remain strong (they are about 40 percent above year-ago levels), strong demand for farms is expected to continue. Further, many sheep and beef farms that were sold have been converted into dairy farms. With milk production up 4 percent from last year and at record levels, the dairy industry is expected to remain both profitable and competitive into 2002.

New Zealand remains in large part focused on open trade and continues to push for reductions in production and trade-distorting subsidies. Nevertheless, it has moved quickly to restrict imports when there is potential for the introduction of disease into the country. Limitations on imports of agricultural, horticultural, and food products are disease-related. For example, as a result of the recent foot-and-mouth disease (FMD) outbreak in the United Kingdom, New Zealand, like many other countries, has restricted imports of meat and dairy products from certain destinations. Further, the country has heightened its border surveillance, particularly for visitors from countries that are not

FMD-free.

Although New Zealand is expected to remain a firm advocate of multilateral trade negotiations, it has entered into bilateral agreements with several countries. Its long-standing Closer Economic Relationship with Australia and a new bilateral agreement with Singapore underscore this direction. No change in the country's drive toward increased free trade and reduced subsidies is expected in the near future.

Food and Agricultural Policy

Two important factors have combined to influence the direction of food policy: the first is the increasing desire of New Zealand to protect its relatively disease- and pest-free environment. With the recent attention given to FMD and BSE in the European meat sector, politicians and the public have heightened their awareness of the importance of strict border control. While the importance of trade and tourism to the country's economy is well recognized, there appears to be broad support for increased inspection of people and cargo brought into the country. The important consideration of these actions is the country's ability to maintain a balance between enhanced surveillance and its clear goal of reducing non-tariff barriers.

The second factor affecting food policy is genetically modified food. Although considerable research has been conducted by New Zealand scientists on genetic modification of both plants and animals, the public backlash has been noteworthy. Food labeling requirements that will soon be in place impose one of the strictest labeling regimes in the world on the use of genetically modified ingredients in foods. As with increased border inspection procedures, the potential impact of such strict mandatory labeling on trade is unknown.

In the agricultural policy area, the demise of single desk sellers is assured. The largest single desk seller, the New Zealand Dairy Board, is expected to be disbanded within the next 12 months. After that, any business may export dairy products. The other major export boards, including the Apple and Pear Marketing Board and the Kiwifruit Marketing Board, are preparing for, or have already completed, transition to less protected status.

Water Resource Issues

New Zealand's water resources are essential to the economy and are a significant part of the country's natural heritage. Water quality is very high by international standards, but the quality varies considerably throughout the country. Because of the importance of clean water to the country's natural heritage, there is considerable public and political interest in assuring that high water-quality standards are maintained. It is water quality, not water quantity, that has the attention of policymakers. For example, the six goals of the nation's vision for water management all relate, directly or indirectly, to quality.

Most of the country's water is from rainfall. Approximately 80 percent of the nation's electrical power is generated by hydro power sta-

tions, driven largely by water stored in lakes fed by rainfall. There is considerable variation in rainfall, with some areas experiencing nearly tropical conditions while others are more desert-like.

The main source of pressure on water demand and quality is pastoral agriculture. Intensive pastoral use of water has resulted in pollution of both surface water and some groundwater. Further, in dry areas, the demand for pasture irrigation has placed considerable strains on the ecosystem.

The country has no market for the transfer of water. Local governments provide water to urban areas, while rural areas are self-supporting. Water metering is not common for residences. The Auckland Region, where metering began in the early 1990s, is the principal exception. With no meters, the rates paid for water are either a fixed charge or a function of the value of the property. As a result, water consumption is very high. Subtracting water used for hydroelectric purposes, per-capita water use is estimated at 1,500 liters per day. Of this total, an estimated 1,100 liters goes to agricultural uses.

New Zealand's pastoral farming system places very heavy pressure on water. More than half of the country's land surface is in pasture. The resulting impact on water quality is enormous. When combined with irrigation demand for water supplies, agriculture is both the primary user and polluter of water. Irrigated water use is carefully controlled through the use of water rights, granted and controlled by local government bodies.

In 1991, the comprehensive Resources Management Act (RMA) was enacted. This Act placed into local government hands the respon-

sibility to maintain local water quality and quantity. Along with the decentralization of water management authority came the removal of subsidies associated with stock water supplies, irrigation and drainage, and flood control. The role of the national government is now limited to the management of issues associated with coastal waters. With farmers responsible for the funding of their own irrigation projects, water use has become more efficient, despite there being no large-scale irrigation projects under development. The RMA has also aggressively turned to agriculture to reduce all water pollution associated with production agriculture.

In the past, when urban water users were confronted with a lack of water, they simply expanded their capacity to provide water. Today, local governments, like farmers, are actively attempting to limit consumption rather than expand supply. As noted above, there is limited water metering for households. To reduce consumption, local authorities are increasingly looking to metering to assist in establishing a more effective system to increase the efficient use of water.

It is recognized that the quality of New Zealand's water has improved over the past 20 years. This increase is directly related to improvements in treating wastewater at specific pollution points. Over the next 20 years, attention will shift to methods to reduce non-point pollution. It is expected that pastoral agriculture will be asked to bear greater responsibility for the pollution it causes. Consequently, governmental and private efforts in the water industry will focus on improving water quality and reducing per-capita consumption, rather than on efforts to expand the amount of water available.

NEW ZEALAND

	Units	1997	1998	1999	2000	2001 ^E	2002 ^F
FOOD CONSUMPTION PATTERNS							
Per capita caloric intake ^a	Cal/day	3,411	3,425	3,420	3,429	3,450	3,500
From animal products	Cal/day	2,155	2,136	2,130	2,165	2,200	2,200
From vegetable products	Cal/day	1,256	1,289	1,290	1,264	1,250	1,300
Protein (% of calories)	%	15.0	15.0	16.0	15.0	15.0	15.0
Fat (% of calories)	%	36.0	37.0	35.0	36.0	36.0	35.0
Carbohydrates (% of calories)	%	49.0	48.0	49.0	49.0	50.0	50.0
INCOME AND FOOD PRICES							
Per capita income ^b	US\$/capita	16,813	13,490	13,827	14,242	14,300	14,350
% of disposable income spent on food ^b	%	12.3	12.0	12.1	12.3	12.5	13.0
% spent eating out	%	2.7	2.7	2.9	3.0	3.0	3.5
Food price index ^c	1990=100	105.9	110.1	109.0	112.9	115.7	118.6
General price index (CPI) ^c	1990=100	114.4	114.9	115.5	120.1	123.7	127.4
POPULATION ^d							
Total population	Million	3.8	3.8	3.8	3.8	3.8	3.9
Urban	Million	3.2	3.3	3.3	3.3	3.3	3.4
Nonurban	Million	0.6	0.5	0.5	0.5	0.5	0.5
Share of population in the following age groups							
0-4 years	%	na	na	na	7.6	7.4	7.4
5-14 years	%	na	na	na	15.2	15.2	15.2
15-19 years	%	na	na	na	7.0	6.7	7.0
20-44 years	%	na	na	na	37.2	36.5	34.0
45-64 years	%	na	na	na	21.6	20.7	20.5
65-79 years	%	na	na	na	8.9	10.5	12.0
80-over years	%	na	na	na	2.8	3.0	3.9
Median age of population	Years	na	na	na	34.3	34.5	35.0
Female labor force participation	%	na	na	na	45.9	46.0	47.0
LIFE EXPECTANCY							
Males	Years	74.3	75.1	75.1	75.1	75.1	73.9
Females	Years	79.6	80.1	80.1	80.1	80.1	79.3
FOOD INFRASTRUCTURE							
Trade capacity							
Grain exports ^e	1,000 Tons	7	54	24	26	40	20
Grain imports ^b	1,000 Tons	224	150	231	270	250	260
Total food and agricultural exports ^e	Million US\$	6,471	11,028	10,036	10,075	10,500	10,700
Fishery exports	Million US\$	749	1,106	1,249	1,323	1,400	1,450
Total food and agricultural imports	Million US\$	941	1,610	1,762	1,965	1,970	1,960
Road access ^f	1,000 Kms	92	92	92	92	92	92
Rail access ^g	1,000 Kms	4	4	4	4	4	4
Telecommunications	1,000 Lines	1,785	1,862	na	na	na	na
Power generation	Million Kwh	35,759	36,301	34,149	na	na	na
Percent of population with refrigerators	%	100.0	100.0	100.0	100.0	100.0	100.0
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY							
Agriculture as a share of GDP ^b	%	5.8	5.7	5.6	5.6	5.5	5.7
Self sufficiency in grains ^h	%	83.0	90.0	81.0	83.0	90.0	90.0
POLICY TRANSFERS ⁱ							
Consumer subsidy equivalents	%	-5.0	-2.0	na	na	na	na
Total transfers (subsidy/tax)	Million US\$	-81.0	-24.0	na	na	na	na
Total transfers per capita	US\$/capita	22.0	7.0	na	na	na	na
MACROECONOMICS INDICATORS							
GDP growth ^b	%	3.00	1.80	0	0.05	2.30	3.00
Interest rate	%	7.9	4.6	6.5	8.1	8.2	6.0
Exchange rate	NZ\$/US\$	0.66	0.54	0.53	0.49	0.40	0.40

na = not available E = estimate F = forecast

Sources:

- a. FAO AGROSTAT; author's projections.
b. Statistics New Zealand and author's projections.
c. Computed as quarterly average of quarterly indices, Statistics New Zealand.
d. U.S. Department of Commerce.
e. Dairy, meat, other food and beverages, horticultural products and wool: Statistics New Zealand and author's projections.
f. New Zealand Yearbook.
g. Transrail.
h. Ministry of Agriculture and Forestry and author's projections.
i. OECD.