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Productivity or popularity?

The latest Performance of Manufacturing Index (PMI) has shown a further decline in manufacturing in November. The New Zealand Manufacturers and Exporters Association (NZMEA) say that it is not all doom and gloom as our survey showed sales seem to be holding up, particularly for exporters, and expectations for the first quarter next year seem positive due to lower interest rates and a lower dollar.

NZMEA Chief Executive John Walley says, "The contrast in the results highlights the difference between sentiment and sales. The PMI survey largely reflects the lack of confidence in the economy across the board. It is a pity that we didn't get a bigger cut to the Official Cash Rate last week to move the economy into expansionary mode and offer stability right through the first quarter of next year. Uncertainty breeds tentative supply chain behaviour, and orders might slow, reinforcing lower production."

"There is a risk that if growth does start to improve next year, as expected, the Government will take the approach that 'if it aint broke don't fix it'. The events of the last year and the problems faced by the tradeable sector over a number of prior years demonstrate that there are real problems, and if growth in the real economy is to happen, they need to be addressed."

"Weaknesses and biases in the structure of the tax system have been correctly identified by Treasury and Inland Revenue briefings so it is important that the new Government heeds this advice. The rejection of Treasury's ideas without consideration by Bill English sends a worrying 'we don't listen' signal. Simply playing for political popularity in difficult economic conditions will not cut it," says Mr. Walley.

"The signals our tax system and our chosen inflation control mechanisms send to investors in the tradable sector need to be considered. Treasury and Inland Revenue have both identified capital gains as an unproductive tax loophole, while National plans to scrap the Research and Development tax credit, which would encourage investment in improving productivity."

"There seems to be a disconnect between National's stated objectives – higher export levels and productivity, and their methods – encourage asset bubbles and domestic spending."