

**8 September 2009**

## **Government must act on Treasury warning**

The Treasury have released their monthly economic indicators for August indicating that structural imbalances in New Zealand's economy are unlikely to unwind if our current growth path is allowed to continue. The New Zealand Manufacturers and Exporters Association (NZMEA) is calling for the Government to take urgent action to rebalance the economy in order to avoid a further crisis down the track.

The Treasury Report<sup>1</sup> said, "Continued rises in the exchange rate over August meant that the New Zealand dollar over July and August was around 21% higher than in the Budget Forecasts, limiting the gains from the recovery in overseas demand. There are also signs that domestic spending may be increasing with retail sales volumes recording their first quarterly increase in seven quarters in June. Together these factors suggest that imbalances such as the current account deficit and household indebtedness are less likely to unwind significantly."

NZMEA Chief Executive John Walley says, "With house prices and consumer spending starting to increase again, it is looking increasingly like we will see another domestic economy bubble form; much like the one that just burst. This growth profile simply sets New Zealand up for a further economic shock further down the track. New Zealand cannot pay its way in the world while the export sector continues to contract."

"It is important that the Government takes steps to encourage investment in the tradeable sector to correct these imbalances. A more stable exchange rate and a balanced tax system are the keys to achieving this."

"An additional credit volume control<sup>2</sup> tool needs to be added to the Reserve Bank's arsenal so that it is able to control inflation more effectively without pushing up the currency. A Capital Gains Tax is also needed so that all forms of income are taxed allowing more investment to flow towards our productive industries."

"The Treasury has spelt out the risks to the economy; now it is time for the Government to take notice."

<sup>1</sup> <http://www.treasury.govt.nz/economy/mei/archive/pdfs/mei-aug09.pdf>

<sup>2</sup> <http://www.interest.co.nz/ratesblog/index.php/2009/08/06/opinion-how-the-ocr-has-little-impact-on-non-tradeable-inflation/>