

MEACTIVE – January 2010

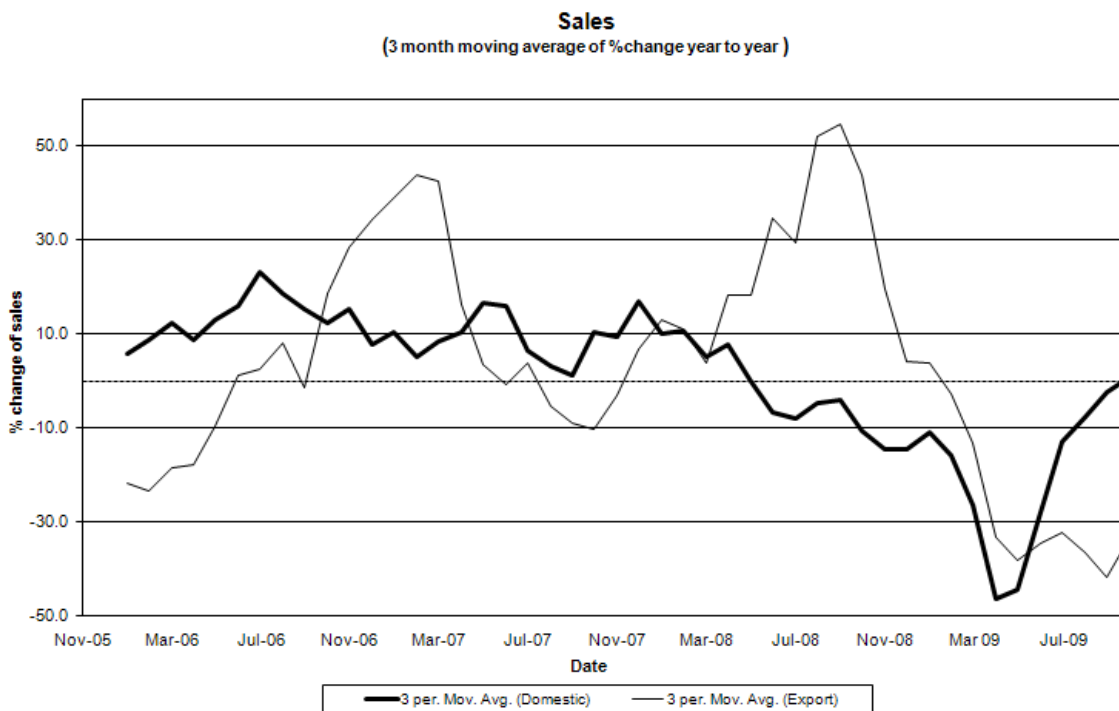
CEO Comment

2010 must be a watershed year

John Key has come out in his first address of the year saying that the economy will again be the priority for his Government in 2010. A major turnaround in our economic fortunes is little more than a hope unless we see a greater focus on the tradeable part of the economy. It has been well reported that things are starting to turn around, but for those involved in exports and manufacturing, markets are still patchy and returns have been reduced by an overvalued currency. For those involved in infrastructure projects business has started to improve but most firms in the automotive and consumer electronic markets continue to struggle.

A look at the suite of economic indicators that affect firm success in the tradeable sector reveals the problem. An overvalued dollar trading at over 70 US cents and a tax system which taxes those involved in productive enterprise more than those sitting on assets does little to inspire confidence or encourage investment.

This chart of manufacturers' sales shows how a high dollar has skewed the economic recovery towards the domestic economy.



New Zealand Manufacturers and Exporters Association

Auckland Office: P O Box 25310, St Heliers Auckland 1740
 Christchurch Office: 253 Cambridge Terrace, Christchurch 8013, P O Box 13-152, Armagh, Christchurch 8141
 Phone: +64 3 353 2540, Fax +64 3 353 2549, Freecall: 0800 353 2540, meo@meo.org.nz, www.meo.org.nz

The combination of weak markets and a poor policy framework has failed to encourage investment from firms operating in the real economy. The number of jobs lost due to the economic crisis has been significant, but this number is overshadowed by the number of jobs that never come into existence if investment persists at low or zero levels.

An NZIER survey released on the 12th of January demonstrated that underinvestment in business was not just a recessionary phenomenon. While business confidence has now been on the rise since the middle of last year, increased investment has yet to follow. Even with improving economic conditions New Zealand firms are not confident enough about returns to risk further exposure.

A turn around in the Government's policy mix needs to be started this year. Bill English has talked at length about New Zealand's unbalanced economy; now is the time to act. A monetary policy framework that will deliver a stable currency around the sixty cent mark is necessary if we are to see stronger investment from exporters, and fiscal policy also needs to reflect a focus on productive firms. This means that a property tax, a rethink of the cancellation of the Research and Development Tax Credit and faster depreciation rates on plant and equipment need to be on the agenda for the budget. These measures in combination with a gradual worldwide recovery would encourage greater investment in and growth of the real economy in New Zealand.