BUSINESS

# NZ's economic booms ranked - how this era rates

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NZ Herald Business Editor at Large

From 1952, the economy grew for 58 quarters in a row. Picture / NZME

As New Zealand's economy heads into its 10th year of expansion, how does this era rate compared to our other postwar booms. For that matter, is it even a boom?

The past few years have been great for homeowners and share investors, but have seen many wage earners struggling to keep up.

The current growth phase has been unusually shallow – in length, it is now running third-equal among growth periods since WWII, but it only ranks fifth in terms of its strength.

The numbers are based on a research paper produced by Reserve Bank head of economics John McDermott and Victoria University professor Viv Hall in 2014.

The *Herald* updated those numbers – with McDermott's help – to get a sense of how good the current economy really is.

The most recent confirmed GDP figures are for the year to September 2017 - which means we now have 34 quarters of growth in the tank. In that time we've had a total rise in real GDP (adjusted for inflation) of 25.7 per cent.

New Zealand has been dubbed a rock star economy for its growth, compared with other major economies.

But that star pales in comparison with New Zealand's golden era of postwar economic growth.

It's fair to say that baby boomers' fond memories of the 1950s and 60s are more than just nostalgia.

From 1952, the economy grew for 58 quarters in a row, and by 86.7 per cent, until a short sharp crash in the wool market – which then accounted for 31 per cent of our exports – ended the golden run in 1967.

"I think we even called it the golden age," says McDermott. "It was a rebuilding phase for the world. It took quite a few years for the rationing systems in Europe to be unwound and for the trade system to be rebuilt – the Americans stepped into Europe with the Marshall plan and they fostered an open environment for the world to expand."

New Zealand, with its infrastructure and farming systems largely untroubled by the war, was ready to make the most of the new environment, with its exports of meat, dairy and wool. Picture / NZME

New Zealand, with its infrastructure and farming systems largely untroubled by the war, was ready and waiting to make the most of the new environment, with its exports of meat, dairy and wool.

"That was the recipe for a long and quite rapid growth period for New Zealand," McDermott says.

By comparison, the current expansion hasn't really felt like a boom.

"It has been a story of duration – not so much amplitude – it was a very slow start.

"It does seem that credit is being used to support this moderate enduring cycle rather than creating it into a boom scenario," he says, referring to the artificially low interest rates and quantitative easing that central banks have maintained since the global financial crisis in 2008.

It is also the case – as the last Government's critics pointed out through the past decade – that growth has been flattered by record levels of immigration.

But one thing we can say about the current boom is that it isn't finished yet.

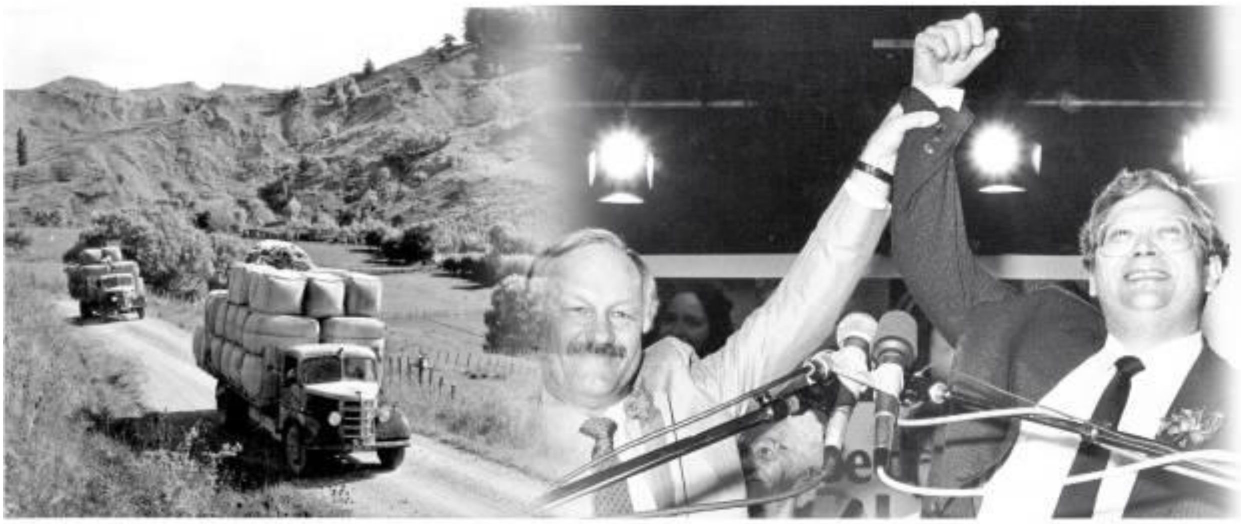
New Zealand was ahead of the curve, recovering from the GFC sooner than most major economies, and could now cash in as global conditions improve.

# Golden years

## New Zealand's economic booms compared

| | How long (quarters) | Total growth (%)* |
|---|---|---|
| 1952-66 | 58 | **86.46** |
| 1998-2007 | 39 | **41.68** |
| 1967-76 | 34 | **37.41** |
| 2009-17 | 34** | **25.7** |
| 1991-97 | 24 | **26.11** |
| 1983-87 | 19 | **14.69** |
| 1978-82 | 17 | **10.73** |
| 1948-50 | 8 | **25.85** |
| 1988-90 | 8 | **2.44** |

*Change in real GDP **To Sept quarter – latest figures available



Forecasts for the next 18 months suggest that - barring a major external shock - the current expansion is likely to leap up the rankings to rate as our second-longest and third-strongest.

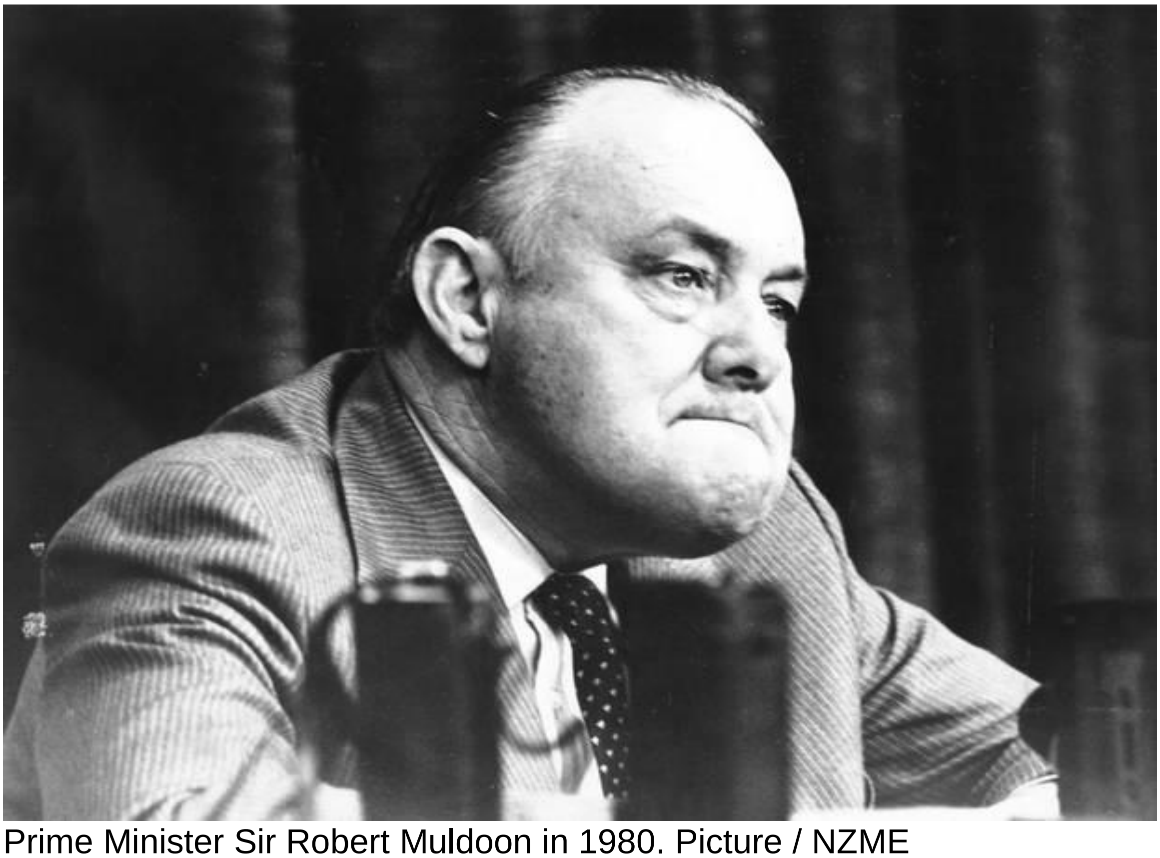
Perhaps it could even start to feel a bit more like a boom.

Unfortunately, though, no matter how good the forecasts look, you can't ignore the risk of some shock ending the party, McDermott says

"There's an old cliché about business cycles," he says. "They don't die of old age. There's no natural death – something comes along to murder them."

Falling wool prices in the 1960s, oil shocks in the 1970s, markets crashing in the 1980s, the Asian crisis of the late 1990s and the GFC – almost invariably, New Zealand's growth phases are cut short by global turmoil.

"We are a very small economy and we specialise quite a lot," McDermott says. "When times are good, we do quite well out of that – but in times of global shocks, oil shocks, Asian crisis, global financial crisis – that upsets the global trading system and we suffer disproportionately. The waves tend to hit us quite hard."



Prime Minister Sir Robert Muldoon in 1980. Picture / NZME

Auckland University economics professor Tim Hazledine broadly agrees, but argues there were internal factors at play in the slump of the late 1980s.

In fact, he argues that the structural reforms of the 1980s not only exacerbated the downturn, but they have also undermined the value of GDP as a way of measuring national wealth and social progress.

The data in the RBNZ paper records a recession from 1987 through 1988, followed by a brief expansion and then another recession in 1991.

But Hazledine argues that from a practical perspective (and based on unemployment numbers), the whole period felt like a contraction.

"Those two recessions were basically just one big five- or six-year bad period for us," he says.

And despite the downturn being triggered by the 1987 stock market crash, he blames excessive political policies of deregulation and market liberalisation for the depth of the slump.

"Then you get the bounce back – which a lot of the supporters of Rogernomics made a great deal of in the 1990s. But you were starting from a terrible trough."

He accepts that the economy in the 1990s also benefited from strong trade and the boom in southeast Asia.

The decade outperformed the current cycle, with 26.11 per cent growth in real GDP across just 24 quarters.

But he argues that the era opened up an inequality gap that has ultimately diminished the value of GDP data in economics.

"Basically, the income gap with Australia widened from about 10 per cent to about 30 in the 1990s and has never come back," he says.

"I think we should stop fixating on GDP growth … it used to mean something in the 1950s and 60s and through into the 70s - if it went up, the standard of living went up for everybody and especially the middle and lower income classes. So you could use that single number as a measure for widespread improvements."

The risk now, he says, is that it creates a false sense of "aren't we doing well" because we have 3 per cent GDP growth.

"But if three-quarters of that went to the top 10 per cent … well, that may be fine if that's your political view but I don't think the centrist parties in NZ - either National or Labour - would be happy with that."

If pushed, Hazledine argues that a number like the median wage might offer a better guide to progress.

But he's not convinced a single target is the answer.

"People who try and add things to GDP – happiness measures and so on – are still trying to get that magic number. I don't think there is a magic number anymore," he says.

"I think a more mature approach would be look at things that you know are important – like youth suicide rates, baby birth weights and focus on those.

"The median wage would be a reasonable single-number target – if the median wage goes up, then it's safe to say a lot of people have had their lives improved."

McDermott agrees that inequality is an increasingly problematic issue in developed economies.

It has created puzzles for economics, particularly as globalisation and rapid technological change have shifted the dynamics of inflation and employment.

"If you look at the long stretch of history – and this massive acceleration of globalisation since about 1990 – inequality across the globe would actually be shrinking," he says, alluding to the massive growth of the middle class through China, India and southeast Asia.

"Having said that, it's created a lot of adjustment in advanced economies. It's given a premium to industries outside manufacturing."

So job creation has favoured professional work which requires higher levels of education.

"These issues are not going to go away, they are going to accelerate," he says.

"The advent of technology, robots, artificial intelligence, 3D printing - these forces are going ever faster."

The past few years have been great for homeowners and share investors, but have seen many wage earners struggling to keep up. Picture / NZME

If you're in the top 20 per cent of incomes, you've probably seen a good period of growth in this expansionary phase, he says.

"Below that, the incomes haven't really increased and in fact there's been increasing concerns about job security. So, countries have observed this increasing income inequality – although across the globe it's been shrinking.

"Within the adjustment process there are winners and losers. And that seems to have accentuated and we're all saying: wow, how do we address that?"

The global trade system creates benefit "on average", he says.

"Economic theory doesn't really tell you about that … it tells you that everybody on average is better off. That doesn't help you if you are one of the ones struggling."

## What is a recession?

A key part of analysing the depth and length of economic cycles is how we define recessions – the ugly bits between the growth.

"Intuitively, it's an economy going backwards," says Reserve Bank head of economics John McDermott.

"If you feel a large portion of people are losing their jobs or incomes are falling ... that's what you'd see."

But the way economists define recession is another matter.

In his research, McDermott has used a classical definition of recession, rather than relying on "technical recessions", which are defined as any two consecutive quarters of negative GDP growth.

It is a more qualitative approach, but one that is more meaningful in reflecting real economic conditions – particularly where the two negative quarters are shallow and occur during an otherwise expansionary phase.

"What you need to do is search the data more intently," he says. "In the US they actually have an official committee, they search lots of data and they add human judgment to that."

Recessions are formally declared by the committee.

"We don't do that in NZ but it turns out the algorithms we used here are very good at replicating what they do in the US."