

Economic Context Briefing

November 2023



Economic Context Briefing

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1. Executive summary

1. Lifting New Zealand's productivity and economic growth can increase opportunities and prosperity for all New Zealanders. This briefing sets out New Zealand's economic strengths and challenges, and opportunities to deliver a more prosperous economy.

New Zealand has many strengths it can build on to deliver future prosperity

2. Compared to other countries, New Zealand has persistent economic strengths in fundamental institutions, regulatory environment, social capital and trust, and natural beauty. New Zealand has strong capabilities in material science research, agriculture and biological sciences, and fundamental biomedical research. It also has a comparative advantage in products directly or indirectly related to agriculture, and in international tourism.
3. New Zealand has unique strengths owned by Māori including Māori culture, Māori customary practices or behaviours (tikanga), and Māori knowledge (mātauranga). It also benefits from the diverse values and culture of Pacific and other population groups.
4. These strengths have persisted over many decades, which suggests strong path dependence in our economic trajectory.

New Zealand faces emerging opportunities and enduring challenges to achieving a more prosperous and resilient economy

5. Economic performance can be considered across four dimensions: productivity, resilience, sustainability, and distribution. Across these dimensions, the New Zealand economy faces emerging opportunities and enduring challenges that impact on its ability to deliver prosperity for current and future generations.
6. New Zealand's productivity performance has lagged that of other advanced economies over many decades. This could be explained by low capital intensity, low investment in knowledge-based capital, geographic constraints and macroeconomic imbalances.
7. The New Zealand economy is vulnerable to extreme weather events exacerbated by climate change. They will continue to create increasing economic costs for New Zealand from building more resilient infrastructure and reduced export revenues. New Zealand's major land-based export industries are particularly exposed to multiple climate change risks.
8. At the same time, New Zealand's major export products and geographic markets are concentrated, exposing us to potential economic security risks and supply chain vulnerabilities. The current international rules-based system is being undermined by some large economies adopting protectionist policies.
9. New Zealand's transition to a low emissions economy provides an opportunity to build a more resilient, affordable, sustainable, and environmentally friendly future. However, transitioning to a low emissions economy is likely to impact employment patterns across different sectors.
10. New Zealand has ambitious international and domestic greenhouse gas (GHG) emission reduction targets, including an updated Nationally Determined Contribution (NDC1). However, New Zealand is unlikely to meet its NDC1 target through domestic action alone and will need to purchase offshore mitigation to make up the shortfall. This is likely to come at a significant fiscal cost.

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11. New Zealand has a young and fast-growing Māori and Pacific population that makes a significant contribution to the overall economy and labour force. However, Māori and Pacific peoples experience poorer education and employment outcomes compared to the New Zealand average. Improving economic participation for Māori and Pacific peoples will be key to enhancing economic outcomes for them and for the New Zealand economy overall.
12. Compounding these challenges are global 'megatrends', such as changes in the climate, technology and demography, and rising geopolitical tensions. In the short term, the New Zealand economy also faces immediate headwinds, including high inflation and interest rates, and forecasted slow economic growth over the next few years.

MBIE can help the Government achieve its immediate priorities and long-term goals

13. As the government's lead business-facing agency, MBIE has a wide range of policy and service delivery functions. MBIE can help the Government achieve its immediate priorities, maximize New Zealand's strengths, address the challenges and seize opportunities outlined above by advising Ministers on:
 - opportunities to work collaboratively across portfolios and with other stakeholders to achieve common goals
 - their priorities and the mix of interventions, both within and across portfolios.
14. Reflecting MBIE's responsibilities and where it sees the greatest need for urgency, MBIE has identified five areas of opportunities around which the Government could coordinate its activities to achieve its short- and long-term goals:
 - strengthening the business environment
 - adapting to climate change and enabling the low emissions transition
 - enhancing human capability
 - strengthening global connectivity
 - lifting regulatory performance.
15. How your portfolio supports these areas and provides opportunities to work collaboratively across portfolios is detailed in your portfolio BIM. MBIE is keen to discuss with you how it can support you to achieve your short- and long-term goals.

2. Purpose of this briefing

16. The purpose of this briefing is to provide MBIE's view of New Zealand's economic context, ie the challenges, risks and opportunities the New Zealand economy faces, and the shifts that are necessary to deliver sustainable long-term prosperity for all New Zealanders. This sets the scene for MBIE's portfolio BIMs.
17. As the government's lead business-facing agency, MBIE has a wide range of policy and service delivery functions. MBIE can help you to work collaboratively across portfolios and with stakeholders, such as business and local communities, to achieve your immediate priorities and address the challenges and opportunities. MBIE is keen to discuss with you how it can support you in achieving your short- and long-term goals.
18. The snapshot of the New Zealand economy is at **Annex One**.

3. Introduction

Rebuilding the New Zealand economy and improving productivity will be vital to deliver prosperity for current and future generations

19. Lifting New Zealand's productivity and economic growth can increase opportunities and prosperity for all New Zealanders. The following sections set out New Zealand's current economic performance, the potential impact of global 'megatrends', and our economic strengths which we can build on. The final section identifies opportunities to deliver a more prosperous economy.
20. Economic performance can be considered across four dimensions: productivity, resilience, sustainability, and distribution. Across these dimensions, the New Zealand economy faces enduring and emerging challenges that impact on its ability to deliver prosperity for current and future generations. These challenges are:
 - **Productivity:** our productivity performance has lagged that of other advanced economies over many decades, which means we have become relatively poorer in terms of income.
 - **Resilience:** experience from the recent extreme weather events and the Covid-19 pandemic has shown that our economy is vulnerable to the impacts of climate change and global supply chain shocks, and our concentration of exports in particular products and geographic markets poses a risk in a changing geo-political environment.
 - **Sustainability:** the economy needs to reduce its GHG emissions and wider impact on the natural environment.
 - **Distribution:** there are wide disparities between different population groups and across regions.
21. Compounding these challenges are global 'megatrends' that are often outside of New Zealand's control, such as:
 - **Climate change:** increasing global GHG emissions caused by human activity is directly linked to rising global temperatures and more extreme and frequent weather events, such as floods and droughts.
 - **Technology change:** the development and adoption of new technologies, such as artificial intelligence, robotics and blockchain, could bring new opportunities and challenges for workers and businesses.
 - **Demographic change:** many countries, including New Zealand, are aging, putting pressure on labour markets and governments' finances, and increasing reliance on immigration. New Zealand's ethnic diversity is expected to increase, with an increasing share of the population being from Asian, Māori and Pacific ethnic groups.
 - **Geopolitical change:** the international rules-based trading system is being undermined by increasing protectionism and rising geo-political tensions, with some countries adopting protective measures to provide economic security and to support their transition to a low emissions economy.
22. These challenges and trends present both risks and opportunities to the New Zealand economy. More importantly, doing nothing also poses risks to our economic performance now and in the

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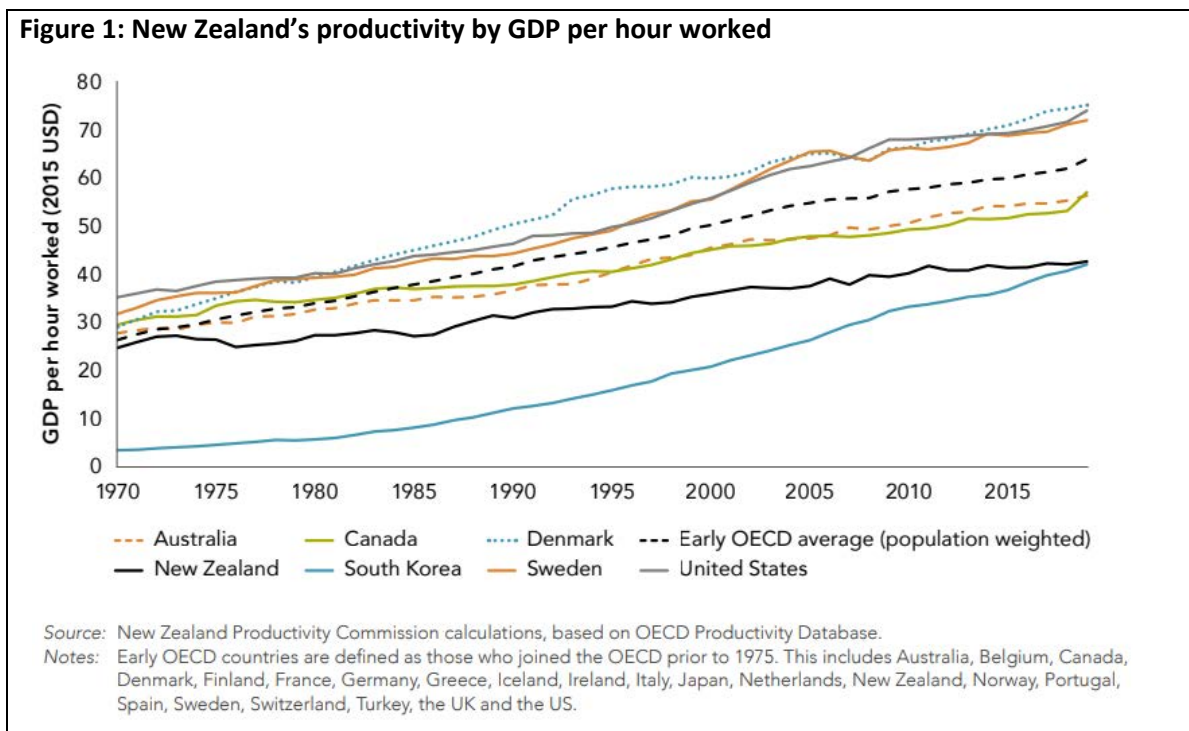
future. These challenges and trends are inter-dependent and cannot be looked at in isolation – there is an opportunity to take concerted action that achieves multiple outcomes.

23. The following sections discuss these challenges, trends and opportunities.

4. Our economic performance

Productivity: New Zealand's productivity performance has lagged that of other advanced economies

24. Productivity is a measure of how well an economy, industry or firm uses the resources available to it, such as land, workers and machinery, to produce goods and services.¹ Improved productivity provides sustained long-term growth in incomes and higher material living standards. It also means resources can be freed up for other use, eg workers may take more leisure time, or fewer natural resources are needed resulting in better environmental outcomes.² Improved productivity can mitigate the challenges of an ageing population.
25. New Zealand's productivity performance (as measured by output (or GDP) per hour worked) fell behind that of other advanced economies in the early 1970s (Figure 1). This marked the beginning of a long period of relative decline, with productivity levels continuing to diverge through to the mid-2000s. While productivity has been the main driver of New Zealand's income growth, a significant proportion has also come from working more hours compared to other OECD countries.³



26. At a firm level, more productive firms tend to be more profitable, more likely to grow, pay higher wages and charge lower (quality adjusted) prices.⁴ New Zealand's most productive (frontier) firms are on average less than half as productive than the most productive (frontier) firms in other small,

¹ New Zealand Productivity Commission. (2023, July). *Productivity by the numbers*. New Zealand Productivity Commission. <https://www.productivity.govt.nz/assets/PBTN-2023-digital-final-3-July.pdf>

² New Zealand Productivity Commission. (2021, May). *Productivity by the numbers*. New Zealand Productivity Commission. <https://www.productivity.govt.nz/assets/Documents/productivity-by-the-numbers/Productivity-by-the-numbers.pdf>

³ New Zealand Productivity Commission. (2023, July). *Productivity by the numbers*. New Zealand Productivity Commission. <https://www.productivity.govt.nz/assets/PBTN-2023-digital-final-3-July.pdf>

⁴ Syverson, C. (2023, May 31). *Productivity in a Changing World: Challenges and Opportunities*. The Treasury. <https://www.treasury.govt.nz/sites/default/files/2023-06/ps-productivity-changing-world-challenges%20opportunities.pdf>

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advanced economies (SAEs). As the Productivity Commission notes, while some New Zealand firms are at or near the global frontier, we do not have enough of them.⁵

27. Official labour productivity statistics only cover the 'measured sector', ie market-based industries, which account for about 80 per cent of New Zealand's output. Most public services are excluded from these statistics. However, Statistics NZ publishes separate productivity data for the healthcare and education sectors. This shows that productivity has grown more slowly in the healthcare sector than the measured sectors, while productivity in the education sector has declined.⁶
28. Research into New Zealand's poor labour productivity performance has identified several possible explanations:⁷
 - Low capital intensity (ie machinery, plant and equipment per worker) possibly due to persistent interest rate premiums, skewed investment towards housing rather than productive assets, or the high off-the-shelf cost of capital goods in New Zealand compared to that in much larger markets.
 - Low investment in knowledge-based capital, such as research and development (R&D), innovation, managerial capability and skills.
 - Small population spread over a large geographic area and distance from international markets, which means firms struggle to achieve scale, face weak competition, and are poorly connected internationally.
 - Macroeconomic imbalances, characterised by persistently high real exchange rates and a low household saving rate.
29. Competition is an important driver of productivity growth as it forces less productive firms out of the market and their resources can be reallocated to more productive firms. Competition also provides incentives for firms to innovate by developing new technologies and encourages less productive firms to adopt technologies that their more productive rivals use. Small economies like New Zealand must balance the efficiency benefits from having large firms and maintaining effective competition. This is less of a concern if the large firms compete in international markets.⁸
30. New Zealand's small domestic market and its distance from international markets work against it as a location for high productivity knowledge-intensive manufacturing and services firms. Unlike New Zealand, global manufacturing hubs (eg China) have extensive input markets and large local output markets, which allow firms to achieve scale and maximise their productivity potential.
31. Other SAEs, such as Denmark, Finland, Ireland and Singapore, have sought to retain and grow high productivity knowledge-intensive manufacturing and services firms through a comprehensive and consistent suite of policies. These policies tend to focus on key drivers of economic development (eg

⁵ New Zealand Productivity Commission. (2021, April). *New Zealand firms: Reaching for the frontier. Final report*. New Zealand Productivity Commission. <https://www.productivity.govt.nz/assets/Documents/Final-report-Frontier-firms.pdf>

⁶ New Zealand Productivity Commission. (2023, July). *Productivity by the numbers*. New Zealand Productivity Commission. <https://www.productivity.govt.nz/assets/PBTN-2023-digital-final-3-July.pdf>

⁷ For example, see New Zealand Productivity Commission, (2018, June), *Can the Kiwi Fly? Achieving Productivity Lift-off in New Zealand*, https://www.productivity.govt.nz/assets/Research/0722d491f8/Can-the-Kiwi-Fly_Achieving-Productivity-Lift-off-in-New-Zealand_Paul-Conway-0618.pdf; and The Treasury, (2022, September), *New Zealand's Productivity Performance: Taking a Broader View*, <https://www.treasury.govt.nz/sites/default/files/2022-09/an22-05.pdf>

⁸ New Zealand Productivity Commission. (2021, April). *New Zealand firms: Reaching for the frontier. Final report*. New Zealand Productivity Commission. <https://www.productivity.govt.nz/assets/Documents/Final-report-Frontier-firms.pdf>

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research and innovation, trade, investment, cluster development) and specialised sectors of relevance to the economy.

32. The Productivity Commission has noted that Māori businesses⁹ are more likely to export and have higher rates of innovation and R&D than New Zealand firms generally. Māori businesses also take a long-term view and manage multiple bottom lines (eg commercial, environmental and social objectives). This suggests that this approach does not need to be traded off against innovation and productivity.¹⁰

Resilience: The New Zealand economy is vulnerable to climate change impacts and shifts in the geo-political environment

33. Resilience is about dealing with shocks and disturbances. Resilience can be viewed as a dynamic process of adaptation and learning to maintain the long-run health and performance of the economic system.¹¹ The scale and frequency of recent shocks and disturbances to the New Zealand economy have drawn greater attention to the importance of resilience.

34. There are many shocks and disturbances that could affect the New Zealand economy, such as global recession, commodity price fluctuations, pandemics, war and natural hazards (eg earthquakes). However, some of the more pressing shocks and disturbances for New Zealand are:

- extreme weather events, such as floods and drought, exacerbated by climate change
- economic security risks¹²
- supply chain disruptions.

35. Extreme weather events and other climate change impacts are expected to become more frequent and extreme. This will create increasing economic costs for New Zealand from building more resilient infrastructure and reduced export revenues. Treasury's estimate of the physical asset damages from the 2023 North Island severe weather events is \$9.0-14.5 billion.¹³ The total impacts on the food and fibre sector are estimated at \$2.0-2.4 billion,¹⁴ which may result in a \$1.2 billion decrease in New Zealand's exports in 2023.¹⁵

36. New Zealand's major exports are vulnerable to the impacts of climate change, such as extreme weather events. New Zealand's top five exports are dairy, international tourism, meat and wool, horticulture and forestry (Figure 2), which account for 68 per cent of all exports. Climate change will continue to create multiple risks to these land-based export industries, eg reducing the quality and

⁹ Stats NZ categorised Māori businesses into two subsets: Māori authorities (that manage Māori assets held in communal ownership) and Māori SMEs (businesses that self-identify as Māori and have fewer than 100 employees). See New Zealand Productivity Commission, (2021, April), *New Zealand firms: Reaching for the frontier. Final report*, New Zealand Productivity Commission. <https://www.productivity.govt.nz/assets/Documents/Final-report-Frontier-firms.pdf>

¹⁰ New Zealand Productivity Commission. (2021, April). *New Zealand firms: Reaching for the frontier. Final report*. New Zealand Productivity Commission. <https://www.productivity.govt.nz/assets/Documents/Final-report-Frontier-firms.pdf>

¹¹ Pells, S. (2023, June). *Resilience – definitions, concepts and measurement. A literature review*. Ministry of Business, Innovation & Employment. <https://www.mbie.govt.nz/assets/resilience-definitions-concepts-and-measurement-a-literature-review.pdf>

¹² This is defined as 'preventing and protecting against actions and developments that threaten the viability of our national economy, including disruptions to critical national infrastructure, supply lines, attacks on our financial institutions, and economic coercion by foreign states'. See Department of the Prime Minister and Cabinet, (2023, August), *Aotearoa's National Security Strategy: Secure Together Tō Tātou Korowai Manaaki*, https://www.dPMC.govt.nz/system/files/2023-08/National%20Security%20Strategy_August%202023.pdf

¹³ The Treasury. (2023, April 27). *Impacts from the North Island weather events*. The Treasury.

<https://www.treasury.govt.nz/sites/default/files/2023-04/impacts-from-the-north-island-weather-events.pdf>

¹⁴ Ministry for Primary Industries. (2023, June). *Situation and Outlook for Primary Industries*. <https://www.mpi.govt.nz/dmsdocument/57298-Situation-and-Outlook-for-Primary-Industries-SOPI-June-2023>

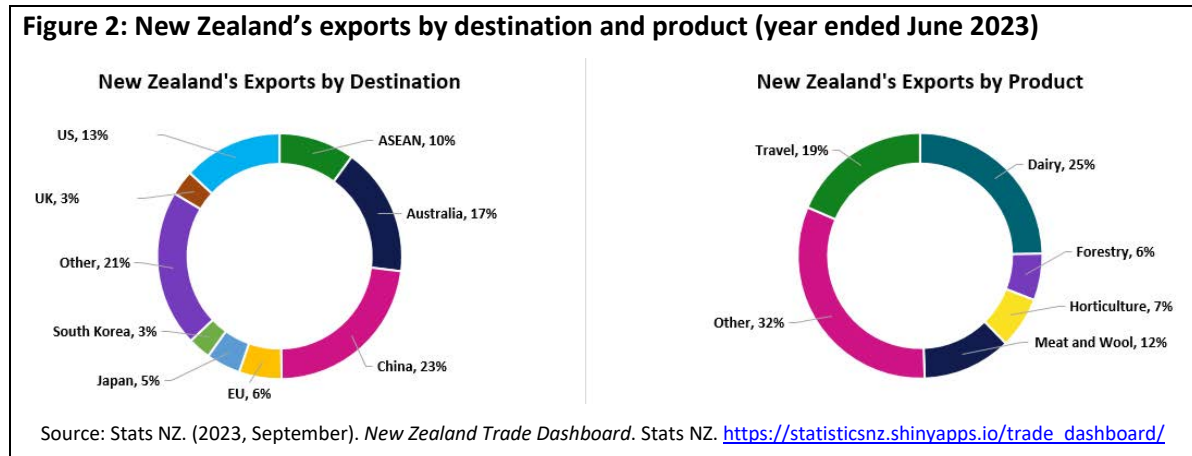
¹⁵ Michael, G. (2023, February). *Economic Overview: Weathering the storm*. Westpac Banking Corporation.

https://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/2023/Other/Economic-Overview_QEO_report_28Feb23.pdf

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quantity of crops, damaging natural environments for international tourists and infrastructure for the movement of goods.

37. New Zealand's major export products and geographic markets expose it to potential economic security risk and supply chain vulnerabilities. Our top three export destinations are China, Australia and the US (Figure 2). China is the largest single destination for our dairy (34 per cent), meat and wool (37 per cent), forestry (54 per cent) and seafood (36 per cent) exports.¹⁶ The Māori economy, with its concentration in primary industries, is more exposed to China. Diversification could help manage these risks.



38. The current international rules-based system and economic order are being undermined by increasing protectionism. For example, the US and China have imposed multiple tariffs and restricted exports of technologies and rare metals. There have been increasing geo-political tensions, such as between the US and China regarding Taiwan and Russia's invasion of Ukraine.
39. In response to this, some countries (eg the US and the EU) are on-shoring or near-shoring production of strategic industries, such as semiconductors and green technologies, through the use of substantial subsidies. Geoeconomic fragmentation will make it more difficult for New Zealand to participate in global supply chains and access crucial technologies, which could limit our ability to innovate and develop new products.
40. New Zealand's geographical distance from major international markets means its exports and imports rely on global supply chains, in particular international shipping routes, operating effectively and efficiently. The Covid-19 pandemic demonstrated New Zealand's vulnerability to global supply chain disruptions.
41. The global economy is undergoing interrelated transformations, eg in technology and energy systems, with weaker distinctions between economic and security dimensions. This creates opportunity for New Zealand, but it is also a driver of domestic transformation as we seek to maintain access to international markets and diversify our exports. These factors require the government to think differently about the way in which it undertakes key parts of its policy programme and ensure that we integrate international perspectives into our interventions.
42. For these reasons, New Zealand needs to develop greater resilience given the likelihood of further shocks and disruptions. While New Zealand has historically coped reasonably well with many shocks

¹⁶ Ministry for Primary Industries. (2023, June). *Situation and Outlook for Primary Industries*. <https://www.mpi.govt.nz/dmsdocument/57298-Situation-and-Outlook-for-Primary-Industries-SOPI-June-2023>

such as the Covid-19 pandemic and the global financial crisis, New Zealand has struggled to identify and respond to major long-term structural change.¹⁷ This is important given the structural change likely to be needed to transition to a low emissions economy.

43. Many Māori businesses have a greater variety of business models and governance practices that can support more diverse responses to disruptions. This is because they incorporate Māori principles, ideas and approaches (kaupapa Māori) in their operations, drawing from the Māori world (te ao Māori), which connects them to their community and place. These businesses are often characterised as having roots in Māori values, relying on collective property rights arrangements, or adopting longer investment horizons aligned with the inter-generational needs of their wider community.¹⁸

Sustainability: New Zealand’s transition to a low emissions economy provides opportunities to build a more resilient, affordable, and sustainable future

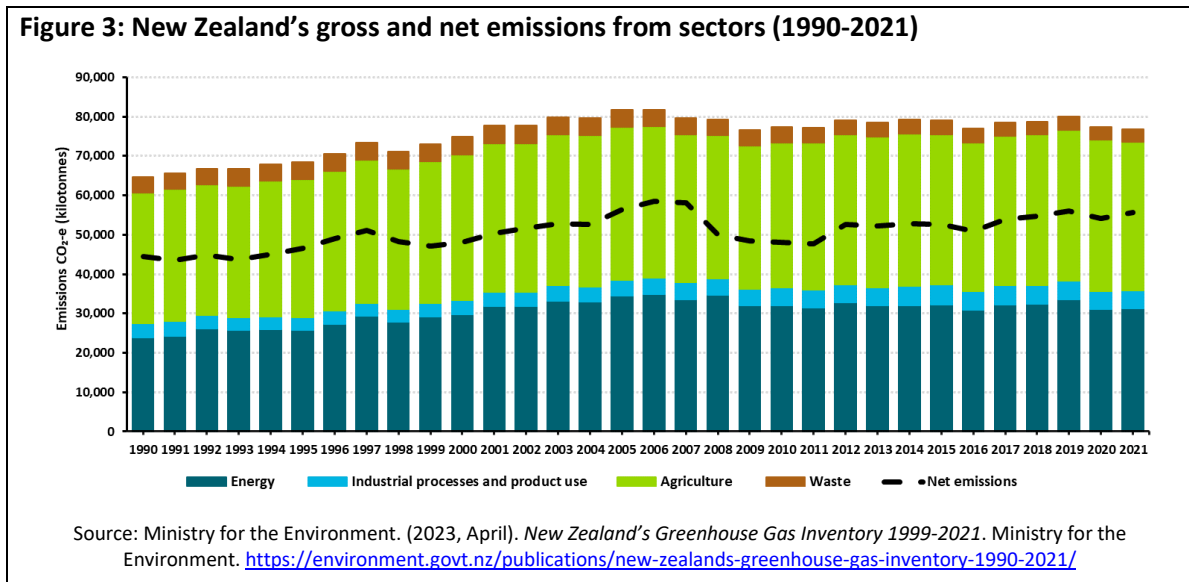
44. While there is much debate about the meaning of sustainability, there is wide agreement that an important component is ensuring future generations can enjoy similar levels of prosperity to current generations. This can be achieved if the total wealth of an economy, such as financial and physical capital, or the natural environment, are not decreasing or deteriorating (after allowing for productivity and population growth). The natural environment provides examples, like climate change or biodiversity loss, where there are critical limits or tipping points beyond which future prosperity would be forever compromised.¹⁹ While there are many dimensions to sustainability, for brevity this section focuses on the natural environment.
45. New Zealand has ambitious international and domestic GHG emission reduction targets:
- An updated NDC1 under the Paris Agreement to reduce its net²⁰ GHG emissions to 50 per cent below 2005 levels by 2030.
 - A domestic target set in the Climate Change Response Act 2002 of:
 - net zero of all GHG emissions except biogenic methane by 2050, and
 - 24 to 47 per cent reduction from 2017 levels of biogenic methane emissions by 2050, including a 10 per cent reduction by 2030.
46. New Zealand’s gross emissions peaked in 2006 and have been relatively stable since (Figure 3). New Zealand’s net emissions were marginally lower in 2021 than in 2005. About half of New Zealand’s emissions are from agriculture, mostly of biogenic methane. A further 40 per cent of emissions are from energy, including transport. Most of New Zealand’s GHG removals from the atmosphere are by forestry.

¹⁷ Easton, B. (2023, February). *Learnings from The New Zealand Economic History of Shocks. Working paper 2023/02*. New Zealand Productivity Commission. https://www.productivity.govt.nz/assets/Inquiries/resilience/Embargoed/EMBARGOED_Brian-Easton_2022_Learnings-from-The-New-Zealand-Economic-History-of-Shocks.pdf

¹⁸ New Zealand Productivity Commission. (2023, February). *Improving Economic Resilience – Issues Paper*. New Zealand Productivity Commission. https://www.productivity.govt.nz/assets/Inquiries/resilience/Resilience_Issues_Paper_Final_17-Feb-2023.pdf

¹⁹ The Treasury. (2022, November). *New Zealand’s wellbeing: Is it sustainable and what are the risks?. Background paper to Te Tai Waiora: Wellbeing in Aotearoa New Zealand 2022*. <https://www.treasury.govt.nz/sites/default/files/2022-10/tp-new-zealands-wellbeing-sustainable-what-are-risks.pdf>

²⁰ Adjusted for removals from the atmosphere, eg from forestry.



47. Some industries are more emissions intensive than others, for instance the primary industries are much more emissions intensive than services industries. The Māori economy is more emissions intensive than the wider New Zealand economy because of the greater prominence of agriculture.²¹ This was because Māori often retained the most marginal land that was often only suitable for agriculture. This is likely to mean that the transition to a low emissions Māori economy will be more challenging than for other parts of the economy.
48. New Zealand is unlikely to meet its NDC1 target through domestic action alone and so will need to purchase offshore mitigation to make up the shortfall. The fiscal cost of this could range from \$3.3 to \$23.7 billion, depending on the amount of offshore mitigation required and the purchase price.²²
49. The Intergovernmental Panel on Climate Change has warned countries that their NDCs under the Paris Agreement are unlikely to limit global warming to below 1.5°C. Beyond this, the impacts of climate change are likely to become increasingly irreversible.²³
50. The Climate Change Commission’s draft advice on the government’s second emissions reduction plan notes that transitioning to a low emissions economy is likely to impact employment patterns across different sectors. Some workers will need to adopt new skills and ways of working. However, the transition could also build resilience to climate change, reduce energy costs and improve wider environmental outcomes.²⁴
51. In addition to reducing emissions, the New Zealand economy needs to reduce its impact on the natural environment more broadly. For example, the freshwater environment is under pressure from land use change (eg agricultural intensification and urbanisation) and pollution (eg wastewater, plastics and chemicals). This means many rivers and lakes are not suitable for

²¹ McMillan, A., Riley, H., & Dixon, H. (2021). *Māori economy emissions profile: Climate change mitigation impact on the Māori economy*. BERL. <https://www.mbie.govt.nz/dmsdocument/17448-ā-economy-emissions-profile>

²² The Treasury & Ministry for the Environment. (2023, April). *Ngā Kōrero Āhuarangi Me Te Ōhanga: Climate Economic and Fiscal Assessment 2023*. <https://www.treasury.govt.nz/publications/climate-economic-fiscal-assessment/nga-korero-ahuarangi-me-te-ohanga-2023>

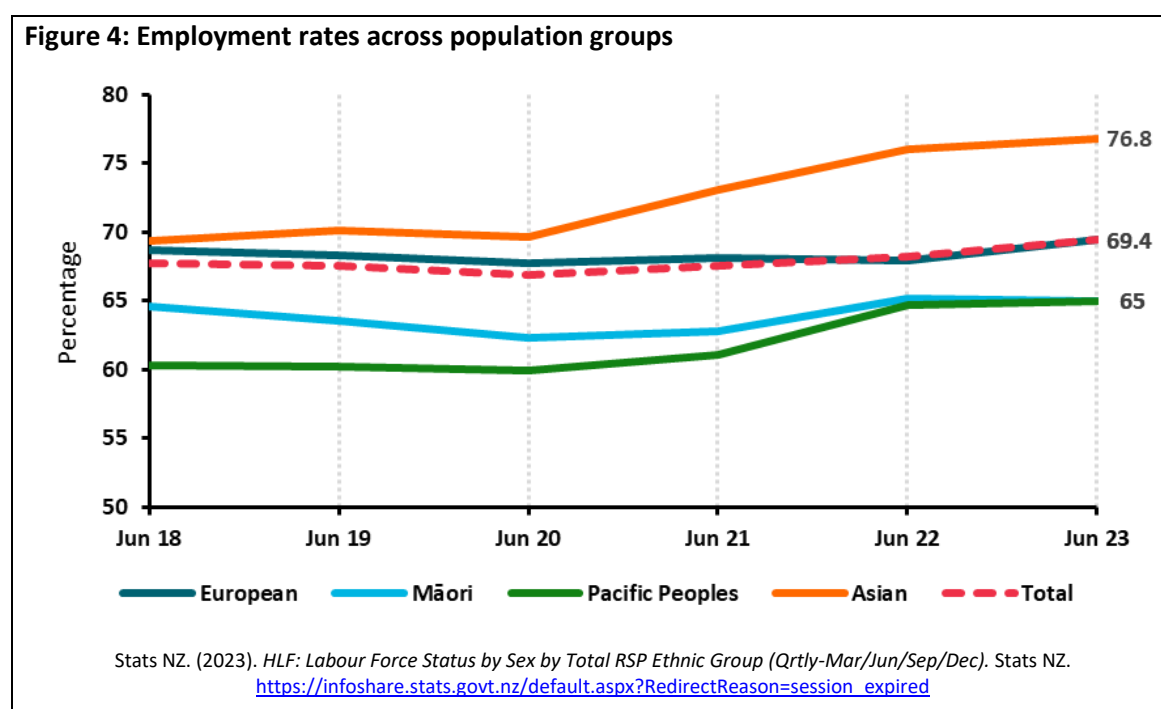
²³ Intergovernmental Panel on Climate Change. (2023). *Summary for Policymakers. Climate Change 2023 Synthesis Report*. https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf

²⁴ Climate Change Commission. (2023). *Draft advice to inform the strategic direction of the Government’s second emissions reduction plan*

swimming and groundwater is not suitable for drinking.²⁵ New Zealand’s biodiversity is also coming under increasing pressure for similar reasons.²⁶

Distribution: There are significant disparities between different population groups and across regions

52. New Zealand has a young and fast-growing Māori and Pacific population that makes a significant contribution to the overall economy and labour force. Annual GDP for the Māori economy was estimated at \$17 billion in 2018 and has been growing faster than the overall New Zealand economy.²⁷ The Pacific economy contributed \$8 billion to the New Zealand economy in 2018.²⁸ The geographic concentration of Māori and Pacific people differ as 64 per cent of Pacific peoples reside in Auckland, while the Māori population is more regionally dispersed. Improving economic participation for Māori and Pacific peoples will be key to enhancing economic outcomes for them and for New Zealand overall.
53. Māori and Pacific people experience poorer employment outcomes compared to the New Zealand average (Figure 4), with lower rates of employment, higher rates of underutilisation and increased rates of 15- to 24-year-olds not in education, employment, or training.²⁹ Compared to the OECD average, New Zealand has higher income inequality and a higher child poverty rate, particularly for Māori and Pacific households.³⁰



²⁵ Ministry for the Environment & Stats NZ. (2023). *New Zealand’s Environmental Reporting Series: Our freshwater 2023*. Ministry for the Environment & Stats NZ. <https://environment.govt.nz/assets/publications/our-freshwater-2023.pdf>

²⁶ Department of Conservation. (2020). *Biodiversity in Aotearoa: an overview of state, trends and pressures*. Department of Conservation. <https://www.doc.govt.nz/globalassets/documents/conservation/biodiversity/anzbs-2020-biodiversity-report.pdf>

²⁷ McMillan, A., Riley, H., & Dixon, H. (2021). *Māori economy emissions profile: Climate change mitigation impact on the Māori economy*. BERL. <https://www.mbie.govt.nz/dmsdocument/17448-maori-economy-emissions-profile>

²⁸ The Treasury. (2018, November). *The New Zealand Pacific Economy*. <https://www.treasury.govt.nz/sites/default/files/2018-11/nz-pacific-economy-nov18.pdf>

²⁹ Ministry of Business, Innovation & Employment. (2023, June). *Labour Market Statistics Snapshot*. Ministry of Business, Innovation & Employment. <https://www.mbie.govt.nz/dmsdocument/27204-labour-market-statistics-snapshot-june-2023>

³⁰ OECD. (2022, January). *OECD Economic Surveys: New Zealand*. OECD. <https://www.oecd.org/economy/surveys/New%20Zealand-2022-OECD-economic-survey-overview.pdf>

54. There are also disparities between regions:

- Manawatū-Whanganui, Gisborne and Northland have the lowest GDP per capita, while Auckland, Wellington and Taranaki have the highest levels.³¹
- Northland, Gisborne/Hawkes Bay, and Bay of Plenty have the lowest rates of employment, while Auckland, Wellington, and Canterbury have the highest rates.³²
- Many areas of regional New Zealand are reliant on primary industries and tourism, so recent global and national events have caused economic shocks in many regions. Some regions also struggle to diversify from their traditional economic activity, exposing them to further vulnerability in future.

³¹ Stats NZ. (2023, March). *Regional gross domestic product: Year ended March 2022*. Stats NZ. <https://www.stats.govt.nz/information-releases/regional-gross-domestic-product-year-ended-march-2022/>

³² Ministry of Business, Innovation & Employment. (2023, June). *Labour Market Statistics Snapshot*. Ministry of Business, Innovation & Employment. <https://www.mbie.govt.nz/dmsdocument/27204-labour-market-statistics-snapshot-june-2023>

5. Our economic strengths

New Zealand has many strengths which it can build on to respond to these challenges and seize the opportunities

55. Amid the persistent challenges the New Zealand economy faces, the country has a unique set of strengths to build on. Compared to other countries, New Zealand has:³³

- Persistent strengths in fundamental institutions and many aspects of its regulatory environment,³⁴ social capital and trust, abundance of renewable energy sources, natural environment and beauty, and a climate conducive to agriculture.
- Strong capabilities in niche areas of material science research,³⁵ in broad areas of agriculture and biological sciences and fundamental biomedical research, and in education and skills.³⁶
- A comparative advantage in products directly or indirectly related to agriculture, and international tourism³⁷ reflecting New Zealand's underlying strengths in these areas.
- Unique strengths owned by Māori including Māori culture, Māori customary practices or behaviours (tikanga) and Māori knowledge (mātauranga).
- The values and culture derived from Pacific and other diverse population groups.

56. These economic strengths have persisted over many decades, which suggests strong path dependence in our economic trajectory. This implies concerted effort would be needed to shift this trajectory to address the challenges New Zealand faces.

³³ Pells, S. (2022, March). *New Zealand's area of (economic) strength: A literature review*. Ministry of Business, Innovation & Employment. <https://www.mbie.govt.nz/dmsdocument/18921-new-zealands-areas-of-economic-strength-a-literature-review>

³⁴ One of the most robust international comparisons of regulatory quality, the OECD five yearly Product Regulation Indicators Survey (2023 results to be published later this year) places New Zealand above the OECD average overall. The considerable variation across the many aspects of regulation assessed indicates there are benefits from investing in the quality of our regulation.

³⁵ Ministry of Business, Innovation & Employment. (2021). *The Research, Science and Innovation Report – 2021*. Ministry of Business, Innovation & Employment. <https://mbienz.shinyapps.io/research-science-innovation-report/pdf/research-science-and-innovation-system-performance-report-2021.pdf>

³⁶ New Zealand ranks highly (top 20 per cent among OECD countries in 2019) in the foundational skills of adults, participation in tertiary education and some other aspects of skills and education (OECD, 2019). However, New Zealand has seen a significant decline in recent years in the skills of young people, as measured by the Programme for International Student Assessment. New Zealand also has a persistent imbalance between the skills workers have and the skills businesses need, ie skills mismatches.

³⁷ Baigent, D. (2022, July). *New Zealand's Export Advantage: Composition and performance of New Zealand's comparative advantages from 1995-2018*. Ministry of Business, Innovation & Employment. <https://www.mbie.govt.nz/dmsdocument/23289-nz-export-advantage-composition-and-performance-of-nz-comparative-advantages-from-1995-2018-pdf>

6. Economic outlook

The New Zealand economy faces headwinds in the short-term

57. Besides the longer-term challenges outlined above, the New Zealand economy also faces immediate economic headwinds. While inflation has peaked and is declining, it is still well above the Reserve Bank's target range. Interest rates may also have peaked but the Reserve Bank noted in its August 2023 Monetary Policy Statement that rates may need to remain near current levels for slightly longer than previously thought to achieve the target range.³⁸
58. Labour market performance remains strong, eg the employment rate reached a record high in June 2023 quarter and while the unemployment rate has increased in recent quarters, it still remains below 4 per cent. Median weekly earnings from wages and salaries saw the second-highest growth since records began in the year to the June 2023, surpassed only by the previous year's annual increase. The gain in net migration has increased rapidly and reached a record high in the year ended August 2023.
59. In its Pre-election Economic and Fiscal Update, the Treasury forecasts slow economic growth over the next eighteen months as high interest rates are needed to reduce inflationary pressure. It expects annual inflation to return to within the Reserve Bank's target by December 2024. The recent weakness in tax revenue receipts is expected to persist. This in part explains a weakening in the government's fiscal position over the coming years, with a return to surplus not expected until the 2026-27 fiscal year, one year later than the Treasury's previous forecast. Overall government debt as a share of GDP is expected to peak in the 2024-25 fiscal year at 22.6 per cent.³⁹
60. Global economic growth is expected to slow over the coming years due to interest rates needing to remain high for longer to bring global inflation under control, including for our main export markets of Australia and the US. Our other main export market, China, has also seen sluggish growth, despite the removal of Covid-19 restrictions in early 2023, because of concerns about property sector debt levels.⁴⁰ This subdued global economic outlook is likely to weigh down New Zealand's commodity export prices and the terms of trade (the ratio of export prices to import prices).⁴¹

³⁸ Reserve Bank of New Zealand. (2023, August 16). *Monetary Policy Statement*. Reserve Bank of New Zealand. <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/monetary-policy-statements/2023/august/mpsaug23.pdf>

³⁹ The Treasury. (2023, September). *Pre-election Economic and Fiscal Update 2023*. The Treasury. <https://www.treasury.govt.nz/sites/default/files/2023-09/prefu23.pdf>

⁴⁰ International Monetary Fund. (2023, October). *World Economic Outlook: Navigating Global Divergences*. International Monetary Fund. <https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023>

⁴¹ The Treasury. (2023, September). *Pre-election Economic and Fiscal Update 2023*. The Treasury. <https://www.treasury.govt.nz/sites/default/files/2023-09/prefu23.pdf>

7. Moving forward

61. The challenges outlined above are substantial and, in some cases, such as responding to climate change, urgent. However, they also present opportunities to leverage new and innovative ways of doing business that can deliver a more prosperous and resilient economy.
62. Delivering a more prosperous and resilient New Zealand economy will require collective action, including businesses, central and local government, Māori, and communities. Government can play a key role in fostering growth to achieve these goals by:
- setting clear objectives
 - working collaboratively across portfolios to ensure policies are consistent and coherent
 - taking a forward-looking approach to regulatory settings and investment.
63. This approach can ensure economic, social and environmental goals are aligned and that businesses, Māori and communities have the certainty they need to make changes to support New Zealand's long-term prosperity.
64. As the government's lead business-facing agency, MBIE has a wide range of policy and service delivery functions. MBIE can help the Government achieve its immediate priorities and address the challenges outlined above by advising Ministers on:
- opportunities to work collaboratively across portfolios and with other stakeholders to achieve common goals
 - their priorities and the mix of interventions, both within and across portfolios.
65. Reflecting MBIE's responsibilities and where it sees the greatest need for urgency, MBIE has identified five areas of opportunities around which the Government could coordinate its activities to achieve its short- and long-term goals:
- strengthening the business environment
 - adapting to climate change and enabling the low emissions transition
 - enhancing human capability
 - strengthening global connectivity
 - lifting regulatory performance.
66. The Government has choices about if and how it intervenes and examples of the range of potential interventions under each of these areas are provided below. Your portfolio briefing provides more details of these potential interventions and opportunities to work collaboratively across portfolios.

Strengthening the business environment

67. MBIE can advise Ministers on how to strengthen the business environment, such as:
- Supporting existing and emerging industries, and small-to-medium sized enterprises, such as:
 - i. Promoting greater emphasis on new and emerging technologies and, in the research and science system, on industry-led advanced technologies and R&D.

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- ii. Improving capital intensity of businesses through greater business investment in productive assets, eg targeted accelerated depreciation, improved investment settings and improved access to capital markets.
 - iii. Improving the performance and resilience of small businesses, eg by supporting increased digitalisation.
 - iv. Enabling the growth of productive and globally competitive Māori enterprises, working in partnership with iwi and Māori, eg through initiatives such as the Māori Crown Economic Growth Partnership, He Kai Kei Aku Ringa.⁴²
- Supporting competitive markets through improvements to economy-wide settings (eg Commerce Act), sector-specific reviews (eg personal banking services), and trade policy (eg tariffs).
 - Leveraging the Government's combined \$51.5 billion annual spend on third-party goods and services to increase value and reduce the costs of provision of public services and for greatest impact, effectively target a small number of government priorities in those markets where government agencies are major purchasers.

Adapting to climate change and enabling the low emissions transition

68. MBIE can advise Ministers on how the economy can adapt to the impacts of climate change and transition to low emissions, such as:

- Continuing to use emissions pricing as a key lever for incentivising emission reductions, supported by complementary measures where appropriate.
- Encouraging the rapid deployment of renewable energy resources to meet demand, including addressing regulatory barriers, maintaining competitive markets and supporting the rollout of renewable electricity generation and infrastructure.
- Maximising the opportunities from decarbonisation, including increasing productivity and resilience and taking a strategic approach to hard-to-abate industries.
- Ensuring businesses and households are aware of and have the capacity to adapt to increasing climate change risks.

Enhancing human capability

69. MBIE can advise Ministers on how human capability can be enhanced by ensuring the labour market, including the skills and immigration systems, is responsive to changing needs, such as:

- Better matching the supply and demand for skills over the short-term with immigration levers and the long-term, eg by exploring work-based training, improving workforce planning and connection with the tertiary system.
- Continuing to focus on improving labour market productivity as a way of lifting wages.
- Continuing efforts to reduce disparity between the participation and outcomes of different population groups.

⁴² He Kai Kei Aku Ringa means to provide the food you need from your own hands.

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- Monitoring, reviewing and amending the labour market regulatory systems to ensure they are fit-for-purpose and are achieving intended objectives.

Strengthening global connectivity

70. MBIE can advise Ministers on strengthening global connectivity, such as:

- Developing existing and new export industries through innovation to diversify the range of products and countries New Zealand exports to.
- Building resilience to economic security challenges and supply chain risks in response to geopolitical change, eg by identifying New Zealand's critical sectors and products list.
- Easing the barriers to cross-border trading, eg through greater recognition of international standards to enable better choices and improved competition for businesses and consumers.

Lifting regulatory performance

71. MBIE can advise Ministers on lifting regulatory performance, such as:

- Improving the performance and resilience of regulation, through reducing the cost and burden of compliance and maximising benefits.
- Reducing the time and cost of business-to-government and business-to-business interactions, eg by better use of government digital infrastructure.

Annex One: Snapshot of the New Zealand Economy

Annex One: Snapshot of the New Zealand Economy



Latest statistics:

GDP \$281b

▲ 0.9% quarter growth
▲ 3.2% annual growth



Employment rate: 69.1%
Unemployment rate: 3.9%
Underutilisation rate: 10.4%

CPI 1.8% quarterly rate
5.6% annual rate

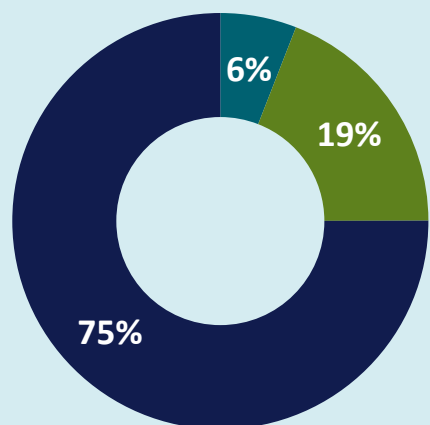


5,223,100
estimated population

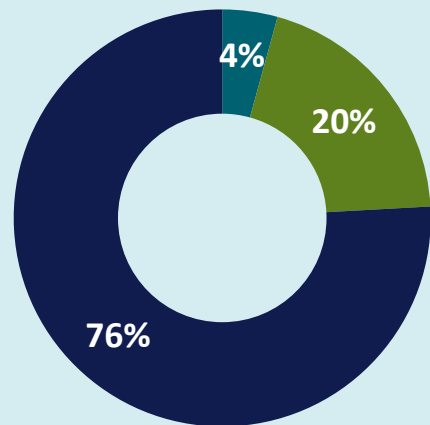
Service industries make up a significant proportion of the New Zealand economy; primary industries are much smaller at 6% but account for a greater share of greenhouse gas emissions and exports

Information, financial services and mining pay the highest wages; retail sector pay the lowest

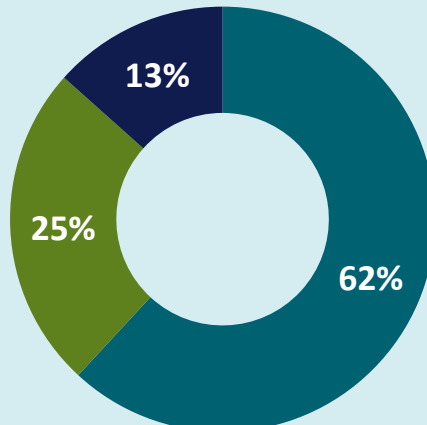
2023 GDP share



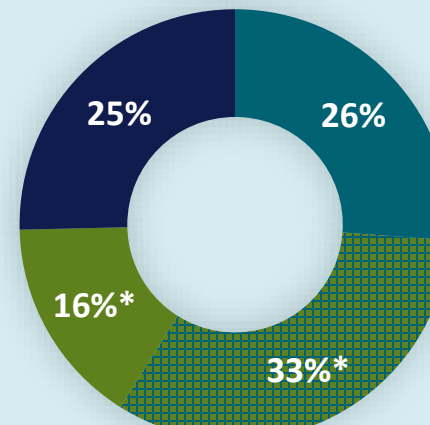
2023 Employment share



2023 Emissions share



2023 Exports share

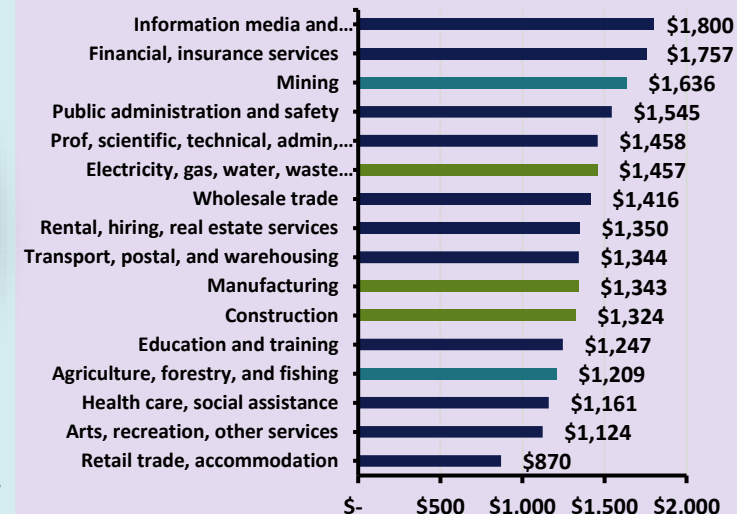


■ Primary industries ■ Goods-producing industries ■ Service industries

* In this chart, goods-producing industries' exports have been split between 'processed primary goods' (shaded green area) and 'other' (green area)

Source: Statistics New Zealand (Stats NZ) Gross domestic product, June 2023; Stats NZ Employment Indicators industry by variable, June 2023; Stats NZ, Greenhouse gas emissions (industry and household), March & June 2023; Stats NZ Annual Exports (2-digit processing level) June 2023

2023 Median weekly earnings per sector

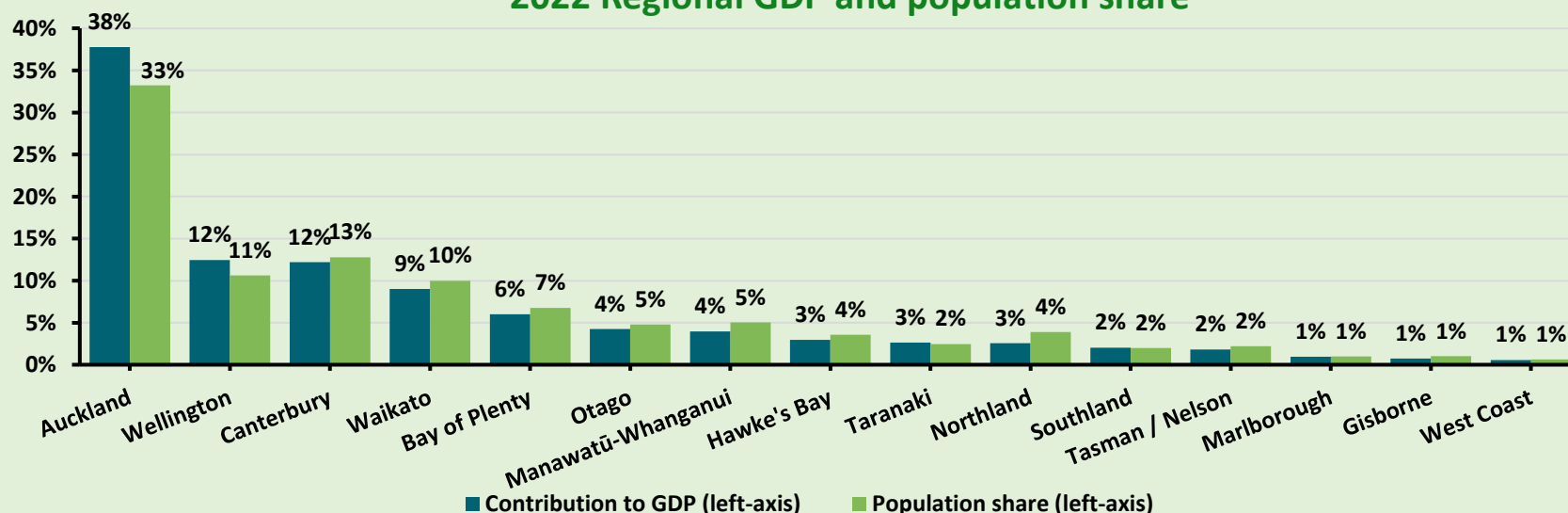


Source: Statistics New Zealand Earnings from main wage and salary job by industry, June 2023

Auckland is an important part of the economy and contributes more to economic activity (38%) than is reflected by its population (33%)

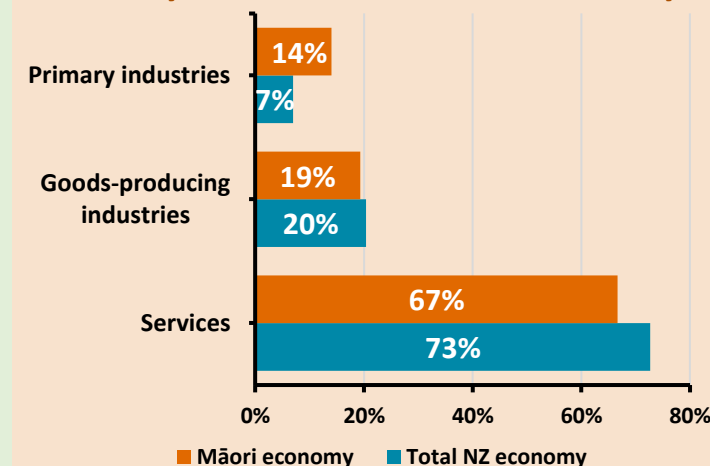
Māori economy is more focused on primary industries compared to the overall economy

2022 Regional GDP and population share



Source: Statistics New Zealand Economic Indicators, Regional gross domestic product and population, March 2022; Statistics New Zealand Earnings from main wage and salary job by region, June 2022

2018 GDP share per sector; Māori economy to total New Zealand economy*



*Used 2018 GDP for Māori and NZ Economy to allow for comparison
Source: BERL Te Ōhanga Māori 2018; Statistics New Zealand Gross domestic product, June 2018