

BUSINESS MATTERS

Kiwibank Business Banking wants to help Kiwi businesses succeed. We've teamed up with Business and Economic Research Limited (BERL Economics) to bring you this economic update.



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RWC2011 – time to play host to our visitors

- **initial visitor forecasts revised up**
- **dominated by Australian visitors**
- **but, long-term benefits may be immeasurable.**

After several years of planning, and a year full of tragedy, New Zealand is ready to take on the world! Well, the rugby-playing part of it anyway.

And reassuringly, based on latest data on ticket sales, the earlier estimate of visitor numbers of 85,000 has been recently lifted to 95,000. The newly revised figure estimates that more than 30,000 of the visitors are expected to come from Australia, with another 25,000 from the UK and Ireland, and 10,000 from France.

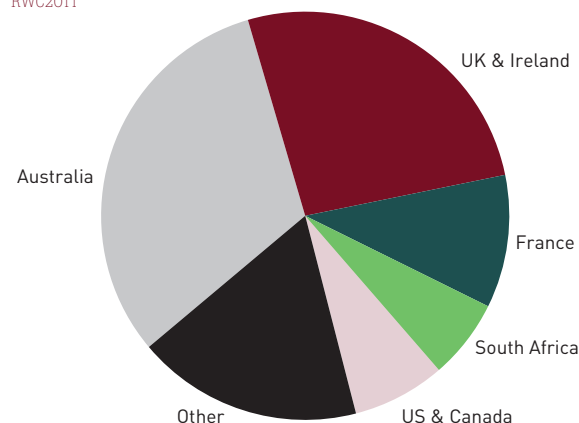
These latest figures reinforce recent trends that indicate that visitors are increasingly coming from Australia; with numbers from further afield not as high as originally expected.

Estimates from RWC documents indicated that 29,000 of the 85,000 were expected from Australia, with 19,500 from the UK and Ireland, 8,800 from France and 5,200 from South Africa. Interestingly, earlier documents suggested much larger numbers from the UK and Ireland (more than 31,000) and from South Africa, (nearly 11,000). The shift towards a far larger proportion of the visitors coming from Australia is likely to be related to ongoing economic pressures in Europe and the UK (not helped by the exchange rate); while the exchange rate has moved to be very favourable for Australians visiting here.

The latest 95,000 figure represents 3.8 percent of our average annual total of 2.5 million visitors. Latest tourism figures put the average per visitor spend at \$2,400; ranging from a high of nearly \$4,000 for holiday visitors from Japan, to a low of \$980 for Australians visiting

RWC2011 visitors
Expected origin

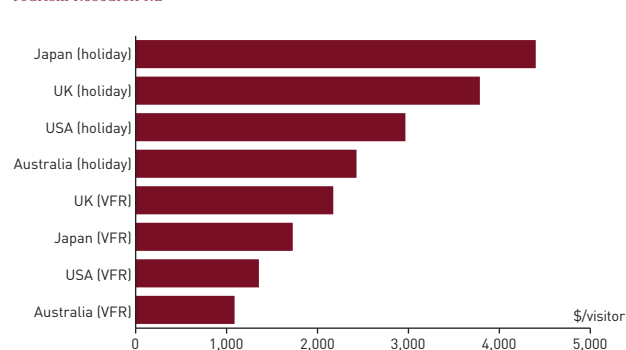
RWC2011



friends, and relations (VFR). Allowing for the relative dominance of the Australian visitor, we assume average expenditure of \$2,000. Thus, the additional 95,000 RWC visitors translates to additional revenue from tourists in the order of \$195 million (excluding revenue from RWC ticket sales). Of course, the longer the visitors stay the higher their average spend – and so the above assumption could well be on the conservative side. Nevertheless, this is not an insignificant contribution to activity in the tourism sector.

Average spend per visitor

Tourism Research NZ



A potentially greater economic boost comes from underpinning the development of longer-term markets and business relationships. In many cases, these benefits will be difficult to measure, and almost impossible to directly relate back to the hosting of the RWC. This observation, though, tends to reinforce the fact that investment in long-term development inevitably contains a degree of risk and uncertainty.

RWC2011 – on field records count for little

- **NZ has unenviable record at RWC tournaments**
- **scoring most points or tries (or dropped goals) in tournament is no guarantee of winning title**
- **last 80 minutes matters most.**

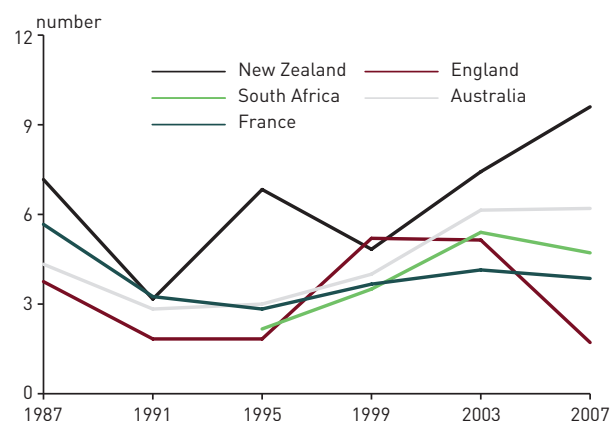
Meanwhile efforts on the rugby field, while more easily measurable, are similarly uncertain.

By almost all measures (except winning, but we'll ignore that for now), New Zealand's record is at the forefront at either first or second across all RWC tournaments.

For example, in terms of the average number of points scored per game, New Zealand has topped the table in all but the 1999 tournament – ranging from 23.8 points per match in 1991 to 65.4 in 2007. On this measure New Zealand finished second in 1999, surprisingly edged out by England. Interestingly, only in 1987 did the highest average points scoring team coincide with the team that ultimately won the tournament.

Number of tries Average per World Cup match

RWC2011 and BERL calculations

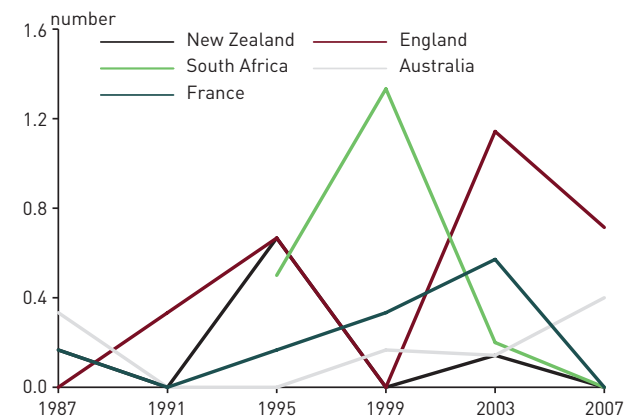


And, as illustrated, New Zealand has scored more tries per game in four of the six tournaments; shaded marginally, by France in 1991, and by England in 1999. Notably, again, in only the 1987 tournament did the team scoring the highest number of tries per match actually win the tournament.

This finding undoubtedly reinforces many views that focusing on scoring tries may not necessarily be the right strategy to win the RWC.

Number of drop goals Average per World Cup match

RWC2011 and BERL calculations



However, looking at the number of drop goals scored per match is similarly inconclusive. Countering those who suggest we haven't got a history of scoring via drop goals, the 1995 tournament saw New Zealand equal top (with England) on the drop goal table – at 0.67 per match (or two in every three games played). And, further countering those who believe we should specialise in this method of scoring, in only the 2003 tournament did the leader on this measure coincide with the actual winner of the RWC. Further, in both 1991 and 2007 the overall winner of the RWC scored zero drop goals through the whole tournament.

This analysis suggests that past winners of the RWC have not achieved due to any superiority in records, or in terms of form or statistics. Rather, the winner is decided over 80 minutes on the day in question. And, as is well understood in the hearts of all sporting enthusiasts, this is the core uncertainty that underpins the beauty and attractions of all sporting contests.

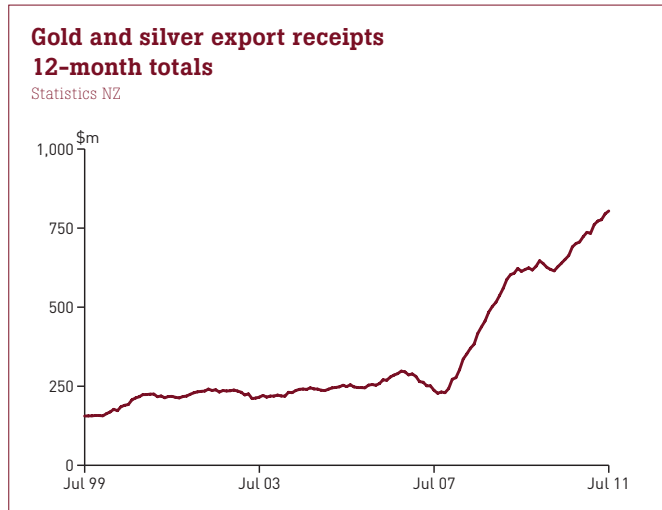
Export efforts continue to fly high

- **export revenue for latest 12 months up 10 percent**
- **solid contributions emerging from other products to support revenue dairy and logs**
- **growth in receipts from gold and silver, wool, and iron and steel amongst notable performances.**

Despite international turmoil, New Zealand's export effort continues to grow. Latest data sees NZ annual export receipts total \$56.7 billion, an increase of more than 10 percent (or \$5.2 billion) on that of the previous year.

Promisingly, strong growth in revenue from dairy and log exports is being supported by that from other categories. Noticeably, wool receipts have soared as have iron and steel, aluminium, and gold and silver. All but the last category, recorded miserable figures in the previous year, so their growth is essentially a recovery of lost ground. In the case of iron and steel and aluminium, earlier lost ground was a combination of production difficulties and subdued external demand. The story for wool has been one of long-term decline, which makes the latest recovery (on the back of promising prices) all the more remarkable.

The picture for gold and silver exports differs in that it is a combination of increased production assisted by the surge in global prices for precious metals. From under \$240 million in the year to July 2007, this category contributed over \$800 million in export earnings in the year to July 2011.

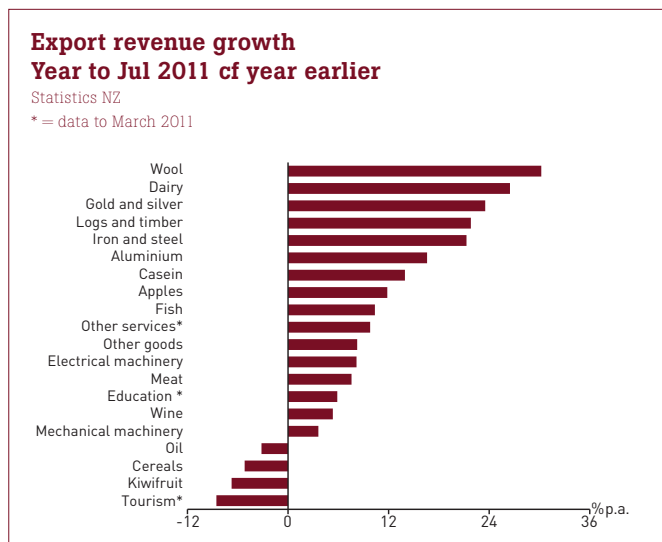


Amongst other categories, also showing notable recent recovery was casein. Revenue in the latest year was up 14 percent to \$990 million, but still well down on the \$1.32 billion recorded in the year to July 2009.

Similarly, the number three export earner, meat (behind dairy and tourism), was up more than 7 percent in the latest year, to recover to \$5.4 billion revenue on the back of good prices, but sluggish volumes. Like casein, however, meat receipts remain below the high of \$5.5 billion recorded in the year to July 2011.

In contrast, three categories stand out as not being in growth mode.

Kiwifruit revenues are down, despite data for the first four months of the seven-month kiwifruit export season showing little impact from the PSA virus. In particular, volumes remain sound; but prices are weaker than last year, reflecting weaker demand in the UK market.



Receipts from cereal exports are similarly below year-earlier levels, down to under \$830 million for the July 2011 year – well below the \$1 billion recorded in the year to July 2009.

And the number two export earner tourism, has taken the brunt of the NZ's high exchange rate with revenue in the latest year down 8.6 percent – the fourth consecutive year of decline. Consequently, the latest annual total of just under \$6 billion is significantly down on the \$7.3 billion reaped in the year to June 2007.

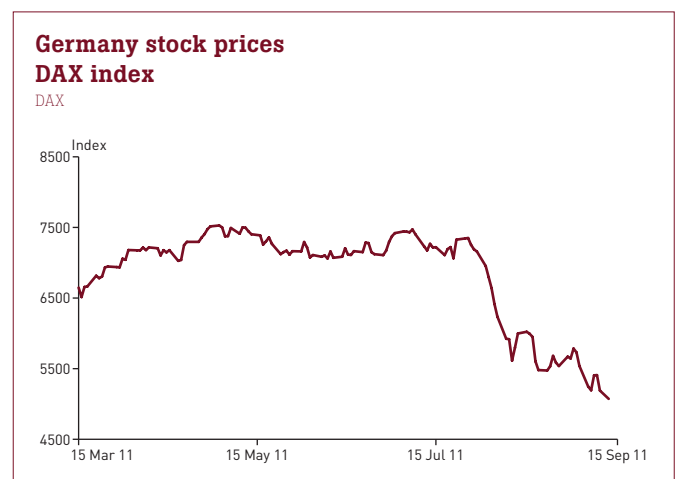
European Union facing severe test of 'unity'

- no easy solution to eurozone imbalances
- economic tensions now reflected in political tensions between eurozone members
- resultant uncertainty at heart of volatile market response.

The latest turmoil on global currency and stock markets centres on the future of the European Union. It is no exaggeration to say that there are growing concerns as to the long-term sustainability of the euro as the common currency for 17 of the 27 member states of the European Union.

Despite the arguably strong economic case for a common trading area with similar tax, policy and standards protocols, the political case for union remains strained. This strain shows through at times as economic tension, and clearly underlies the muddled approach of the authorities to the risks of sovereign default.

In a nutshell, if an economic system wishes to retain a single currency, then monetary and exchange rate policies within the area must be sufficiently harmonised for imbalances not to emerge. Where such imbalances are inevitable, then forces other than exchange rates and monetary policy must be available to reduce the imbalances.

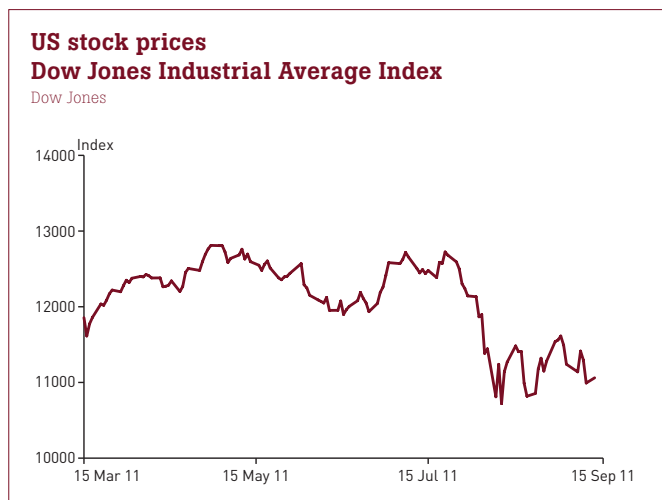


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Within the eurozone, these imbalances are showing through as unsustainable government debt situations in some countries. Of course, addressing these imbalances will no doubt lead to significant hardship for many people in these countries. The label of 'austerity program' is in reality synonymous with 'higher unemployment'. Consequently, governments of these areas are unable (or unwilling) to make sufficient adjustments to convince finance markets that their imbalances are under control.

In such a situation, other countries within the common currency area are forced to 'step-in'; that is, if they wish to protect the sustainability of their currency. This is akin to the idea that, say, Tasmania needed assistance from Canberra to manage the former's imbalances. This is relatively straight forward in the case where there is one federal government.

However, the European Union clearly does not fit this case. Hence there are increasing political tensions as some areas grow uncomfortable with the level of assistance that others require – especially if those other areas are perceived as not abiding by earlier agreed rules.



These heightened tensions were reflected recently when Netherlands Prime Minister Rutte called for more powers for the EU to enforce budget rules on member countries. He went so far as to suggest a new EU "Commissioner for Budgetary Discipline" who would have the ultimate sanction and be able to force countries to leave the euro if they do not submit to the agreed rules.

These comments follow calls by French President Sarkozy and German Chancellor Merkel for "true economic governance" across the eurozone countries.

Reading between the lines, some are now asking is a single currency worth it?

In the economic world, this political uncertainty is reflected in volatility. And this volatility is not restricted to Europe. For, if there is one thing that finance and currency markets do not like, it is political uncertainty.

The last couple of months have seen the major stock market indices gyrate daily, as brokers and investors respond to any morsel of information (whether rumour or real) and act in a seemingly knee-jerk manner. This behaviour is typical of an uncertain environment.

Adding to this uncertainty is the impact of a weak economy in Europe, which has seen European share prices decline considerably in recent months.

Associated with the uncertainty is a move towards assets and investments that are perceived to be relatively 'safe'. Consequently, the price of precious metals has soared, as has the value of the Swiss franc. The latter has led to Swiss authorities taking action to stem the appreciation in its currency because of its negative impact on Swiss exporters.

Unfortunately, this uncertainty is likely to remain until European leaders decide to what lengths they are prepared to go in order to protect their vision of a single European economy, united by a common currency.

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