Exports: What is beyond wool to wine?

by Dr Ganesh Nana

A bit more than a year ago I was warning about the consequences of overdoing the doom and gloom scenarios and how they could easily become self-fulfilling prophecies.

I find it ironic that I am now on the reverse side of that fence as I feel compelled to warn about the consequences of the somewhat euphoric commentary describing the strength of the recent recovery.

Underlying both of these episodes has been a focus on short-term analysis and commentary, rather than a longer-term perspective to assess the true strength (or otherwise) of New Zealand's production and, in particular, export sector.

An example was the news of a seemingly remarkable turnaround in New Zealand's merchandise trade balance.

The nation recorded a trade surplus for the year to April 2010 of $161m. As has been widely reported, this is the first positive annual trade balance since mid-2002, and definitely more welcome than the $4bn deficit recorded for the year to April 2009.

Unfortunately, this story is not as promising as it appears at first blush. The norm for a downturn is that an improvement in the trade imbalance is almost inevitable.

Households and businesses retrench into survival mode reducing spending and postponing any growth plans. And this has happened again.

That is, the trade balance improvement has not arisen because of increased income, productivity or competitiveness. Rather, it has occurred due to reduced spending on imports, which plummeted by 16 percent in the year to April.

This decline has been spread across both consumer and capital equipment imports, with the latter a worrying feature in that the consequences for longer-term productivity improvements are yet again being jeopardised.

On the other side of the ledger, the export picture is only marginally brighter. Again, though, it depends on your time horizon.

The latest three months provide comforting figures, which signal the beginnings of an upturn as revenues rise to 3.8 percent up on year earlier levels. Within the revenue figures, the upturn is heavily dominated by increased receipts from five categories.

In particular, logs and timber, aluminium and oil receipts are all up by more than 40 percent, dairy receipts are up 17 percent, while wool recorded 15 percent more earnings than the similar period last year.

Unfortunately, the dominance of these five commodities in our export performance is overwhelming. Excluding these categories, receipts for the latest three months are 5.4 percent below on year-earlier levels.

Amongst these other categories is meat, which is our second-biggest merchandise trade earner.

Earnings here were more than 2 percent down on the year earlier, while fish export revenues were down by more than 9 percent. And the news is no better for kiwifruit and apple exports.

Both have made a sluggish start to their season. April is the first of the two biggest months for kiwifruit exports. In the latest season, April recorded volumes and prices both down on last year. April is also important for apples, with that month accounting for about a quarter of annual apple export receipts.

However, April 2010 saw volumes down 20 percent on the previous April and prices down 7 percent, leading to receipts declining by 25 percent. Needless to say, these figures do not bode well for export returns for the coming year.

Moving to a slightly longer time horizon, the export picture for the year to April is not pretty, with only logs and timber, and wine returning positive growth figures.

Shifting to a much longer perspective, the two-decade story is more heartening. An annual average growth in export earnings of 5 percent over the last twenty years is indeed a meritorious performance. The picture confirms the now familiar wool to wine story, with wine topping the chart at an annual average growth rate of 22.5 percent and wool languishing at the bottom.

In two decades wine has moved from a mere minnow to now rival kiwifruit as a $1bn-plus export earner accounting for close to 2.5 percent of total merchandise receipts. Wool on the other hand has contracted at an annual rate of 4.7 percent, taking it from a $1.4bn earner to be now just over $500m, or only 1.4 percent of total receipts.

But, a growing dominance on a small group of categories illustrates the continuing narrowness of New Zealand's export base.

Magnified by the emergence of oil onto this list, the concentration on commodities is stark. The groups depicted continue to account for close to 60 percent of total receipts – up slightly from 58 percent two decades ago. Of course, the challenge is to ensure that wine does not fall into the 'commodity' trap that has captured many of our export mainstays.

In that context, the performance of the two machinery export categories is worthy of note. Having endured several exchange rate cycles and external shocks, while not being the beneficiary of any commodity price boom, machinery exports have managed to pile up above-average growth over the last two decades.

Whether this performance can continue remains a moot point. As a consequence of the latest downturn, machinery export growth over the last quarter, and the last year, has been flat at best.

Furthermore, a majority of the meritorious growth over the past two-decades was concentrated in the first of those two decades. Yes, lots of numbers, but the message is clear. Now is not the time to pop the champagne corks.

The trade balance may be a lot better than it has been recently, but the development of a robust and diversified export base remains, at best, a work in progress.

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