# How will China's woes affect NZ?

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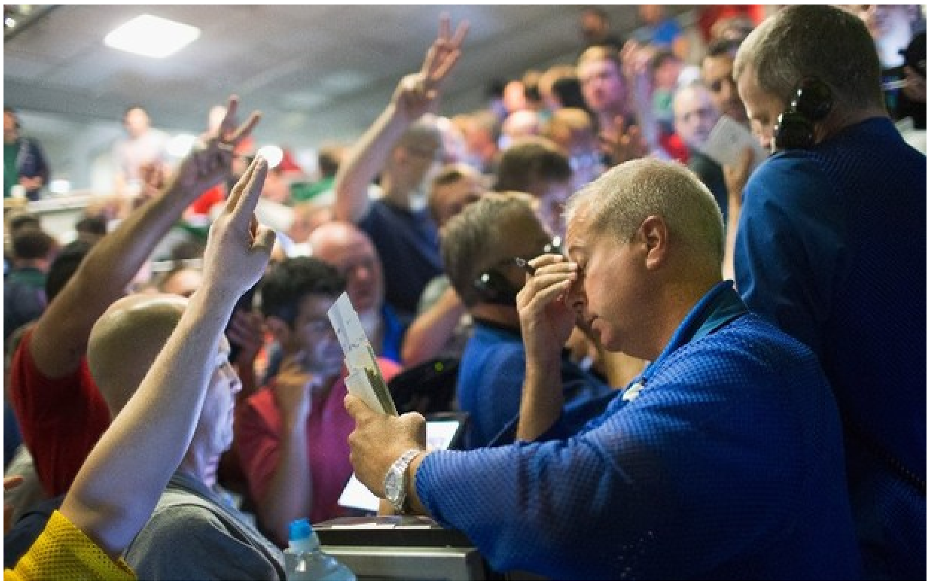
**China's volatile sharemarket plunged yesterday, causing financial turmoil around the globe, but what does it mean for the New Zealand economy?**



A trader at the Chicago Board Options Exchange on Black Monday.

Photo: AFP

The mainland benchmark index, the Shanghai Composite, closed down 8.5 percent yesterday - after large losses last week. Over the past week, the index fell 12 percent, adding up to a 30 percent drop since the middle of June, leading to a sharp fall in currencies and commodities around the world.

The most immediate effect of China's woes could be seen on trading floors around the globe, with falls inevitable when the brakes go on the world's second largest economy. The Dow Jones in the US closed nearly 4 percent lower overnight, while the UK's FTSE 100 was down 5 percent - its biggest weekly loss this year.

In Australia, the ASX 200 suffered its worst one-day fall in four years, shedding 4.1 percent and wiping $A64 billion from the market.

New Zealand is not immune to these kinds of global moves, with the NZX 50 down 2.5 percent yesterday, and further falls occuring when it opened this morning. But the country is also better placed to ride out the storm than many of China's other big trading partners.

Mark Lister, the head of private wealth research at Craigs Investment Partners, said New Zealand was not as affected by oil and commodity prices, which are at the centre of the stock market fall overseas.

He told *Morning Report* today that long-term investors, including those in Kiwisaver, could even take advantage of the fall.

"For people who are investing with a 20-30 year view, or even a 10-year view, they should actually look forward to periods like this. When you're investing in Kiwisaver every payday, you actually want these periods of weakness so you can do your buying while there is panic in the market, and while everything looks cheap."

Prime Minister John Key also reassured Kiwis today, saying that New Zealand was well placed to withstand any pressures that may arise from the Chinese volatility.

He said there was a difference between what was happening in China on the construction and investment side, and the consumer demand side.

"Our exporters are much more heavily focused on the consumer demand side, selling food and a number of other products to them.

"Australia's economy, for instance, is much more heavily focused on the investment side, so it's arguably a bigger deal for Australia than New Zealand."

## A course correction

Many economists see the current falls in the chinese markets as a correction, after months of rapid growth in the markets. Duke University economist and business professor Campbell Harvey told *Nine to Noon* today that even with a 8.5 percent dip, it would need to drop another 30 percent to get to the same level it was at this time last year.

He expected further corrections to come, and also pointed out that China has massive money reserves, totalling trillions of dollars, giving it "plenty of firepower" to deal with crisis.

Listen to Professor Campbell Harvey on Nine to Noon ( 20 min 2 sec )

Last month, BNZ senior economist, Craig Ebert said the Chinese equity market had been on a "ballistic move" since the start of the year.

"I think it just got so much of a head of steam it [Chinese officials] just had to step in and say enough is enough and put in some policy measures to nip it in the bud."

He said the fact that the Chinese stock market essentially doubled in the first few months of this year, while the Chinese economy demonstrably slowed down showed "disengagement" between the equity market and the general economy.

### Longer term outlook

New Zealand's two-way trade with China, worth $20 billion, and the longer-term outlook for New Zealand if China continues to struggle is still reasonably optimistic.

It's true, China is the biggest foreign player in New Zealand's dairy sector, and is the second biggest overall investor in New Zealand with 14 percent of all overseas investment in 2013-2014.

The New Zealand dollar is also particularly vulnerable to Chinese fluctuations - after China devalued its currency earlier this month, the New Zealand dollar dropped - and the latest volatility saw the Kiwi touch 62.44 US cents overnight, its lowest level since July 2009.

The Chinese devaluation also made it harder for our exporters to sell into China.

However, Professor Harvey said while he expected further "carnage" in the markets today, New Zealand's exposure to China's volatility had both good and bad outcomes.

"For imports, it is New Zealand's most important trading partner, but as China devalues, the imports become cheaper."

And he said the type of exports New zealand sent to China were the ones that were least likely to be affected by the turmoil.

"China has to eat, and eating habits are not as volatile as the demand for copper or iron ore for industry, so it means you're more protected.

"And if you really think about it, one of the primary imports is petroleum, and that price is plunging, that's also a good thing for New Zealand."

And the director of a Chinese research centre in this country said the volatility of China's economy could drive more of its investors to spend up in New Zealand.

New Zealand Contemporary China Research Institute director Bo Zhiyue said investors may find the Chinese market to be too volatile at this time.

"They may want to find a new outlet for their investment and their capital, and I think Australia and New Zealand are perfect targets."

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