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HD Once were worriers

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New Zealand is shaking its little brother tag as it shows us how to manage a boom, writes Paul Gilder ACROSS the ditch, they're in party mode. Thursday was New Zealand's national day — Waitangi Day — and there's plenty to celebrate.

New Zealand's economy is going gangbusters, its dairy industry has the corner on the market's thirstiest buyer, and Prime Minister John Key has the gumption to suggest a new flag to avoid confusing it with Australia's.

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Yep, sunshine's breaking through over the land of the long white cloud — but it's not by accident.

The twin horrors of the financial crisis and the 2011 Christchurch earthquake, which claimed 185 lives, have translated into opportunities for Kiwis to rebuild and renew themselves.

Interest rates were slashed in the wake of the financial crisis, fuelling a housing boom to complement the post-quake reconstruction effort.

At the same time, a landmark free-trade pact with China handed New Zealand a verdant export market for its soft commodities — meat and dairy products.

In 2014 those stars are aligning, says HSBC Australia chief economist Paul Bloxham, and Australia should take note.

"The Canterbury rebuild is really ramping up. On a size level, it's on par with the amount of mining investment in Australia at the peak of the mining boom," he says.

"We estimate it's contributing about 20 per cent of New Zealand's GDP (gross domestic product), while mining investment was about 25 per cent of Australia's GDP." Naturally, Kiwi businesses have been caught up in the optimism. A December business outlook by ANZ found confidence was at 15-year highs.

Homebuyers are also chiming in: it's more expensive to buy a house in Auckland than Melbourne, according to research released by UBS last month.

New Zealand's blossoming foodbowl credentials — it accounts for 60 per cent of China's dairy imports — are a key factor behind HSBC's estimate of 3.4 per cent GDP growth this year.

The forecast is more than half a percentage point above estimates for Australia. "New Zealand is taking advantage of the Asian middle-class' rising demand for food and dairy products. For Australia, a free-trade agreement with China would be helpful (to) level the playing field," Mr Bloxham says.

While the Kiwis have enjoyed nearly six years of reduced tariff benefits afforded by their trade pact with the Chinese, Australia has nothing to show from almost nine years of negotiations.

It is hopeful of inking a deal this year but the Federal Government is steadfastly seeking an agreement to cover all export sectors.

New Zealand's sleeves-rolled-up approach to China, now their chief trading partner, reflects their attitude towards conducting business across Asia. We're 14 years into the so-called Asian Century, they reason, so let's get on with it.

"New Zealand businesses have started to think about Asia through an execution-style lens rather than an opportunity lens," says ANZ's chief economist in New Zealand, Cameron Bagrie.

Although New Zealand's economy is only an eighth the size of Australia's, there's a lesson to be learned from little bro's hard-earned success.

"Crises can be policy opportunities. Australia missed a chance presented by the GFC to introduce significant reforms," HSBC's Mr Bloxham says.

Australia has been soundly criticised for not squirrelling away more during the peak years of the boom.

It now faces a $47 billion budget deficit while the controversial Mineral Resources Rent Tax clings on at the behest of the Senate.

And with the nation's mining story progressing to the export chapter, more workers are swapping Karratha for Christchurch. Last year, Statistics New Zealand found the country welcomed a net 22,500 migrants, up from an outflow of 1200 emigrants a year earlier.

It's not all Tui and skittles, though. New Zealand's rollicking performance means its economy is running close to capacity.

Sustained demand for its goods could spark cost pressures and propel inflation. Its rampaging dollar — tipped by Mr Bloxham to contend for parity with the Aussie this year — will test tourism operators and manufacturers.

Unlike Australia, where interest rates could sit unchanged throughout 2014, economists are predicting New Zealand's cash rate will rise from 2.5 per cent to about 3.5 per cent by December.

ANZ's Mr Bagrie says commentators need to be careful when unpackaging the success story.

"We've made a lot of progress but the economy is only now marginally larger per capita than in 2008. New Zealand's net external debt is 70 per cent of GDP, which is world-class at the wrong end of the spectrum." Mr Bagrie says New Zealand is still experiencing patches of "grumpy growth" — a short-term release of pent-up demand — and would have more to fear from emerging market ructions and the pullback of US stimulus than its antipodean neighbour.

So do our friends across the Tasman have any advice for Australia as it looks to write its next growth chapter?

"Don't go looking for a magic bullet or magic potion; they tend to be snake oil," says Mr Bagrie.

"When you get a succession of well-thought out policy objectives … you eventually reach a tipping point. New Zealand had that tipping point in mid-2013 but the seeds were sown a number of years prior."

Bragging rights NZ Aust GDP* 2.6% 2.3% Unemployment 6% 5.8% Cash rate 2.5% 2.5% Currency (USc) 82.3c 89.6c Sources: ABS, Statistics NZ, Bloomberg.* September quarter 2013, year-on-year.

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