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Exposure of small advanced economies to global supply chain disruptions: insights for New Zealand

Dr David Skilling

November 2022

The intensity of globalisation has flatlined over the past decade, after several decades of strong increases; there has also been an extension in the physical distance of trade

World trade (goods & services), world FDI flows, % of world GDP

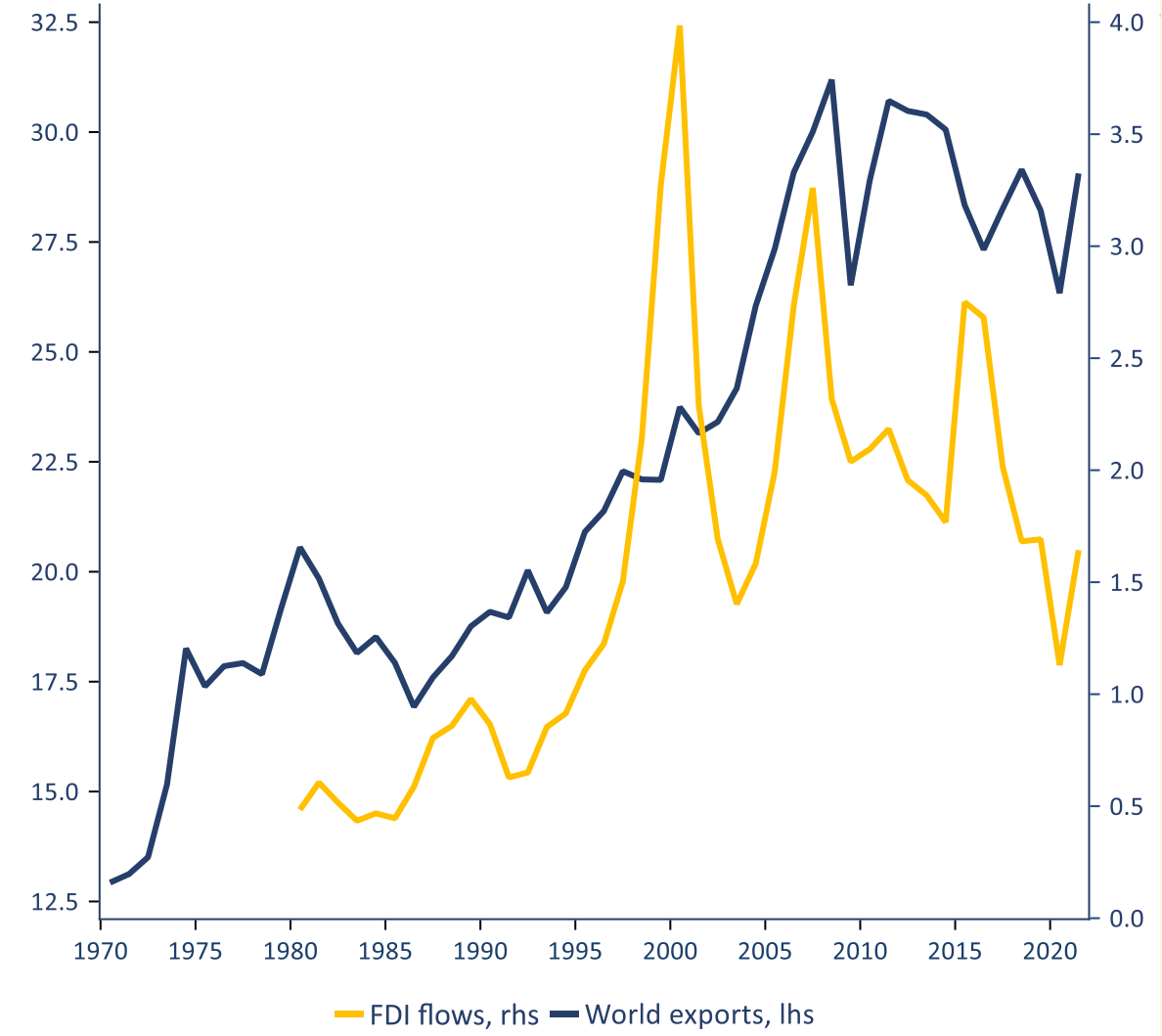
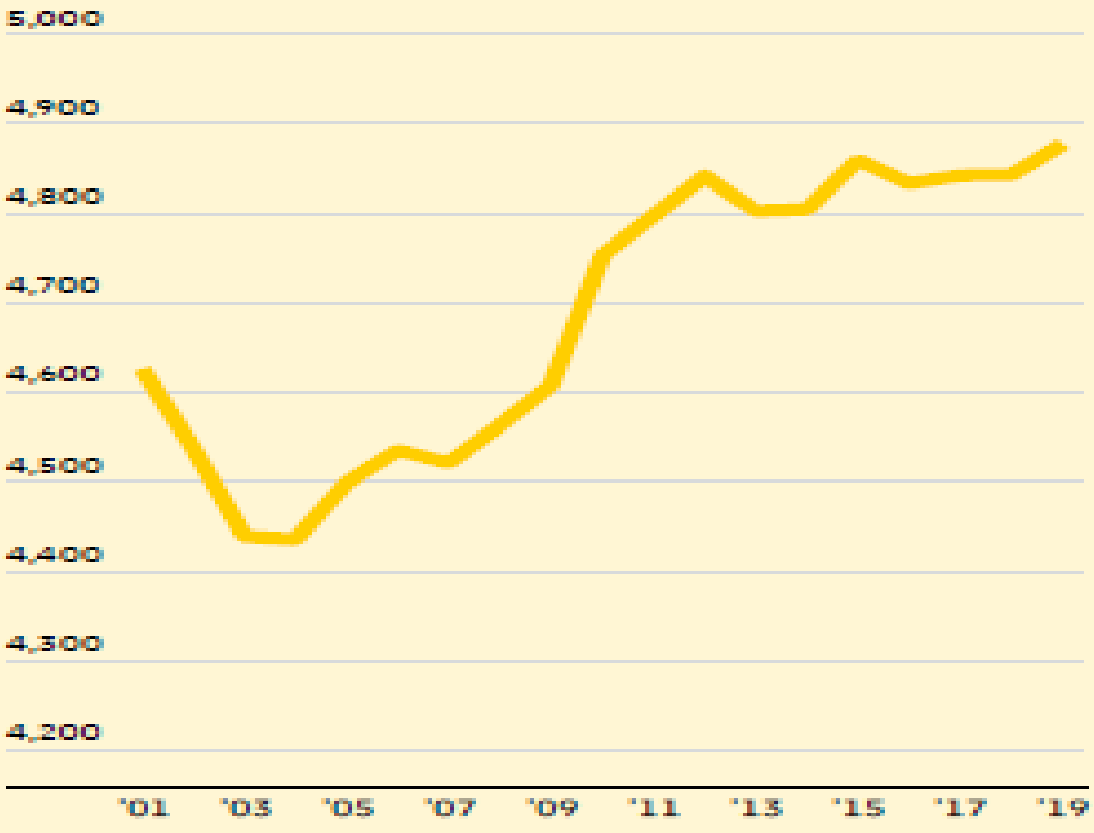


FIGURE 7: AVERAGE DISTANCE TRAVERSED BY MERCHANDISE TRADE (KILOMETERS), 2001 – 2019



The average distance traversed by merchandise trade has been fairly stable in recent years. A major shift toward more regionalized trade patterns would pull this measure downward. Data sources: IMF Direction of Trade Statistics (DOTS), UN Comtrade, CEPII GeoDist Database

Source: Macrobond; World Bank; UNCTAD; DHL; Landfall Strategy Group calculations.

World trade in goods has been resilient through the pandemic, leading to significant increases in international container shipping movements

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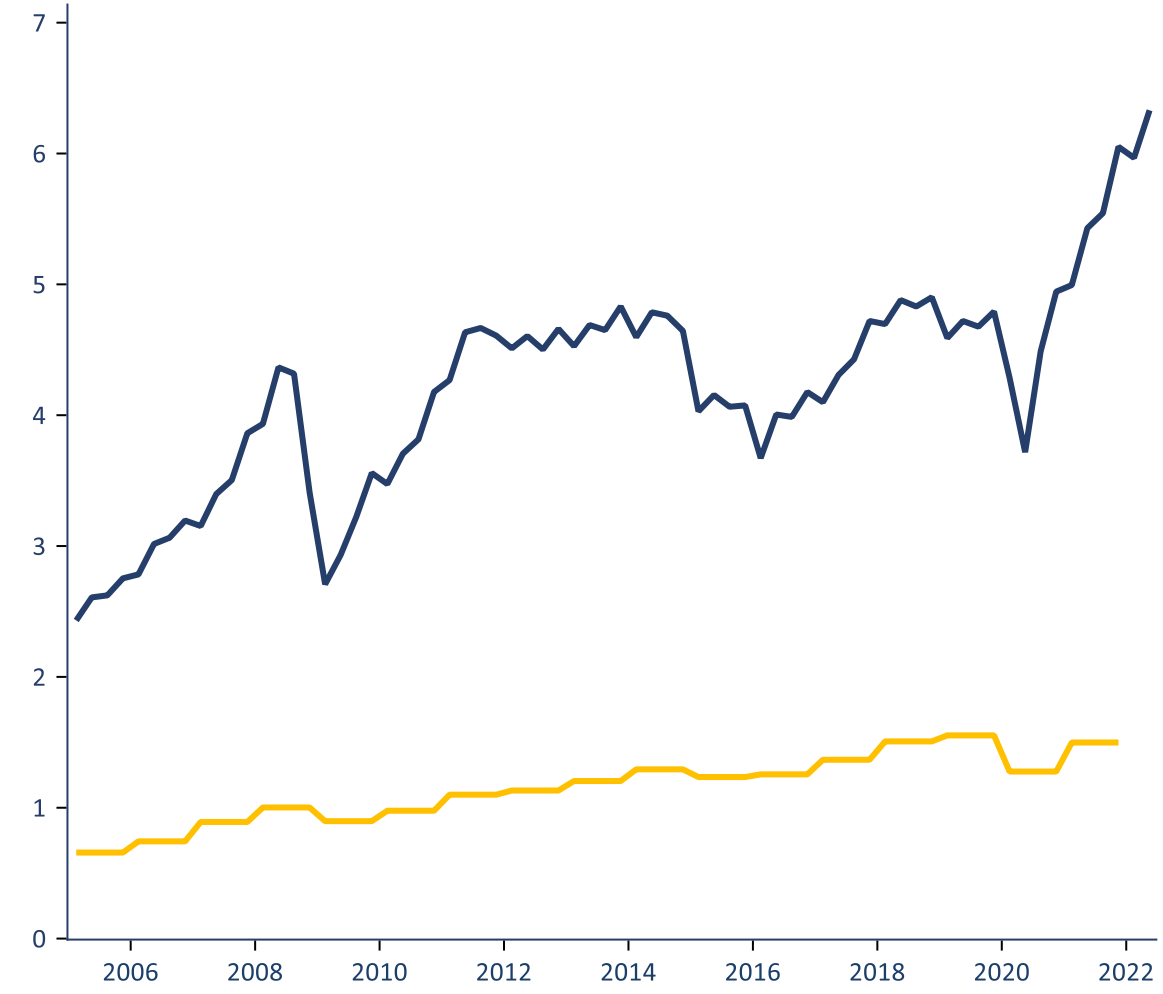
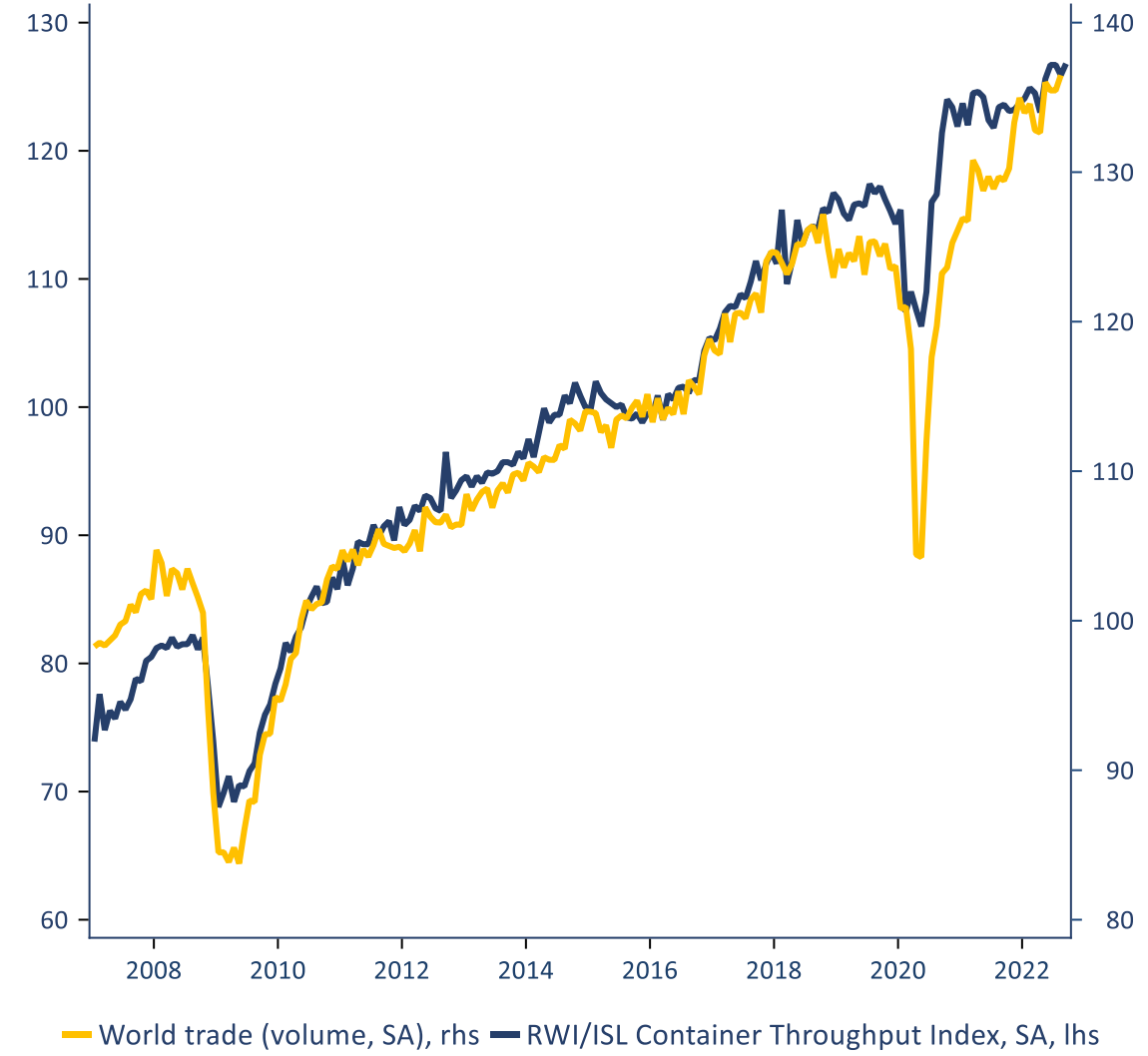
World trade, value, USD



World trade volume v Container throughput index

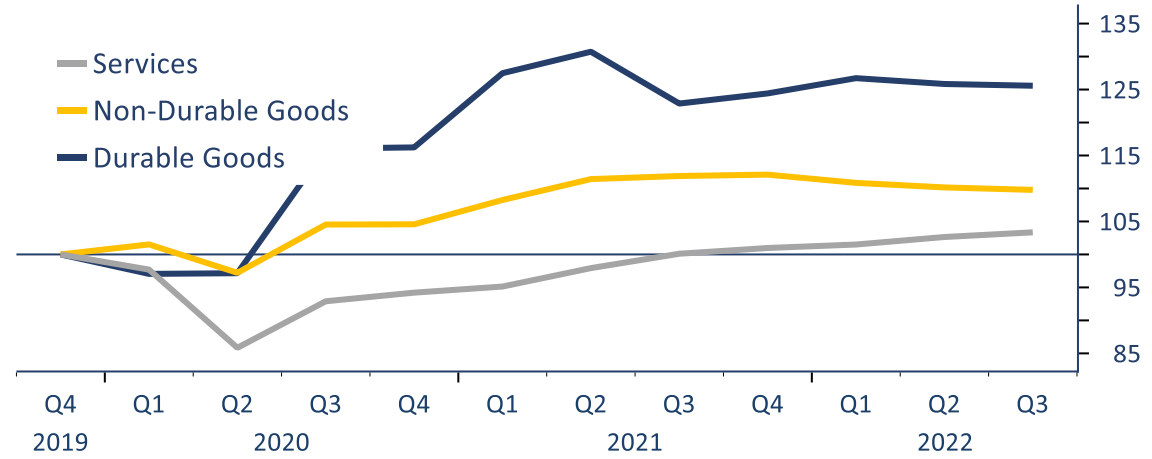


Source: Macrobond; WTO; CPB; RWI/ISL; Landfall Strategy Group calculations (www.landfallstrategy.com)

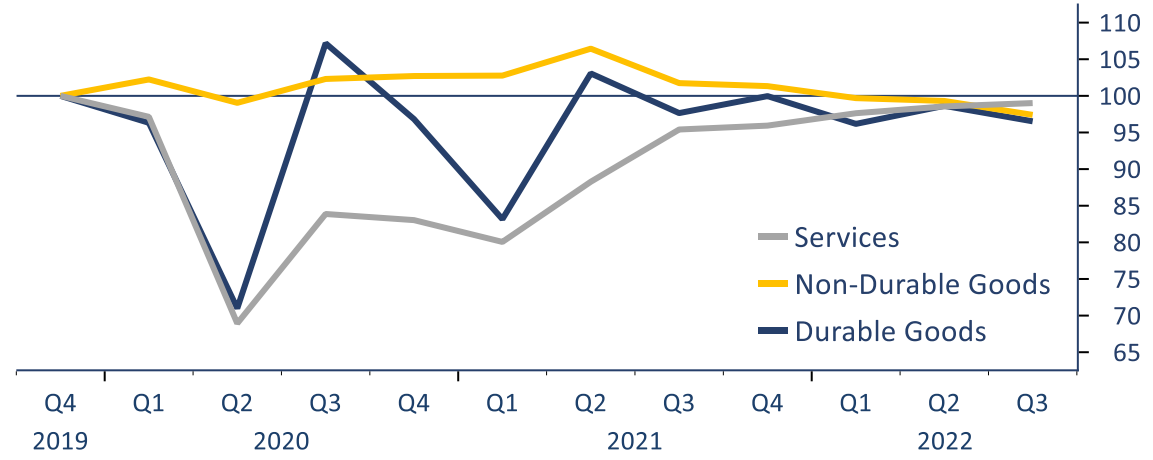
The Covid lockdown measures have led to a rotation in private consumption spending from services towards goods, particularly durables, supporting growth in internationally traded volumes

Private consumption spending by type, constant prices, sa, Q4 2019 = 100, Q4 2019 – Q3 2022

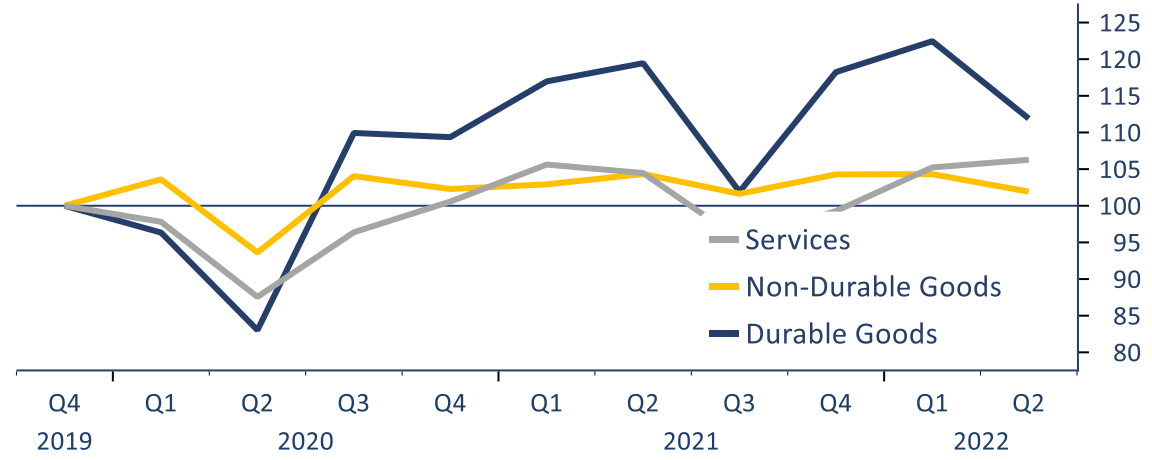
United States



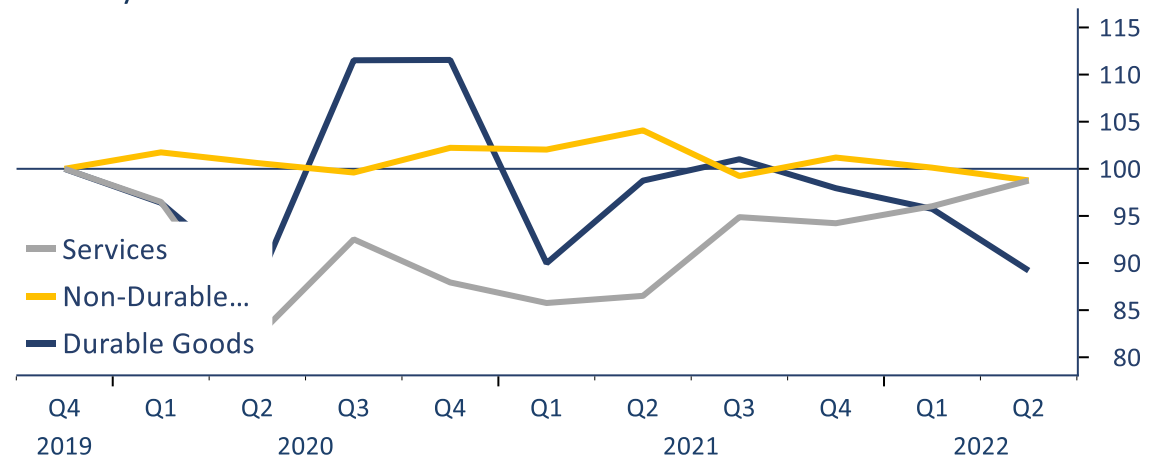
United Kingdom



New Zealand



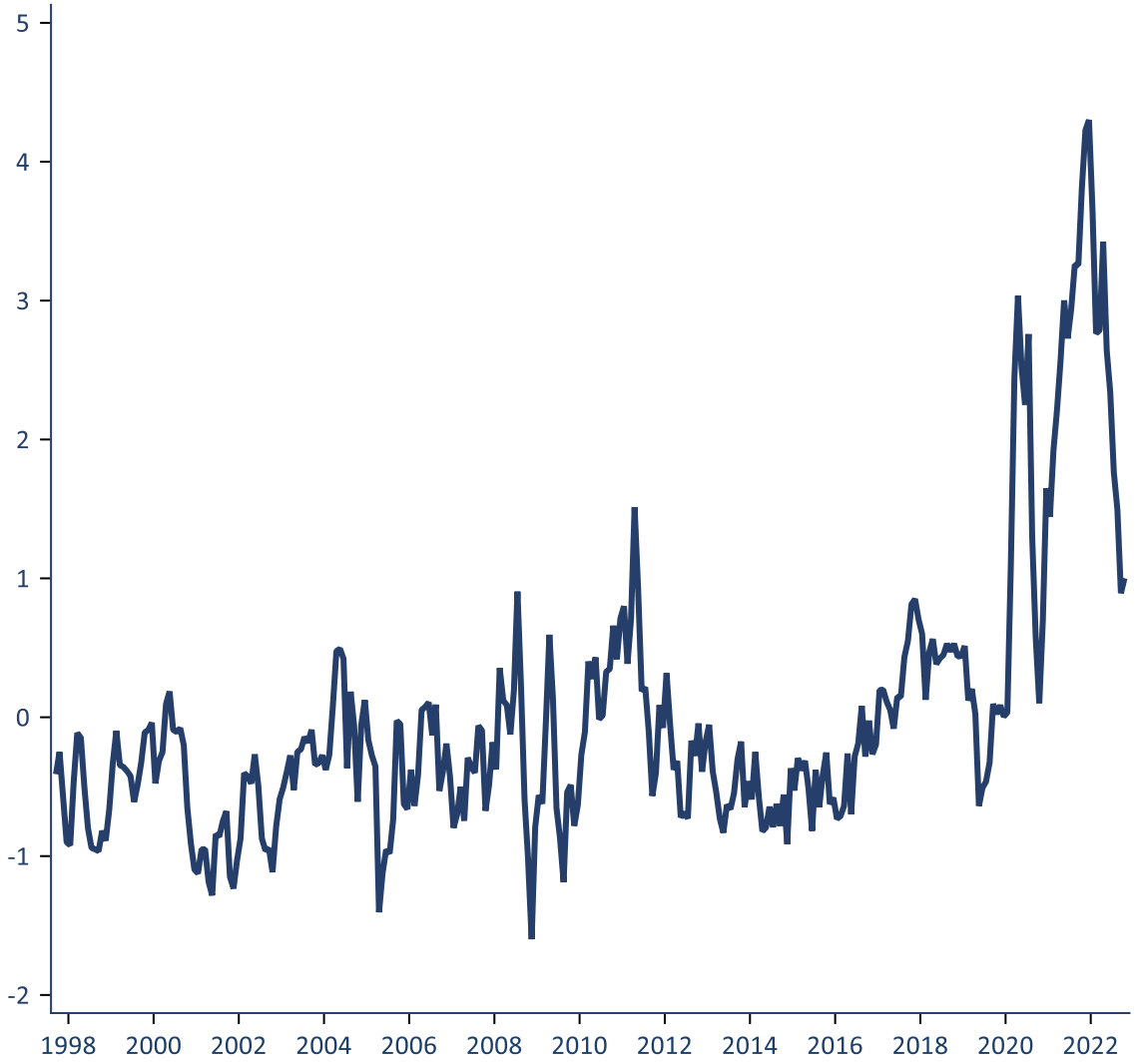
Germany



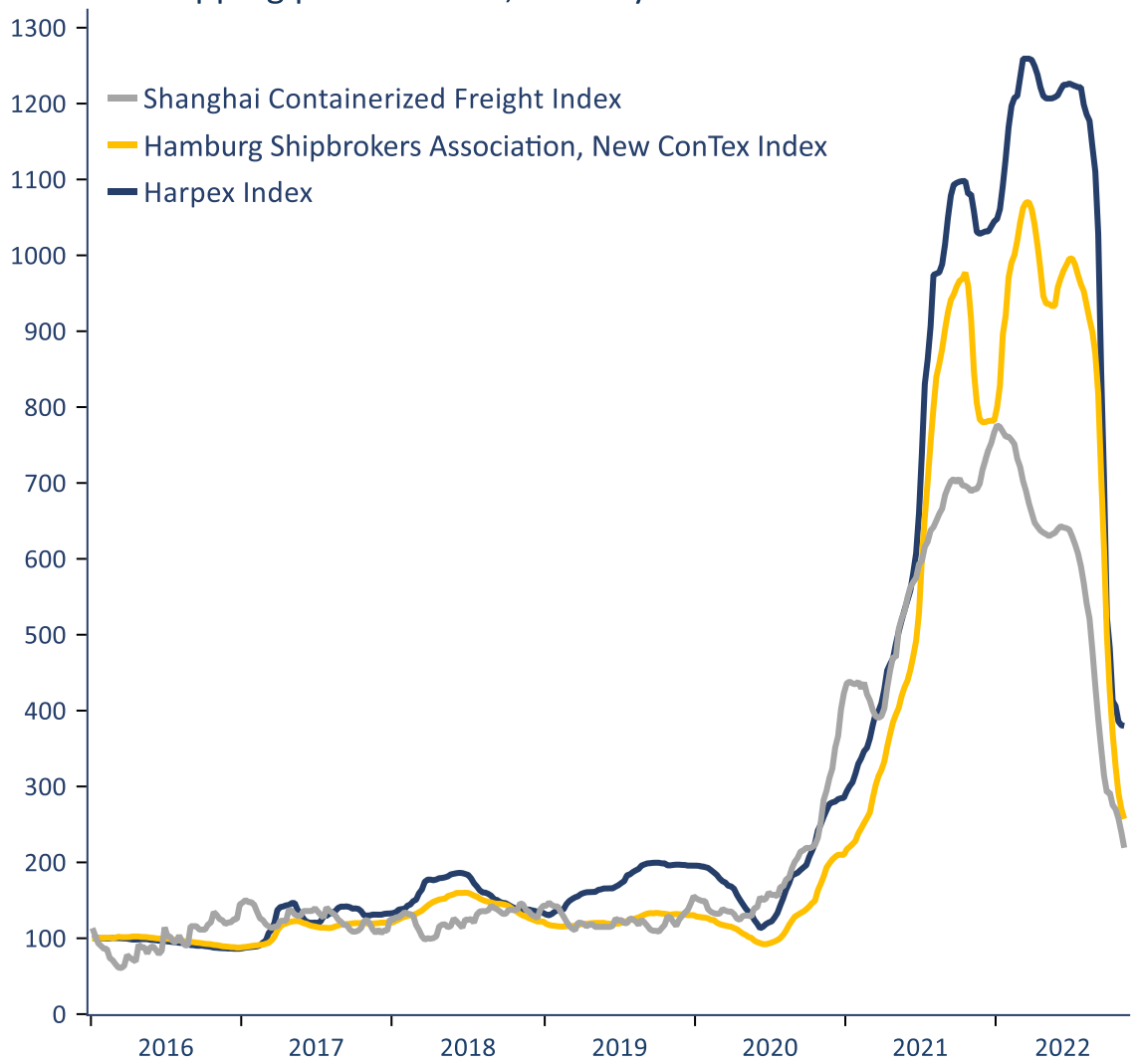
Source: Macrobond; OECD; Landfall Strategy Group calculations (www.landfallstrategy.com)

Global supply chain pressures and international container shipping prices surged through the pandemic, but have since eased (although remain elevated)

New York Federal Reserve, Global Supply Chain Pressure Index



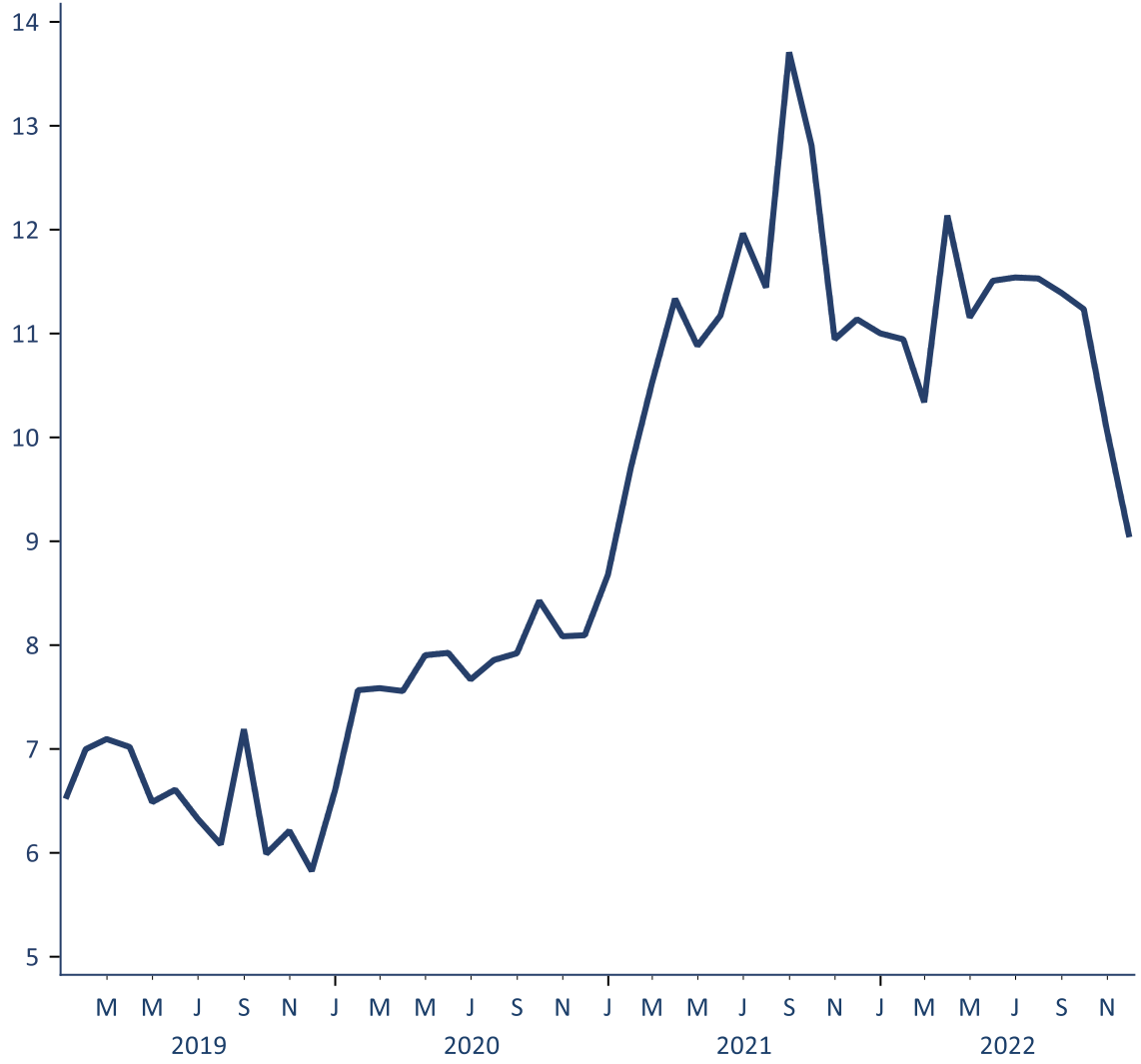
Container shipping price indexes, January 2016 = 100



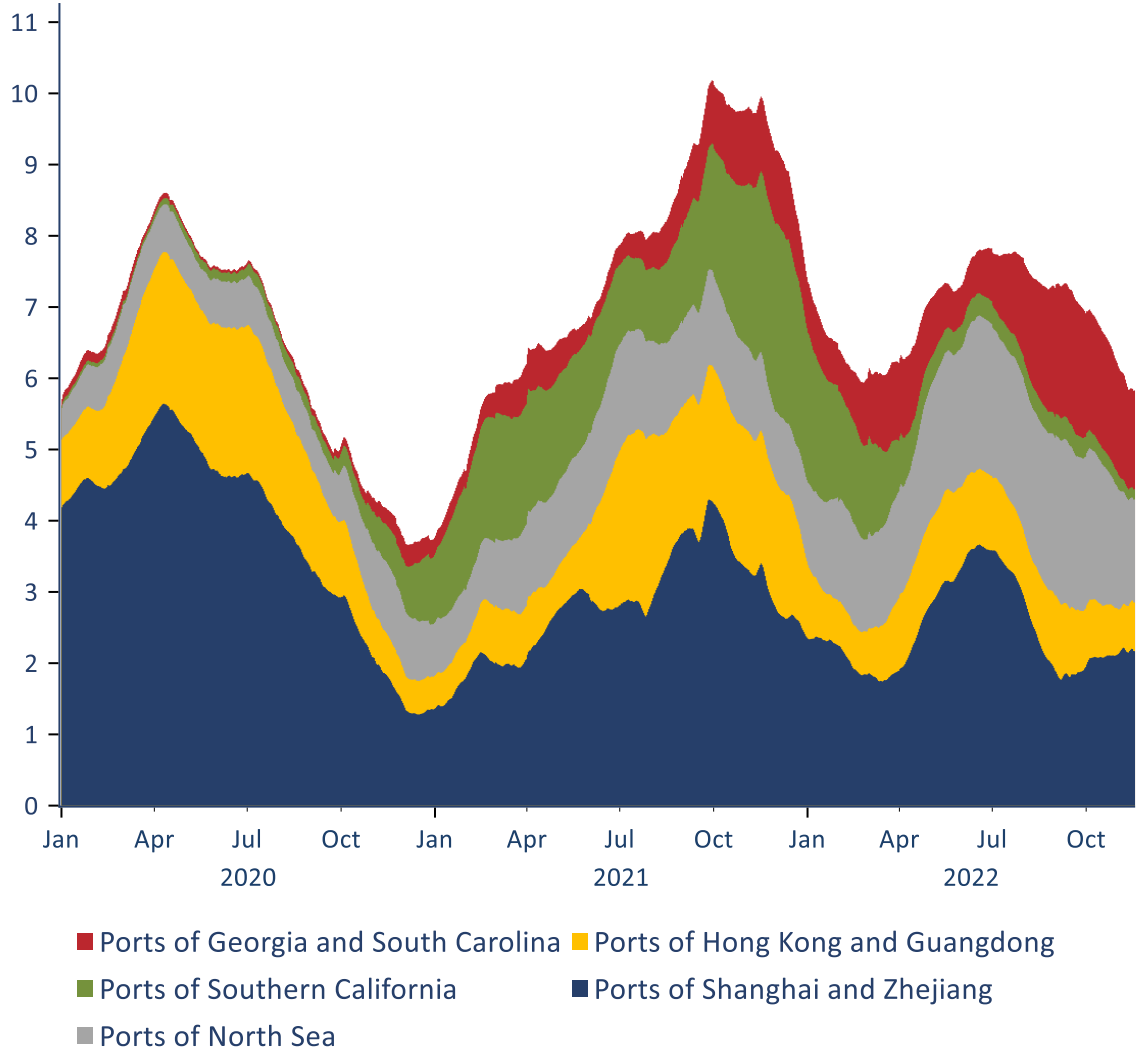
Source: Macrobond; New York Federal Reserve; Landfall Strategy Group calculations (www.landfallstrategy.com)

Shipping delays also surged through the pandemic, particularly in Asia and California, but have since reduced markedly

Proportion of goods waiting (as % of total sea trade)



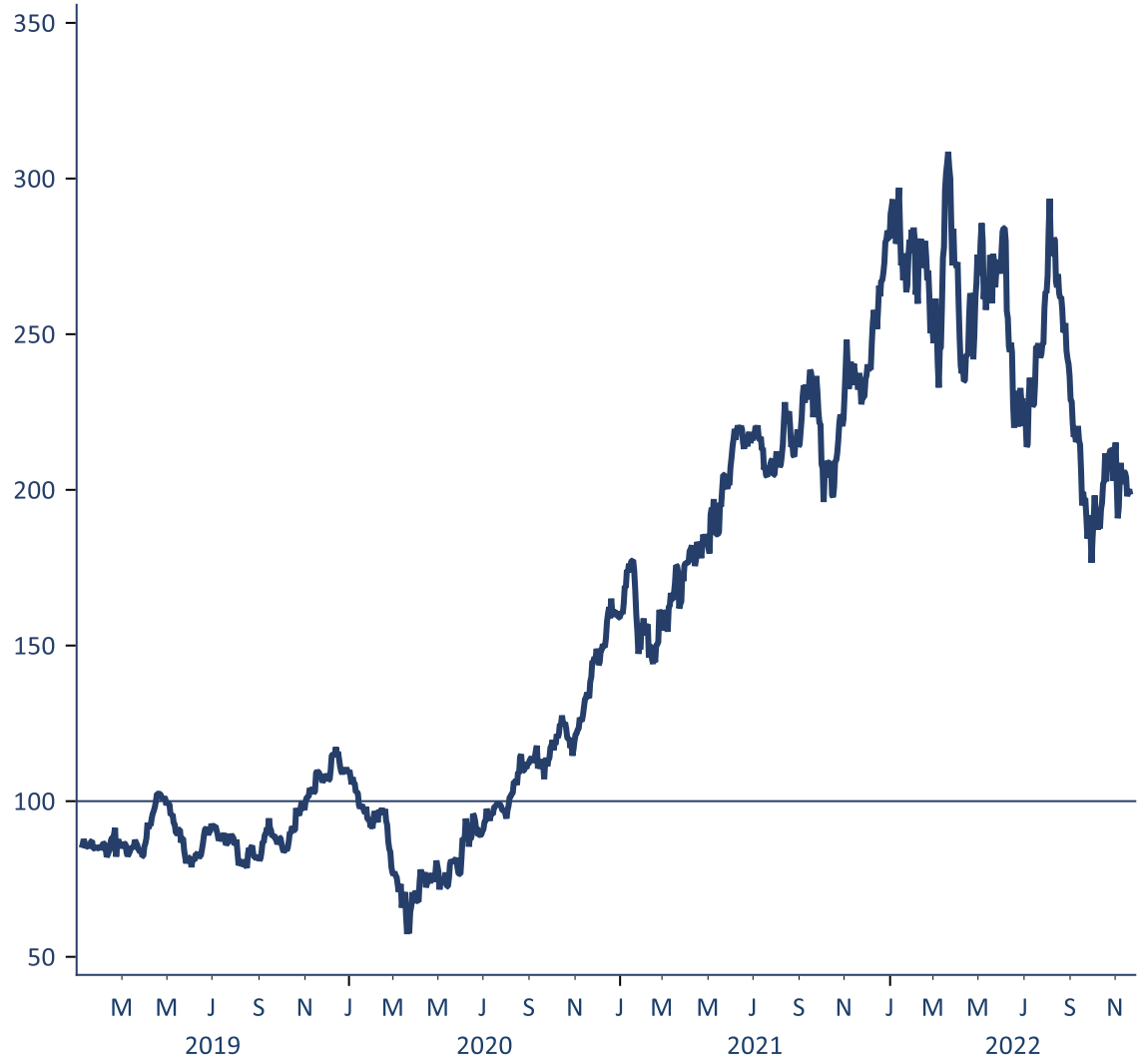
Waiting container ships, % of total global capacity



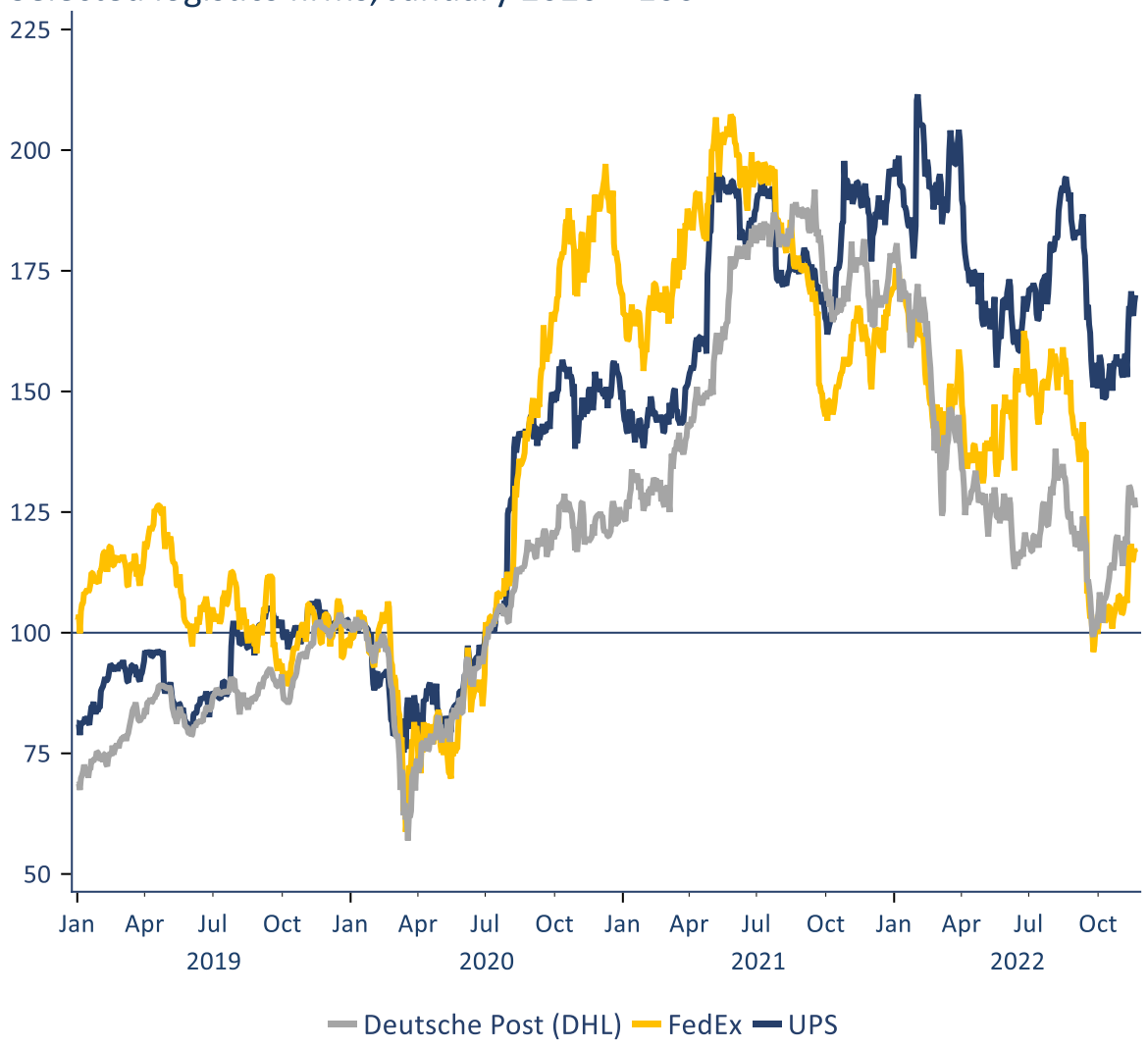
Source: Macrobond; Kiel Institute; Landfall Strategy Group calculations.

Maersk made record profits through the crisis; other logistics companies with a presence in air freight also surged through 2020

Maersk share price, January 2020 = 100



Selected logistics firms, January 2020 = 100



Source: Macrobond; Landfall Strategy Group calculations.

Airlines and tourism-exposed stocks are well below pre-Covid levels – and with no meaningful recovery, even as passenger numbers begin to return

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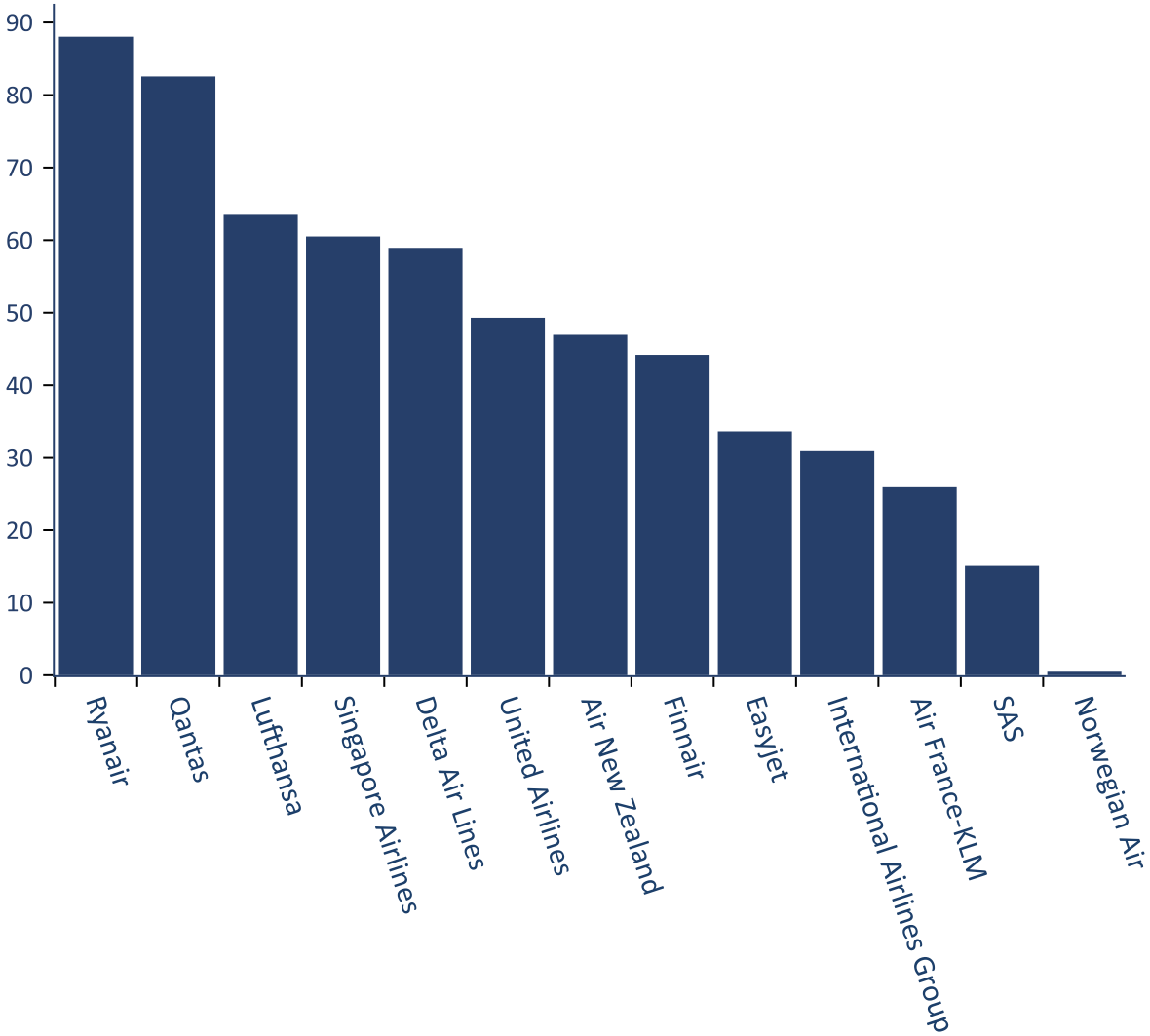
Airline share prices (total return), 1 January 2020 = 100

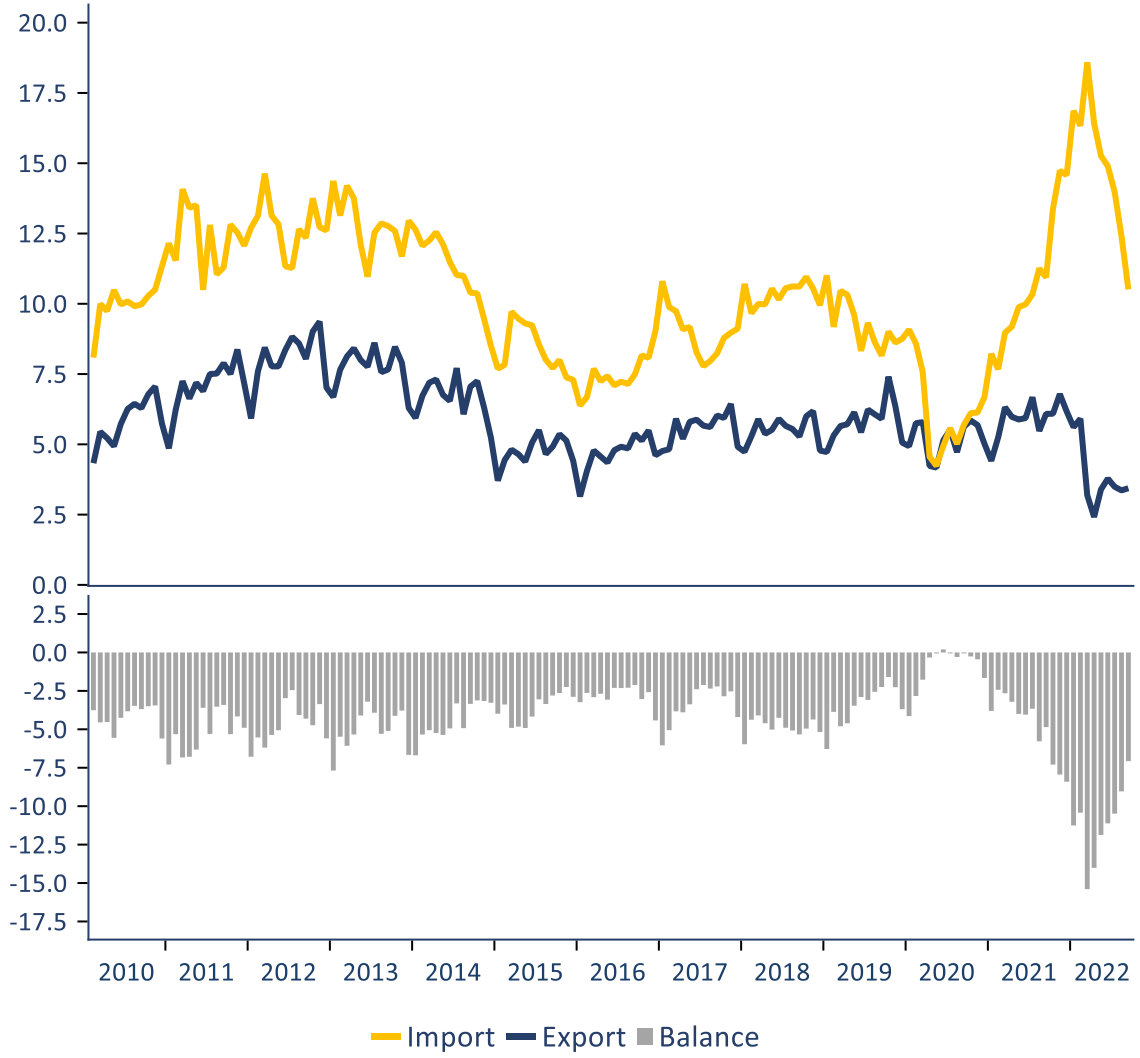


Tourism indexes, January 2020 = 100

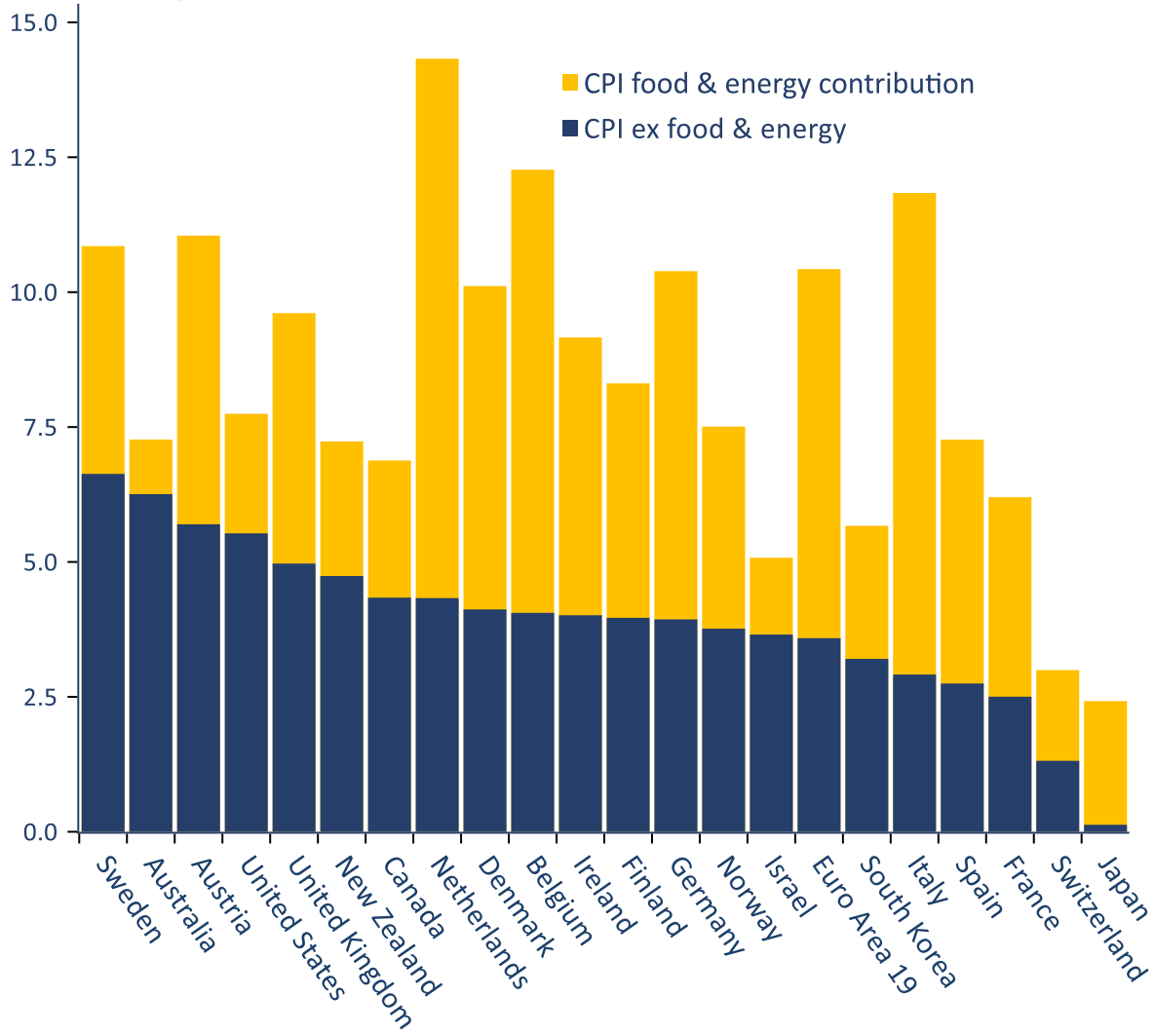
Source: Macrobond; Landfall Strategy Group calculations.

The decoupling process from Russia is underway, but comes at a cost in terms of higher inflation and weaker economic activity

Euro area imports, exports to Russia, USD billions



CPI decomposition, %



Source: Macrobond; OECD; Landfall Strategy Group calculations.

The direct and indirect impact of Russia's invasion of Ukraine has had substantial effects on supply chains for food, energy and other commodities

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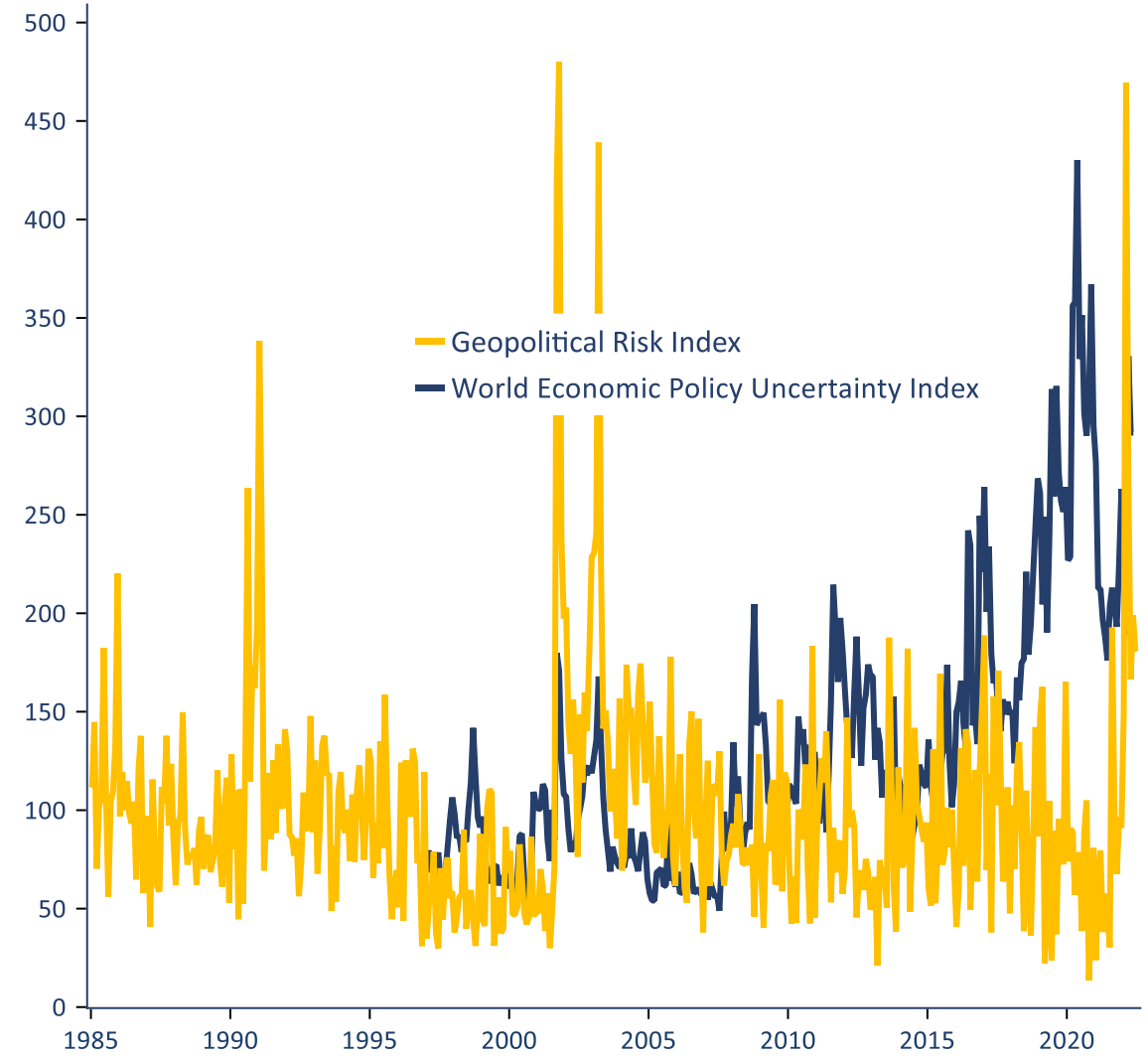
Food and wheat prices, January 2022 = 100

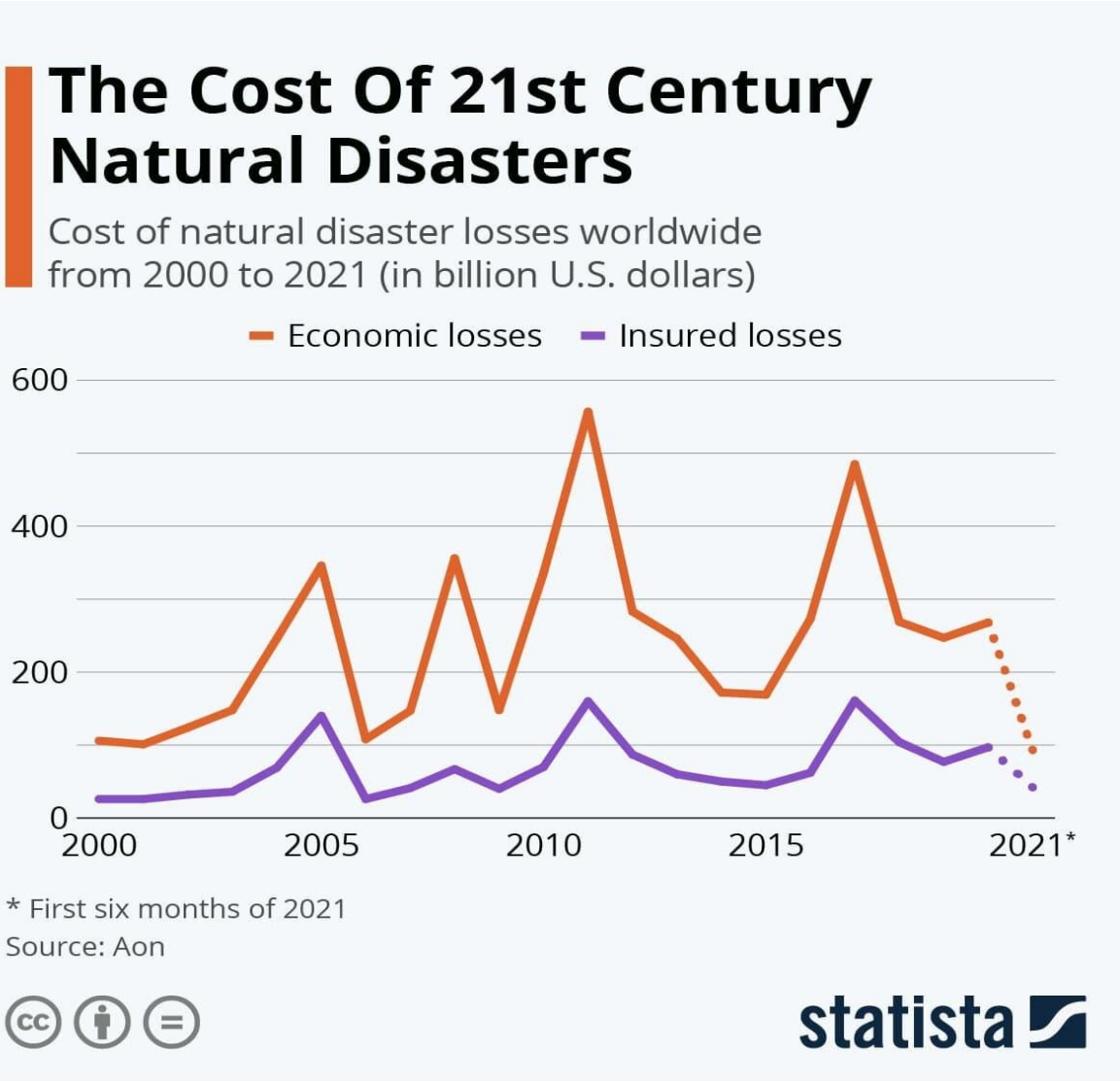
Electricity price futures, 2023 settlement, EUR/MWh

Source: Macrobond; OECD; Landfall Strategy Group calculations.

Geopolitical, economic, and environmental shocks and uncertainty are increasing – a dynamic that is likely to continue

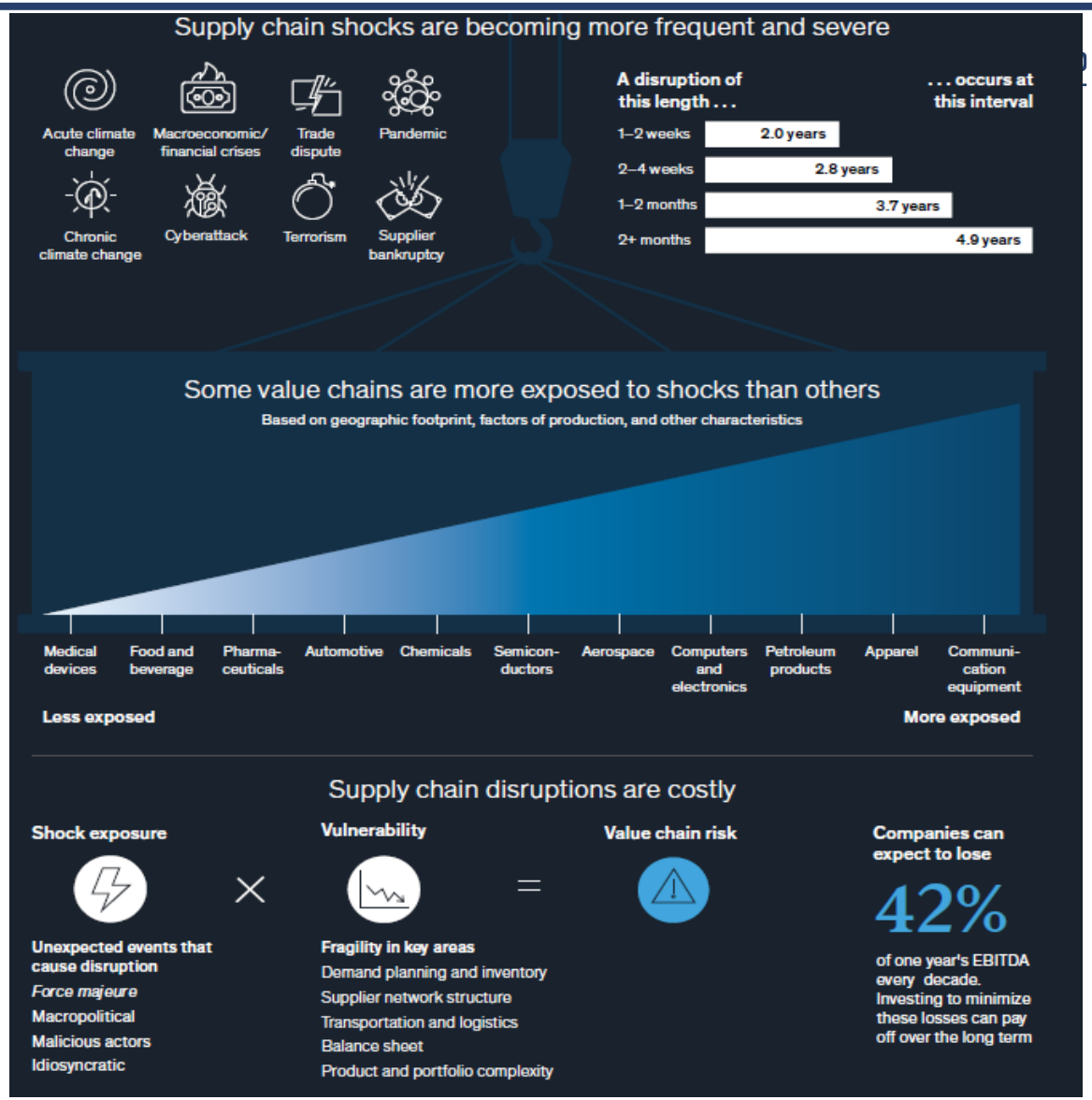
Geopolitical risk index, economic policy uncertainty index

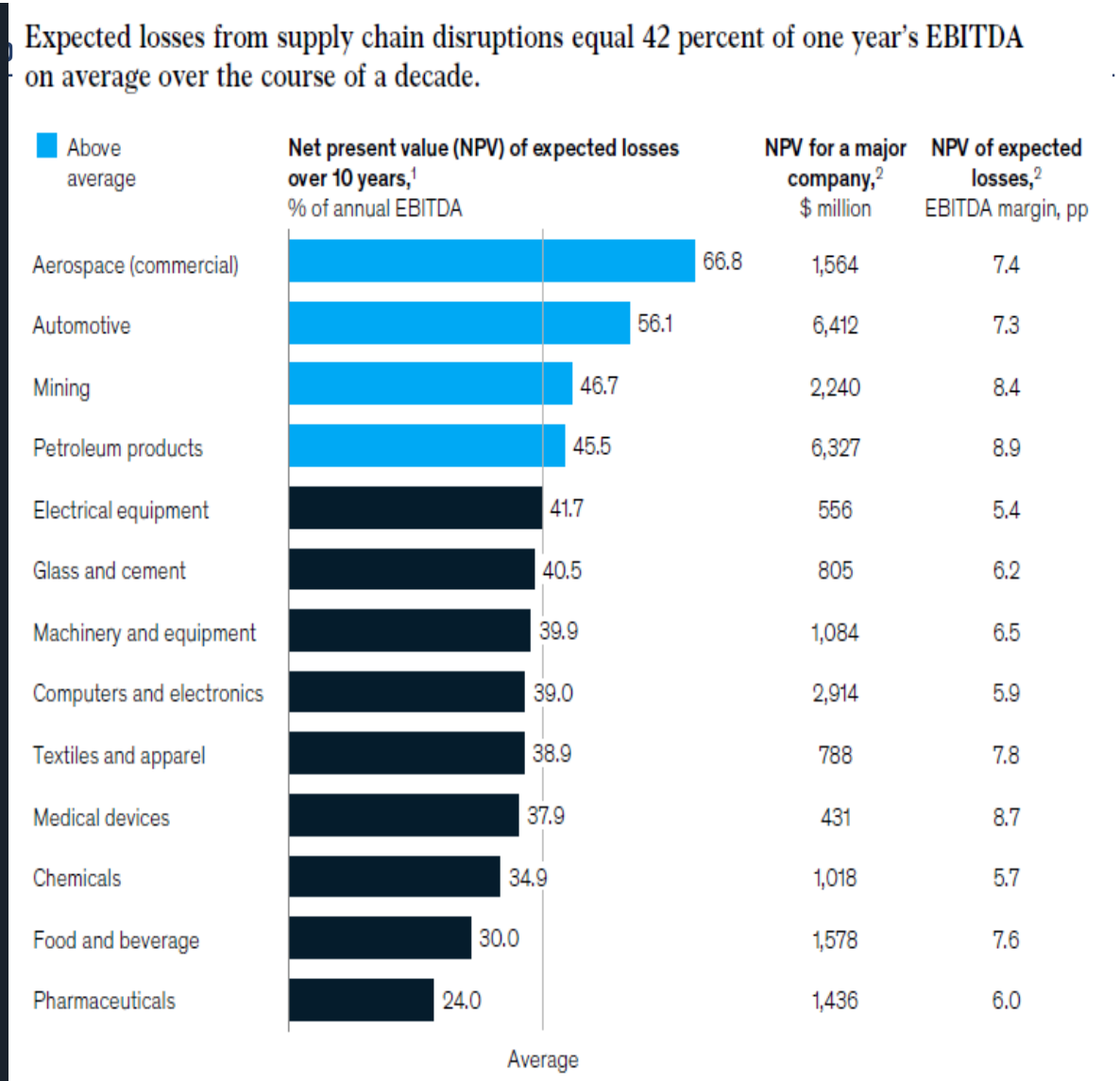




Source: Macrobond; Landfall Strategy Group calculations.

Firms are exposed to global supply chain disruptions – with significant amounts of economic value at stake





Source: McKinsey Global Institute.

Small economies are exposed: import shares of GDP are well above those of larger economies; large (or remote) economies like the US, Japan, and Australia/New Zealand lag

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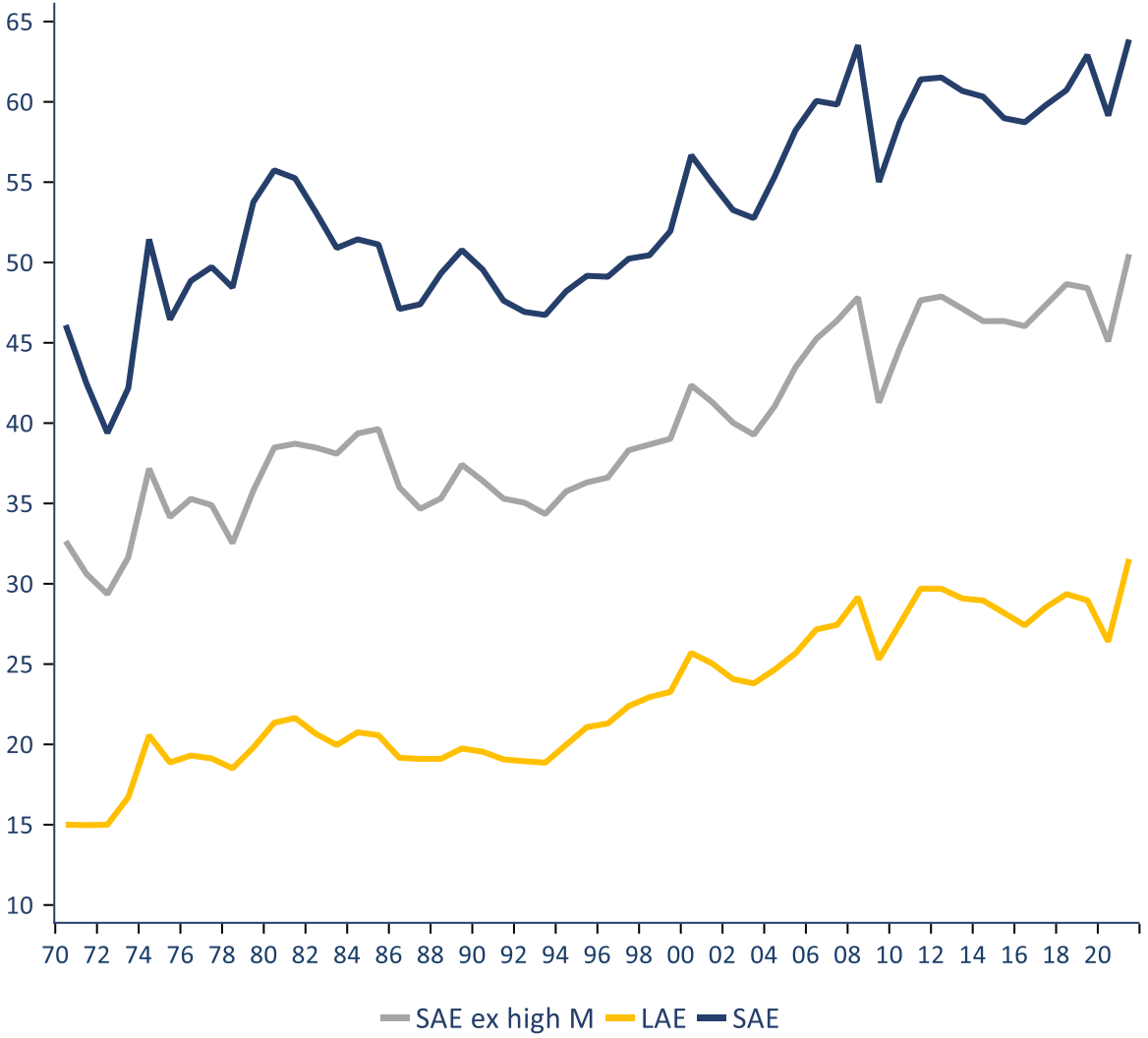
Imports of goods & services, % of GDP



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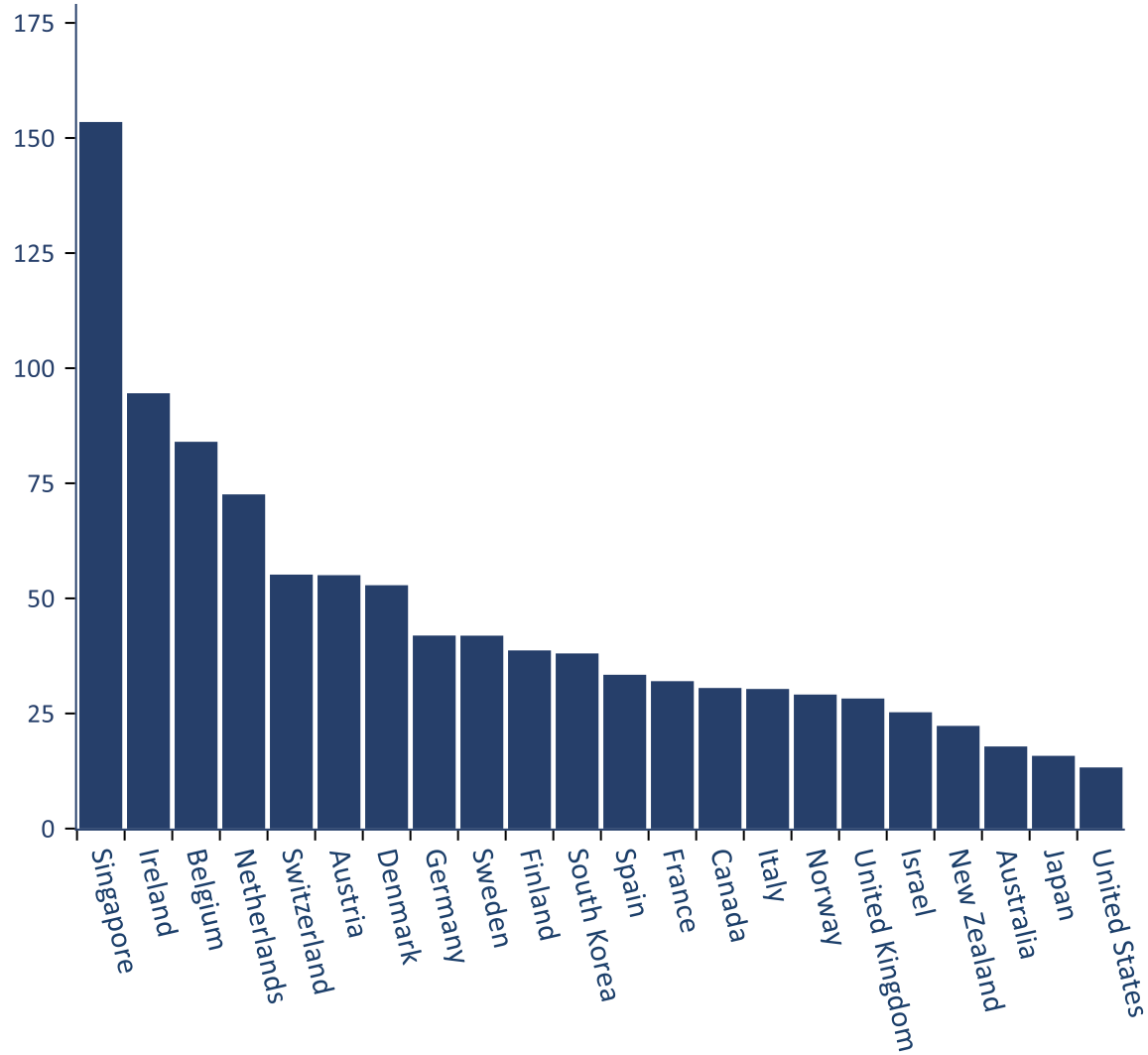
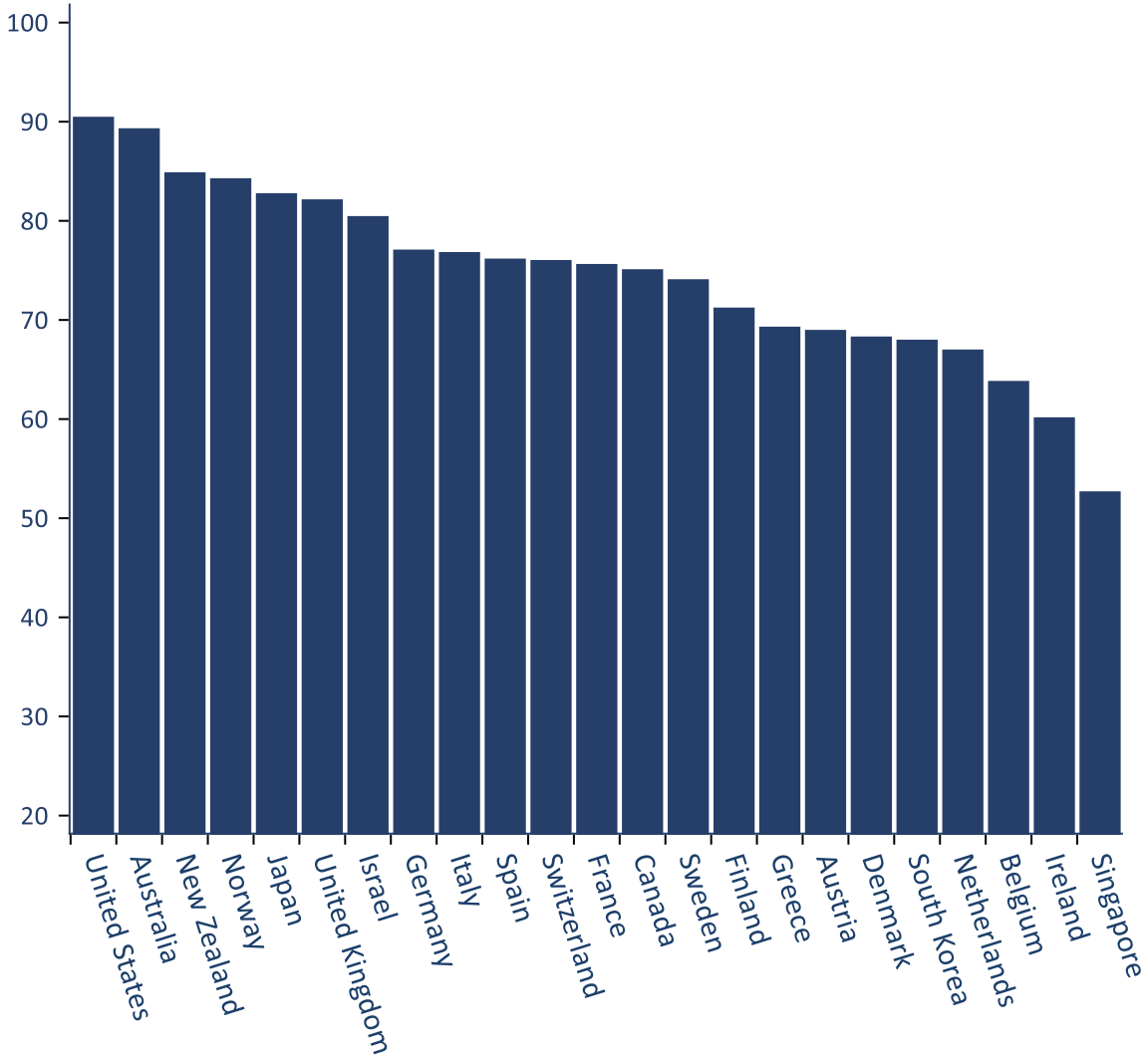


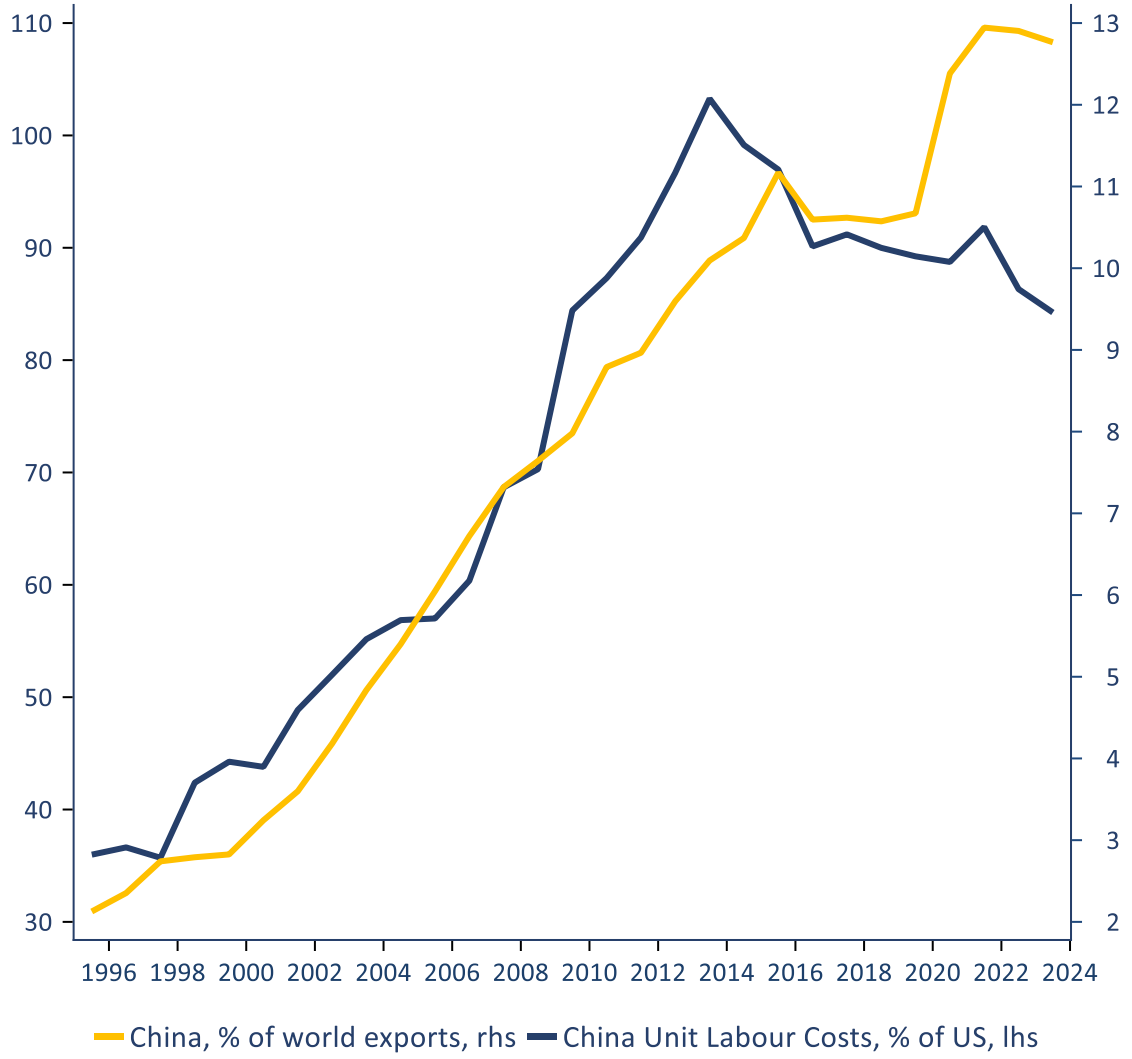
Source: Macrobond; IMF; Landfall Strategy Group calculations.

Large/remote/commodity exporting countries tend to have relatively low integration into global value chains; China's edge in terms of labour costs is eroding

Domestic value added in exports, %

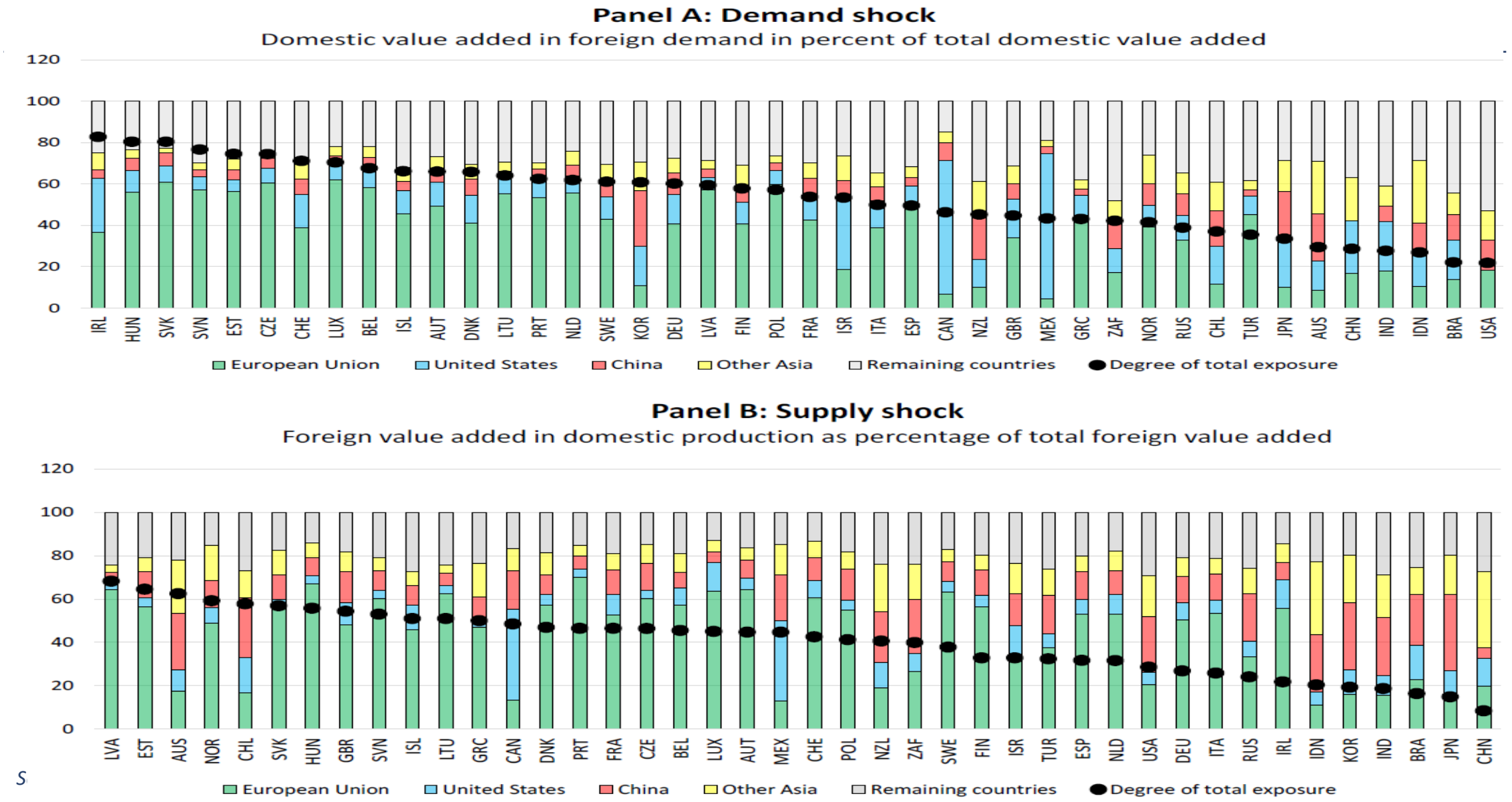


China unit labour costs v share of world trade



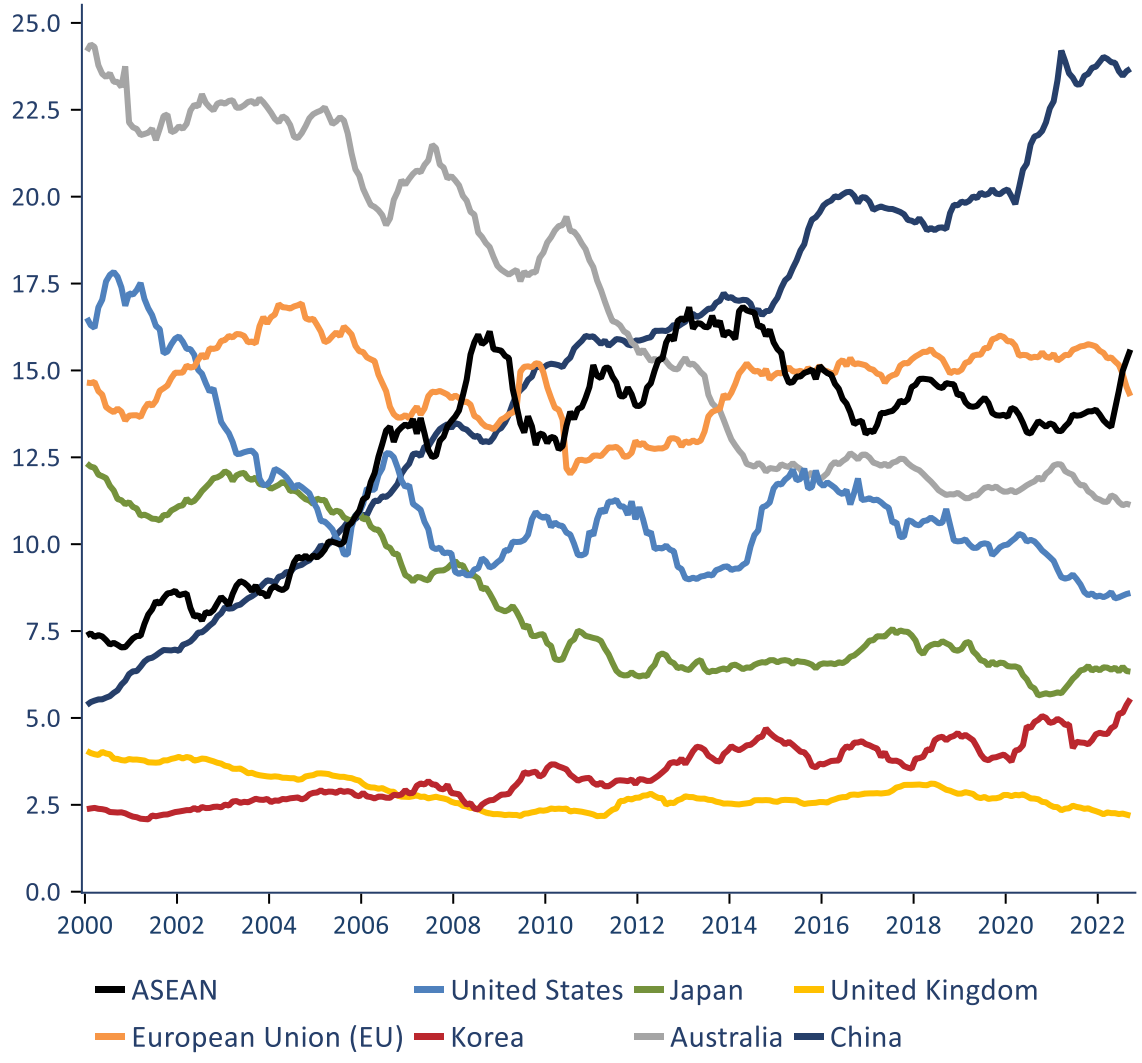
Source: Macrobond; OECD; Landfall Strategy Group calculations.

The OECD estimate that small economies are more exposed to supply chain shocks, because of the high level of integration



New Zealand's import profile has shifted towards Asia, particularly China and ASEAN – and away from Australia and the US – generally lengthening its supply chains

Share of New Zealand's merchandise trade imports, %



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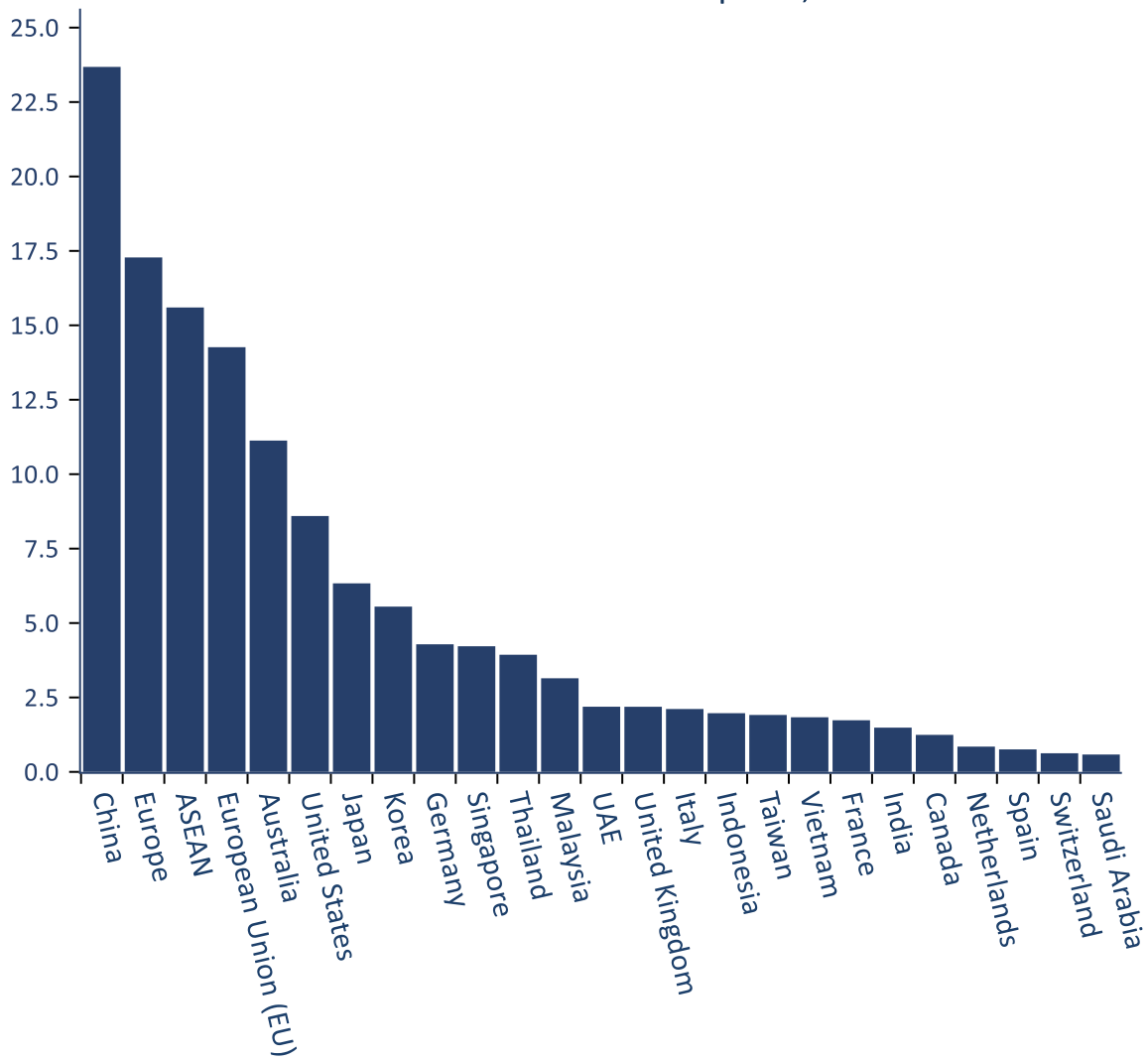
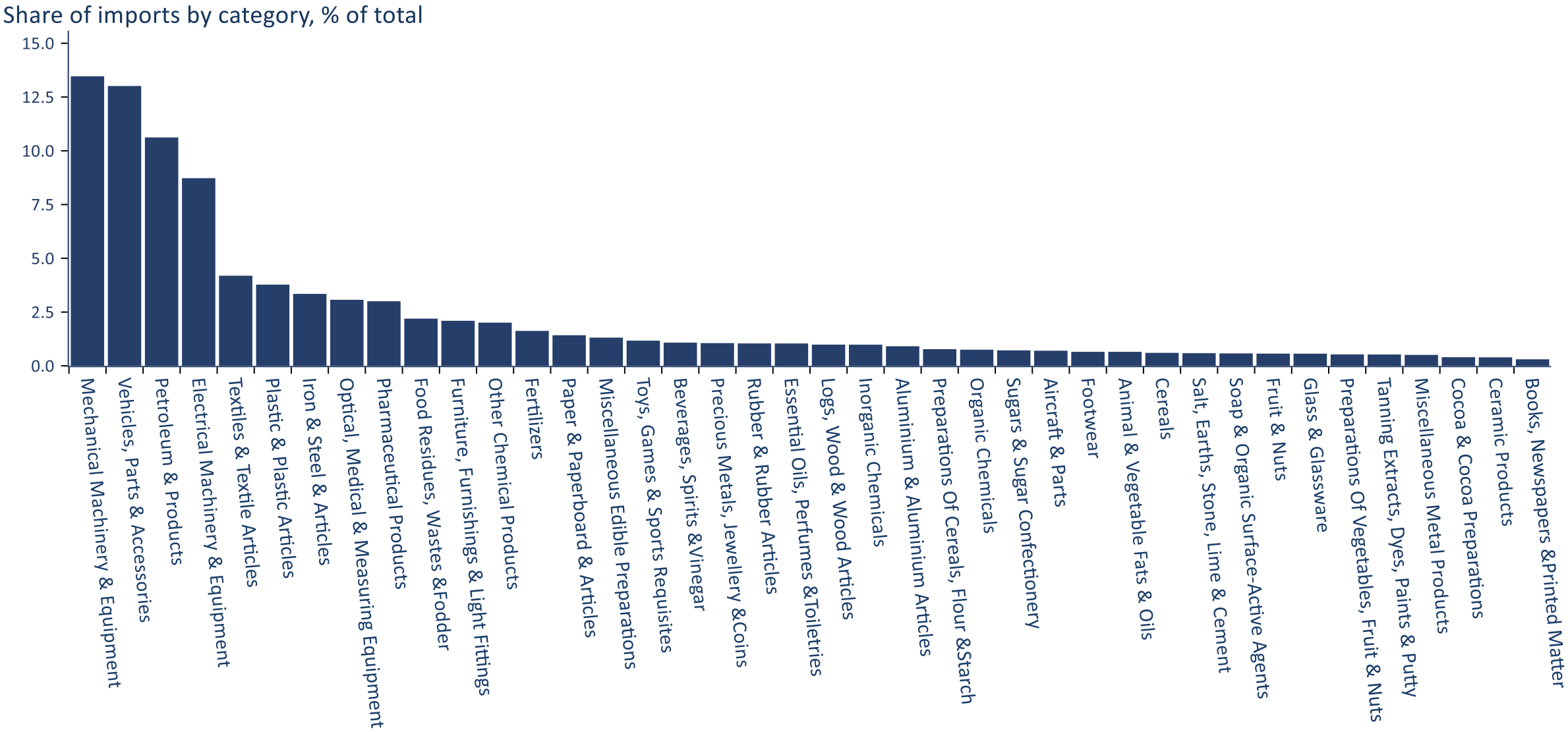


Source: Macrobond; Statistics NZ; Landfall Strategy Group calculations.

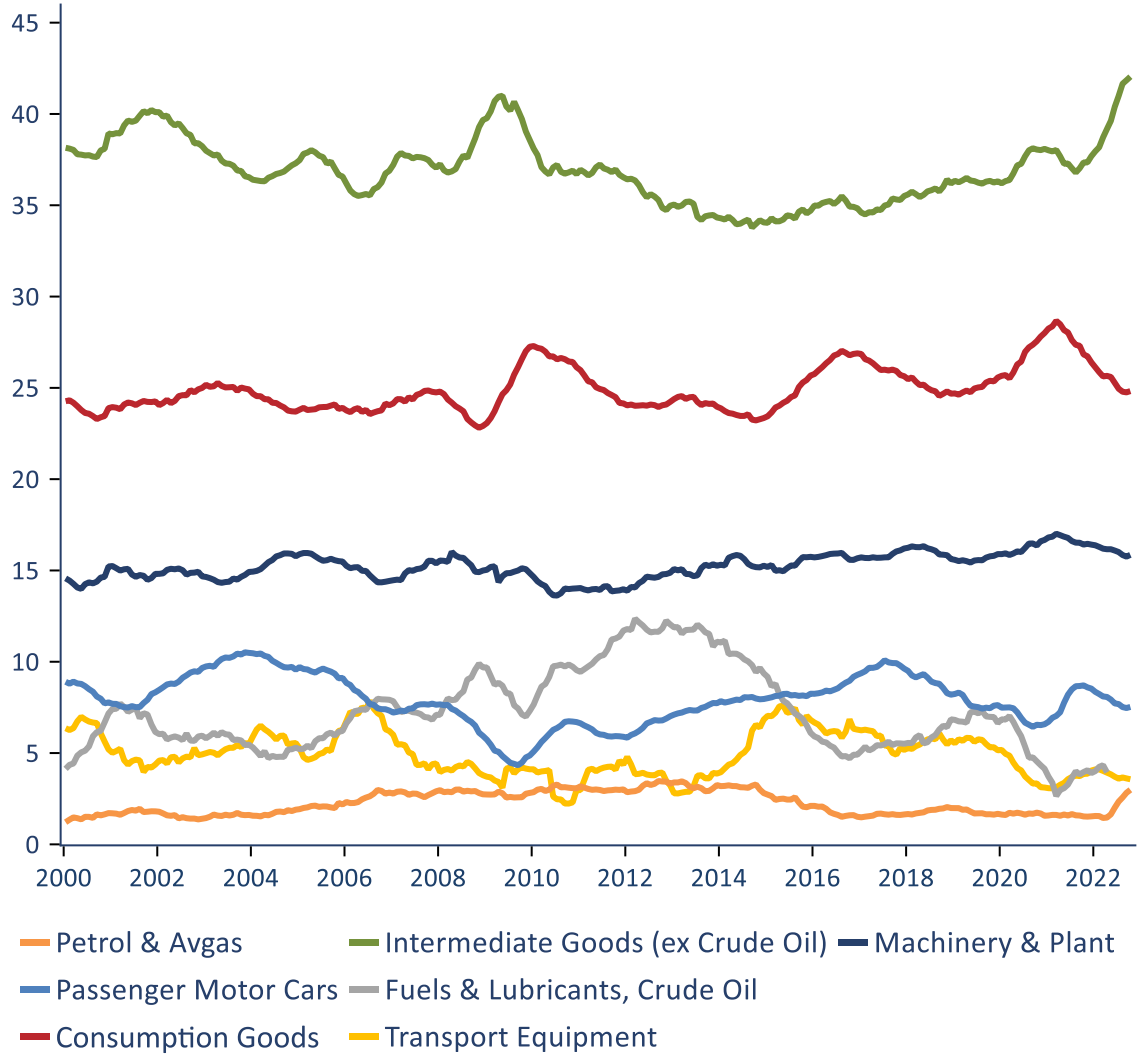
New Zealand's import profile is heavy on machinery and equipment, vehicles, energy, & textiles: the top 5 categories take up ~50% of merchandise imports



Source: Macrobond; Statistics NZ; Landfall Strategy Group calculations.

~25% of New Zealand's merchandise imports are final consumption goods, ~40% are intermediate goods

Imports, by broad economic category, % of total



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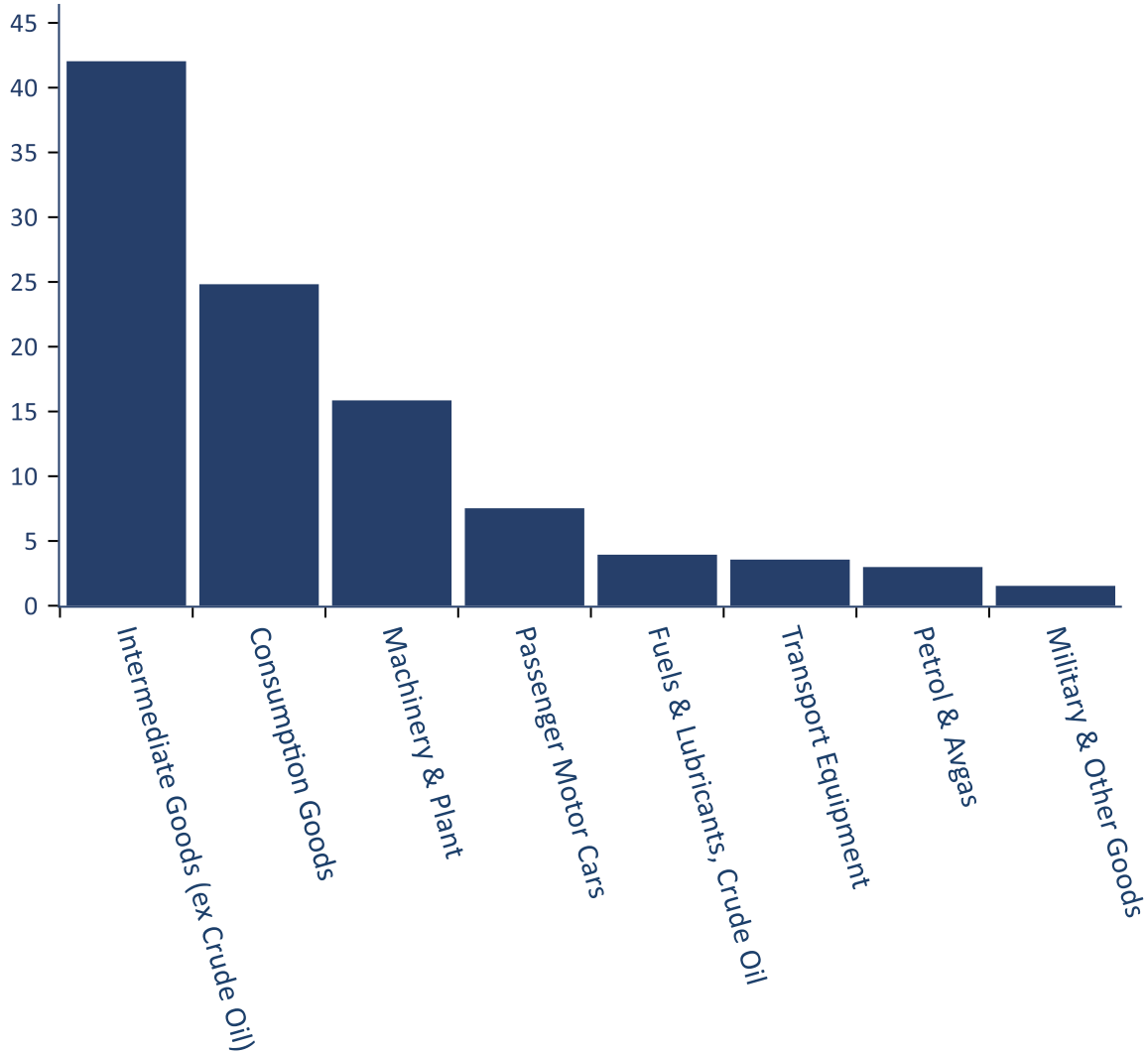
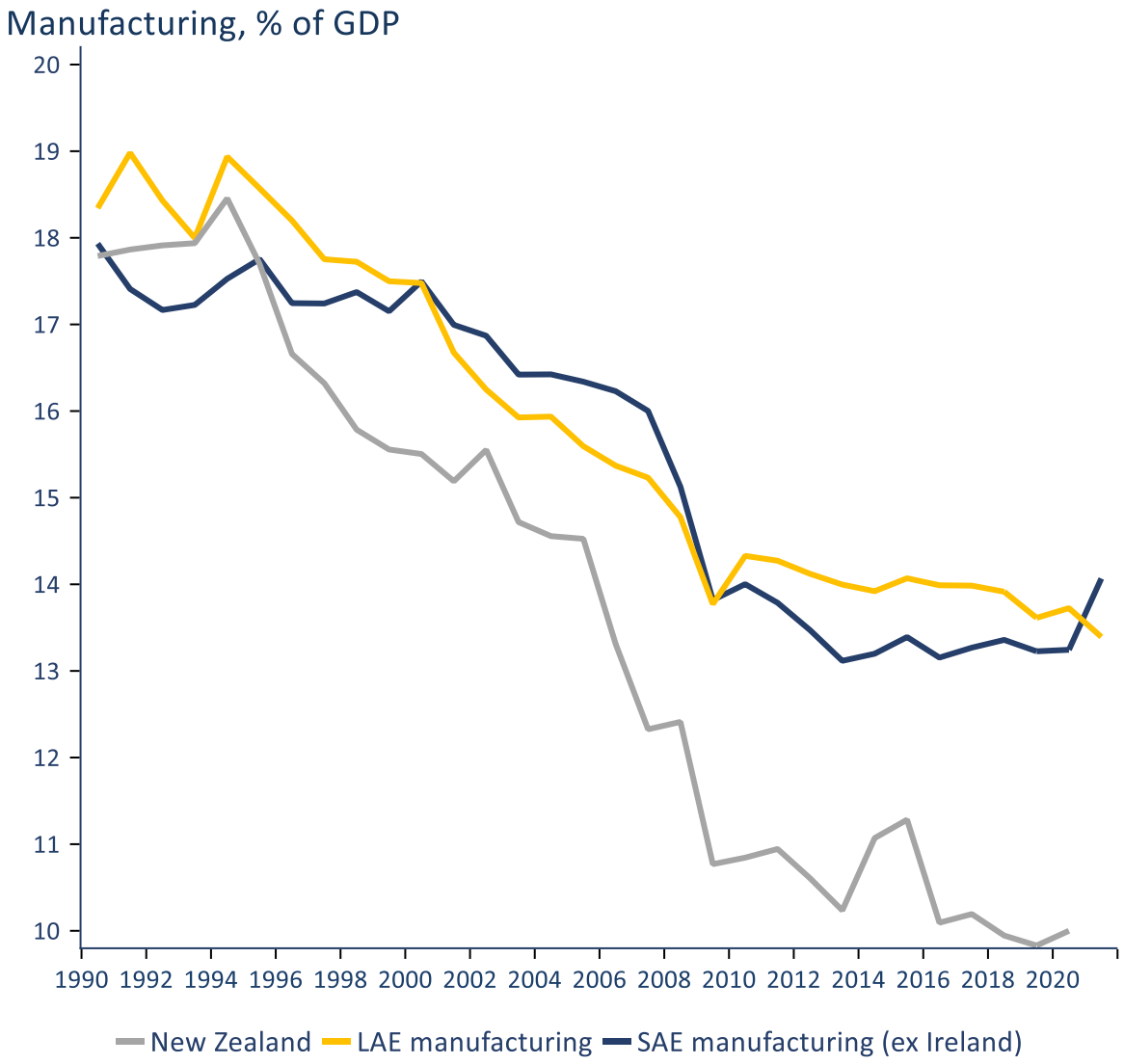
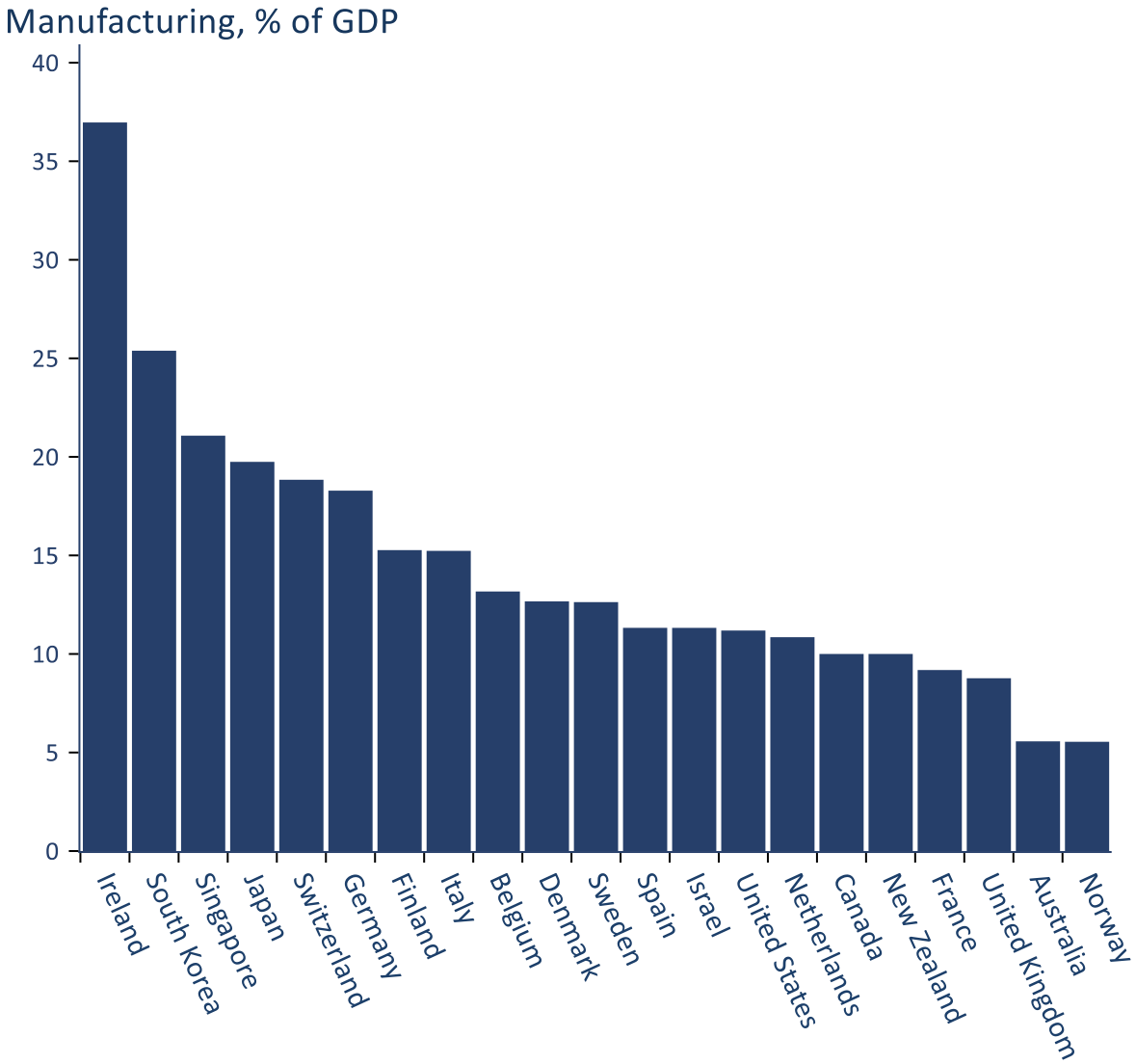


Source: Macrobond; Statistics NZ; Landfall Strategy Group calculations.

New Zealand has a substantially lower manufacturing share than most other small advanced economies; New Zealand is reliant on imports for manufactured goods





Source: Macrobond; World Bank; Landfall Strategy Group calculations.

New Zealand's container shipping and air connectivity is relatively weak, a function of its market size and physical location

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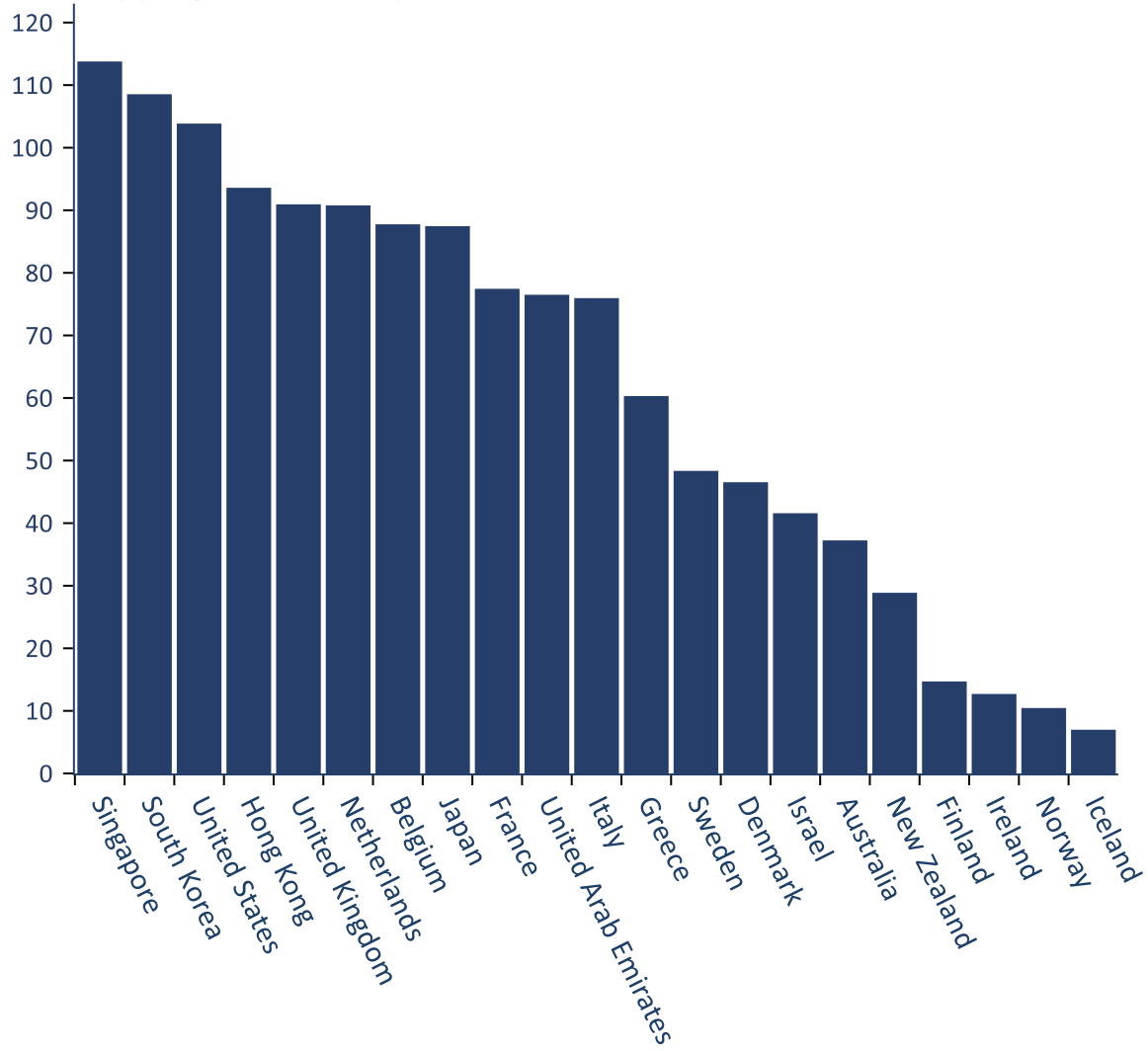
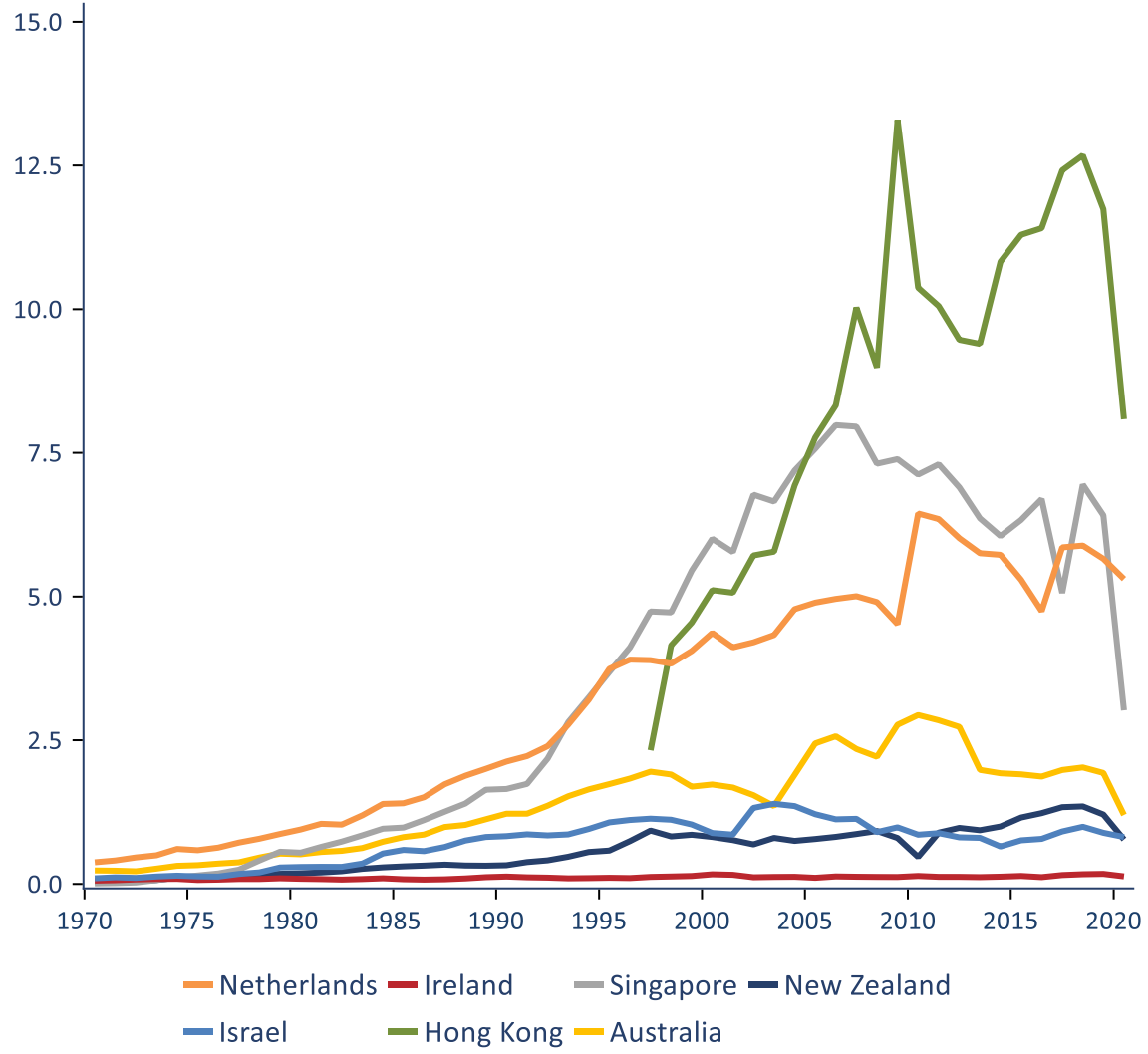
Liner shipping connectivity index



Air freight (ton kms)



Source: Macrobond; World Bank; Landfall Strategy Group calculations.

New Zealand's air freight capacity has been heavily supported by inbound tourism, which has grown particularly strongly in the decade prior to Covid

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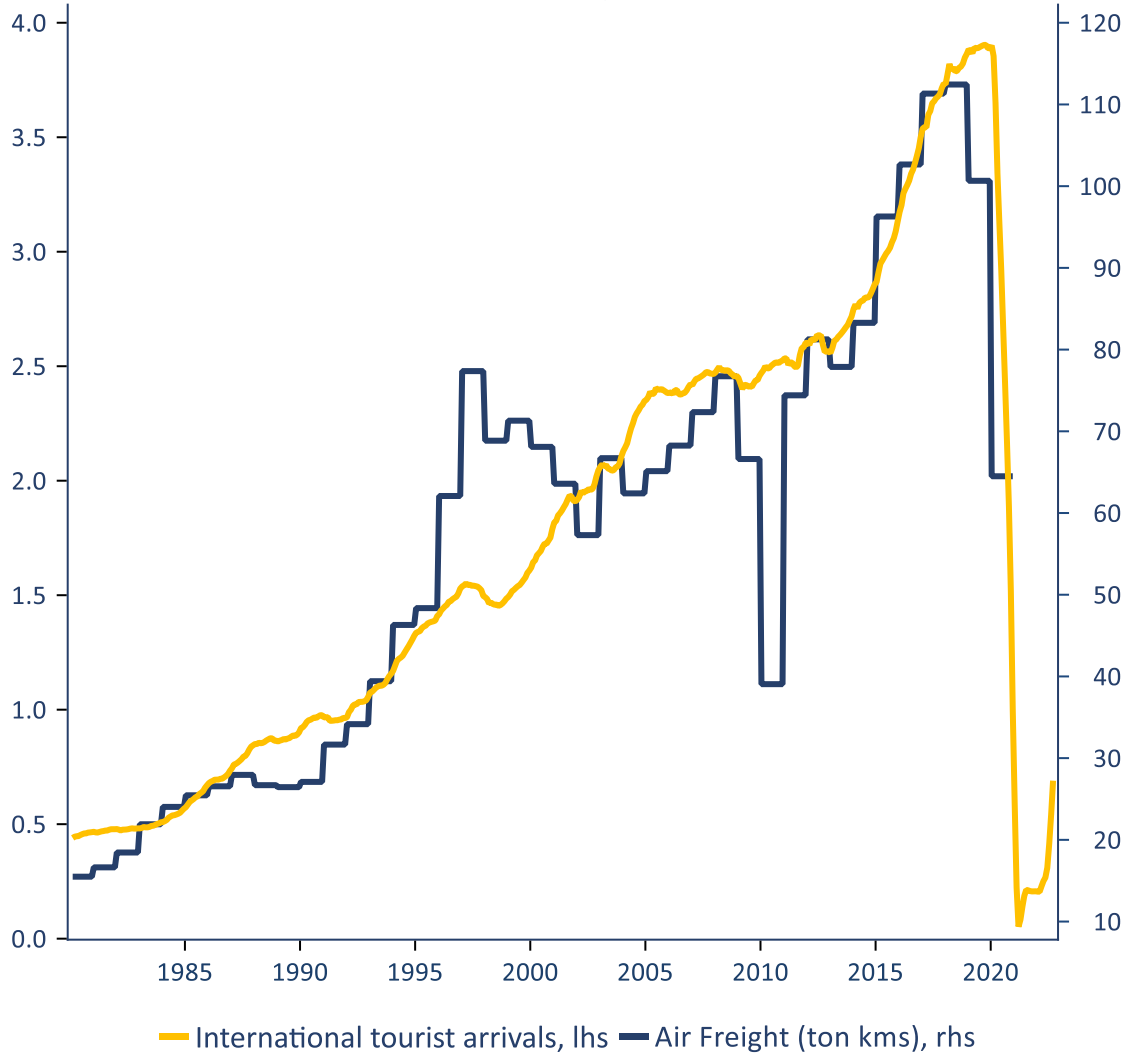
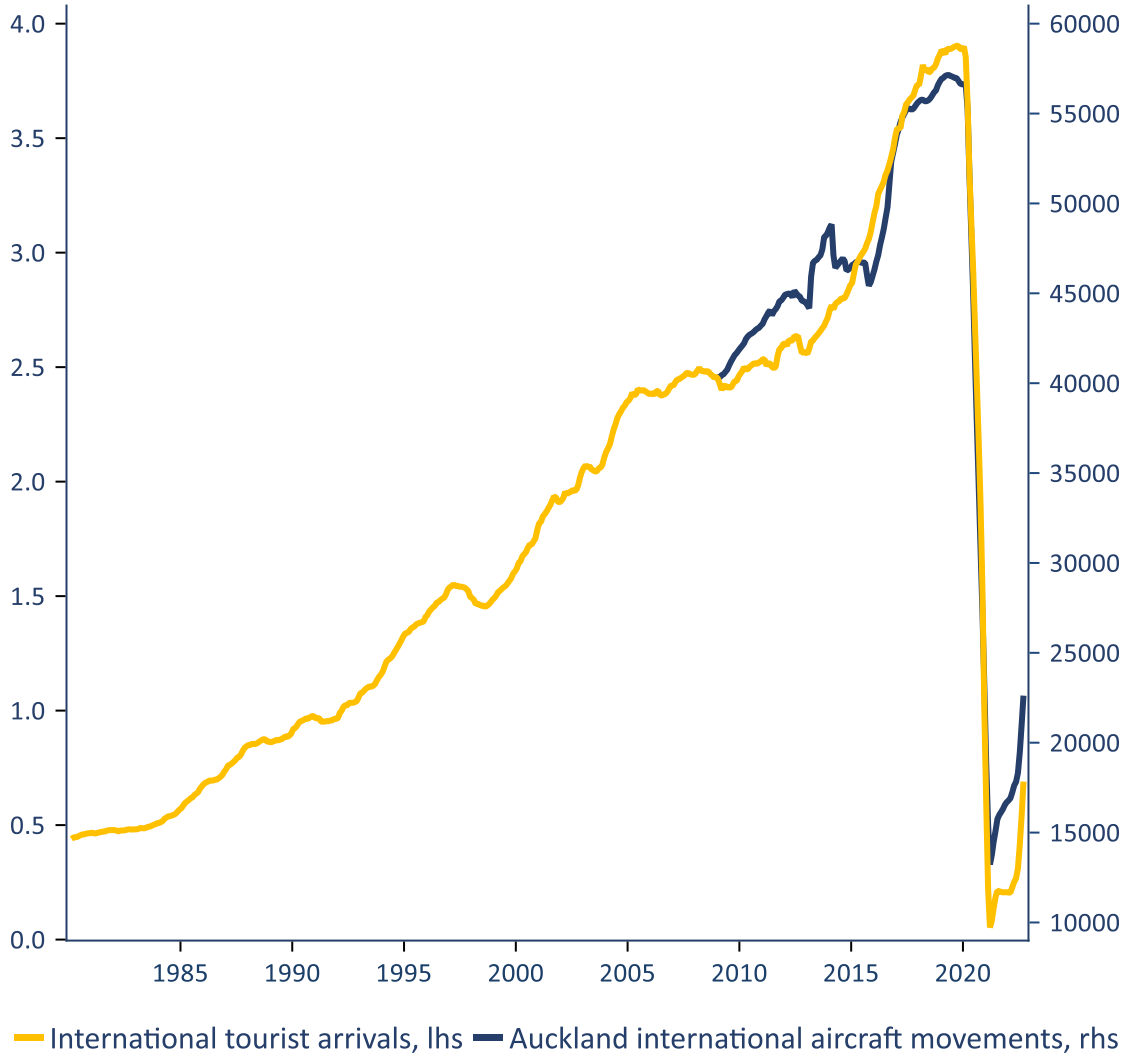
International tourism arrivals v air freight (ton kms)

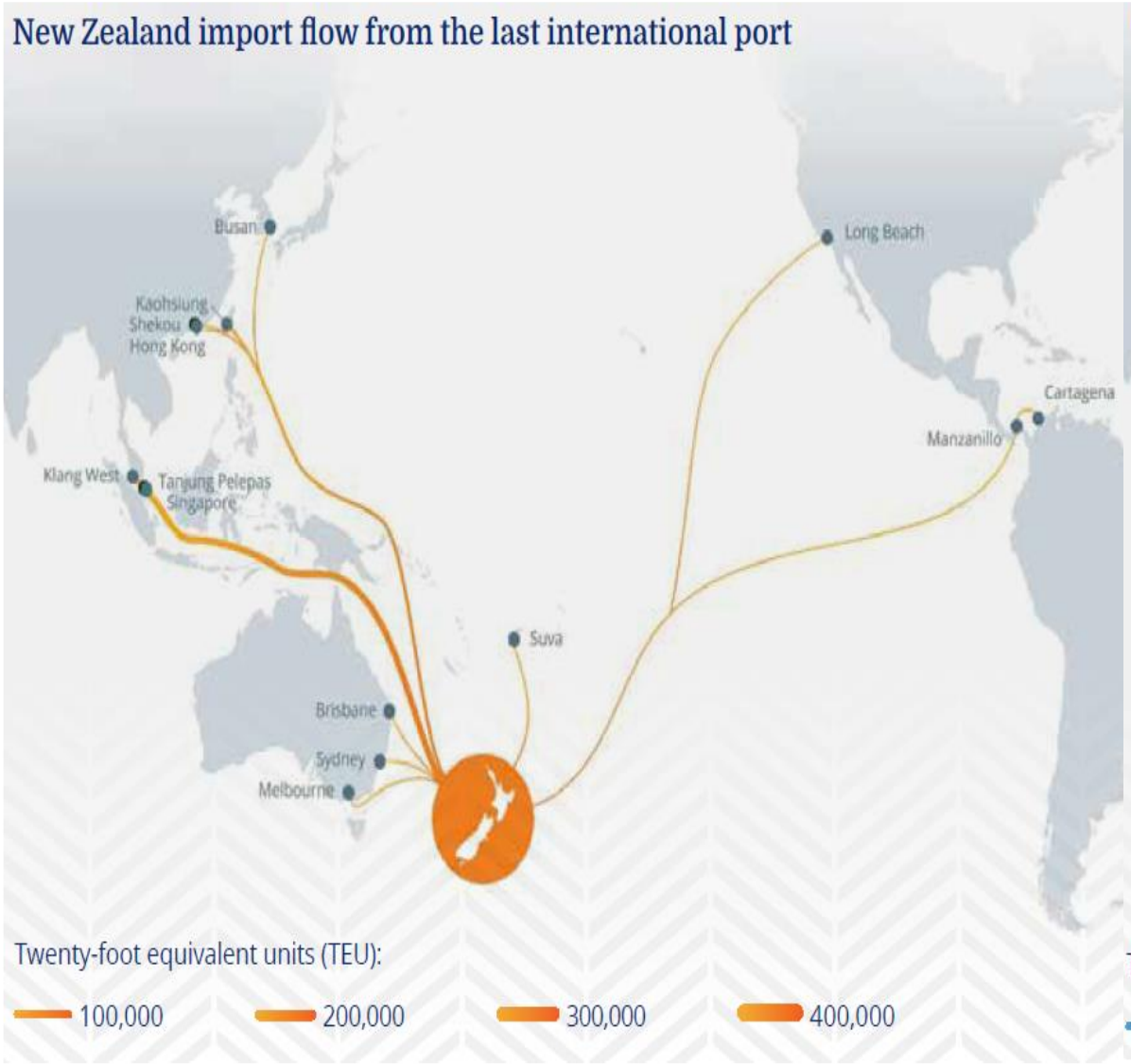


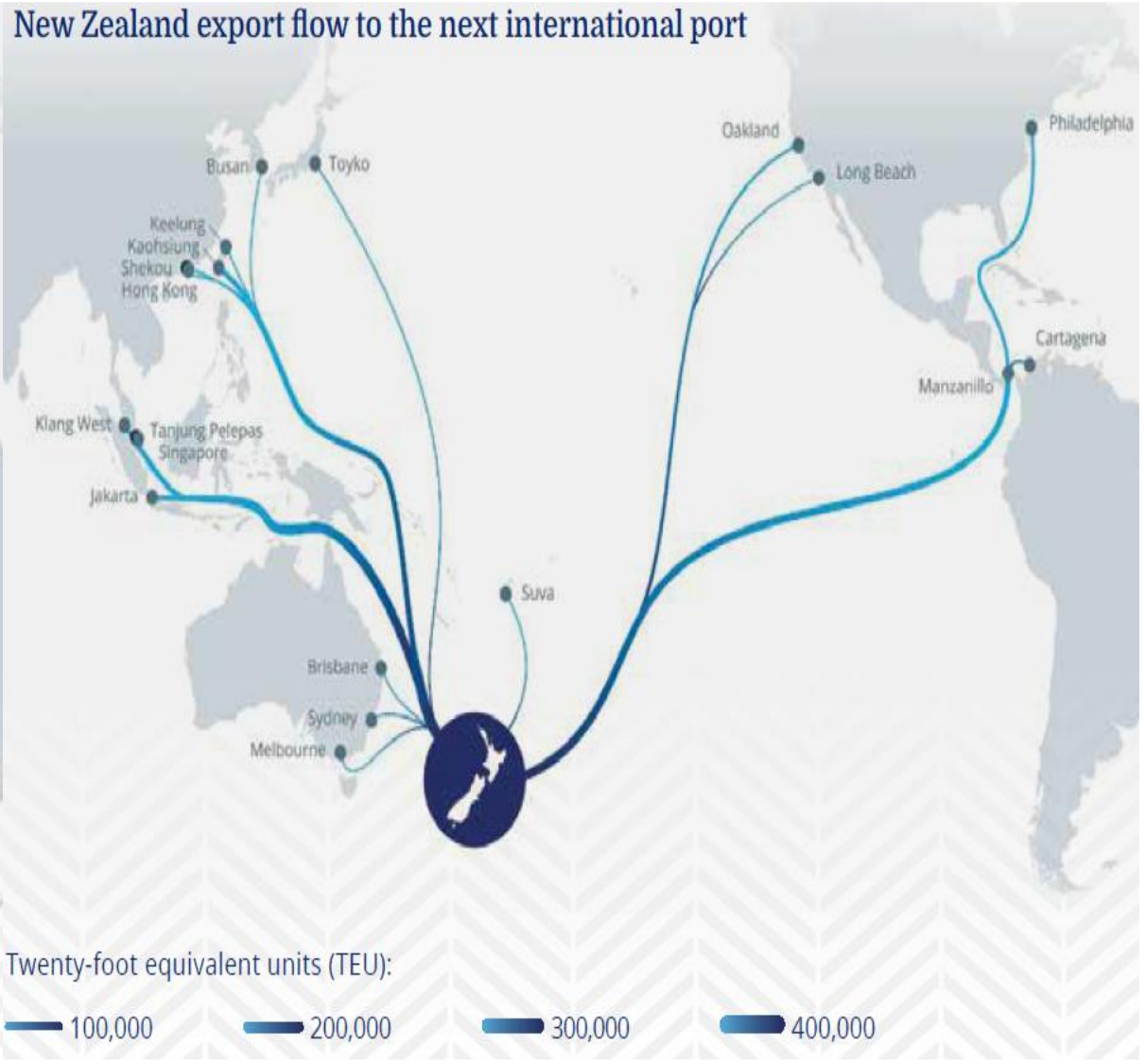
International tourism arrivals v international aircraft movements



Source: Macrobond; World Bank; Statistics NZ; Landfall Strategy Group calculations.

New Zealand's import shipping links are heavily exposed to Singapore & Malaysia; as well as Hong Kong/Taiwan/China





Source: Ministry of Transport.

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