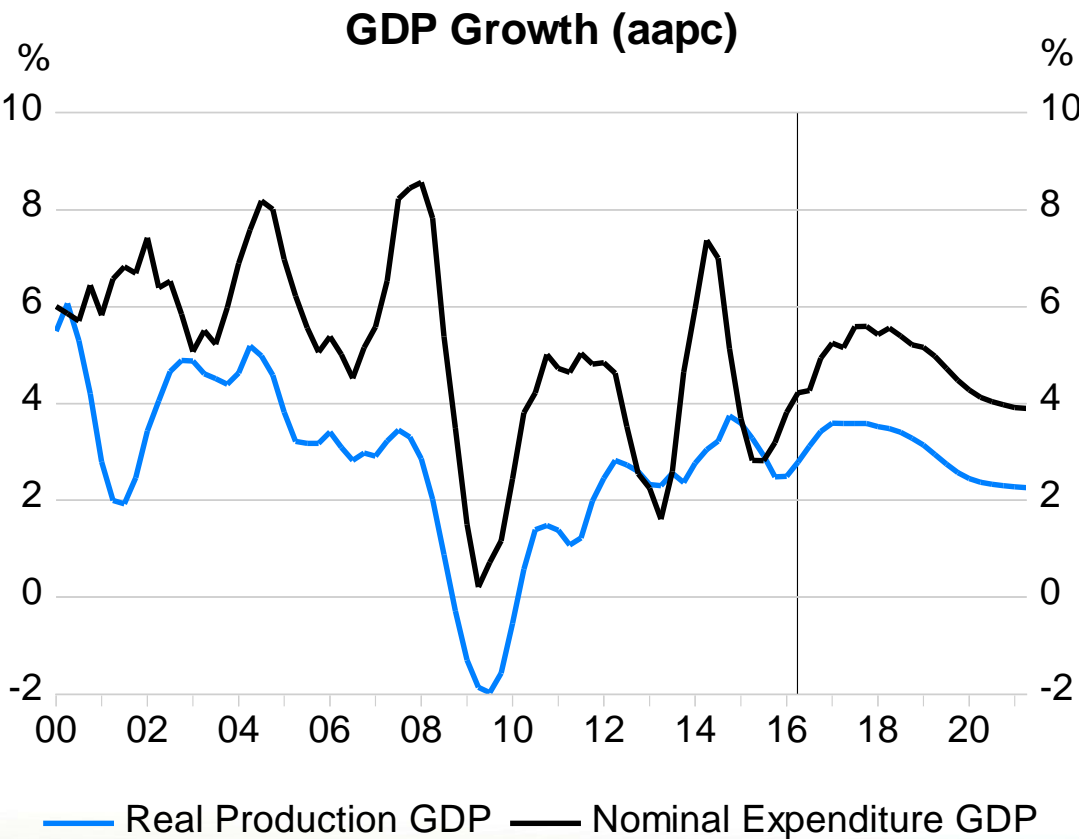




# New Zealand Economic Outlook

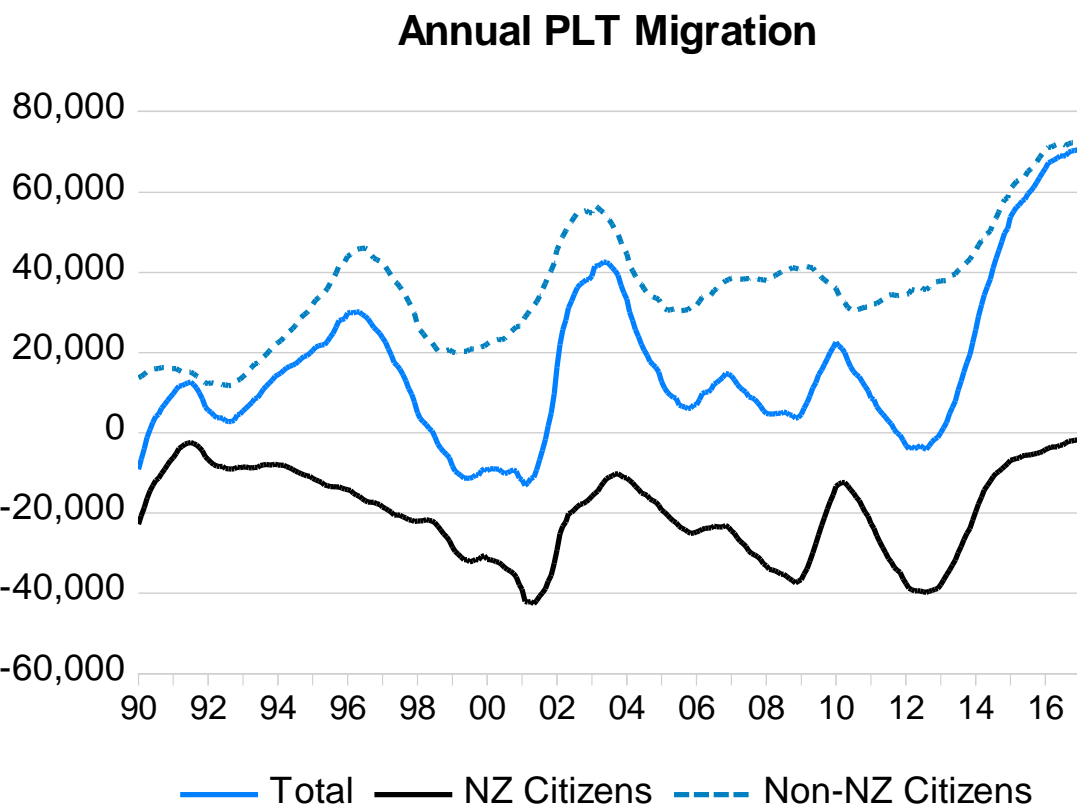
22/23 March 2017

# Economic Outlook – Overview



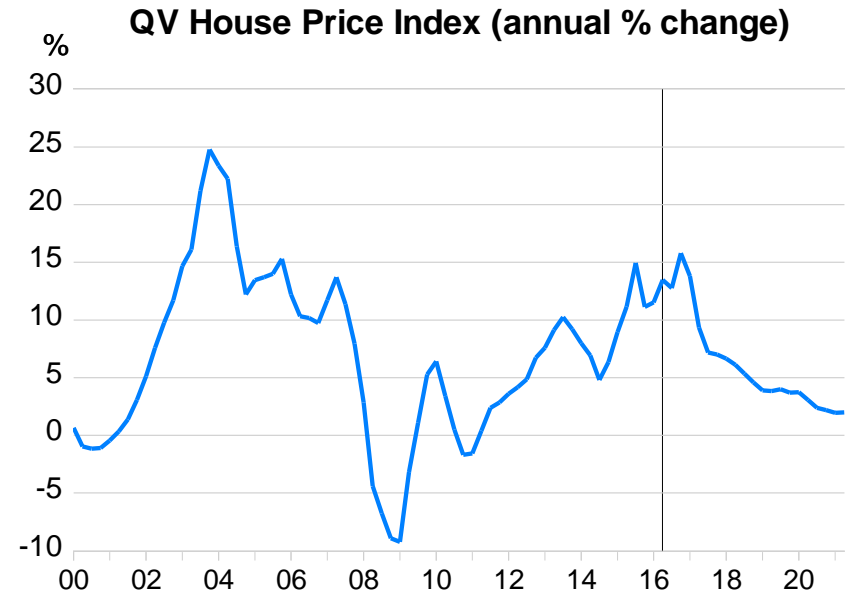
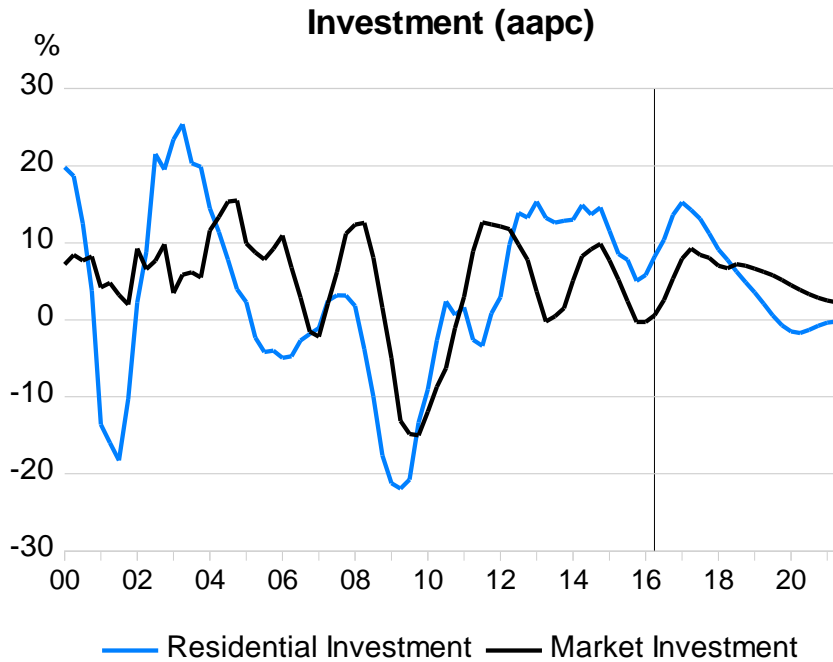
- High net migration inflows, elevated tourist arrivals and low interest rates are supporting growth in construction, private consumption and service exports, underpinning an acceleration in growth.
- Nominal GDP, supported by relatively high terms of trade, follows a similar growth profile.
- Spare capacity in the economy is steadily absorbed, with inflation returning to 2% in mid-2018 as inflationary pressures build and the unemployment rate falling to its long run rate of 4.25% in 2019.
- Interest rates are expected to begin lifting from late 2018.
- Economic data and developments since finalisation of the forecasts remain broadly in line with the Half Year outlook, although the international backdrop has become more uncertain.

# More people arriving to live, work and play



- Net inward migration is currently at record levels of around 71,000 per annum. Net migration is assumed to decline gradually over the forecast period, as structural factors return trans-Tasman flows to a net outflow and as non citizen net flows ease.
- Migration adds 180,000 people to the population over the next five years, increasing the productive capacity in the economy and boosting demand.
- Short term visitor arrivals are also at record levels of over 3.5 million per annum, with strong growth in China, Australia and the US
- Tourism is expected to remain strong over the forecast reflecting structural changes in China and retiring baby boomers in the US

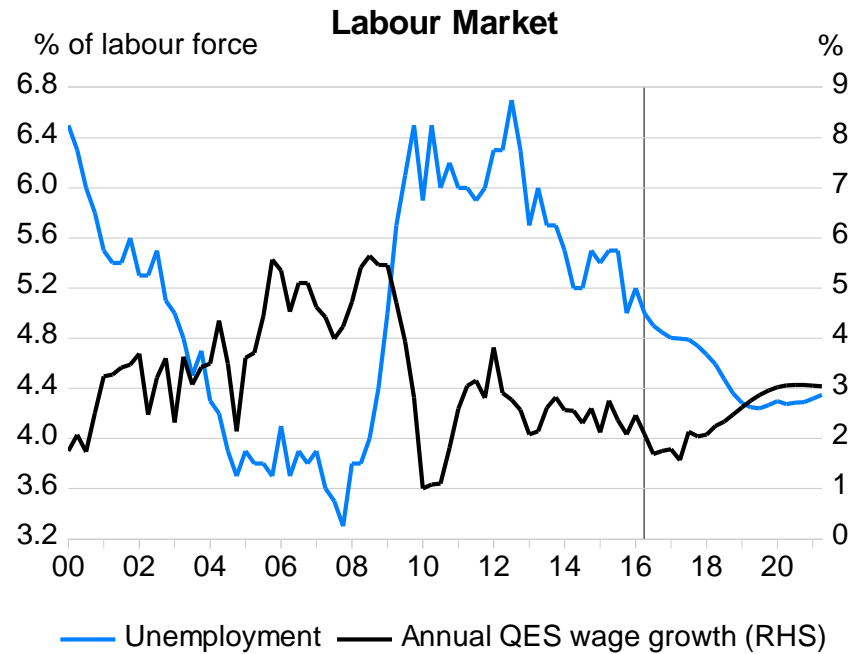
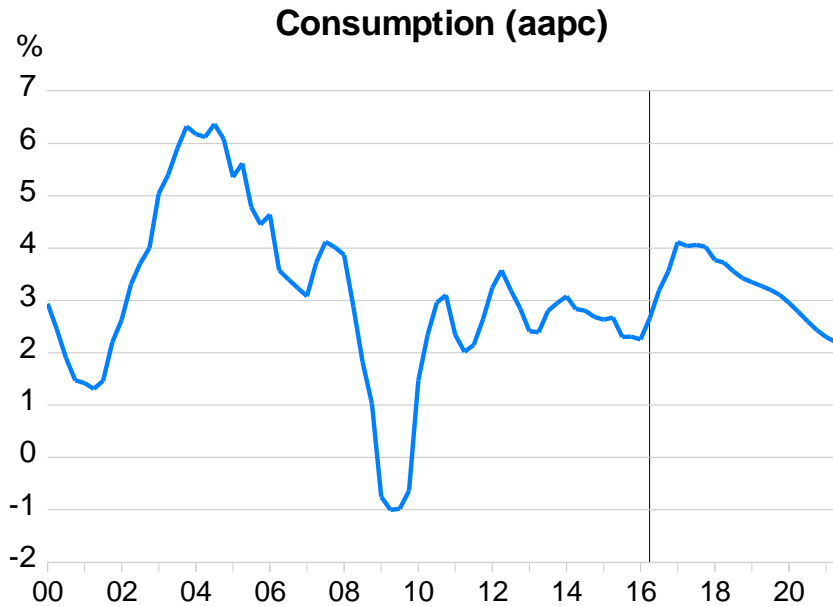
# Low interest rates and population growth continue to drive housing demand...



- Residential investment is expected to grow strongly in the near term, reflecting the solid pipeline of construction work.
- Non-residential construction is also expected to remain strong, helping to support market investment.
- Construction costs are expected to increase, but at a more moderate pace than has been experienced in the past.

- Lower interest rates and faster population growth are expected to spur demand, which supply of land and labour is able to accommodate.
- The Auckland Unitary Plan is assumed to have a marginal, but increasingly positive, impact on supply over the forecast period.
- House price growth is expected to average over 10% for the next year or so before easing.

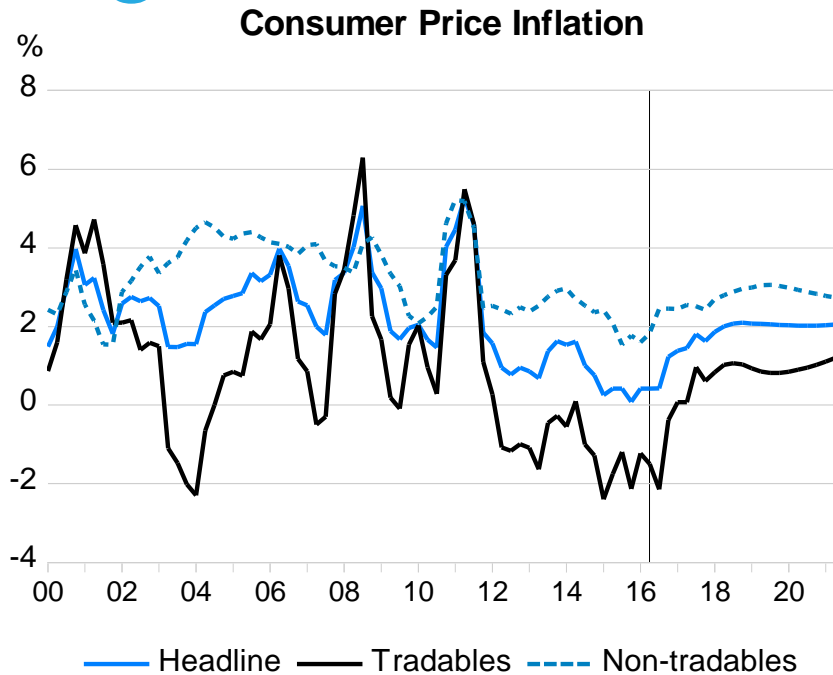
# ...and household consumption



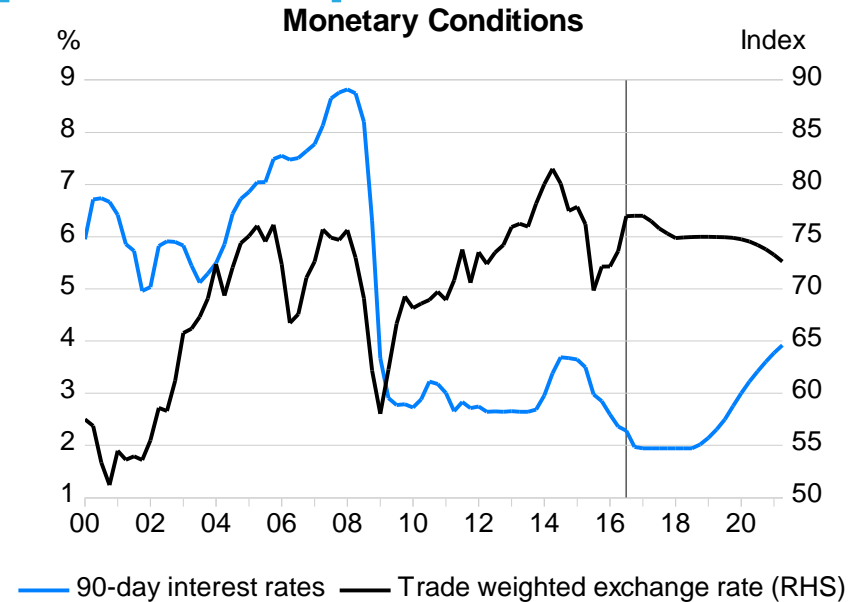
- Consumption growth is stronger in the near term reflecting recent momentum and high population growth
- However, consumption is expected to ease later on as population growth and aggregate labour income growth slows, and interest rates increase.

- The labour market is expected to gradually tighten over the next two years until spare capacity is absorbed.
- Wage growth is expected to remain modest given this spare capacity and relatively low consumer price inflation.

# Monetary conditions gradually tighten as inflation picks up

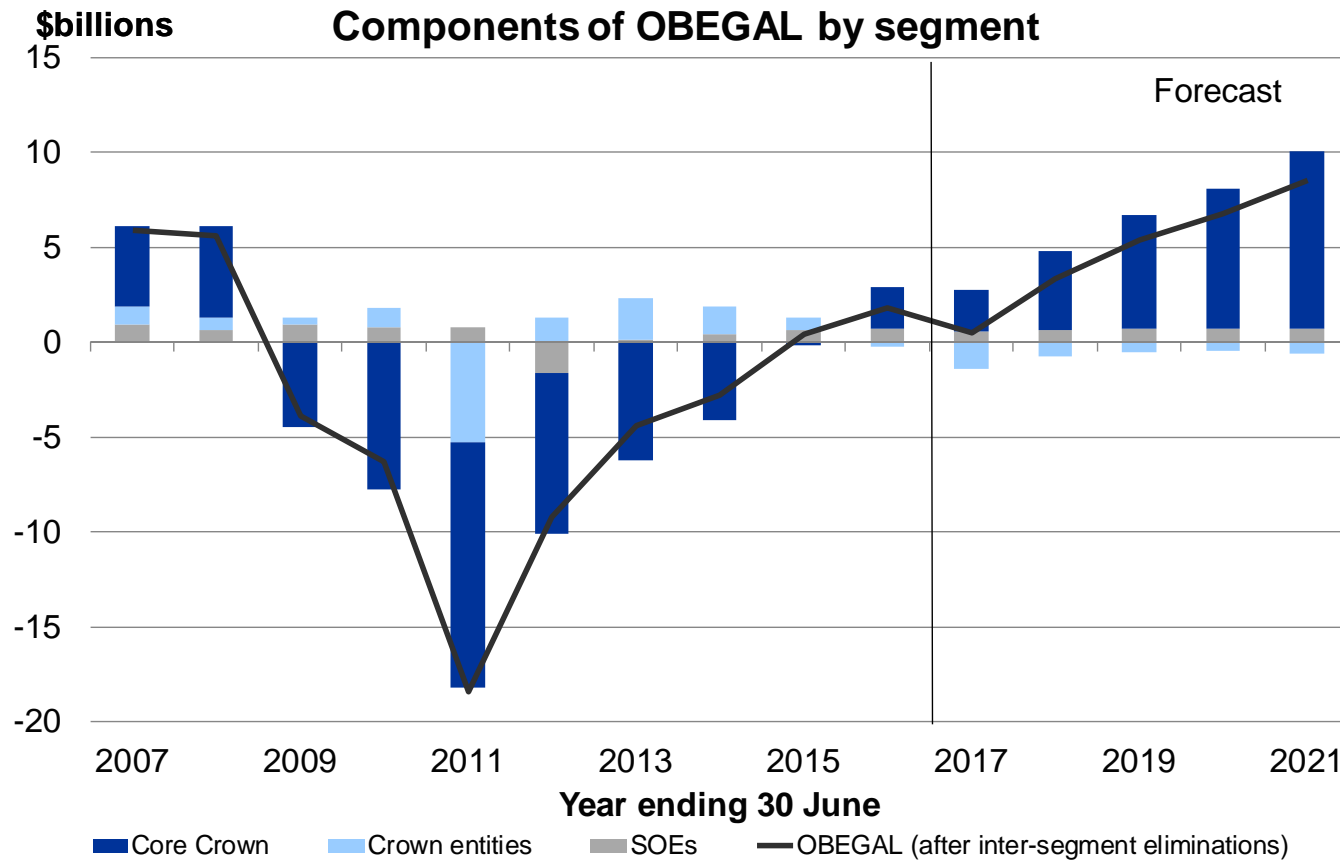


- Inflation is expected to pick up in the short term, returning to 2% in mid-2018.
- Tradables inflation is expected to turn positive once the effects of oil price declines fall out of the annual calculation.
- Non-tradables inflation picks up gradually as spare capacity in the economy is used up.



- Interest rates are assumed to remain low for some time, increasing from late 2018 in response to increasing inflationary pressures.
- The exchange rate is assumed to gradually depreciate across the forecast period.

# The fiscal outlook continues to improve



# Kaikōura earthquakes

- The Half Year fiscal forecasts were finalised a week after the earthquakes
- Initial estimates of government earthquake costs:

	Estimated Range
Transport infrastructure (roads and rail)	\$1.5 billion to \$2.0 billion
EQC claims costs for damage to residential property	\$0.5 billion to \$0.7 billion
Non transport infrastructure costs	Up to \$0.1 billion
Other costs	Up to \$0.2 billion
Total	\$2 billion to \$3 billion

- Some costs are assumed to be met from insurance, existing resources and existing Budget allowances.
- \$1 billion was added to 2016/17 forecast to recognise costs not expected to be funded from the sources above



# Summary

- Economic growth is expected to pick up, underpinned by net migration, strong visitor arrivals, the construction pipeline and low interest rates
- OBEGAL surpluses rise over the forecast period