



Economic outlook

Prepared for Audit NZ Central Government Update

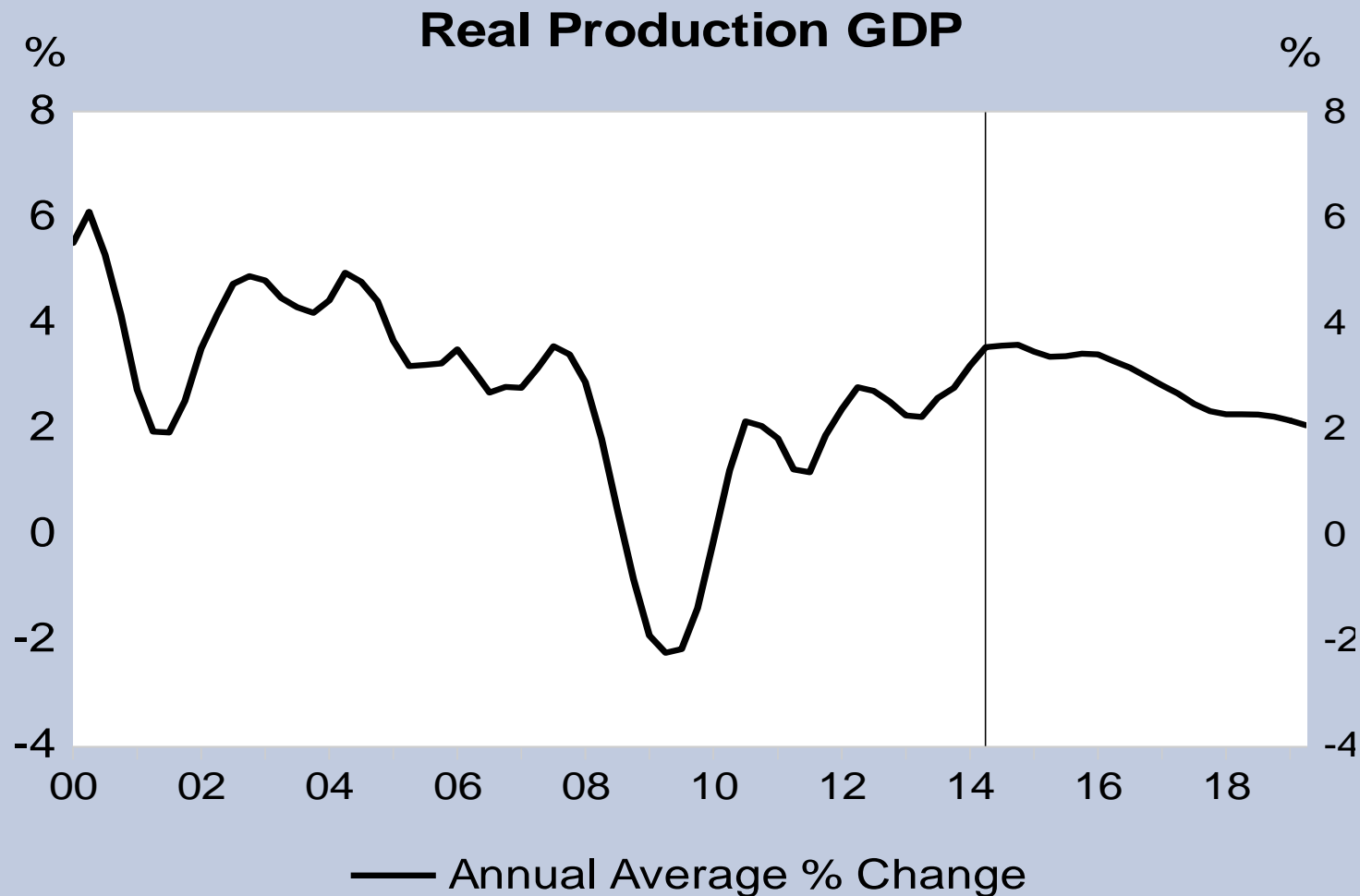
April/May 2015

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Outline

- Current economic situation
- Key developments since Half Year Update
- Implications for fiscal outlook

Solid growth in economic activity

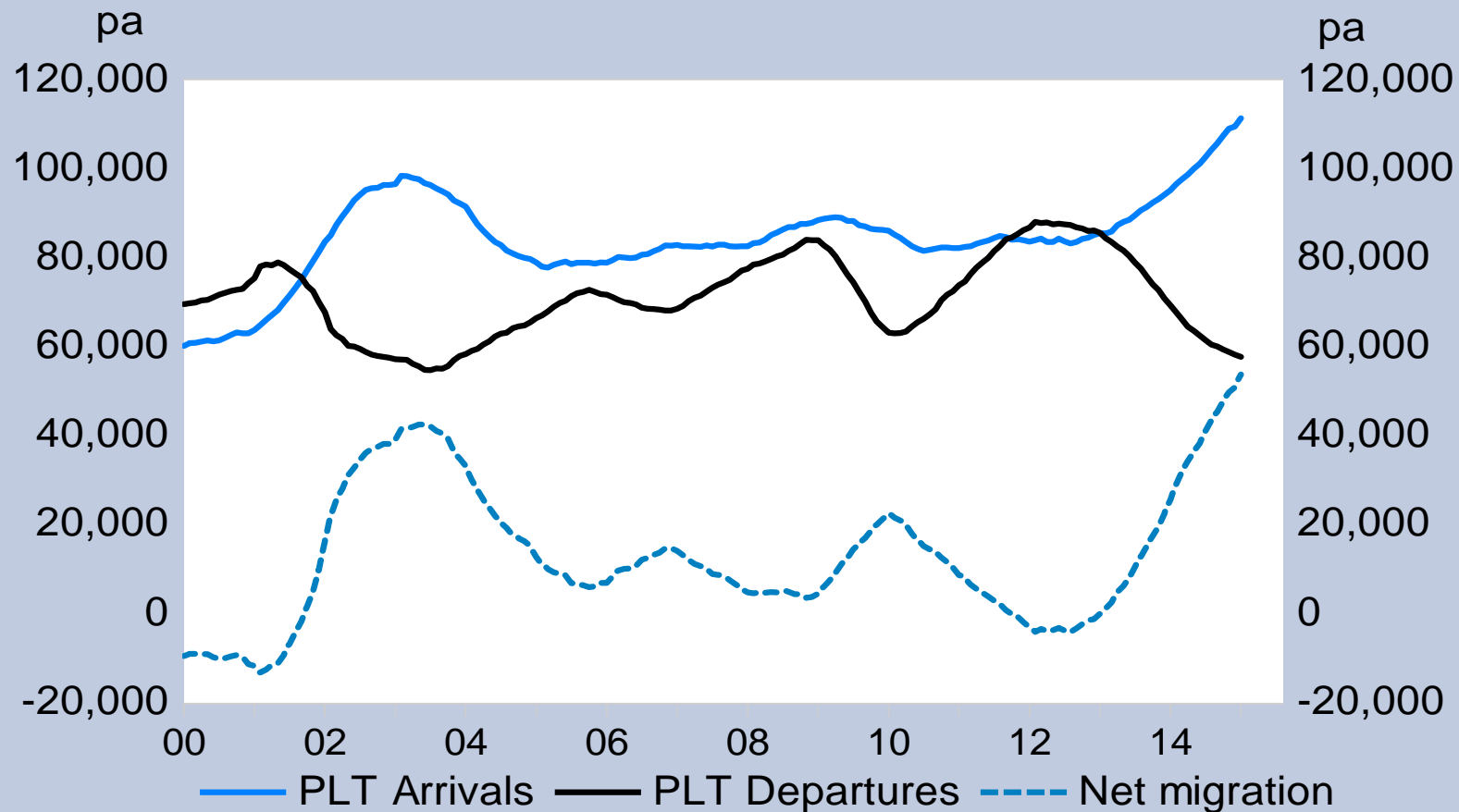


Key developments since HYEUFU

- Trading partner growth
- Net migration
- Dairy and oil prices
- Inflation and interest rates

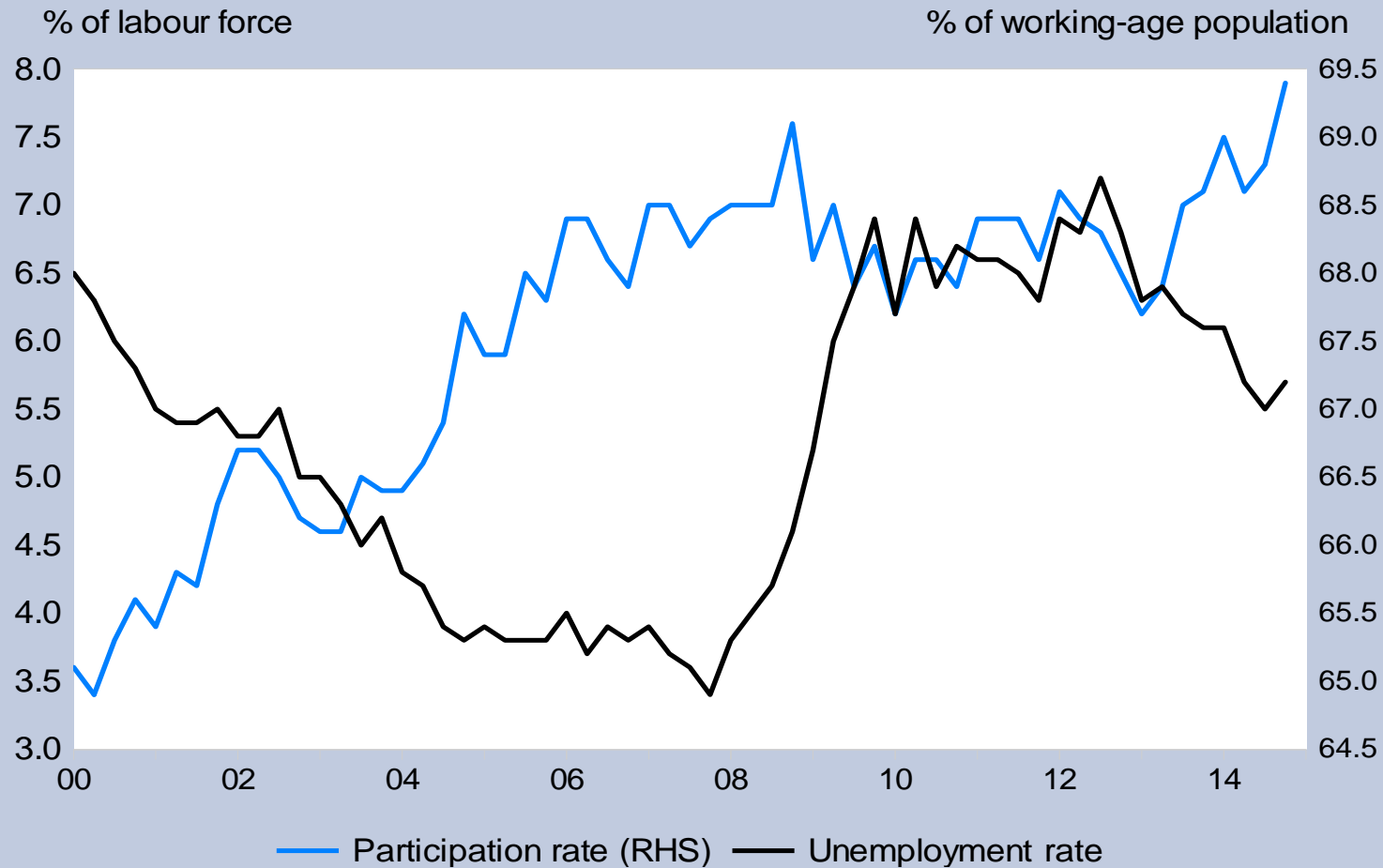
Net migration boosts population...

Net migration aggregates

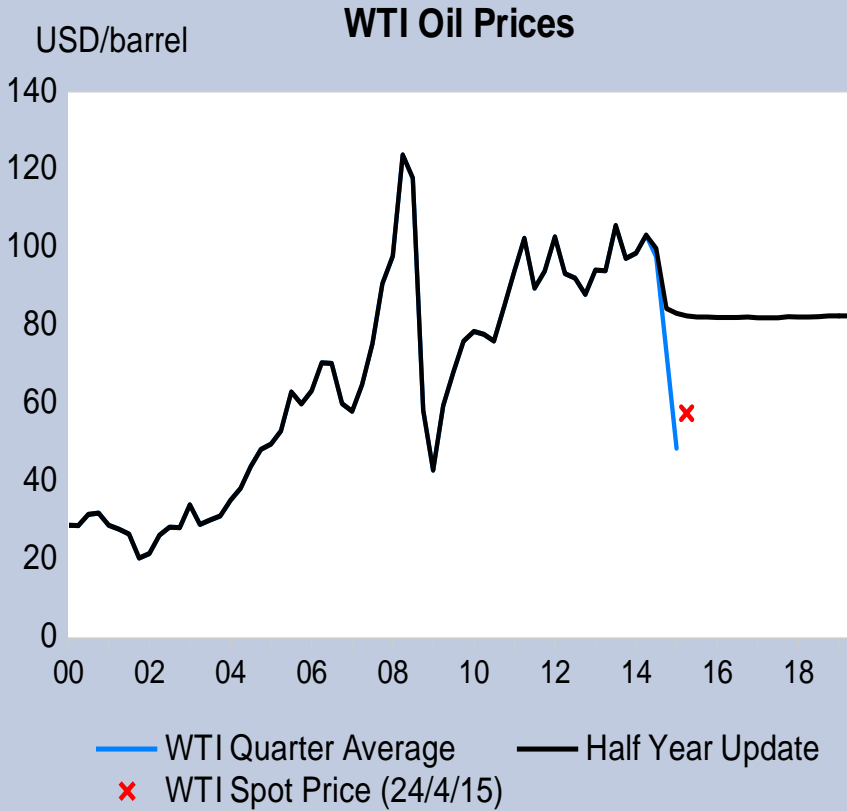
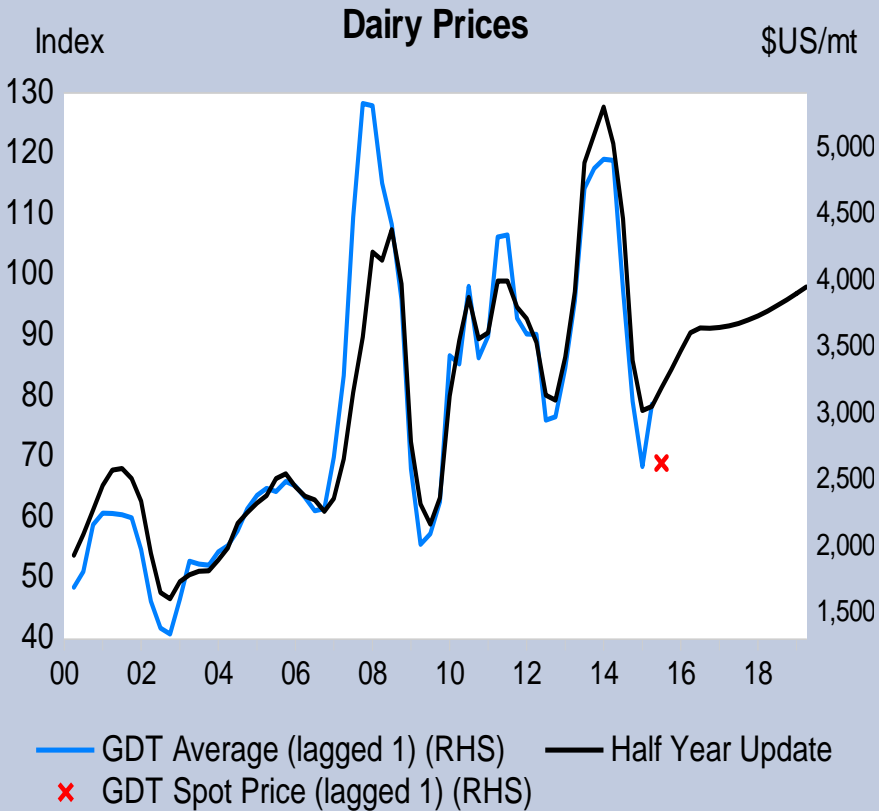


...helps alleviate labour pressures

Participation and unemployment

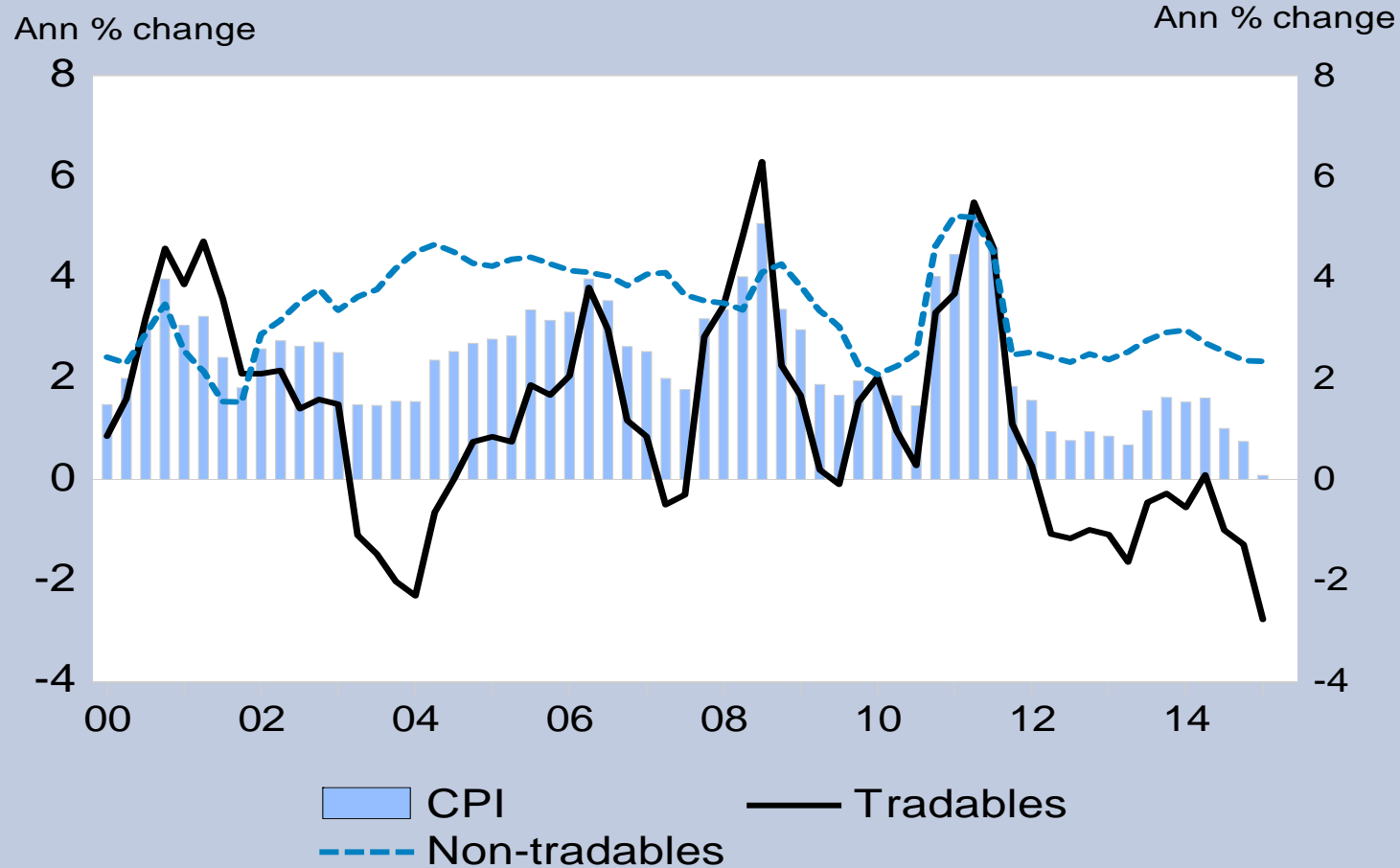


Dairy and oil prices lower

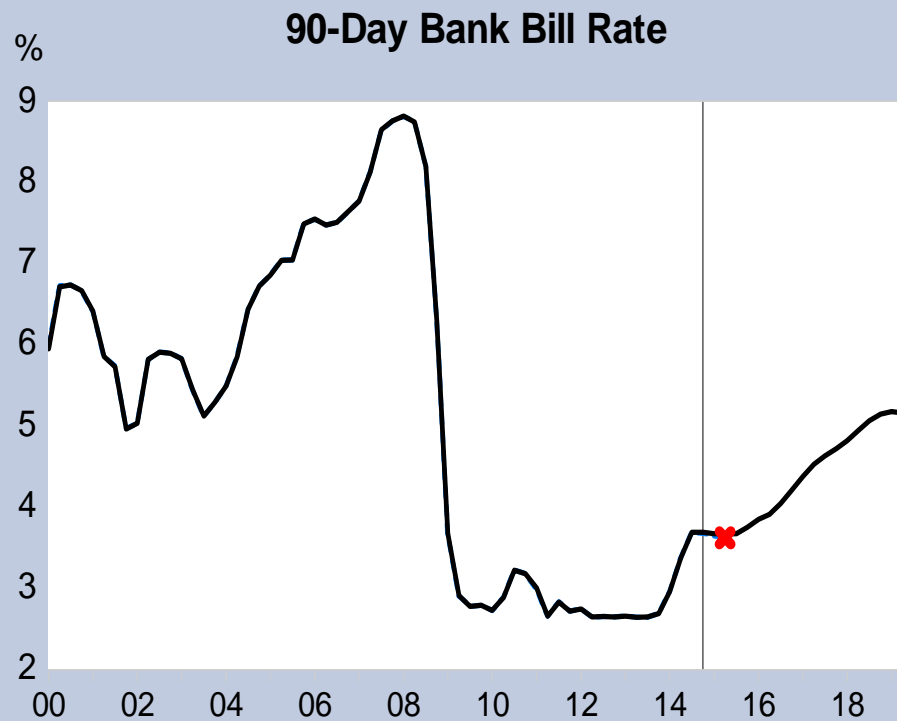


Inflation: conspicuous by its absence

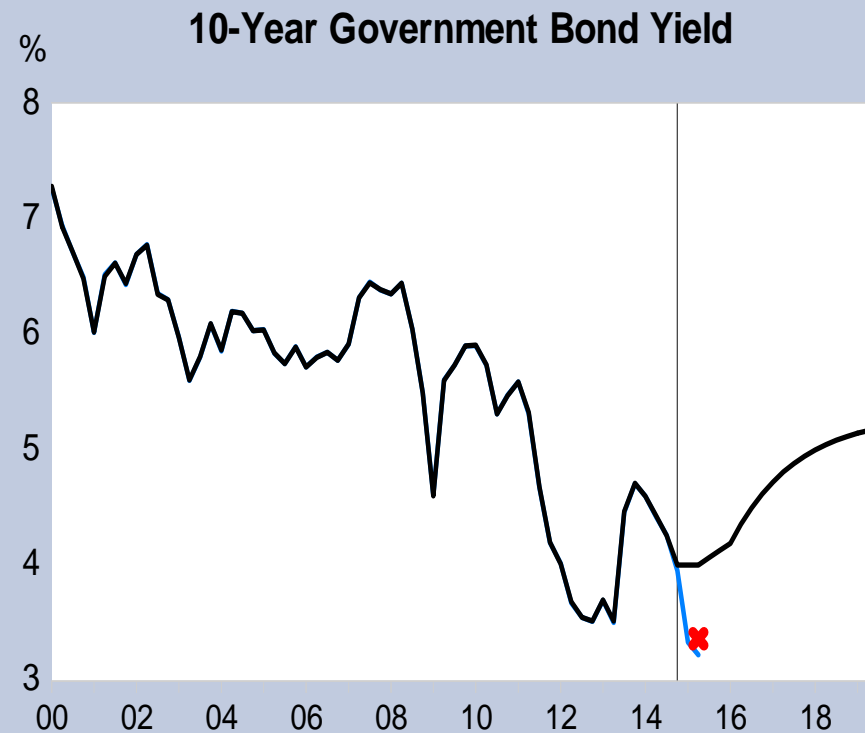
CPI inflation



Interest rates lower for longer

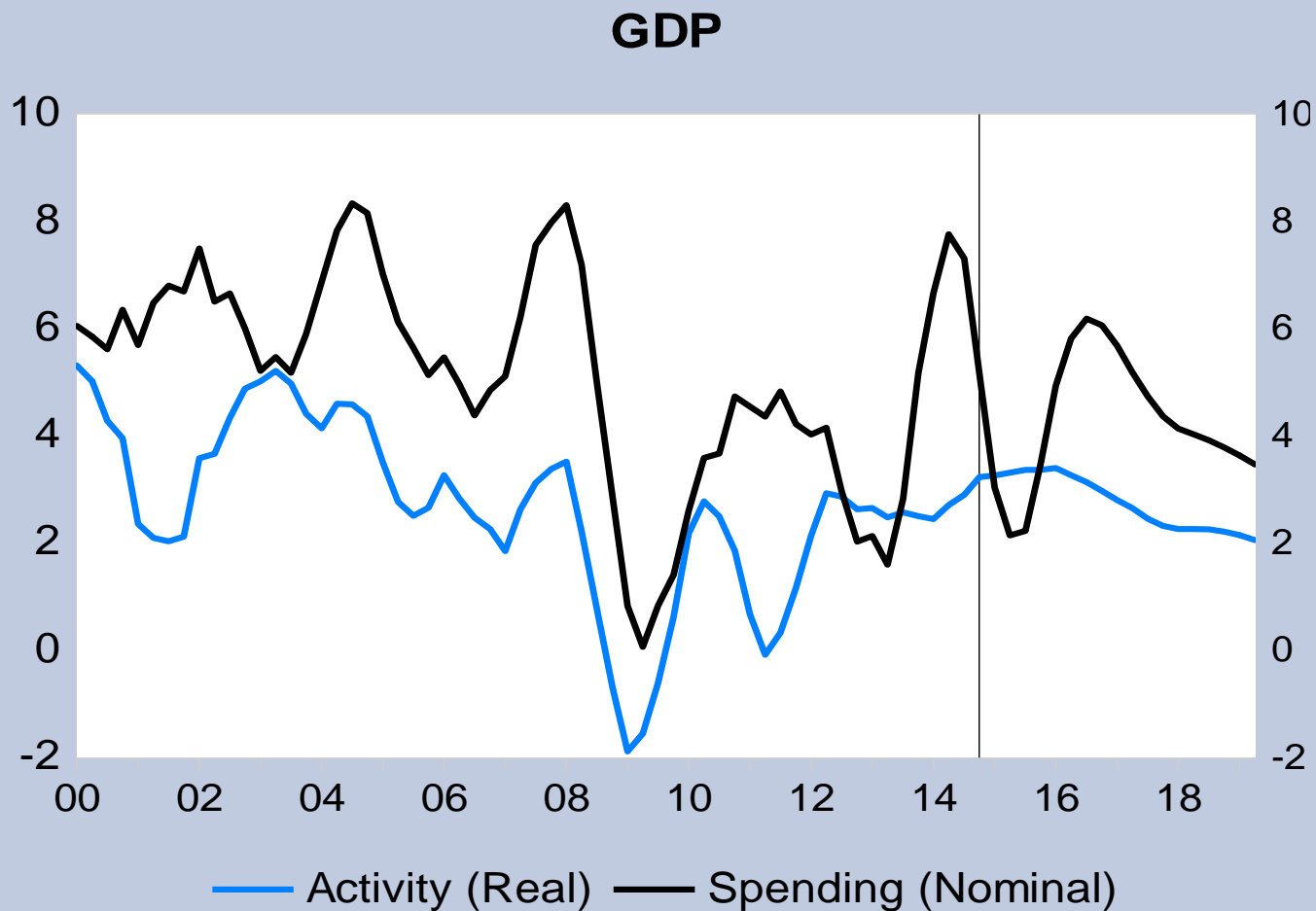


----- 90-day Bank Bill Yield Quarter Average
— Half Year Update
x 90-day Bank Bill Yield (24/4/15)



— 10-Year Government Bond Yield Quarter Average
— Half Year Update
x 10-Year Government Bond Yield (24/4/15)

Activity solid; dollar value not as solid



Implications

- Dollar value of spending is what matters for tax revenues
- Inflation impact on revenue and expenses not symmetric
 - sensitivities skewed: \$65bn revenue versus \$7bn expenditure
 - expense baselines are fixed
- BUT real purchasing power increases

Summing it all up

- Solid activity
- But low inflation looks set to continue
- Dollar value of spending set to weaken
- Interest rates lower for longer
- Continuing headwind for fiscal outlook

Thank you!
