

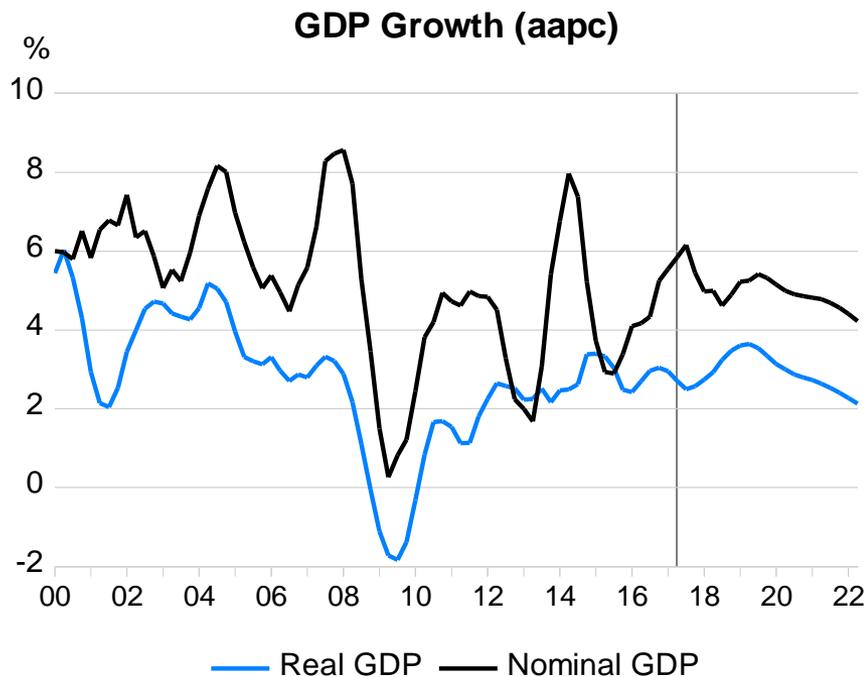


THE TREASURY
Kaitohutohu Kaupapa Rawa

New Zealand Economic Outlook

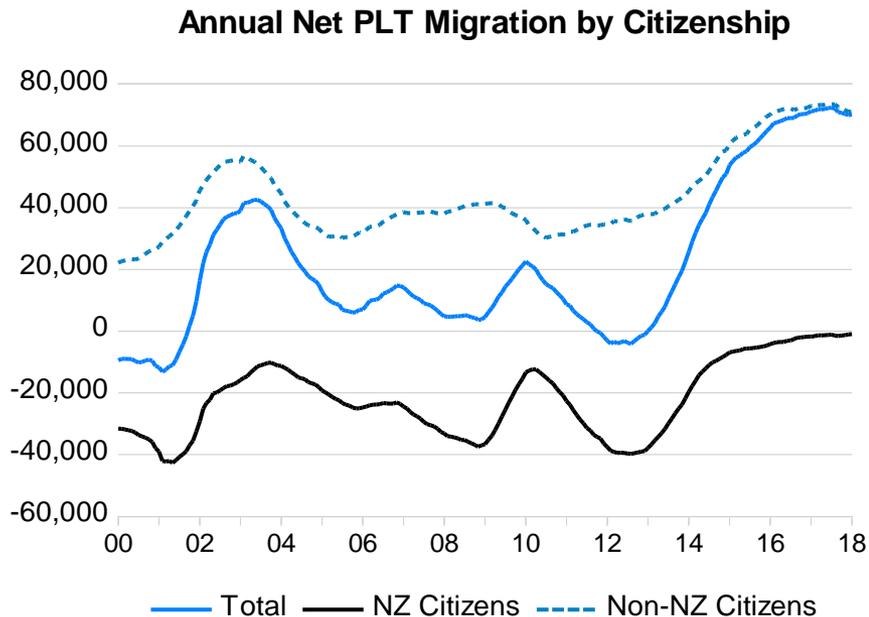
21/22 March 2018

Economic Outlook – Overview



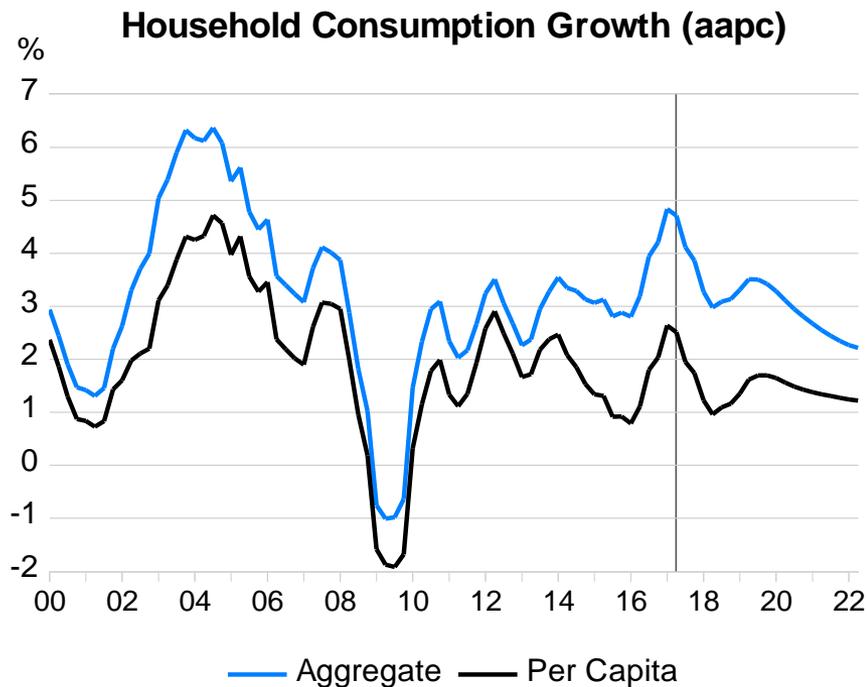
- The economic outlook for New Zealand remains positive. Growth continues to be underpinned by migration-led population growth, low interest rates, stimulatory fiscal policy and the positive international outlook.
- Nominal GDP, supported by relatively high terms of trade, follows a similar growth profile.
- The labour market is expected to gradually tighten, with the unemployment rate falling towards 4%, as solid economic growth continues to bolster labour demand.
- Inflation remains low and monetary policy is expected to remain stimulatory for some time, with interest rates lifting from 2019.
- Economic data and developments since finalisation of the forecasts remain broadly in line with the Half Year outlook, although growth looks to be a little weaker in the near term and stronger in the longer term

Population growth remains high...



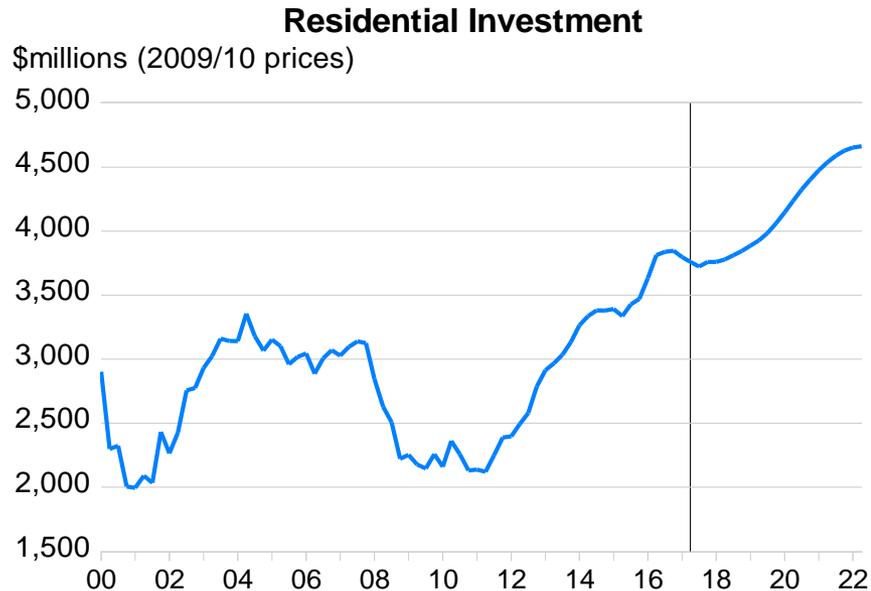
- Population growth remains high, driven largely by high net migration flows.
- Net migration is assumed to decline gradually over the forecast period, as structural factors return trans-Tasman flows to a net outflow and as non citizen net flows ease.
- Migration adds 190,000 people to the population over the next five years, increasing the productive capacity in the economy and boosting demand.

...which together with fiscal stimulus supports household consumption



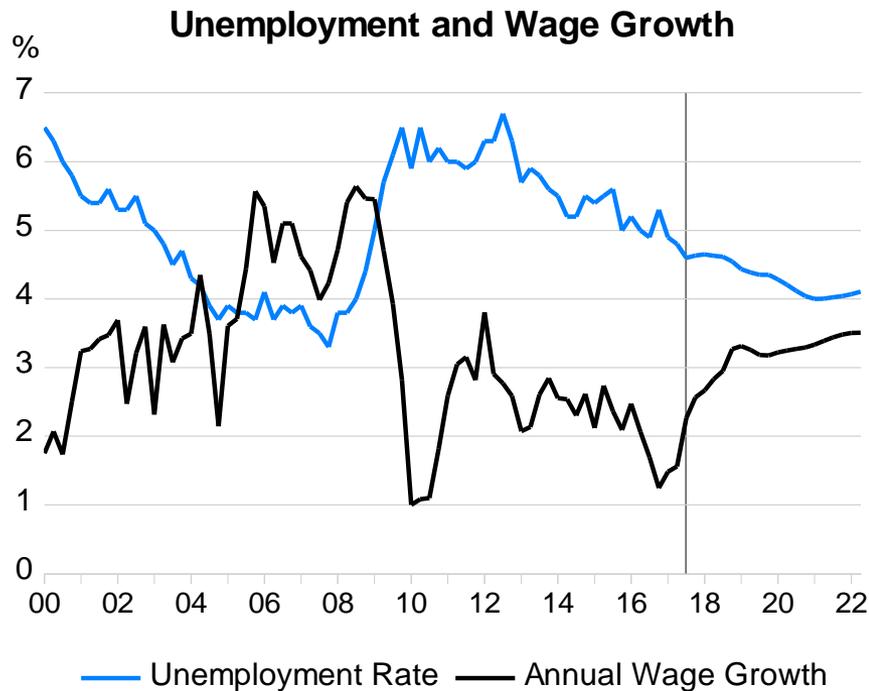
- Population growth continues to underpin aggregate household consumption growth, although per capita growth remains fairly subdued.
- The Families Package boosts incomes for households from the middle of 2018 with a flow-on effect to consumption.
- The response of households to rising interest rates is a key risk to the outlook.

Housing construction is constrained in the shorter term



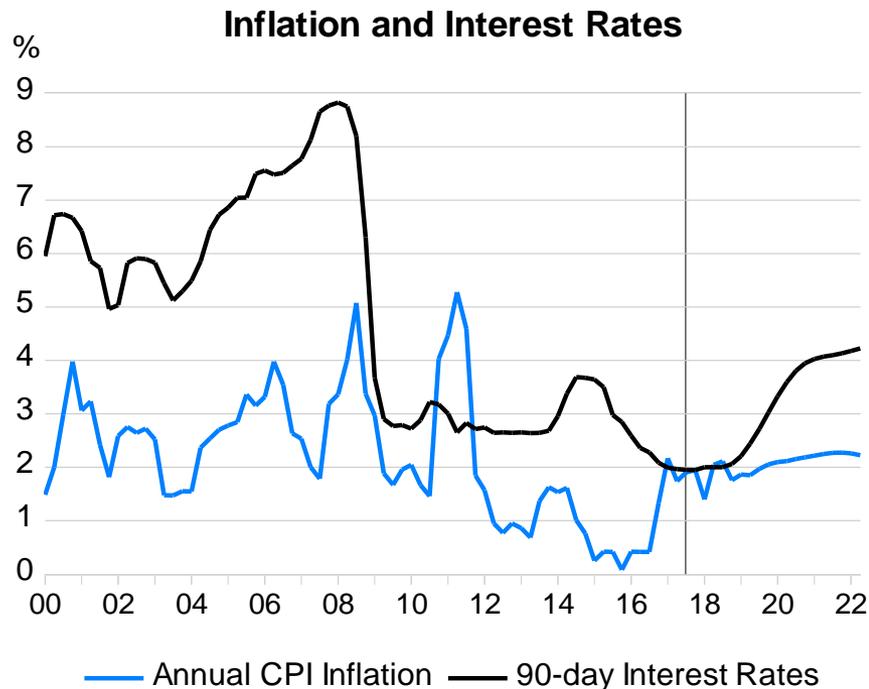
- Capacity pressures in the construction sector are expected to constrain growth in the shorter term, albeit with the level of construction activity remaining elevated.
- Capacity constraints are expected to ease over time, in part due to the KiwiBuild program, allowing residential investment growth to accelerate.
- KiwiBuild is assumed to increase nominal residential investment by a cumulative \$5 billion over the forecast period

The labour market is expected to steadily tighten...



- Steady labour demand is expected to drive a tightening in the labour market, despite the increase in labour supply coming from high population growth and participation rates.
- Wage pressures are expected to build as the labour market tightens.
- The lift in the minimum wage to \$20 in 2021 provides further support to wages, particularly in the later years of the forecast.

...with inflation pressures building gradually



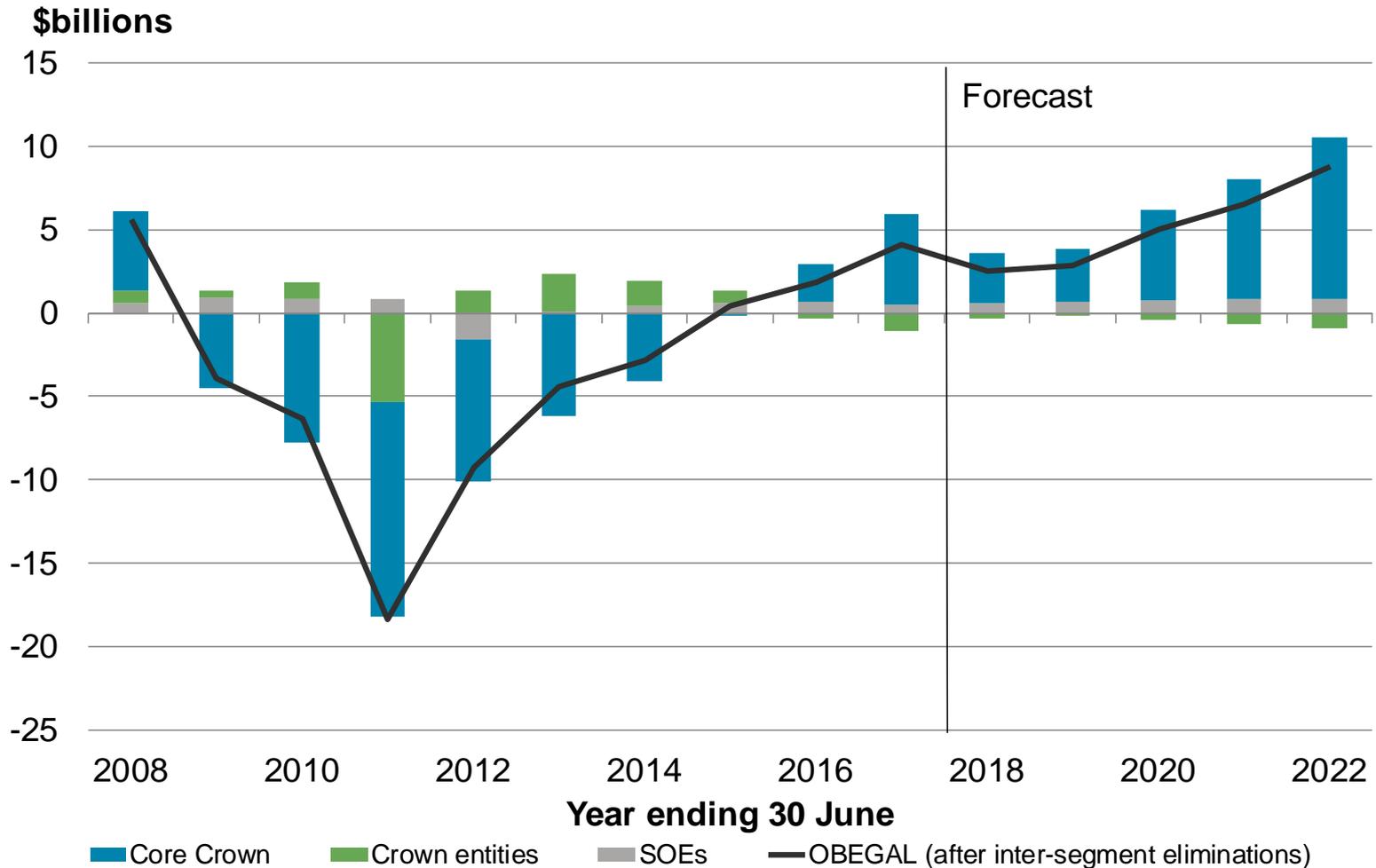
- Inflation pressures are expected to build as spare capacity in the economy is steadily used up.
- Interest rates are expected to begin rising from early 2019 in order to hold inflation around 2%.

The international outlook has improved but risks remain



- The international outlook remains positive, with above-trend growth expected in the US, euro area, Japan and Australia.
- Growth in China is expected to slow modestly as the economy rebalances towards consumption.
- The solid global outlook is expected to support exports and New Zealand's terms of trade.
- However global risks remain, including the reaction to monetary policy normalisation and debates around the merits of trade liberalisation.

The fiscal outlook continues to improve



Summary

- The economic outlook for New Zealand remains positive. Growth continues to be underpinned by migration-led population growth, low interest rates, stimulatory fiscal policy and the positive international outlook.
- OBEGAL surpluses rise over the forecast period