New Zealand

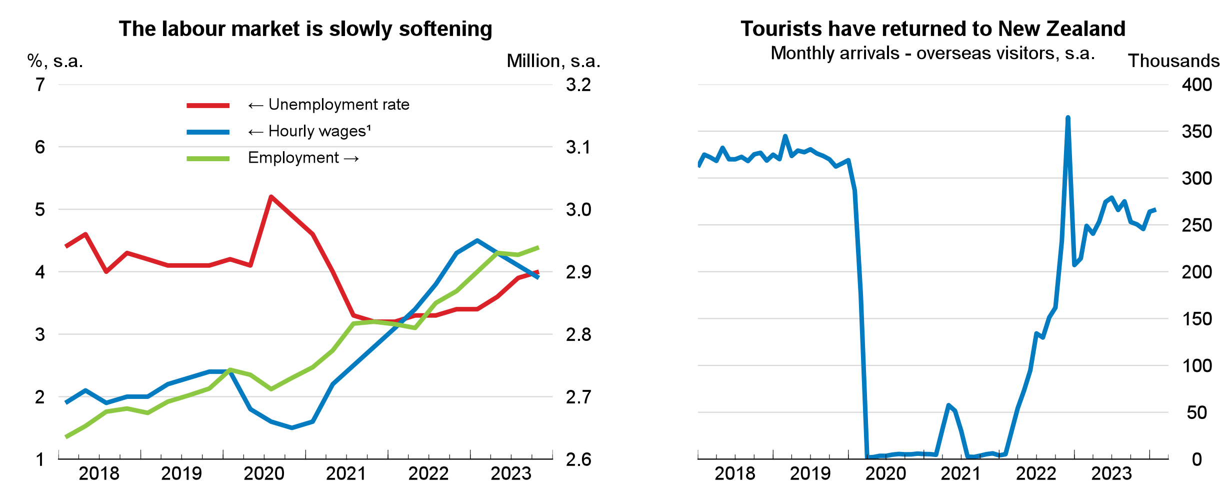
Economic rebalancing is set to continue. GDP growth is projected at 0.8% in 2024 before picking up to 1.9% in 2025 as disinflation helps to restore modest real household income and consumption growth. Rising house prices and rents should eventually stimulate housing construction, while higher growth in demand from trading partners, and further recovery in tourist arrivals will boost exports. Labour demand is softening. In line with weaker growth and ebbing labour market tensions, headline consumer price inflation is projected to fall to 3.2% in 2024 and 2.4% in 2025.

The government should gradually tighten fiscal policy. This would contribute to the rebalancing of the economy and reduce the burden on monetary policy, allowing interest rates to fall sooner than otherwise. The official cash rate should remain at 5.5% until there is clear evidence that inflation will fall to the middle of the target range of 1-3%. Reforms to raise competition and improve achievement and equity in school education are needed to boost productivity.

Growth has slowed

The tightening of monetary policy, declining household real incomes, and the cooling of global growth and trade has slowed growth to a crawl. This is being tempered by rapidly rising net inward migration to over 126 000 (2.4% of the population) in 2023. Ensuing strong population growth is supporting consumption and GDP, but GDP per capita fell by 3.1% in the year to December 2023. Imbalances are partly cyclical and are unwinding. Vacancies are declining, job creation has slowed, and the unemployment rate rose to 4% in late 2023. With slowing imports plus a pickup in international tourist arrivals, the current account deficit shrank from a recent peak of 8.8% to 6.9% of GDP in 2023Q4.

New Zealand



1. Year-on-year percentage changes of the salary and ordinary time hourly wages in the private sector.
Source: Statistics New Zealand.

StatLink https://stat.link/z8s4d1

New Zealand: Demand, output and prices

New Zealand	2020	2021	2022	2023	2024	2025
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	323.5	5.9	2.2	0.6	0.8	1.9
Private consumption	183.2	7.4	3.3	0.3	0.2	1.9
Government consumption	65.3	7.8	4.9	-1.1	0.1	0.3
Gross fixed capital formation	73.4	12.0	3.4	-1.1	-5.5	1.2
Final domestic demand	322.0	8.5	3.6	-0.3	-1.2	1.4
Stockbuilding[1]	- 1.8	1.4	-0.3	-1.3	-0.4	0.0
Total domestic demand	320.1	9.9	3.3	-1.5	-1.5	1.4
Exports of goods and services	77.5	-2.7	-0.2	10.0	4.2	3.3
Imports of goods and services	74.1	14.8	4.6	-0.3	-3.5	1.4
Net exports[1]	3.3	-4.0	-1.2	2.5	2.0	0.4
Memorandum items						
GDP deflator	_	3.0	5.6	5.7	2.2	2.4
Consumer price index	_	3.9	7.2	5.7	3.2	2.4
Core inflation index[2]	_	3.7	6.0	5.6	3.6	2.4
Unemployment rate (% of labour force)	_	3.8	3.3	3.7	4.7	4.8
Household saving ratio, net (% of disposable income)	_	2.7	-2.7	-4.5	-4.0	-4.9
General government financial balance (% of GDP)	_	-4.1	-3.2	-3.2	-3.7	-3.4
General government gross debt (% of GDP)	_	48.5	52.6	55.9	59.2	61.8
Current account balance (% of GDP)	_	-5.7	-8.5	-6.9	-5.8	-5.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/a9f37o

With activity slowing, headline consumer price inflation fell from a peak of 7.3% to 4.0% in the first quarter of 2024. Core inflation has also declined, to around 4.2%, helped by fading labour market tensions and cost pressures. Annual wage growth eased to 3.9% at the end of 2023. Global developments, including lower energy prices and a reduction in supply-chain bottlenecks have reduced petrol and electronic goods prices. However, high population growth due to immigration, although helping to ease labour shortages, has also boosted demand for housing, contributing to an annual increase of 5.1% in rents for new tenancies in March 2024.

Macroeconomic policy should remain restrictive

Rising public spending in the five years to 2023, including the generosity of welfare payments, along with weaker than expected revenue, has created a structural deficit. The projections assume gradual fiscal consolidation with an improvement in the underlying primary balance of 0.4% of GDP in 2024 and 0.3% in 2025. The government is planning to cut income taxes in the 2024 Budget. This is assumed to be fully funded by other revenue-raising measures or expenditure cuts. Despite weak growth, inflation remains above target, and is expected to decline only slowly, due in part to sticky services price inflation, limiting the scope to lower the official cash rate in the near-term. It is assumed that the Reserve Bank will keep the cash rate constant at 5.5% until the end of 2024 and then reduce it to 4.25% during 2025.

Improving purchasing power will underpin a growth turnaround

Gradual rebalancing is expected to continue in 2024 with growth of only 0.8%. Slow growth, easing labour shortages and wage deceleration should ensure a durable decline in inflation to a bit over 2% by late 2025. The fall in inflation will boost household purchasing power, contributing to growth of 1.9% in 2025. A recent turnaround in prices for New Zealand's main commodities, with an annual increase in prices of around 5% in 2024Q1, along with the ongoing recovery in tourism, which was back to around 76% of pre-Covid levels in the year to February 2024, should provide an additional boost to incomes and shrink the current account deficit further. The recovery in tourism from China has been slower but appears to have picked up recently. However, the still large deficit leaves New Zealand vulnerable to a negative change in investor sentiment and a depreciation of the exchange rate, which would be inflationary. A credible, steady fiscal consolidation plan is important to mitigate this risk. Delaying tax cuts would make this easier to achieve. Continued high net inward migration would worsen rental housing shortages and keep rent growth and inflation higher.

Policy must continue to foster rebalancing while boosting productivity

Restrictive macroeconomic policy, including sticking to new fiscal expenditure limits, to promote rebalancing needs to be accompanied by more effort to boost weak productivity growth. Further reforms to boost competition would incentivise greater investment and R&D, fostering innovation and productivity growth. Longer-term productivity improvements are also threatened by declining student achievement in schools and inequity in results. A reprioritisation of education spending towards more central support to teachers and principals is needed to address this.

From:
OECD Economic Outlook, Volume 2024 Issue 1
An unfolding recovery

Access the complete publication at:
https://doi.org/10.1787/69a0c310-en

Please cite this chapter as:

OECD (2024), “New Zealand”, in *OECD Economic Outlook, Volume 2024 Issue 1: An unfolding recovery*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/a20f1db7-en