New Zealand

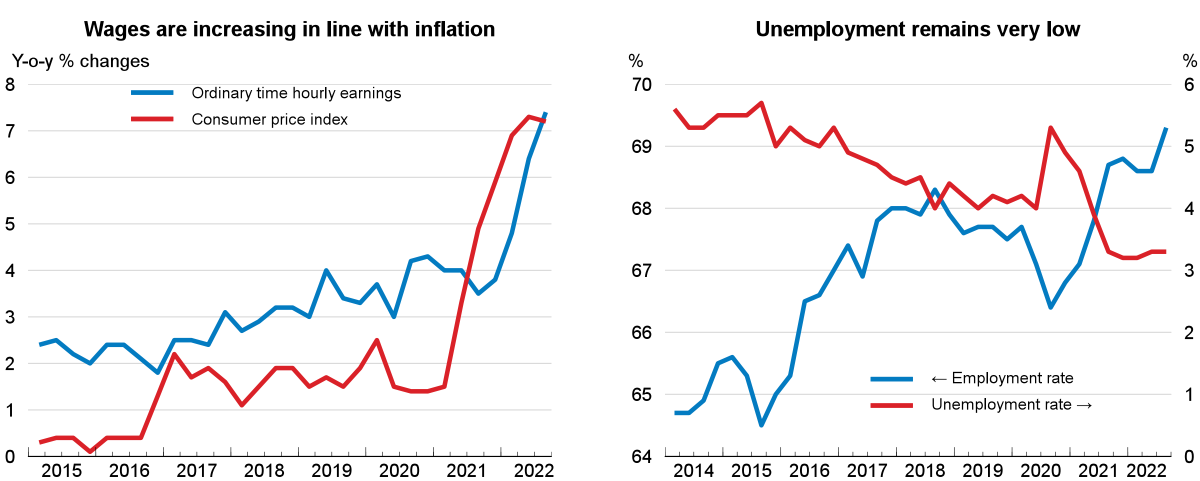
Real GDP growth is projected to slow to 1.0% in 2023 and 1.2% in 2024. Private consumption will weaken with lower employment growth and rising mortgage-servicing costs. Tighter credit conditions and weakening demand will weigh on business investment. Unemployment will increase and headline inflation will fall throughout the projection period. There is a risk that house prices fall more than assumed, accentuating the downturn.

Monetary policy should continue to be tightened to bring inflation to the mid-point of the 1-3% target band. Fiscal consolidation should proceed to reduce inflationary pressures and ensure that New Zealand is on track to meet its 2025 operating surplus target. In the longer term, fiscal policy should aim to reduce the debt-to-GDP ratio to rebuild buffers to respond to adverse economic shocks and to cope with the fiscal costs of population ageing. Education reforms, including to teaching methods, are needed to improve learning outcomes.

Growth remains strong and the labour market is stretched

Following the gradual easing of COVID-19-related restrictions, growth has picked up. Border re-opening has contributed to a surge in tourist arrivals, albeit to levels that remain much lower than before the pandemic. Private consumption has slowed after the rebound following the easing of pandemic restrictions but remains robust. Business and consumer sentiment have improved after plummeting earlier this year, but remain very depressed. The labour force participation rate has increased to a record high, and the unemployment rate remains close to historical lows. To address labour shortages, the government has increased caps on seasonal and working holiday visas. Wages have increased sharply in line with consumer price inflation, which reached a 30-year high in the second quarter, at 7.3%. After surging during the pandemic, house prices are now down by 13% since the peak in November last year. Although the direct impact of Russia's war of aggression against Ukraine has been limited, rising energy and commodity prices have fed through to non-tradable inflation.

New Zealand



Source: Statistics New Zealand.

StatLink https://stat.link/jx2h7c

New Zealand: Demand, output and prices

New Zealand	2019	2020	2021	2022	2023	2024
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	320.2	-1.1	4.8	2.1	1.0	1.2
Private consumption	183.2	-1.2	6.2	2.4	-0.7	1.0
Government consumption	59.8	6.9	9.9	7.0	-2.0	-2.0
Gross fixed capital formation	75.9	-7.0	9.0	2.7	-0.5	1.4
Final domestic demand	318.9	-1.1	7.6	3.4	-0.9	0.4
Stockbuilding[1]	1.2	-0.9	1.5	-0.4	0.1	0.0
Total domestic demand	320.1	-1.9	9.1	2.9	-0.9	0.4
Exports of goods and services	87.7	-12.7	-3.6	1.3	8.5	3.8
Imports of goods and services	87.6	-16.0	14.9	3.3	0.1	0.8
Net exports[1]	0.1	0.9	-4.3	-0.6	2.0	0.8
Memorandum items						
GDP deflator	_	2.2	2.9	5.7	4.4	3.1
Consumer price index	_	1.7	3.9	7.3	5.2	3.2
Core inflation index[2]	_	2.2	3.7	6.0	5.3	3.2
Unemployment rate (% of labour force)	_	4.6	3.8	3.3	4.0	4.6
Household saving ratio, net (% of disposable income)	_	5.8	4.7	0.6	0.2	0.2
General government financial balance (% of GDP)	_	-7.4	-3.9	-4.9	-3.4	-1.8
General government gross debt (% of GDP)	_	42.5	45.7	52.0	54.5	55.5
Current account balance (% of GDP)	_	-1.1	-5.9	-7.9	-6.4	-5.5

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 112 database.

StatLink https://stat.link/zx1cle

Macroeconomic policies are tightening

The Reserve Bank of New Zealand (RBNZ) embarked on monetary policy normalisation earlier than most other central banks and has raised the Official Cash Rate (OCR) by a cumulative 3.25 percentage points, to 3.5%, over the past year. The OCR is assumed to rise further to a peak of 4.75% before starting to decline from the second half of 2024. The RBNZ’s “Funding for lending” programme, which allowed eligible banks to borrow directly from the RBNZ at the OCR, will end in December, putting further upward pressure on interest rates. Over the coming five years, the RBNZ will also sell back government bonds acquired during the pandemic. Yields on 10-year government bonds are projected to average 5½ per cent in 2023-24.

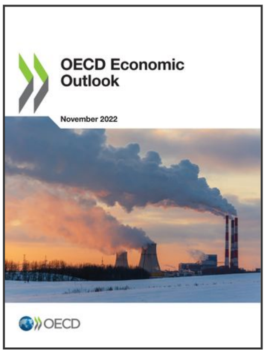
In May 2022, the government adopted a new fiscal strategy stipulating that New Zealand should reach a small budget surplus by 2025. The fiscal stance will tighten over the projection period, as temporary COVID-19-related support is withdrawn, and tax revenues increase in line with GDP. The government introduced a one-off NZD 350 cost-of-living payment to support some 2.1 million low- and-middle-income earners grappling with mounting costs. The temporary cuts in petrol excise duty, road user charges and public transport fares introduced in March have been extended, but are assumed to end in February 2023.

Growth will decline due to policy tightening and global uncertainty

Real GDP growth is set to slow in 2023, owing to weakening private demand. Rising debt servicing costs and falling real incomes and house prices will constrain household consumption. Private investment will moderate, reflecting easing capacity constraints, slower domestic and global demand growth, and increases in the cost of capital. Unemployment will increase gradually throughout the projection period, due to moderating economic activity but remain low by historical standards. Inflationary pressures will abate as aggregate demand slows, global energy prices stabilise and global supply chain disruptions ease. Risks to the projection are tilted to the downside. If monetary conditions need to be tightened more than assumed to bring down inflation, this will reduce growth, including by increasing mortgage servicing costs, which would accentuate declines in housing prices and consumption. On the upside, China relaxing its zero-COVID-19 policy earlier than expected would boost tourism to New Zealand.

Reforms are needed to improve productivity and public finances in the long run

Monetary policy tightening should continue to seek to anchor inflation expectations and prevent inflation from becoming entrenched. Fiscal consolidation is appropriate to reduce demand pressures and to make sure that New Zealand is on track to meet its budget surplus target. Measures to cushion the impact of higher energy prices on households, if prolonged, should be more targeted on the most vulnerable. In view of population ageing and the accompanying rise in healthcare expenditures, structural measures, such as linking pension eligibility to life expectancy, will be needed to safeguard public finances in the long run. Strengthening mathematics and science teaching in primary schools and promoting digital apprenticeships and internships would make New Zealand better positioned to take advantage of the digital transition and enhance long-term productivity growth. To meet its greenhouse gas emissions reduction targets, increases in the price of carbon emissions will need to be complemented by other measures, such as supporting the roll-out of a charging network for electric vehicles.



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