New Zealand

Economic growth is projected to remain around 2½ per cent. Consumption is set to slow as net migration falls and the effect of increased financial support for families fades. Exports will pick up gradually, but less so than imports, as global growth eases. Business investment is expected to recover in the face of capacity constraints, while strong housing investment continues to meet shortages.

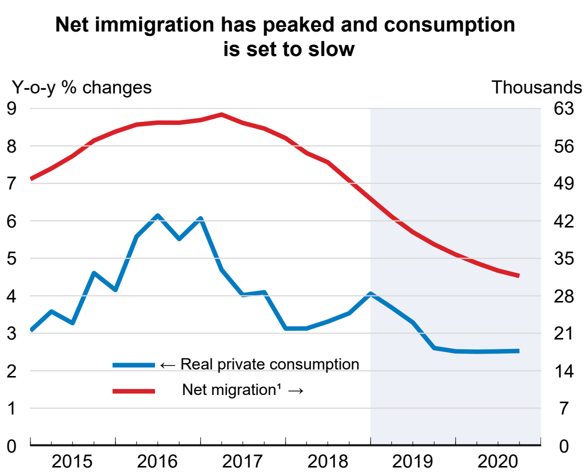
Fiscal policy is broadly neutral in 2019 and moderately contractionary in 2020, which is appropriate given the lack of domestic slack. Despite capacity pressures and core inflation close to its target midpoint, the central bank cut the policy rate in May, reflecting recent weaker domestic spending and the risk that the outlook for trading partner economies could deteriorate further.

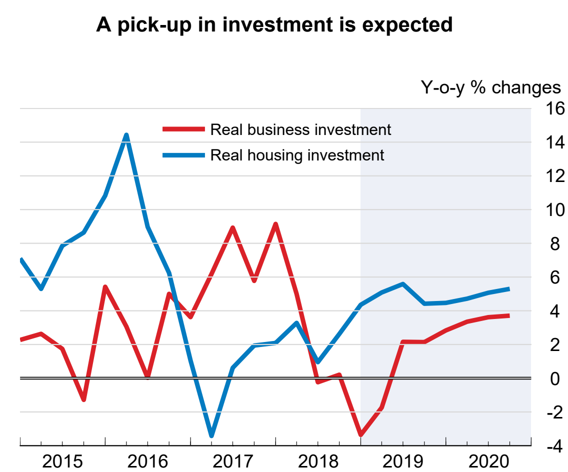
Growth has stabilised and capacity is tight

Economic growth stabilised at around 2½ per cent (year-on-year) in late 2018. Increased transfer payments through the Families Package have temporarily boosted private consumption, as have historically high net immigration flows. Immigration has also contributed to a pick-up in housing investment to meet accumulated shortages. Poor business confidence has held back business investment despite capacity pressures, contributing to subdued imports. Export growth has remained steady despite softening global growth, with prices for New Zealand's commodity exports remaining strong.

The labour market is tight. Unemployment is just below the estimated structural rate, while nominal wage growth picked up during 2018 but remains moderate. Consumer price inflation is close to the midpoint of the Reserve Bank's target band, with some near-term softness expected from oil price declines.

New Zealand





1. RBNZ projections. Net migration data are for the working-age population.
Source: Reserve Bank of New Zealand (2019), Monetary Policy Statement, February; and OECD Economic Outlook 105 database.

StatLink https://doi.org/10.1787/888933934793

New Zealand: Demand, output and prices

New Zealand	2015	2016	2017	2018	2019	2020
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	250.5	4.2	2.7	2.8	2.6	2.5
Private consumption	144.3	5.4	4.7	3.3	3.4	2.5
Government consumption	46.4	2.0	2.9	2.2	2.1	1.4
Gross fixed capital formation	57.1	4.3	3.5	3.8	2.0	3.2
Final domestic demand	247.9	4.5	4.1	3.2	2.8	2.5
Stockbuilding[1]	0.6	0.1	-0.1	0.4	-0.7	0.0
Total domestic demand	248.4	4.6	4.0	3.6	2.1	2.5
Exports of goods and services	70.3	2.1	1.8	3.0	2.4	2.9
Imports of goods and services	68.3	3.4	6.9	5.5	0.0	3.1
Net exports[1]	2.0	-0.3	-1.3	-0.6	0.7	0.0
Memorandum items						
GDP deflator	_	1.8	3.5	1.1	1.4	2.1
Consumer price index	_	0.6	1.9	1.6	1.5	2.1
Core inflation index[2]	_	1.4	1.4	1.2	1.6	2.0
Unemployment rate (% of labour force)	_	5.1	4.7	4.3	4.2	4.3
Household saving ratio, net (% of disposable income)	_	0.1	-1.4	-1.0	-1.0	-0.9
General government financial balance (% of GDP)	_	1.2	1.1	0.1	-0.4	0.1
General government gross debt (% of GDP)	_	37.7	36.1	36.2	36.6	36.5
Current account balance (% of GDP)	_	-2.2	-2.9	-3.7	-2.9	-2.7

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 105 database.

StatLink https://doi.org/10.1787/888933935686

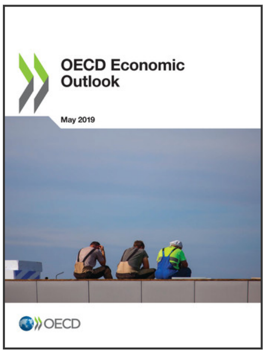
Fiscal support will ease as the minimum wage is ramped up

Fiscal policy was expansionary in 2018 due to a pick-up in spending. The fiscal stance is projected to become moderately contractionary by 2020 as spending slows absent substantial further discretionary measures, allowing tax receipts to catch up as economic growth continues. Residential construction will be supported by the government's KiwiBuild programme, but a lack of construction industry capacity means that some crowding out of private activity is inevitable. The government will release the country's first Well-Being Budget in late May 2019, with selection of priorities and spending proposals informed by well-being analysis.

Monetary policy has become more expansionary, with the policy interest rate recently cut by a further 25 basis points. Market expectations include another rate cut in 2019. However, the case for a further cut is not strong unless there is further deterioration in global economic conditions, as inflation, unemployment and the gap between potential and actual output are projected to remain steady at levels consistent with Reserve Bank targets. The government raised the minimum hourly wage by 7% in April 2019 and plans a similar hike in April 2020. This will push up overall wage growth (increasingly so as a greater share of the workforce is affected) and slow employment growth. To sustain higher wages, productivity growth needs to be revived through structural reforms such as reducing barriers to foreign direct investment, facilitating competition and increasing support for business innovation.

Growth is projected to remain steady

The main drivers of growth are set to shift from private consumption and government spending toward business and housing investment. Private consumption is projected to slow despite solid wage growth, as reduced employment creation weighs on disposable income growth. Higher-than-anticipated immigration is an upward risk that would support stronger consumption and housing investment, especially if it contributed to a resumption of strong house price growth. Growth would be lower if poor business confidence resulted in sustained weakness in business investment, or if a greater-than-anticipated slowing in global growth led to a fall in demand for New Zealand's commodity exports. Further house price falls in Australia have the potential to negatively affect the New Zealand economy via the countries' close financial and trade links.



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