

The Treasury

Budget 2017 Information Release

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[40]	Not in scope	

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Treasury Report: Budget 2017 Final Economic and Tax Forecasts

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		File Number:	BM-3-6-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	Note the Treasury's Budget Economic and Tax Revenue forecasts Note a copy of this report has been provided to DPMC	None
Associate Minister of Finance (Hon Simon Bridges)	Note the Treasury's Budget Economic and Tax Revenue forecasts	None
Associate Minister of Finance (Hon Amy Adams)	Note the Treasury's Budget Economic and Tax Revenue forecasts	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Phillip Mellor	Senior Analyst, Forecasting	[39]	N/A (mob) ✓
Angela Mellish	Manager, Forecasting	[23]	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Refer a copy of this report to the Prime Minister's office.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Budget 2017 Final Economic and Tax Forecasts

Executive Summary

This report updates you on the Treasury's Budget 2017 final economic and tax forecasts. It outlines the main changes to the outlook since the preliminary economic forecasts, including the impact of higher operating and capital allowances and the Family Incomes package, and the implications these changes have for the final tax revenue forecast.

Summary of the economic and tax outlook

The growth outlook for New Zealand has strengthened since the Half Year Update, similar to previous advice you received on the preliminary economic and tax forecasts (Treasury Report T2017/381 refers). Near term momentum in the economy is a little weaker than previously anticipated, reflecting both the impact of weather on growing conditions as well as what is viewed as a temporary pause in building consents issuance. Nonetheless, elevated migration inflows, construction activity (including rebuild activity related to the Kaikoura earthquake), exports (particularly tourism) and low interest rates are expected to underpin growth of around 3-3½% over the year ahead (Table 1). Growth is expected to peak at 3.8% in early 2019, as residential investment growth resumes after a temporary hiatus in 2017 and as the stimulatory impact of the Family Incomes package flows through the economy via higher household spending. Real GDP per capita growth averages 1.3% per annum across the forecast period, with migration-led population growth driving the relatively high rate of aggregate GDP growth, which averages 3.1% per annum across the forecast period.

Table 1: Economic and tax forecast summary

June years		2016	2017	2018	2019	2020	2021	5-year totals	
		Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Gross	Net
Economic growth ¹	HYEFU16	2.8	3.6	3.5	2.9	2.4	2.3		
	BEFU17	2.7 (R)	3.1	3.5	3.8	2.9	2.4		
Unemployment rate ²	HYEFU16	5.0	4.8	4.6	4.2	4.3	4.3		
	BEFU17	5.0	5.0	5.0	4.6	4.3	4.3		
CPI inflation ³	HYEFU16	0.4	1.5	2.0	2.1	2.0	2.1		
	BEFU17	0.4	1.8	1.6	2.1	2.2	2.1		
Current account balance ⁴	HYEFU16	-2.9	-3.0	-3.8	-4.1	-4.4	-4.4		
	BEFU17	-2.9 (R)	-2.8	-3.0	-3.3	-3.7	-3.9		
Nominal GDP ⁵	HYEFU16	4.2	5.2	5.6	5.0	4.1	3.9		
	BEFU17	4.2 (R)	6.2	4.8	5.4	5.0	4.2		
Nominal GDP (\$billions)	HYEFU16	251.8	264.8	279.5	293.4	305.5	317.4		
	BEFU17	253.1 (R)	268.9	281.8	297.0	311.9	324.9		
	change	1.3	4.1	2.3	3.6	6.4	7.5	23.9	17.4
Tax revenue (\$billions)	HYEFU16	70.4	74.2	78.0	82.0	85.8	89.9		
	BEFU17⁶	70.4	74.6	77.5	81.0	85.9	90.0		
	change	0.0	0.4	-0.5	-0.9	0.1	0.1	-1.0	

R - revised 1. Production GDP, annual average % change 2. June quarter 3. Annual % change 4. Annual as % of GDP 5. Expenditure measure 6. Includes gross cost of tax portion of Family Incomes package

Unemployment is broadly flat over the year ahead, as high employment growth is balanced by high labour force growth, before steadily declining. Inflation picks up over the forecast period as spare capacity is used up, stabilising around 2% from mid-2019. The terms of trade have recovered sooner than anticipated and are expected to remain broadly flat at a high level across the forecast period, underpinned by relatively low import prices and recovering dairy prices. The current account deficit widens but remains under 4% of GDP, with the services surplus providing a sizeable offset to the goods and income deficits.

Higher levels of economic activity, particularly in the later years of the forecast period, and the higher terms of trade support nominal GDP, which is \$23.9 billion higher than in the Half Year Update over the five years to June 2021. Some of this increase relates to historical revisions, with the net change owing to forecast changes approximately \$17.4 billion. However, tax revenues are \$1.0 billion lower as the reduced revenue owing to the Family Incomes package exceeds the increase to tax revenue from higher nominal GDP and interest rates. Across the forecast period, Treasury's tax forecasts are cumulatively \$0.5 billion higher than Inland Revenue (less than 0.2% of total tax revenue), although absolute differences in some years are quite large (up to \$0.7 billion).

Main changes since the preliminary forecasts

The final forecasts incorporate economic data, fiscal decisions and other developments since the preliminary forecasts were finalised on 24 February. The main changes compared to the preliminary forecast include:

- Incorporation of GDP and Balance of Payments data for the December quarter, including revisions to previous quarters;
- A downward revision to the residential investment outlook, as the temporary factors that have slowed growth appear more persistent than previously thought;
- Incorporation of fiscal decisions, notably the impact of higher operating and capital allowances; and,
- Incorporation of the macroeconomic impacts of the Family Incomes package and the flow-on effects to tax revenue forecasts.

The overall impact of the changes above is to flatten the real GDP growth profile compared to the preliminary forecasts but with a more prolonged period of above 3% growth. The stimulatory nature of the Family Incomes package results in a modest increase in inflationary pressures over the latter years of the forecast period and a slightly earlier monetary policy response. Nominal GDP is broadly unchanged (+\$0.1 billion) compared to the preliminary forecasts, as the positive economic impact of the Family Incomes package and increased government spending offsets what would have otherwise been a slightly weaker profile of nominal GDP growth.

Implications for tax forecasts

Compared to the preliminary Budget forecasts, the core Crown tax revenue forecasts have been reduced by \$6.4 billion across the five years to June 2021. This chiefly reflects the gross cost of the tax portions of the Family Incomes package (-\$6.0 billion), with the remainder (-\$0.4 billion) resulting from the changes to the macroeconomic forecasts noted above.

Next steps

The economic and tax forecasts will be incorporated into the final fiscal forecasts due to be finalised on Wednesday 3 May. You will receive an Aide Memoire on the fiscal forecasts shortly thereafter for discussion at the following Fiscal Issues if required.

Recommended Action

We recommend that you:

- a **note** the Treasury's Budget 2017 economic and tax forecasts

Angela Mellish
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Steven Joyce
Minister of Finance

Treasury Report: Budget 2017 Final Economic and Tax Forecasts

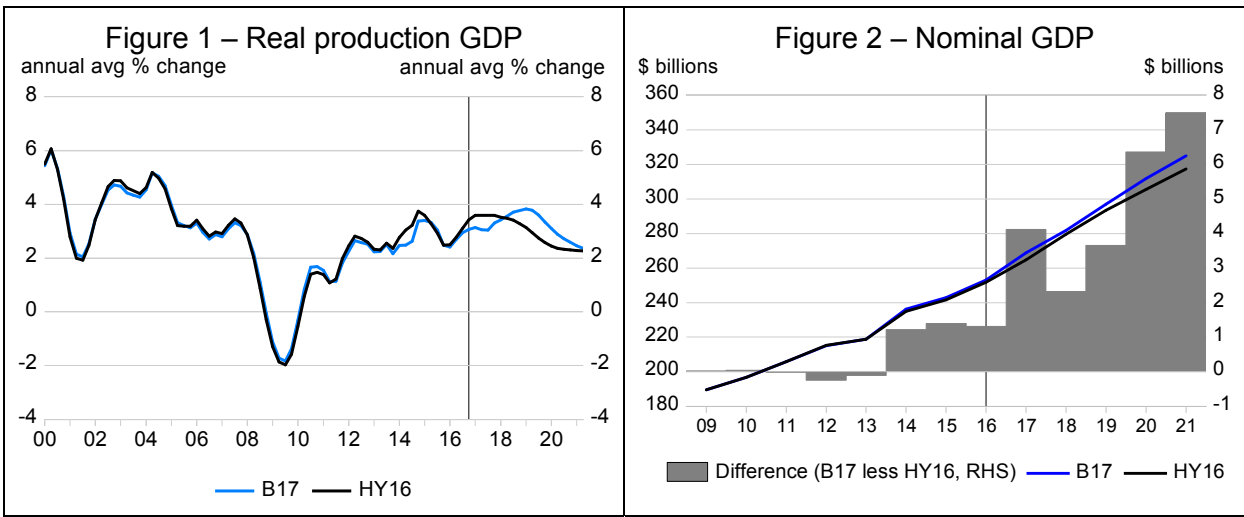
Purpose of Report

1. This report updates you on the Treasury’s Budget 2017 final economic and tax forecasts. It provides an update to you on the main changes to the outlook since the preliminary economic forecasts, including the impact of higher operating and capital allowances and the Family Incomes package, and the implications these changes have for the final tax revenue forecast. The economic forecasts were finalised on 13 April and the tax forecasts on 21 April. Summary tables of key economic variables are presented in appendix one.

Economic and Tax Outlook

Summary of the economic and tax outlook

2. The growth outlook for New Zealand has strengthened since the Half Year Update, similar to previous advice you received on the preliminary economic and tax forecasts (Treasury Report T2017/381 refers). Near term momentum in the economy is a little weaker than previously anticipated, reflecting both the impact of weather on growing conditions as well as what is viewed as a temporary pause in building consents issuance. Nonetheless, elevated migration inflows, construction activity (including rebuild activity related to the Kaikoura earthquake), exports (particularly tourism) and low interest rates are expected to underpin growth of around 3-3½% over the year ahead (Figure 1). Growth is expected to peak at 3.8% in early 2019, as residential investment growth resumes after a temporary hiatus in 2017 and as the stimulatory impact of the Family Incomes package flows through the economy via higher household spending. Real GDP per capita growth averages 1.3% per annum across the forecast period, with migration-led population growth driving the relatively high rate of aggregate GDP growth, which averages 3.1% per annum across the forecast period.



3. Migration is assumed to remain above its long run average over the entire forecast period, owing to New Zealand’s economic conditions being relatively favourable compared with elsewhere. Net migration remains at elevated levels over the year ahead, reflecting recent outturns and the positive domestic outlook, peaking at 72,500 in mid-2017. We have assumed a more gradual decline in net migration over the medium term than in the Half Year Update to better represent the high degree of uncertainty over the forward path of migration, with risks present in both directions. Net migration adds 212,000 people to the population over the next 4½ years, similar to the

gain over the past 4½ years, and about 67,000 more people than in the Half Year Update.

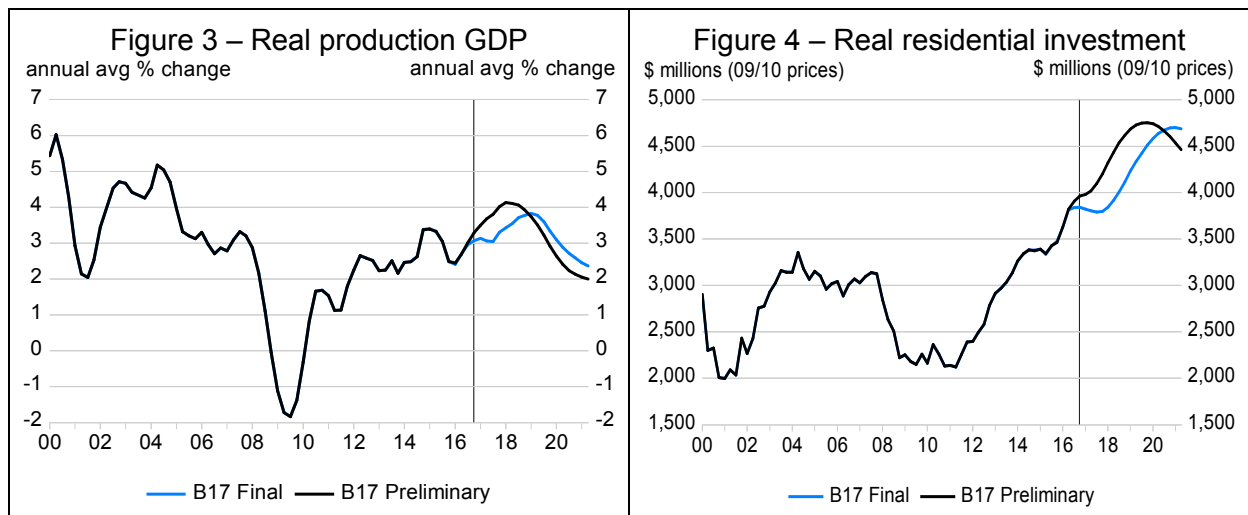
4. The terms of trade are expected to remain broadly flat across the forecast period at a relatively high level compared to history, underpinned by relatively low import prices and recovering dairy prices. Goods export volumes increase as the dairy sector recovers and as non-dairy exports steadily expand. However, goods import volumes are expected to grow at a faster rate, driven by domestic demand, leading to a steady widening of the goods deficit and, in turn, the current account deficit. The current account deficit remains under 4% of GDP in 2021, with the services surplus providing a sizeable offset to the goods and income deficits.
5. Unemployment remains flat over the year ahead, as high employment growth is balanced by high labour force growth (a combination of high working age population growth and high participation rates), before steadily declining to the long run unemployment rate of 4¼%. Wage growth is relatively modest in the near term, reflecting some spare capacity in the labour market, before picking up to over 2% as the labour market tightens and inflation picks up.
6. Underlying inflationary pressures are expected to remain relatively weak over the next year or so while some spare capacity in the economy remains. However, headline annual inflation around 2% is likely in the near term owing to temporary factors such as petrol and food prices.¹ As these factors drop out of the annual calculation, inflation is forecast to dip below 2% in late 2017 and early 2018. After this period, inflation is expected to pick up again as spare capacity is used up, stabilising at an annual rate of 2% in mid-2019, a little later than forecast in the Half Year Update. The Family Incomes package is expected to lead to a modest increase in inflationary pressures through its impact on consumer spending and therefore demand. Short term interest rates are forecast to begin rising from mid-2018, a little earlier than previously forecast due to the Family Incomes package.
7. Higher levels of economic activity, particularly in the later years of the forecast period, and the higher terms of trade support nominal GDP, which is \$23.9 billion higher than in the Half Year Update over the five years to June 2021 (Figure 2). Some of this increase relates to historical revisions, with the net change owing to forecast changes approximately \$17.4 billion. Tax revenues are \$1.0 billion lower as the reduced revenue owing to the Family Incomes package exceeds the increase to tax revenue from higher nominal GDP and interest rates.

Changes to the economic outlook since the preliminary forecasts

8. The final forecasts presented in this report incorporate economic and other data published since the preliminary forecasts were finalised on 24 February; information received from Treasury's business talks (Treasury Report T2017/710 refers); and the latest available information on operating and capital allowances and the tax and transfer package.
9. Real GDP growth in the December quarter was weaker than anticipated in the preliminary forecasts. While some of this weakness is expected to be temporary, the weak outturn and substantial downward revisions to the September quarter signal less near term momentum than previously expected (Figure 3). At the same time, nominal GDP was higher than forecast for the December quarter. This is mostly a timing effect – the uplift in the terms of trade expected in the March quarter of 2017 has mostly been captured in the December quarter.

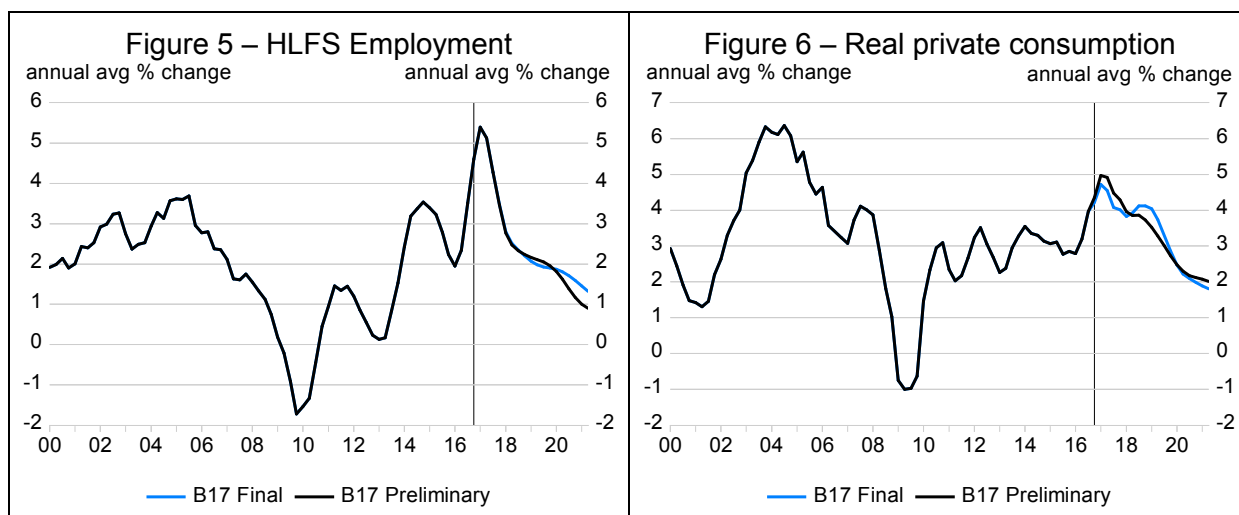
¹ Annual CPI inflation in the March quarter, published after the economic forecasts were finalised, was 2.2%, a little stronger than our expectations of 2.0%. The main difference was in tradables inflation and is expected to be temporary. The CPI outturn does not alter our overall view of inflation.

10. Much of the lower growth momentum stems from a downward revision to the outlook for residential investment and, to a lesser extent, market investment. The temporary factors driving the slowdown in residential investment growth are now expected to persist for longer than assumed in the preliminary forecasts. These factors include tighter credit conditions (particularly for developers), uncertainty around the Auckland Unitary Plan and capacity constraints in the construction sector (particularly for skilled labour). As a result, we expect the level of residential investment to remain broadly flat this year (Figure 4). Residential investment growth is forecast to pick up strongly through the remainder of the forecast period, driven by strong demand for housing owing to relatively low interest rates and migration-led population growth. Some elements of market investment are closely related to residential investment and consequently the short term growth outlook for market investment has also weakened.²



11. The Family Incomes package increases GDP over the last three years of the forecast period. Households are assumed to spend the majority of the tax cut, reflecting a mixture of spending versus saving behaviours across the income spectrum. Estimates of the impact on the labour supply were assumed to be zero on balance, given offsetting factors from tax reductions and increased assistance payments. The positive impact on the labour market therefore stems from the impact on aggregate demand as households increase their spending, rather than from a change in the willingness of households to supply labour (Figure 5). The stimulatory nature of the Family Incomes package results in a modest increase in inflationary pressures over the later years of the forecast period and a slightly earlier monetary policy response. The impact of the Family Incomes package on GDP is primarily through the consumption channel (Figure 6). There are some offsets to GDP from higher imports (related to consumption) and weaker investment growth (due to higher interest rates).
12. The government consumption forecast has been updated to include the new operating allowances of \$1.8 billion in Budget 2017 and \$1.7 billion in subsequent budgets. The latest estimates for Terra Nova have also been included; these provide a relatively small incremental increase compared to the preliminary forecasts. Updated capital allowances have also been incorporated into the forecasts.

² Statistics New Zealand is currently suppressing quarterly and recent annual data for central government investment, the key component of non-market investment, due to concerns over data quality. Treasury has estimated a market/non-market investment split for forecasting purposes but will only publish an aggregated “non-residential” investment series in the Budget Update.



13. The overall impact of the changes above is to flatten the real GDP growth profile compared to the preliminary forecasts but with a more prolonged period of above 3% growth. Nominal GDP for the forecast period as a whole is broadly unchanged (+\$0.1 billion) compared to the preliminary forecasts, as the positive economic impact of the Family Incomes package and increased government spending offsets what would have otherwise been a slightly weaker profile of nominal GDP growth. The current account deficit is broadly similar to the preliminary forecasts, as a slightly larger goods deficit is offset by a slightly smaller primary income deficit.

Implications for tax revenue forecasts

14. We have completed the unconsolidated tax revenue forecasts and incorporated the core Crown tax eliminations forecasts of 21 April. As these are progressed through the fiscal forecast process, these tax eliminations may change. This means that the final core Crown tax forecasts could be higher or lower than the numbers stated here. Compared to the preliminary Budget forecasts, the core Crown tax revenue forecasts have been reduced by \$6.4 billion across the five years to June 2021 (Table 2).
15. The main component of the change in tax forecasts was the -\$6.0 billion in policy changes. This -\$6.0 billion is the gross cost of tax policy changes included in the Budget forecasts, chiefly the tax component of the Family Incomes package. The static clawback (e.g. additional GST from increased spending of higher after-tax incomes) and second-round macroeconomic effects (e.g. more company tax from higher profits and more PAYE from larger employment) are included in the macroeconomic effects.
16. Changes in the macroeconomic forecast as a result of the Family Incomes package added around \$1.2 billion to the tax forecasts. However, other judgements made in finalising the macroeconomic forecast, outlined in paragraphs 9 and 10 above, caused the net macroeconomic effect on the tax forecasts to be slightly negative, i.e. the -\$0.5 billion shown in the macroeconomic effects line in the lower section of table 2. The net change in the RWT interest forecasts across the 5-year forecast period was +\$0.1 billion, due to slightly higher interest rates. The Other factors line in table 2 shows the total of the tax forecasting judgements we have made in these forecasts, which mostly relate to adjustments made to the current year based on tax outturns to March.

Table 2: Change in core Crown tax forecasts since 2017 Budget preliminary forecast

June years, \$ billions	2017	2018	2019	2020	2021	5-yr totals
2017 BEFU prelim	74.8	78.6	83.3	87.4	91.3	
% of GDP	27.9	27.8	27.9	28.0	28.3	
<i>Forecasting changes by tax type:</i>						
Source deductions	-0.0	+0.1	+0.2	+0.2	+0.3	+0.7
GST	-0.2	-0.3	-0.2	+0.1	+0.3	-0.4
RWT on interest	-0.0	-0.0	-0.0	+0.1	+0.1	+0.1
Net other persons tax	-0.0	-0.1	-0.0	+0.0	-0.0	-0.2
Corporate tax	+0.0	-0.3	-0.3	-0.1	+0.0	-0.6
All other taxes	+0.0	-0.0	-0.0	-0.0	+0.0	-0.0
<i>Total forecasting change</i>	<i>-0.3</i>	<i>-0.6</i>	<i>-0.4</i>	<i>+0.3</i>	<i>+0.6</i>	<i>-0.5</i>
Policy changes	+0.0	-0.5	-1.8	-1.8	-1.9	-6.0
<i>Total change</i>	<i>-0.3</i>	<i>-1.1</i>	<i>-2.3</i>	<i>-1.5</i>	<i>-1.3</i>	<i>-6.4</i>
2017 Budget	74.6	77.5	81.0	85.9	90.0	
% of GDP	27.7	27.5	27.3	27.5	27.7	
<i>Changes by principal driver:</i>						
Policy changes	+0.0	-0.5	-1.8	-1.8	-1.9	-6.0
Macroeconomic effects	-0.1	-0.5	-0.5	+0.1	+0.6	-0.5
Interest rates (RWT)	+0.0	+0.0	+0.0	+0.2	+0.1	+0.3
Other factors	-0.2	-0.1	+0.1	+0.1	-0.1	-0.3
<i>Total change</i>	<i>-0.3</i>	<i>-1.1</i>	<i>-2.3</i>	<i>-1.5</i>	<i>-1.3</i>	<i>-6.4</i>
<i>Total change since HYEPU</i>	<i>+0.4</i>	<i>-0.5</i>	<i>-0.9</i>	<i>+0.1</i>	<i>+0.1</i>	<i>-1.0</i>

17. We compared tax forecasts with Inland Revenue. For total tax, neither agency's forecasts were consistently higher or lower than the other agency's forecast (Table 3). However, as with the preliminary forecast, there were differences across the various tax types, with the Treasury's RWT and other persons tax forecasts higher than Inland Revenue's, and corporate tax forecasts lower. Across the forecast period, Treasury's tax forecasts are cumulatively \$0.5 billion higher than Inland Revenue (less than 0.2% of total tax revenue).

Table 3: Differences between Treasury and Inland Revenue tax forecasts

June years, \$ billions	2017	2018	2019	2020	2021	5-yr total
Inland Revenue forecast	75.0	78.0	81.0	85.3	89.3	
<i>Treasury less Inland Revenue</i>	<i>-0.4</i>	<i>-0.5</i>	<i>+0.1</i>	<i>+0.6</i>	<i>+0.7</i>	<i>+0.5</i>
<i>By tax type:</i>						
Source deductions	-0.1	-0.1	-0.1	+0.1	+0.2	-0.0
Net other persons tax	+0.1	+0.1	+0.2	+0.2	+0.2	+0.8
Corporate tax	-0.2	-0.2	-0.1	-0.1	-0.1	-0.8
RWT on interest	-0.0	+0.2	+0.3	+0.3	+0.4	+1.3
GST	-0.2	-0.3	-0.0	+0.2	+0.1	-0.2
All other taxes	-0.0	-0.1	-0.1	-0.1	-0.2	-0.6

Risks

Risks to the economic forecasts

18. The main risks to the economic forecasts are largely unchanged from the preliminary forecasts:

- In the short-term, risks to the international outlook have become more balanced – there is a tangible prospect that growth will exceed expectations. Indicators of economic activity over the first quarter of the year show the pace of growth has likely increased in many economies, including China and the euro area. In addition, indicators of business and consumer sentiment have improved further

and financial market volatility has remained low. Nonetheless, there are a number of risks present, including rising geopolitical tensions and political developments in some countries, including elections in a number of European countries. In the medium-term, risks are more clearly skewed to the downside. These risks arise from structurally low growth, demographic trends and high debt in some economies, including China and other parts of Asia, and in some parts of Europe. The process of monetary policy normalisation in the US poses risks to vulnerable economies. Uncertainty around future US economic, trade and fiscal policy remains high.

- Domestic risks are more balanced and are closely linked to a number of key forecast judgements. The scale of net migration inflows and how they impact on the economy pose both upside and downside risk. Household behaviour could differ from the balanced saving path we have assumed, which could increase or decrease consumption growth and potentially impact on monetary policy. If construction capacity is more of a constraint than assumed, this may increase construction cost pressures faster than expected and/or result in a construction cycle with a lower peak but longer length.

Changes since the preliminary forecasts

19. We have incorporated some of the construction capacity risk into the main forecasts with the flatter short-term profile for residential investment. Nonetheless this remains a risk, particularly in the latter part of the forecast when residential investment growth is expected to resume, and therefore could pose a downside risk to the pick-up in GDP growth forecast in 2018 and 2019.
20. The Family Incomes package could have either a smaller or larger impact on consumption and GDP than expected if households' marginal propensity to consume differs from that assumed. This could also influence household savings rate. There could also be a different impact on inflationary pressures and the monetary policy response than assumed.

Risks to the tax forecasts

21. Forecasts of tax revenue are sensitive to changes in both the size and composition of nominal GDP, as well as other macroeconomic factors such as interest rates. Consequently, realisation of any of the economic risks above will have a flow-on effect to tax revenues.
22. Judgements around the starting point for the forecasts present a risk, as successive years' forecasts are launched from each preceding year's forecast based on growth in the forecast macroeconomic drivers. If we pitch our current year's forecast too low or too high, then tax forecasts across all years will also be too low or too high.
23. In these forecasts, we have made positive adjustments to corporate tax forecasts, and negative adjustments to PAYE and RWT forecasts, based on outturns to March. There is higher uncertainty regarding the corporate tax judgement as around 40% of annual corporate tax revenue is typically booked in the June quarter i.e. we cannot observe it at present. How corporate tax plays out over the next few months will be key to the full year's outturn and beyond.

Next Steps

24. The economic and tax forecasts will be incorporated into the final fiscal forecasts due to be finalised on Wednesday 3 May. You will receive an Aide Memoire on the fiscal forecasts shortly thereafter for discussion at the next Fiscal Issues if required.

Appendix 1 – Forecast tables

Summary of Economic Forecasts – June years (Annual average percentage change, unless specified otherwise)

June Years	2013	2014	2015	2016	2017	2018	2019	2020	2021
					Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	2.4	3.3	3.1	3.2	4.6	3.9	3.7	2.2	1.8
Public consumption	0.0	2.9	3.1	1.9	3.0	2.0	1.4	1.4	1.1
TOTAL CONSUMPTION	1.8	3.2	3.1	2.9	4.2	3.5	3.2	2.0	1.7
Residential investment	18.0	13.6	5.6	6.3	6.7	0.3	8.7	8.8	3.3
Market investment*	-0.6	9.8	3.0	1.9	5.7	5.4	7.4	6.7	4.7
Non-market Investment**	12.8	2.8	26.9	12.8	9.7	8.8	-4.8	-1.9	2.6
TOTAL INVESTMENT	4.7	10.0	5.3	3.6	6.5	5.1	6.6	6.5	4.2
Stocks (contribution to GDP growth)	-0.3	0.4	-0.1	-0.4	0.4	-0.4	0.1	0.2	0.1
GROSS NATIONAL EXPENDITURE	2.2	4.6	3.3	2.7	5.5	3.7	4.1	3.3	2.4
Exports	3.0	0.1	5.7	5.1	-0.6	3.4	3.3	2.7	2.9
Imports	2.6	9.0	6.6	1.3	6.3	3.7	4.5	4.2	2.9
EXPENDITURE ON GDP	2.3	2.1	3.2	3.7	3.5	3.4	3.8	2.8	2.4
GDP (PRODUCTION MEASURE)	2.2	2.5	3.3	2.7	3.1	3.5	3.8	2.9	2.4
- annual % change, June quarter	2.6	2.7	2.4	3.5	3.2	3.7	3.5	2.6	2.3
Other Output Measures									
Real Gross National Disposable Income	2.1	6.0	2.1	2.5	4.9	3.5	3.8	2.7	2.1
Nominal GDP (Expenditure Basis)	1.7	8.0	2.9	4.2	6.2	4.8	5.4	5.0	4.2
Output gap (June qtr,% of potential)	-0.9	-0.9	-1.1	-0.5	-0.6	-0.1	0.5	0.3	0.0
Per Capita Output Measures									
Real GDP per capita (Production basis)	1.6	1.3	1.5	0.7	0.9	1.4	1.8	1.3	1.1
Real Gross Nat. Disp Income per capita	1.5	4.8	0.4	0.5	2.7	1.3	1.8	1.1	0.9
Nominal GDP per capita (Expenditure ba...	1.1	6.8	1.1	2.1	4.0	2.6	3.4	3.4	2.9
Labour Market									
Employment	0.2	3.2	3.2	2.3	5.1	2.5	2.0	1.8	1.3
Unemployment Rate (June quarter)	6.0	5.2	5.5	5.0	5.0	5.0	4.6	4.3	4.3
Labour Productivity (Hours worked basis)	1.3	-0.7	0.6	-0.3	-2.3	1.3	1.9	1.1	1.1
Wages (QES average hourly ord time ea...	2.1	2.6	2.8	2.1	1.2	2.6	2.3	2.2	2.1
Unit Labour Costs (Hours worked basis)	1.0	3.4	1.8	2.5	3.8	1.1	0.6	1.1	1.0
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	2.6	3.4	3.5	2.4	2.0	2.0	2.7	3.4	3.9
10-year Bond Rate (June quarter ave)	3.5	4.4	3.6	2.7	3.1	3.6	4.0	4.2	4.3
TWI (June quarter ave)	76.3	81.5	76.2	73.6	76.1	76.6	76.9	76.7	74.7
- annual % change (June quarter)	5.3	6.9	-6.5	-3.4	3.4	0.7	0.4	-0.3	-2.5
Price Measures									
CPI Inflation (ann % change, June quarter)	0.7	1.6	0.4	0.4	1.8	1.6	2.1	2.2	2.1
Consumption Deflator	0.5	0.9	0.6	0.8	0.6	1.4	1.4	1.8	1.7
GDP Deflator	-0.6	5.7	-0.3	0.5	2.7	1.3	1.6	2.1	1.8
House Price Inflation (ann % change, Ju...	9.1	6.9	11.1	14.0	5.1	7.8	3.9	3.1	2.2
Key Balances									
Current account balance (\$ million)	-7,864	-5,966	-8,891	-7,320	-7,421	-8,478	-9,727	-11,560	-12,733
Current account balance (% of GDP)	-3.6	-2.5	-3.7	-2.9	-2.8	-3.0	-3.3	-3.7	-3.9
Terms of Trade (goods) - SNA Basis	-3.8	16.4	-4.8	-2.4	6.2	-0.2	0.0	0.4	0.2
Household saving ratio (% of HHDI, Mar...	0.5	0.4	-1.5	-2.2	-0.7	-1.2	-0.0	0.2	0.6

* Includes Local Government and Non-profit Organisations

** Central Government (includes Crown Entities but not SOEs)

Change in Economic Forecasts from Half Year 2016 – June years
(Annual average percentage change, unless specified otherwise)

June Years	2013	2014	2015	2016	2017	2018	2019	2020	2021
					Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	-0.0	0.5	0.4	0.5	0.5	0.2	0.5	-0.6	-0.4
Public consumption	-0.3	0.1	1.0	0.2	0.4	0.5	0.4	0.3	0.1
TOTAL CONSUMPTION	-0.1	0.4	0.6	0.5	0.5	0.3	0.5	-0.4	-0.3
Residential investment	4.8	-1.4	-2.9	-1.9	-7.6	-7.5	6.6	10.5	3.6
Market investment*	-0.4	1.5	-2.2	1.3	-3.6	-1.3	1.2	2.8	2.4
Non-market Investment**	0.0	0.0	0.0	0.0	7.5	5.4	0.1	-2.1	0.2
TOTAL INVESTMENT	0.8	0.7	-2.4	0.5	-3.6	-1.7	2.3	4.4	2.5
Stocks (contribution to GDP growth)	-0.2	0.1	0.2	0.0	0.6	-0.7	-0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	-0.0	0.2	-0.1	0.5	0.4	-0.7	0.8	0.8	0.4
Exports	-0.0	-0.0	0.0	-0.1	-2.0	1.5	0.2	0.0	-0.3
Imports	-0.0	-0.0	-0.0	0.1	0.6	-1.3	0.5	1.3	0.9
EXPENDITURE ON GDP	-0.0	0.2	-0.1	0.4	-0.2	-0.1	0.8	0.5	0.1
GDP (PRODUCTION MEASURE)	-0.1	-0.6	0.0	-0.1	-0.5	0.1	0.8	0.5	0.1
<i>- annual % change, June quarter</i>	<i>0.1</i>	<i>-0.9</i>	<i>-0.0</i>	<i>-0.0</i>	<i>-0.3</i>	<i>0.3</i>	<i>0.9</i>	<i>0.3</i>	<i>0.0</i>
Other Output Measures									
Real Gross National Disposable Income	-0.1	-0.6	0.1	-0.0	0.4	0.1	0.9	0.7	0.1
Nominal GDP (Expenditure Basis)	0.1	0.6	0.1	-0.1	1.1	-0.8	0.4	0.9	0.3
Per Capita Output Measures									
Real GDP per capita (Production basis)	-0.1	-0.5	0.0	-0.1	-0.6	-0.3	0.3	0.1	-0.0
Real Gross Nat. Disp Income per capita	-0.1	-0.6	0.1	-0.0	0.3	-0.3	0.4	0.3	-0.0
Nominal GDP per capita (Expenditure basis)	0.1	0.6	0.1	-0.1	1.3	-1.5	-0.1	0.5	0.2
Labour Market									
Employment	0.0	0.0	-0.0	0.0	0.3	0.9	0.4	0.7	0.4
Unemployment Rate (June quarter)	0.0	0.0	0.0	0.0	0.2	0.4	0.3	0.0	-0.1
Labour Productivity (Hours worked basis)	-0.1	-0.5	0.0	-0.1	-1.1	-0.7	0.4	-0.2	-0.3
Wages (QES average hourly ord time earnings...)	-0.0	0.0	0.0	0.0	-0.3	0.3	-0.4	-0.8	-0.9
Unit Labour Costs (Hours worked basis)	0.1	0.6	-0.0	0.1	0.9	0.9	-0.5	-0.6	-0.6
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	0.0	0.0	0.0	0.0	0.0	0.1	0.4	0.2	-0.0
10-year Bond Rate (June quarter ave)	0.0	0.0	0.0	0.0	0.2	0.2	0.1	0.0	-0.0
TWI (June quarter ave)	0.0	0.0	0.0	0.0	-0.4	1.7	1.9	2.1	2.1
<i>- annual % change, June quarter</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-0.5</i>	<i>2.7</i>	<i>0.3</i>	<i>0.3</i>	<i>0.0</i>
Price Measures									
CPI Inflation (ann % change, June quarter)	0.0	0.0	0.0	0.0	0.4	-0.4	0.0	0.2	0.1
Consumption Deflator	0.0	0.0	-0.0	-0.0	0.0	0.1	-0.3	0.2	0.1
GDP Deflator	0.1	0.4	0.1	-0.5	1.2	-0.6	-0.4	0.4	0.2
House Price Inflation (ann % change, June qu...)	0.0	0.0	0.0	0.5	-4.3	1.7	0.0	0.0	0.2
Key Balances									
Current account balance (\$ million)	0	0	-4	11	645	2,261	2,394	1,951	1,128
Current account balance (% of GDP)	-0.0	0.0	0.0	0.0	0.3	0.8	0.9	0.7	0.4
Terms of Trade - SNA Basis	0.0	0.0	0.0	-0.0	4.4	-1.9	-1.0	-0.0	-0.1
Household saving ratio (% of HHDI, March year)	-1.5	-1.4	-0.8	-2.7	-2.9	-2.8	-0.9	-0.1	0.8

* Includes Local Government and Non-profit Organisations

** Central Government (includes Crown Entities but not SOEs)

Change in Economic Forecasts from Preliminary Budget 2017 – June years
(Annual average percentage change, unless specified otherwise)

June Years	2013	2014	2015	2016	2017	2018	2019	2020	2021
					Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	0.0	-0.0	0.0	0.0	-0.4	0.1	0.5	-0.1	-0.2
Public consumption	0.0	-0.1	0.2	-0.4	0.5	0.5	0.4	0.3	0.1
TOTAL CONSUMPTION	0.0	-0.0	0.0	-0.1	-0.2	0.2	0.4	0.0	-0.1
Residential investment	0.0	0.0	0.0	0.0	-3.9	-7.2	-0.2	6.7	7.0
Market investment*	-0.0	0.0	-0.0	0.0	1.8	-3.1	-1.1	-0.2	0.7
Non-market Investment**	0.0	0.0	0.0	0.0	-0.0	2.9	-2.1	4.1	0.2
TOTAL INVESTMENT	0.0	0.0	-0.0	0.0	0.2	-3.0	-1.1	1.9	2.3
Stocks (contribution to GDP growth)	-0.0	0.0	-0.0	0.1	0.3	-0.7	0.1	0.1	0.1
GROSS NATIONAL EXPENDITURE	-0.0	-0.0	0.0	0.1	0.0	-1.1	0.2	0.6	0.5
Exports	0.0	0.0	0.0	0.0	-1.0	1.1	0.1	0.1	0.0
Imports	-0.0	-0.0	0.0	0.1	2.1	-1.9	-0.3	0.5	0.6
EXPENDITURE ON GDP	0.0	-0.0	0.0	0.0	-0.8	-0.4	0.3	0.5	0.4
GDP (PRODUCTION MEASURE)	-0.0	0.0	-0.0	0.0	-0.6	-0.6	0.3	0.5	0.4
<i>- annual % change, June quarter</i>	<i>0.0</i>	<i>0.0</i>	<i>-0.1</i>	<i>0.1</i>	<i>-0.9</i>	<i>-0.3</i>	<i>0.4</i>	<i>0.5</i>	<i>0.3</i>
Other Output Measures									
Real Gross National Disposable Income	-0.0	0.0	-0.0	0.0	-0.0	-1.0	0.4	0.5	0.4
Nominal GDP (Expenditure Basis)	-0.0	0.0	0.0	-0.0	0.3	-0.7	-0.1	0.6	0.6
Per Capita Output Measures									
Real GDP per capita (Production basis)	-0.0	0.0	-0.0	0.0	-0.8	-0.4	0.3	0.5	0.4
Real Gross Nat. Disp Income per capita	-0.0	0.0	-0.0	0.0	-0.2	-0.8	0.4	0.5	0.4
Nominal GDP per capita (Expenditure basis)	-0.0	0.0	0.0	-0.0	0.3	-0.7	-0.1	0.5	0.6
Labour Market									
Employment	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.2	0.4
Unemployment Rate (June quarter)	0.0	0.0	0.0	0.0	-0.0	0.1	0.2	0.0	-0.1
Labour Productivity (Hours worked basis)	-0.0	0.0	-0.0	0.0	-0.3	-0.5	0.4	0.3	-0.0
Wages (QES average hourly ord time earnings...)	0.0	0.0	0.0	0.0	-0.1	0.4	0.0	-0.2	-0.1
Unit Labour Costs (Hours worked basis)	0.0	-0.0	0.0	-0.0	0.3	0.7	-0.3	-0.4	-0.1
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.2	0.1
10-year Bond Rate (June quarter ave)	0.0	0.0	0.0	0.0	-0.3	0.0	-0.0	-0.1	-0.0
TWI (June quarter ave)	0.0	0.0	0.0	0.0	-2.6	-1.6	-1.4	-1.3	-1.2
<i>- annual % change, June quarter</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-3.5</i>	<i>1.3</i>	<i>0.3</i>	<i>0.1</i>	<i>-0.0</i>
Price Measures									
CPI Inflation (ann % change, June quarter)	0.0	0.0	0.0	0.0	0.1	0.1	-0.0	0.1	0.0
Consumption Deflator	-0.0	0.0	-0.0	0.0	0.3	0.4	-0.1	0.0	0.0
GDP Deflator	-0.0	0.0	-0.0	-0.0	1.1	-0.3	-0.4	0.1	0.2
House Price Inflation (ann % change, June qu...)	0.0	0.0	0.0	0.0	-2.8	-1.4	-0.3	0.3	0.1
Key Balances									
Current account balance (\$ million)	4	2	1	1	-570	-87	437	310	-30
Current account balance (% of GDP)	0.0	0.0	0.0	0.0	-0.2	-0.0	0.1	0.1	0.0
Terms of Trade - SNA Basis	-0.0	-0.0	0.0	0.1	3.0	-2.6	-0.7	0.0	0.1
Household saving ratio (% of HHDI, March year)	0.0	0.0	0.0	0.0	0.1	-0.4	0.7	0.5	0.9

* Includes Local Government and Non-profit Organisations

** Central Government (includes Crown Entities but not SOEs)

Key Economic Assumptions for Fiscal Forecasts – June years

June Years	2013	2014	2015	2016	2017	2018	2019	2020	2021
					Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP (production measure)									
\$million in 2009/10 prices	207,479	212,639	219,711	225,634	232,535	240,790	249,884	257,090	263,181
Annual average % change	2.2	2.5	3.3	2.7	3.1	3.5	3.8	2.9	2.4
Nominal GDP (expenditure measure)									
\$million in current prices	218,715	236,177	242,980	253,089	268,877	281,801	297,042	311,862	324,898
Annual average % change	1.7	8.0	2.9	4.2	6.2	4.8	5.4	5.0	4.2
\$m change from previous forecast	-107	1,222	1,395	1,304	4,117	2,320	3,651	6,359	7,493
Headline CPI									
Annual average % change	0.8	1.5	0.6	0.3	1.4	1.7	1.9	2.2	2.2
Annual % change	0.7	1.6	0.4	0.4	1.8	1.6	2.1	2.2	2.1
Interest Rates and Exchange Rate (ann ave)									
90 day bank bill rate	2.6	2.9	3.6	2.7	2.1	2.0	2.4	3.2	3.7
5 year bond rate	2.9	4.1	3.6	2.6	2.4	2.9	3.3	3.7	3.9
10 year bond rate	3.6	4.5	3.8	3.2	2.9	3.5	3.8	4.1	4.3
Trade Weighted Index	75.0	78.9	77.9	71.9	77.2	76.6	76.8	76.8	75.7
Current account balance									
\$million	-7,864	-5,966	-8,891	-7,320	-7,421	-8,478	-9,727	-11,560	-12,733
% of GDP	-3.6	-2.5	-3.7	-2.9	-2.8	-3.0	-3.3	-3.7	-3.9
Labour Market (average year ending June)									
Employment growth (ann ave % change)	0.2	3.2	3.2	2.3	5.1	2.5	2.0	1.8	1.3
Unemployment rate	6.2	5.5	5.4	5.2	5.1	5.0	4.8	4.4	4.3
Working Age Population (000s)	3,464	3,513	3,586	3,673	3,771	3,862	3,943	4,010	4,064
Labour Force (000s)	2,341	2,400	2,475	2,526	2,653	2,717	2,764	2,803	2,837
Total Employed (000s)	2,197	2,267	2,341	2,395	2,518	2,581	2,632	2,680	2,715
Total Unemployed (000s)	144	133	134	131	135	136	131	123	122
Average Total Weekly Paid Hours (QES)	38.4	38.5	38.4	38.5	38.6	38.3	38.2	38.1	38.1

Note – previous is the Half Year 2016 forecast