The Treasury

Budget 2018 Information Release

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Treasury Report: Budget 2018 Economic and Tax Forecasts

Date:	18 April 2018	**Report No:**	T2018/1012
		File Number:	BM-3-6-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Note** the Treasury's Budget economic and tax forecasts **Refer** this report to the Associate Ministers of Finance	Budget Matters meeting, Tuesday 24 April 2018
Associate Minister of Finance (Hon Dr David Clark)	**Note** the Treasury's Budget economic and tax forecasts	Budget Matters meeting, Tuesday 24 April 2018

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Peter Mawson	Principal Advisor	[39]	N/A (mob)	✓
Peter Gardiner	Manager	[39]	[23]	

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

Return the signed report to the Treasury.

If agreed, **refer** a copy of this report to the Associate Ministers of Finance.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Budget 2018 Economic and Tax Forecasts

Executive Summary

This report provides an overview of the Treasury's final Budget 2018 economic and tax forecasts. The forecasts show a modestly more positive outlook for nominal GDP than incorporated in the preliminary forecasts. This, together with the incorporation of tax policy changes, result in forecasts for core Crown tax revenue that are a cumulative $1.4 billion higher than the preliminary forecasts, taking the overall change relative to the *Half Year Update* to $5.3 billion. A slightly earlier profile of interest rate increases than in the preliminary Budget forecasts also contributes to the higher tax revenue forecasts as they boost resident withholding tax (RWT).

Table 1: Forecast Summary

June years		2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	5-year total
Economic growth[1]	**Budget**	**3.3**	**2.8**	**3.3**	**3.4**	**2.7**	**2.5**	
	Preliminary	3.3	2.9	3.3	3.5	2.8	2.3	
	Half Year	2.7	2.9	3.6	3.0	2.6	2.1	
Economic growth per capita[1]	**Budget**	**1.2**	**0.7**	**1.3**	**1.7**	**1.3**	**1.3**	
	Preliminary	1.2	0.9	1.3	1.9	1.4	1.1	
	Half Year	0.6	0.9	1.7	1.4	1.4	1.1	
Unemployment rate[2]	**Budget**	**4.8**	**4.5**	**4.2**	**4.1**	**4.1**	**4.2**	
	Preliminary	4.8	4.6	4.3	4.1	4.0	4.1	
	Half Year	4.8	4.6	4.4	4.2	4.0	4.1	
CPI inflation[3]	**Budget**	**1.7**	**1.4**	**1.5**	**1.8**	**1.9**	**2.0**	
	Preliminary	1.7	1.6	1.6	2.0	2.1	2.2	
	Half Year	1.7	2.0	1.9	2.1	2.2	2.2	
Current account balance[4]	**Budget**	**-2.7**	**-2.6**	**-3.1**	**-3.0**	**-3.0**	**-3.1**	
	Preliminary	-2.8	-2.6	-3.0	-2.8	-3.0	-3.0	
	Half Year	-2.9	-2.1	-2.3	-2.7	-3.3	-3.9	
Nominal GDP growth[5]	**Budget**	**6.4**	**6.1**	**4.7**	**5.0**	**4.6**	**4.5**	
	Preliminary	6.2	5.4	4.6	5.5	4.9	4.5	
	Half Year	5.8	5.0	5.3	5.0	4.8	4.2	
Nominal GDP ($billions)	**Budget**	**274.2**	**291.0**	**304.6**	**320.0**	**334.7**	**349.8**	
	Preliminary	273.8	288.5	301.7	318.2	333.6	348.6	
	Half Year	268.0	281.4	296.2	311.0	325.9	339.6	
	change v. Prelim	0.4	2.5	2.9	1.8	1.1	1.2	9.6
	change v. HYEFU	6.2	9.6	8.4	9.0	8.9	10.1	46.0
Tax revenue ($billions)	**Budget**	**75.6**	**79.6**	**83.6**	**88.8**	**93.9**	**99.1**	
	Preliminary	75.6	79.6	83.2	88.1	93.6	99.1	
	Half Year	75.6	78.2	82.8	87.8	93.0	97.8	
	change v. Prelim	0.0	0.0	0.4	0.7	0.3	0.0	1.4
	change v. HYEFU	0.0	1.4	0.8	1.0	0.9	1.2	5.3

1. Production GDP, annual average % change 2. June quarter 3. Annual % change 4. Annual as % of GDP
5. Expenditure measure

Poor agricultural growing conditions have been a contributing factor in economic growth slowing to 2.9%. Growth is forecast to remain just below 3% throughout 2018 before accelerating to a peak of 3.6% in December 2019 as conditions improve, government spending increases and investment accelerates. Relative to the *Half Year Update*, the profile for growth is pushed out slightly, reflecting the impact of weather on agriculture as well as the slowing momentum in GDP growth evident in the revised GDP data. Growth peaks at the same level (3.6%) as in the *Half Year Update* but this peak is now forecast to occur in December 2019 (midway between the 2019 and 2020 June year figures shown in Table 1), compared to June 2019 in the *Half Year Update*.

The forecasts incorporate decisions taken as part of Budget 2018. Higher operating and capital spending (including the increases to the operating and capital allowances) is partly offset by a slightly later KiwiBuild capital contribution profile. On balance, government spending adds to demand and contributes to a slightly earlier increase in interest rates relative to the preliminary Budget forecasts (but similar to the *Half Year Update*). Stronger government spending also supports modestly stronger GDP growth at the end of the forecast period than in the preliminary Budget forecasts. The stronger profile for government spending, combined with a higher net migration assumption means that relative to the *Half Year Update* the slowing in growth over the later part of the forecast period is less pronounced.

Unemployment is forecast to decline to around 4% despite the labour force participation rate remaining around the current historic high level.

The forecasts assume a relatively favourable global economic backdrop that helps support a high terms of trade and therefore level of nominal GDP.

The tax forecasts incorporate the latest tax policy decisions taken by Cabinet. The largest of these are the ring-fencing of losses on residential property investment and GST on low-value imports. In total, tax policy changes contribute about half of the $1.4 billion upward revision in the tax forecasts since the preliminary forecasts, taking the overall change compared to the *Half Year Update* to $5.3 billion.

The economic and tax forecasts will underpin the final Budget fiscal forecasts that are currently being compiled. These will include forecasts of the operating balance and net debt and will be reported to you on 27 April.

Recommended Action

We recommend that you:

a **note** the Treasury's final economic and tax forecasts prior to the Budget Matters meeting on Tuesday 24 April.

b **note** that final fiscal forecasts, including forecasts of the operating balance and net debt, will be reported to you on 27 April.

c **refer** this report to:

- Hon David Parker, Associate Minister of Finance

Refer/not referred.

- Hon Shane Jones, Associate Minister of Finance

Refer/not referred.

- Hon James Shaw, Associate Minister of Finance

Refer/not referred.

Peter Gardiner
Manager, Forecasting

Hon Dr David Clark
Associate Minister of Finance

Hon Grant Robertson
Minister of Finance

Treasury Report: Budget 2018 Economic and Tax Forecasts

Purpose of Report

1. This report provides an overview of the Treasury's Budget 2018 economic and tax forecasts. The economic and tax forecasts will underpin the final Budget fiscal forecasts that are currently being compiled. These will include forecasts of the operating balance and net debt and will be reported to you on 27 April. There will be the opportunity to discuss the economic and tax forecasts at Budget Matters on Tuesday 24 April.

2. The forecasts will be published as part of the *Budget Economic and Fiscal Update* that is released on Budget day. We will provide you and your office with draft copies of the *Budget Economic and Fiscal Update* chapters on 8 May.

3. The annex of this report provides tables with additional details on the economic forecasts including the changes since both the preliminary Budget and *Half Year Update* forecasts.

Analysis

4. The Treasury has completed the final economic forecasts for Budget 2018. These forecasts update the preliminary Budget 2018 forecasts that were reported to you in late February (T2018/364 refers). The final forecasts include recent economic developments and spending decisions taken as part of Budget 2018, including changes to future operating and capital allowances and to the capital contribution profile associated with KiwiBuild.

5. In producing the final forecasts the Treasury has also tested an earlier version of the forecasts with a panel of internal and external panellists. The panel were broadly supportive of the judgements. We also conducted a round of meetings with businesses to help provide 'real world' insight into the state of the New Zealand economy[1].

Modestly higher nominal GDP supports higher tax revenue than in the preliminary forecasts

6. Overall, the outlook for nominal GDP is slightly stronger than presented in the preliminary forecasts (Figure 1). Over the five years to June 2022, the forecast for nominal GDP is a cumulative $9.6 billion (0.6%) higher than the preliminary Budget forecast. Most of this reflects further revisions to historical GDP data by Statistics New Zealand, with the starting point for quarterly GDP revised up by $0.4 billion. When accumulated over the five year forecast period this adds around $8 billion to cumulative nominal GDP. Once this revision is allowed for, the effective change is relatively small at less than $2 billion.

[1] See https://treasury.govt.nz/sites/default/files/2018-04/mei-mar18.pdf for an overview of the business talk findings.

7. Revisions to historical GDP particularly affect comparisons with the *Half Year Update* with nominal GDP across the five forecast years (to June 2022) now forecast to be a cumulative $46 billion above the *Half Year Update*. At the time the *Half Year Update* forecasts were produced, the most current data available related to the June 2017 quarter. The level of nominal GDP for this quarter has subsequently been revised higher by $2 billion, meaning that revisions account for around $40 billion of the $46 billion change.

8. Through a combination of the higher nominal GDP forecast and final tax policy decisions, core Crown tax revenue forecasts are an estimated $1.4 billion higher than the preliminary Budget forecasts, cumulatively across the forecast period (Figure 2). This takes the overall change compared to the *Half Year Update* to $5.3 billion.

Figure 1: Nominal GDP

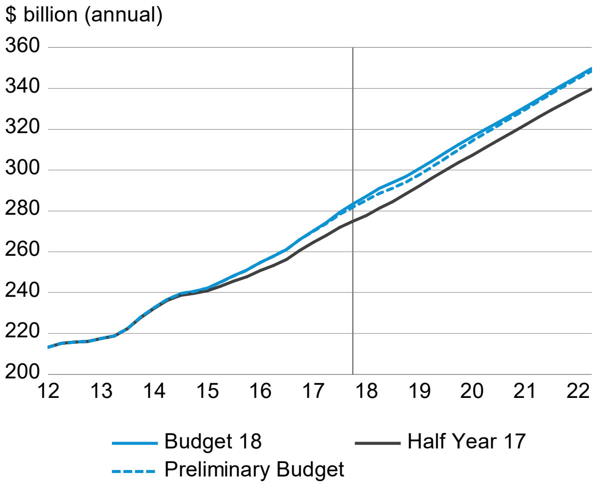
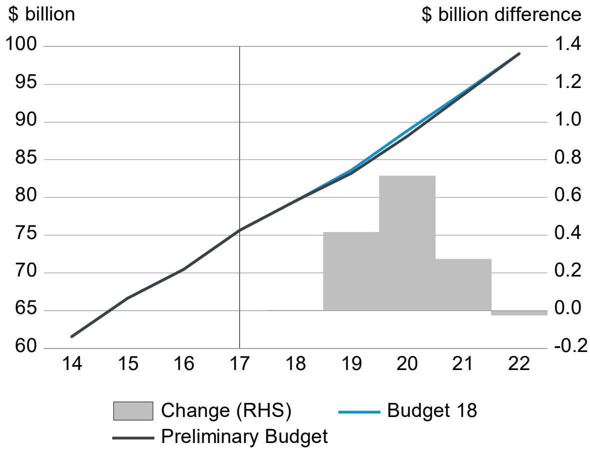


Figure 2: Core Crown Tax Revenue



Growth has been hampered by poor growing conditions but is forecast to accelerate as conditions improve, government spending increases and investment accelerates

9. December 2017 quarter real GDP growth, released in March, was a little weaker than forecast in both the preliminary Budget and *Half Year Update* forecasts and saw annual average growth in real production GDP slow to 2.9%. Despite the weaker real activity, nominal GDP exceeded forecast, bolstered by further gains in the terms of trade.

10. December quarter GDP was hampered by falls in agricultural production owing to adverse weather conditions. While the preliminary forecasts anticipated this to some extent, the impact was larger than expected. We had expected the effects of the adverse weather conditions to be more concentrated in the March 2018 quarter, but it now appears that more of the impact occurred in the December quarter. Therefore we expect less of a negative effect from weather in the March 2018 quarter than was incorporated in the preliminary Budget forecasts.

11. Annual average growth is forecast to remain just below 3% throughout 2018 before modestly accelerating to a peak of 3.6% in late 2019 (Figure 3). The pick-up in growth reflects an assumed return to more normal agricultural production conditions that boosts growth relative to the recent past, accelerating residential

investment growth, and growing capital spending by government contributing to faster growth in business investment[2].The peak in growth of 3.6% matches the peak in the *Half Year Update*. While the peak is the same it is pushed out by 6 months, reflecting recent weakness associated with lower agricultural production and, based on revised GDP data, signs that there has been less momentum in growth.

Figure 3: Real GDP growth

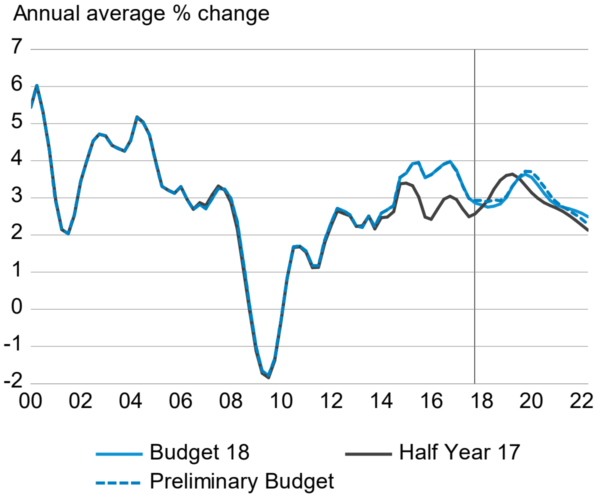
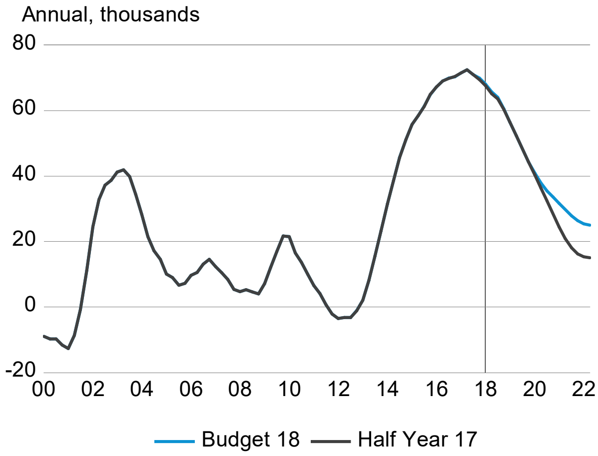


Figure 4: Net migration



Net migration adds less to growth over time as it falls toward 25,000

12. The broad drivers influencing the growth outlook remain similar to the preliminary *Budget Update* forecasts, although the relative contributions have changed somewhat. Net migration continues to add to the population and therefore economic activity, but as net migration is assumed to fall over the forecast period, it provides less of a growth impetus over time. As in the preliminary Budget forecasts we assume that net migration continues to ease from around 70,000 in the year to December 2017 to 25,000 by June 2022 – a higher forecast endpoint than the 15,000 assumed in the *Half Year Update* (Figure 4).

Government spending (including capital investment) supports demand…

13. Fiscal policy is expected to support demand. The Families Package supports household incomes from the second half of 2018, supporting household spending. Spending decisions taken as part of Budget 2018, including increases to future operating allowances, are reflected in stronger growth in government consumption relative to both the preliminary Budget forecasts and *Half Year Update*.

… and KiwiBuild leads to higher residential investment although less than was assumed in the Half Year Update

14. KiwiBuild contributes to an acceleration in residential investment, particularly in the second half of the forecast period (Figure 5). However, based on changes to the timing of capital contributions, we have pushed out the impact of KiwiBuild on

[2] The term business investment is used in the National Accounts to cover all investment excluding residential and therefore includes investment by local and central government.

residential investment growth. KiwiBuild is now assumed to add around $2.5 billion to nominal residential investment over the forecast period. This is down from around $5 billion in the *Half Year Update,* when the earlier timing of the capital contributions enabled much greater capital recycling within the forecast period (particularly the final year)[3]. This activity is not lost, but instead a greater proportion is assumed to occur outside of the forecast period.

15. There remains considerable uncertainty regarding the exact specifics of the KiwiBuild scheme. The Ministry of Business, Innovation and Employment has provided information on the likely timing of KiwiBuild and we believe that our current profile is consistent with their level of direct KiwiBuild activity. We emphasise that the overall impact of KiwiBuild on total residential investment remains uncertain and will depend on the extent to which capacity constraints are overcome. We will update our assumptions in future forecast rounds as more detail about the specifics of KiwiBuild becomes available and/or when there are signs of significant changes to construction sector capacity.

Figure 5: Residential investment

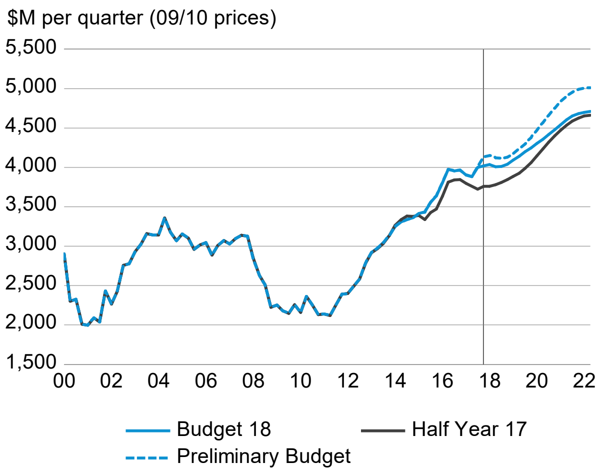
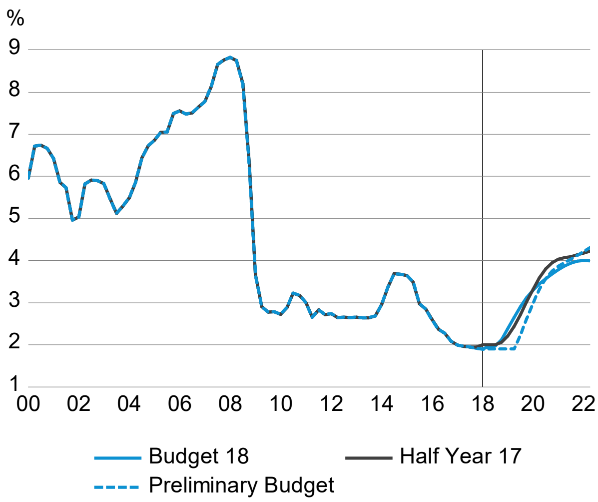


Figure 6: 90-day interest rates



Stronger Government-led demand leads to an earlier increase in interest rates than in the preliminary forecasts - but similar to the Half Year Update

16. Interest rates are forecast to begin increasing from around the end of the 2018 calendar year (Figure 6). This represents an earlier start of the tightening cycle than in the preliminary forecasts but is around the same time as in the *Half Year Update*. The profile for government spending is a contributing factor to the earlier increases in interest rates relative to the preliminary Budget forecasts. There is considerable uncertainty as to when interest rates will increase (and even the direction of the next move – although, in the absence of a negative shock, it is generally expected to be up).

17. While interest rates rise earlier than in the preliminary Budget forecasts, they are not forecast to rise quite as far and the increases are slightly more gradual. This reflects that while inflation pressures are expected to build we anticipate that, as

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[3] Residential investment is one of the categories affected by revisions, so while growth is now forecast to be slower than in the *Half Year Update*, the level is higher throughout the forecast period.

has been the case in recent years, inflation will remain relatively muted and inflation expectations well contained.

The slowing in growth beyond 2019 is slightly less pronounced than in the preliminary and Half Year Update forecasts

18. Beyond 2019, real GDP growth is forecast to slow, easing to 2.5% in the June 2022 year as net migration falls and as interest rate increases begin to influence activity. The slowing in growth is less pronounced than in the preliminary Budget and *Half Year Update* forecasts. Relative to the preliminary Budget forecasts this reflects the stronger government consumption outlook, while relative to the *Half Year Update*, the higher net migration assumption is an additional factor.

19. For the five years to June 2022, forecast real GDP growth averages 2.9%, effectively the same as in the preliminary Budget forecasts and *Half Year Update*. On a per capita basis, growth averages 1.3%. The resultant employment growth is expected to see the unemployment rate fall from late 2018 and throughout most of 2019 to nearly 4% (Figure 7), even though labour market participation is expected to remain near historic highs at just under 71%.

Figure 7: Unemployment rate

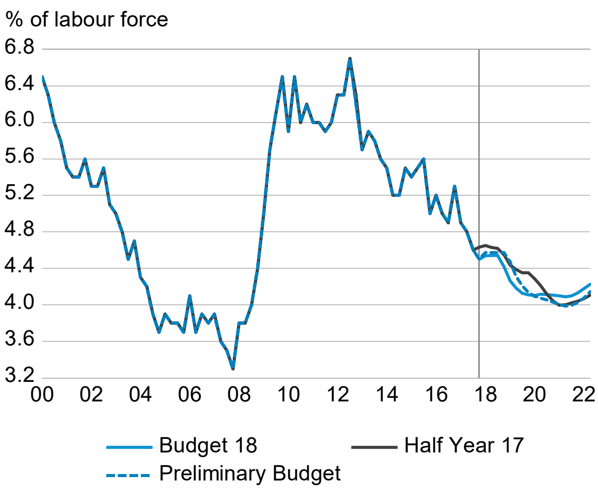
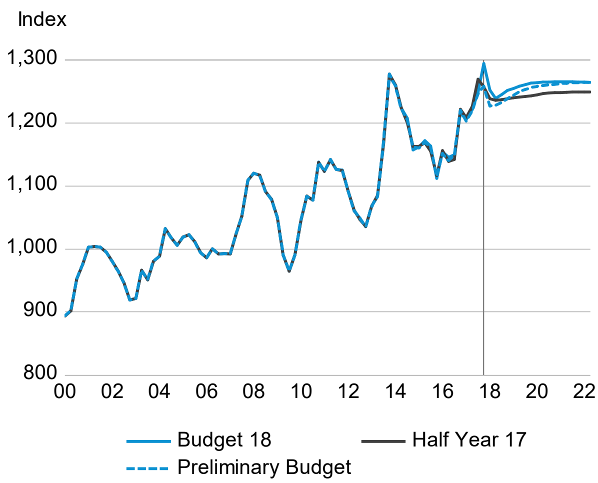


Figure 8: Terms of trade (goods)



A favourable outlook for the global economy underpins the forecasts, but is also a source of risk

20. The forecasts assume a relatively favourable global economic backdrop, with annual growth in our top 16 trading partners assumed to be in the 3.5% to 3.8% range. Global economic performance generally exceeded expectations in the second half of 2017 and into 2018, with Consensus forecasts for 2018 and 2019 now higher than at the *Half Year Update*. However, there are some obvious risks to trade and an intensification in geo-political tensions. A downside scenario involving a weaker global economic and trade outlook will be presented in the Risks and Scenarios chapter of the *Budget Economic and Fiscal Update*.

A high terms of trade supports nominal GDP…

21. Robust global growth and growing demand for New Zealand's agricultural products have supported export prices, while weak global inflation and technological advances have seen either falling or only modest increases in

import prices. This has contributed to New Zealand's terms of trade reaching record highs. It is forecast to remain high throughout the five-year forecast period, supporting the level of nominal GDP (Figure 8).

… which helps drive modestly higher tax revenue than in the preliminary forecasts

22. Table 2 shows that changes to the GDP forecasts since the preliminary forecasts have added a cumulative $0.8 billion to the tax forecasts, with the largest impacts occurring in the first two years of the forecast.

Table 2: Estimated[4] changes in core Crown tax revenue forecasts

June years, $ billions	2018	2019	2020	2021	2022	5-yr totals
2018 BEFU preliminary	79.6	83.2	88.1	93.6	99.1	
% of GDP	27.6	27.6	27.7	28.1	28.4	
Changes by principal driver:						
GDP components	+0.4	+0.4	+0.2	-0.1	-0.1	+0.8
Interest rates (RWT[1])	-	+0.1	+0.4	+0.2	-0.1	+0.6
Other	-0.4	-0.1	-	-0.1	-0.1	-0.7
Total forecasting change	***-***	***+0.4***	***+0.6***	***-***	***-0.3***	***+0.7***
Policy changes	-	-	+0.1	+0.3	+0.3	+0.7
Total change	***-***	***+0.4***	***+0.7***	***+0.3***	***-***	***+1.4***
2018 BEFU Final	**79.6**	**83.6**	**88.8**	**93.9**	**99.1**	
% of GDP	27.3	27.5	27.8	28.0	28.3	
Change from HYEFU	***+1.4***	***+0.8***	***+1.0***	***+0.9***	***+1.2***	***+5.3***

[1] Resident witholding tax

23. The preliminary tax forecasts included an adjustment to reflect the strength seen in corporate tax (which has been growing faster than would be implied by the economic forecasts). The upward revisions to nominal GDP by Statistics NZ, bring the economic and corporate tax forecasts more in line with each other. As a result the adjustment has been removed (showing up as 'Other' in Table 2), which particularly affects the 2018 June year.

24. An earlier start to interest rate increases provides an earlier boost to resident withholding tax (RWT), with the biggest impact in the year to June 2020. With interest rates ending the forecast period a little lower than in the preliminary forecasts, RWT is also a little lower in the final year of the forecast.

Policy changes also increase tax revenue

25. The forecasts include all tax policy decisions taken by Cabinet up to and including 9 April and appear in the "Policy changes" line of Table 2. The largest of these are the ring-fencing of losses on residential property investment and GST

[4] Final core Crown tax forecasts are likely to differ from the numbers presented here as final Crown tax consolidation forecast amounts have not yet been finalised.

on low-value imports. In total, tax policy changes contribute about half of the $1.4 billion upward revision in the tax forecasts.

26. The total change in core Crown tax revenue forecasts since the Half Year Update is $5.3 billion and is shown at the bottom of Table 2. Forecasts for all major tax types have been revised upwards. The biggest changes occurred in source deductions, owing to an improved outlook for total salaries and wages, particularly via the employment channel, and GST, mainly through stronger growth in nominal domestic consumption in the current fiscal year, which has raised the level of GST throughout the forecast period.

27. As part of the quality assurance process around tax forecasts, the Treasury and Inland Revenue forecasters compare and discuss forecasts. The two sets of forecasts are similar for the 2018 and 2019 June years, but the Treasury's forecast is higher than Inland Revenue's from 2020 onwards (Table 3). The differences are spread across a number of tax types (individuals' taxes, company tax and GST) and are a product of the different modelling approaches used by the respective agencies. Overall, the differences are not large, totalling just 0.3% of the total tax forecast across the forecast period.

Table 3: The Treasury and Inland Revenue tax forecasts

June years, $ billions	2018	2019	2020	2021	2022	5-yr total
Treasury forecast	79.6	83.6	88.8	93.9	99.1	
Inland Revenue forecast	79.6	83.6	88.5	93.4	98.6	
Treasury less Inland Revenue	-	-	*+0.3*	*+0.5*	*+0.5*	*+1.3*
Percentage difference	-	-	*0.3%*	*0.5%*	*0.5%*	*0.3%*

Risks

28. The risks identified when we reported on the preliminary forecasts remain relevant. Globally there is additional focus on trade tensions between the United States and China and the risk of significant disruptions to trade. High levels of debt remain a risk for a number of economies. In particular, high debt levels in China and Australia could present a risk to consumption as interest rates begin to rise or if financial market regulations begin to tighten. Geopolitical tensions have also intensified.

29. The Risks and Scenarios chapter of the *Budget Economic and Fiscal Update* will include a downside scenario motivated by weaker world growth and trade flows. While downside international risks are relatively prominent, positive surprises such as the strong global growth in the later part of 2017 remain possible.

30. Domestically there remain a range of risks that could result in either faster or slower growth. These risks include:

- weather-related risks;
- the risk that net migration is materially different than assumed;
- house price developments and their impact on the behaviour of households, including their response to higher interest rates;
- the risk that lower levels of confidence have more of an impact on firm activity than anticipated; and
- the extent to which growth in industries such as construction is limited by capacity constraints.

31. The Risks and Scenarios chapter of the *Budget Economic and Fiscal Update* will include an upside scenario in which net migration flows remain at higher levels than in the central forecasts.

32. The key risk for tax revenue occurs over the next three months. The April to June period is the peak season for companies to file their income tax returns. All the largest taxpayers will be filing their 2017 tax returns through this period. Based on provisional tax estimates for 2017 and 2018 received so far, and company income tax receipts for the 2018 fiscal year to date, we expect positive company income tax revenue growth through the June quarter. This is despite negative year-on-year growth in the latest month's data (February). It is possible that the negative trend will continue, in which case our company income tax forecast for the remainder of the 2018 fiscal year will prove to be too high. It is also possible that our forecast is not high enough. Both outcomes have implications for the current and future fiscal years.

33. April is the month in which the vast majority of Portfolio Investment Entities (PIEs) file their annual tax returns. PIE tax is extremely volatile, with annual growth rates in the range of -50% to +75% over the past seven years. Currently, we have no reliable information on PIE tax for the 2018 tax year. This poses risks of several hundreds of millions of dollars in each year of the forecast period.

Annex 1: Forecast Summary Tables

Table A1: Summary of Economic Forecasts – June Years
(Annual average percent change, unless specified otherwise)

June Years	2014	2015	2016	2017	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Private consumption	3.5	3.4	4.3	5.2	4.0	3.2	2.5	2.3	2.3
Public consumption	2.9	3.3	1.5	3.2	4.4	1.7	1.7	1.8	1.7
TOTAL CONSUMPTION	**3.4**	**3.4**	**3.6**	**4.7**	**4.1**	**2.9**	**2.3**	**2.2**	**2.2**
Residential investment	13.1	6.4	10.6	4.9	2.3	1.4	5.0	5.5	3.9
Business investment*	9.5	7.3	3.8	3.9	4.5	5.3	6.8	4.1	3.2
TOTAL INVESTMENT	**10.4**	**7.1**	**5.5**	**4.1**	**3.9**	**4.3**	**6.3**	**4.4**	**3.3**
Stocks (contribution to GDP growth)	0.4	-0.0	-0.4	0.3	-0.3	0.2	0.0	-0.0	-0.0
GROSS NATIONAL EXPENDITURE	**4.8**	**4.0**	**3.6**	**4.7**	**3.5**	**3.6**	**3.3**	**2.7**	**2.5**
Exports	0.1	5.8	5.0	0.1	4.2	2.0	3.8	2.8	2.5
Imports	9.0	6.6	1.0	6.0	6.4	3.2	3.8	2.9	2.5
EXPENDITURE ON GDP	**2.3**	**3.8**	**4.6**	**3.1**	**3.2**	**3.1**	**3.2**	**2.7**	**2.5**
GDP (PRODUCTION MEASURE)	**2.7**	**3.9**	**3.8**	**3.3**	**2.8**	**3.3**	**3.4**	**2.7**	**2.5**
- annual % change, June quarter	*2.8*	3.8	4.4	2.8	2.6	3.8	3.0	2.7	2.3
Other Output Measures									
Real Gross National Disposable Income	6.2	2.8	4.0	4.5	3.5	3.2	3.5	2.7	2.3
Nominal GDP (Expenditure Basis)	8.2	3.5	5.2	6.4	6.1	4.7	5.0	4.6	4.5
Output gap (June qtr,% of potential)	-1.5	-0.8	0.5	0.2	-0.1	0.7	0.8	0.7	0.4
Per Capita Output Measures									
Real GDP per capita (Production basis)	1.5	2.1	1.7	1.2	0.7	1.3	1.7	1.3	1.3
Real Gross Nat. Disp Income per capita	5.0	1.0	2.0	2.3	1.4	1.2	1.9	1.3	1.1
Nominal GDP per capita (Expenditure basis)	6.9	1.8	3.1	4.2	4.0	2.7	3.3	3.2	3.2
Labour Market									
Employment	3.2	3.2	2.3	5.2	3.8	2.1	1.9	1.5	1.3
Unemployment Rate (June quarter)	5.2	5.5	5.0	4.8	4.5	4.2	4.1	4.1	4.2
Labour Productivity (Hours worked basis)	-0.5	1.2	0.8	-1.6	-0.9	1.2	1.4	1.4	1.3
Wages (QES average hourly ord time earnings, APC)	2.5	2.7	2.1	1.6	3.2	2.7	3.1	3.3	3.4
Unit Labour Costs (Hours worked basis)	3.2	1.2	1.5	3.1	3.9	1.6	1.5	1.9	2.0
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	3.4	3.5	2.4	2.0	2.0	2.6	3.4	3.9	4.0
10-year Bond Rate (June quarter ave)	4.4	3.6	2.7	2.9	2.8	3.4	3.9	4.2	4.3
TWI (June quarter ave)	81.5	76.2	73.6	76.5	74.9	75.8	75.5	75.4	75.0
- annual % change (June quarter)	6.9	-6.5	-3.4	3.9	-2.1	1.2	-0.3	-0.2	-0.4
Price Measures									
CPI Inflation (ann % change, June quarter)	1.6	0.4	0.4	1.7	1.4	1.5	1.8	1.9	2.0
Consumption Deflator	1.0	0.6	0.8	0.9	1.3	1.6	1.7	1.8	1.9
GDP Deflator	5.8	-0.3	0.6	3.1	2.8	1.5	1.8	1.9	2.0
House Price Inflation (ann % change, June qtr)	6.9	11.2	14.0	5.5	7.0	2.8	2.0	3.4	3.7
Key Balances									
Current account balance ($ million)	-5,955	-8,729	-6,179	-7,392	-7,588	-9,412	-9,546	-10,115	-10,977
Current account balance (% of GDP)	-2.5	-3.6	-2.4	-2.7	-2.6	-3.1	-3.0	-3.0	-3.1
Terms of Trade (goods) - SNA Basis	16.4	-4.7	-2.7	4.8	5.1	-0.5	0.8	0.2	-0.0
Household saving ratio (% of HHDI, March yr)	0.1	-1.5	-1.3	-2.8	-2.1	-0.6	0.1	0.9	1.0

* Total investment excluding residential

Table A2: Change in Economic Forecasts from Preliminary Budget – June Years
(Annual average percent change, unless specified otherwise)

June Years	2014	2015	2016	2017	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Private consumption	0.0	-0.0	0.0	0.2	0.4	-0.1	-0.4	-0.2	-0.0
Public consumption	0.0	0.0	-0.1	0.1	1.0	0.5	0.7	0.8	1.0
TOTAL CONSUMPTION	**0.0**	**0.0**	**-0.0**	**0.2**	**0.5**	**0.0**	**-0.2**	**0.0**	**0.2**
Residential investment	0.0	-0.0	0.0	-0.0	-2.2	-0.1	-1.3	-2.6	-0.4
Business investment*	-0.0	0.0	-0.0	0.0	-0.6	0.2	-0.4	0.0	0.2
TOTAL INVESTMENT	**-0.0**	**0.0**	**-0.0**	**-0.0**	**-1.0**	**0.1**	**-0.7**	**-0.6**	**0.1**
Stocks (contribution to GDP growth)	0.0	-0.0	-0.0	0.0	0.4	-0.5	0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	**-0.0**	**0.0**	**-0.0**	**0.2**	**-0.0**	**-0.2**	**-0.3**	**-0.1**	**0.2**
Exports	0.0	-0.0	-0.0	-0.0	-1.1	0.9	-0.2	0.1	0.2
Imports	0.0	0.0	0.0	-0.1	-0.1	0.7	-0.2	-0.2	0.1
EXPENDITURE ON GDP	**0.0**	**-0.0**	**-0.0**	**0.2**	**-0.0**	**-0.1**	**-0.2**	**-0.0**	**0.2**
GDP (PRODUCTION MEASURE)	**0.0**	**-0.0**	**0.0**	**0.0**	**-0.1**	**-0.0**	**-0.2**	**-0.0**	**0.2**
- annual % change, June quarter	*-0.0*	*-0.0*	*0.0*	*-0.0*	*-0.1*	*-0.0*	*-0.2*	*0.1*	*0.3*
Other Output Measures									
Real Gross National Disposable Income	-0.0	0.0	0.3	-0.1	-0.1	-0.1	-0.3	0.0	0.1
Nominal GDP (Expenditure Basis)	0.0	0.0	-0.0	0.2	0.8	0.1	-0.4	-0.2	0.0
Per Capita Output Measures									
Real GDP per capita (Production basis)	0.0	0.0	0.0	0.0	-0.1	-0.0	-0.2	-0.0	0.2
Real Gross Nat. Disp Income per capita	0.0	0.0	0.3	-0.1	-0.1	-0.1	-0.3	0.0	0.1
Nominal GDP per capita (Expenditure basis)	0.0	0.0	-0.0	0.2	0.7	0.1	-0.4	-0.2	0.0
Labour Market									
Employment	0.0	0.0	0.0	0.0	0.1	0.4	-0.1	-0.1	0.0
Unemployment Rate (June quarter)	0.0	0.0	0.0	0.0	-0.0	-0.1	0.0	0.1	0.1
Labour Productivity (Hours worked basis)	0.0	-0.0	0.0	0.0	-0.2	-0.4	-0.0	0.1	0.2
Wages (QES average hourly ord time earnings, APC)	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.1
Unit Labour Costs (Hours worked basis)	-0.0	0.0	-0.0	-0.0	0.2	0.4	0.1	-0.1	-0.1
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	0.0	0.0	0.0	0.0	0.1	0.7	0.1	-0.1	-0.3
10-year Bond Rate (June quarter ave)	0.0	0.0	0.0	0.0	-0.2	0.3	0.1	0.1	-0.1
TWI (June quarter ave)	0.0	0.0	0.0	0.0	-0.2	0.8	0.3	0.2	0.2
- annual % change, June quarter	0.0	0.0	0.0	0.0	-0.2	1.2	-0.6	-0.1	-0.1
Price Measures									
CPI Inflation (ann % change, June quarter)	0.0	0.0	0.0	0.0	-0.2	-0.1	-0.2	-0.2	-0.2
Consumption Deflator	-0.0	-0.0	-0.0	0.0	-0.0	0.0	0.1	0.0	-0.0
GDP Deflator	0.0	0.0	0.0	-0.0	0.8	0.2	-0.2	-0.2	-0.2
House Price Inflation (ann % change, June quarter)	0.0	0.0	0.0	0.0	0.9	-1.0	-0.6	0.1	0.2
Key Balances									
Current account balance ($ million)	11	15	581	251	-144	-315	-496	-237	-371
Current account balance (% of GDP)	0.0	0.0	0.2	0.1	-0.0	-0.1	-0.1	-0.1	-0.1
Terms of Trade - SNA Basis	0.0	0.0	0.1	-0.1	1.5	-0.6	-0.4	-0.2	-0.2
Household saving ratio (% of HHDI, March year)	0.0	0.0	0.0	0.0	-0.5	-0.3	-0.1	0.2	0.1

* Total investment excluding residential

Table A3: Change in Economic Forecasts from Half Year 2017 – June Years
(Annual average percent change, unless specified otherwise)

June Years	2014	2015	2016	2017	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Private consumption	0.2	0.3	1.1	0.5	1.0	-0.3	-0.7	-0.3	0.1
Public consumption	0.0	0.2	-0.4	-0.2	1.6	-0.2	0.7	0.8	1.0
TOTAL CONSUMPTION	**0.1**	**0.3**	**0.7**	**0.3**	**1.1**	**-0.3**	**-0.3**	**-0.0**	**0.3**
Residential investment	-0.5	0.8	4.3	-1.4	3.7	-1.6	-1.2	-2.5	-0.6
Business investment*	0.6	2.0	1.2	-0.1	-1.6	-0.1	0.8	-1.0	-1.0
TOTAL INVESTMENT	**0.4**	**1.7**	**1.9**	**-0.4**	**-0.2**	**-0.5**	**0.3**	**-1.4**	**-0.9**
Stocks (contribution to GDP growth)	0.0	0.0	-0.0	0.2	0.4	-0.1	-0.2	-0.3	-0.3
GROSS NATIONAL EXPENDITURE	**0.2**	**0.6**	**0.9**	**0.4**	**0.7**	**-0.4**	**-0.5**	**-0.6**	**-0.2**
Exports	-0.0	-0.0	-0.0	0.1	0.8	-0.6	0.9	0.7	1.1
Imports	0.0	0.0	0.0	-0.0	3.7	-0.0	-1.2	-1.4	-0.8
EXPENDITURE ON GDP	**0.2**	**0.6**	**0.9**	**0.4**	**0.2**	**-0.6**	**0.3**	**0.1**	**0.4**
GDP (PRODUCTION MEASURE)	**0.2**	**0.6**	**1.1**	**0.6**	**-0.2**	**-0.3**	**0.4**	**0.1**	**0.4**
- annual % change, June quarter	*0.1*	*1.4*	*0.9*	*0.3*	*-0.7*	*0.3*	*0.1*	*0.2*	*0.4*
Other Output Measures									
Real Gross National Disposable Income	0.2	0.6	1.4	0.5	-0.5	-0.3	0.4	0.2	0.4
Nominal GDP (Expenditure Basis)	0.2	0.6	1.0	0.5	1.1	-0.6	0.1	-0.2	0.3
Per Capita Output Measures									
Real GDP per capita (Production basis)	0.2	0.6	1.1	0.6	-0.2	-0.4	0.3	-0.0	0.1
Real Gross Nat. Disp Income per capita	0.2	0.6	1.4	0.5	-0.5	-0.4	0.3	0.0	0.2
Nominal GDP per capita (Expenditure basis)	0.2	0.6	1.0	0.5	1.1	-0.6	-0.0	-0.3	0.0
Labour Market									
Employment	0.0	0.0	0.0	-0.0	0.4	0.2	0.4	0.2	0.4
Unemployment Rate (June quarter)	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.1	0.1	0.1
Labour Productivity (Hours worked basis)	0.2	0.6	1.0	0.6	-0.1	-0.8	-0.2	-0.1	0.0
Wages (QES average hourly ord time earnings, APC)	-0.0	-0.0	-0.0	-0.0	0.4	-0.5	-0.1	-0.1	-0.1
Unit Labour Costs (Hours worked basis)	-0.2	-0.6	-1.1	-0.6	0.5	0.4	-0.0	0.1	-0.2
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	0.0	0.0	0.0	0.0	-0.0	0.2	-0.1	-0.2	-0.2
10-year Bond Rate (June quarter ave)	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	-0.0
TWI (June quarter ave)	0.0	0.0	0.0	0.0	1.1	2.0	1.7	1.6	1.2
- annual % change, June quarter	0.0	0.0	0.0	0.0	1.4	1.2	-0.3	-0.2	-0.4
Price Measures									
CPI Inflation (ann % change, June quarter)	-0.0	-0.0	0.0	-0.0	-0.7	-0.4	-0.3	-0.3	-0.2
Consumption Deflator	0.0	0.1	-0.0	0.0	-0.5	0.0	0.2	0.1	0.1
GDP Deflator	0.0	-0.0	0.1	0.1	0.9	-0.0	-0.2	-0.2	-0.1
House Price Inflation (ann % change, June quarter)	-0.0	-0.0	0.0	0.3	4.9	0.4	-0.1	1.4	1.6
Key Balances									
Current account balance ($ million)	16	27	597	360	-1,707	-2,672	-1,120	689	2,368
Current account balance (% of GDP)	0.0	0.0	0.3	0.2	-0.5	-0.8	-0.3	0.3	0.8
Terms of Trade - SNA Basis	0.0	0.1	0.1	-0.3	0.8	0.4	0.4	-0.1	-0.1
Household saving ratio (% of HHDI, March year)	-0.3	0.0	0.9	-1.7	-2.0	-1.5	-0.6	0.2	0.4

* Total investment excluding residential