NEW ZEALAND

Economic growth is projected to moderate to a more sustainable rate of 2¾ per cent by 2016 as the boost from the Canterbury earthquake rebuild fades, the fall in export prices depresses domestic demand and macroeconomic policies become more restrictive. Still, the unemployment rate should edge down and wage growth increase modestly. With economic slack fully absorbed, consumer price inflation is projected to rise to 2% in 2016.

Remaining monetary accommodation will need to be withdrawn progressively. Unwarranted barriers to housing supply should be removed to increase affordability and reduce risks to financial stability. Fiscal consolidation should continue as planned to move the budget into surplus by 2015 and reinforce the downward trajectory for government debt.

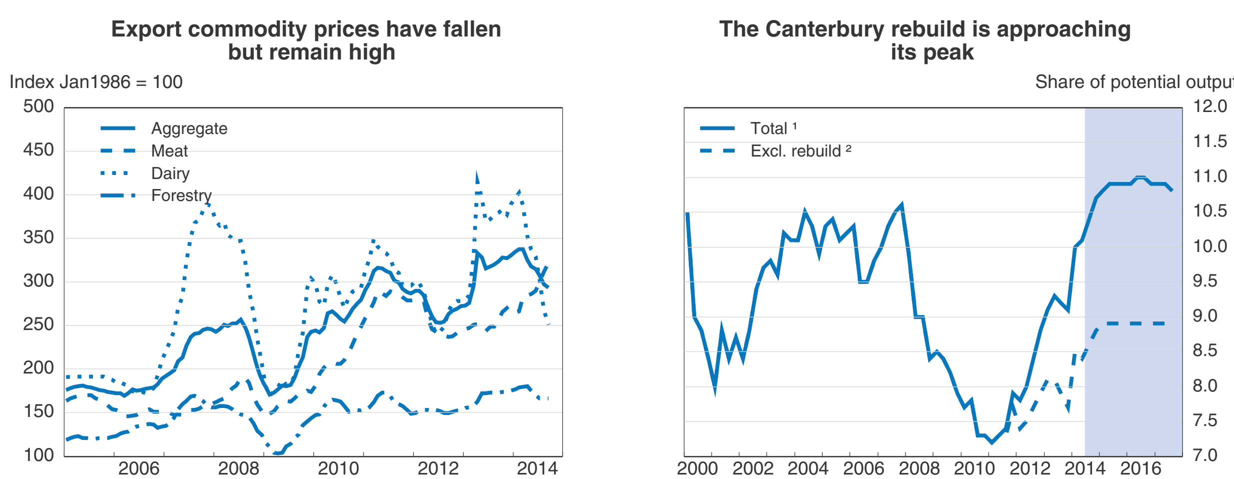
Economic growth remains high

Economic growth remains high despite the sharp fall in dairy product prices since February. Recent business opinion surveys point to near-term growth continuing at rates in excess of 3%, which is above the estimated potential rate (2½ per cent). Economic activity is being supported by post-earthquake reconstruction, the gathering pace of residential and infrastructure construction in Auckland, favourable dairy production conditions and high net immigration. Immigration has eased labour market tensions but exacerbated housing shortages in Auckland. Businesses have ramped up investment to relieve capacity constraints. Strong job creation is boosting household incomes and consumption and has reduced the unemployment rate from a peak of 7.2% following the global financial crisis to 5.4% in late 2014. Wage and price pressures remain modest.

The Canterbury rebuild will soon peak and net immigration should ease

The boost to economic growth from the Canterbury rebuild is expected to cease in 2015, when the rebuild reaches its peak, but the subsequent drag on growth from the winding down of activity will not

New Zealand



1. Gross fixed capital formation of residential buildings and other construction, seasonally adjusted.
2. Total excluding RBNZ estimates of the direct impact of the rebuild on construction expenditure.
Source: ANZ Bank; and Reserve Bank of New Zealand, Monetary Policy Statement, September 2014.

StatLink http://dx.doi.org/10.1787/888933169699

New Zealand: **Demand, output and prices**

	2011	2012	2013	2014	2015	2016
	Current prices NZD billion	Percentage changes, volume (1995/1996 prices)				
GDP at market prices	205.6	2.6	2.5	3.2	3.0	2.7
Private consumption	121.2	2.9	3.3	3.2	3.4	2.3
Government consumption	41.1	-1.5	0.9	2.2	-0.3	1.8
Gross fixed capital formation	38.3	7.1	9.7	7.1	6.6	4.7
Final domestic demand	200.6	2.8	4.1	3.8	3.4	2.8
Stockbuilding[1]	0.7	0.0	-0.1	0.9	0.1	0.0
Total domestic demand	201.2	2.8	4.0	4.7	3.5	2.8
Exports of goods and services	65.1	1.7	1.3	2.9	3.3	4.6
Imports of goods and services	60.7	2.7	6.3	6.6	4.8	4.7
Net exports[1]	4.4	-0.2	-1.5	-1.0	-0.4	-0.1
Memorandum items						
GDP deflator	_	-0.6	2.7	1.7	-0.1	1.5
Consumer price index	_	1.1	1.1	1.2	1.3	1.9
Core consumer price index[2]	_	1.0	1.2	1.4	1.5	1.9
Private consumption deflator	_	0.5	0.5	0.8	0.8	1.3
Unemployment rate	_	6.9	6.2	5.6	5.4	5.1
Household saving ratio, net[3]	_	-0.7	1.4	1.6	0.5	0.6
General government financial balance[4]	_	-2.1	0.0	0.0	0.7	1.0
General government gross debt[5]	_	42.6	41.6	41.1	40.2	39.0
Current account balance[4]	_	-4.1	-3.3	-3.5	-5.3	-5.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. As a percentage of disposable income.
4. As a percentage of GDP.
5. As a percentage of GDP at market value.

Source: OECD Economic Outlook 96 database.

StatLink http://dx.doi.org/10.1787/888933170483

occur until after 2016. After increasing substantially in 2014, net immigration is expected to ease in 2015-16 as economic conditions and labour markets in other countries improve. Nevertheless, the cumulative boost to the working-age population will have been substantial.

Macroeconomic policies are set to become less supportive of growth

Fiscal policy is assumed to remain contractionary, with the underlying primary balance improving by 1½ per cent of GDP over the next two years. This consolidation mainly reflects rising revenue. The monetary policy tightening that began in March 2014 is expected to resume in the third quarter of 2015 and continue for six months, lifting the official rate from 3.5% to 4.25%. The restrictions on high loan-to-value mortgages introduced in October 2013 are assumed to be phased out in 2015 to avoid disintermediation.

Growth should ease to more sustainable rates

Economic growth is projected to decline from 3¼ per cent in 2014 to a more sustainable 2¾ per cent in 2016 as the boost from construction and rising export prices passes and macroeconomic policy tightening bites. With employment growth set to slow sharply, the unemployment rate will only edge down to around 5%. Wage growth is projected to rise only modestly, with increased labour supply helping to alleviate wage pressures. Inflation should rise to 2%, the midpoint of the central bank's target range.

Risks are balanced

The main upside risk is that net immigration may not decline as much as assumed and/or may, as in the past, have a greater impact on domestic demand than during the past two years, pushing up growth. On the other hand, a further deterioration in the global economy, especially China, would depress export volumes and prices, reducing growth.

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