New Zealand

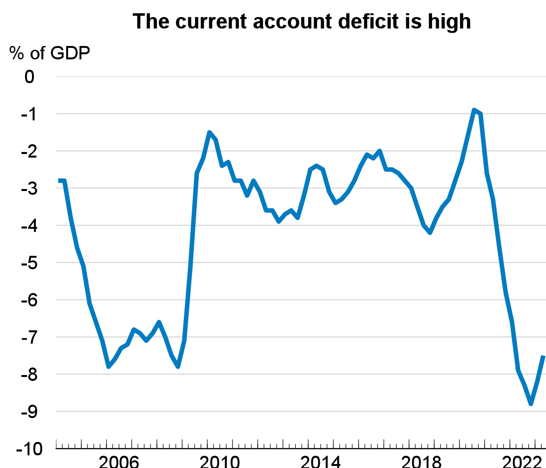
Real GDP growth is projected to ease to 1.3% in 2024 before picking up to 1.9% in 2025. Higher interest rates are weighing on consumption and housing investment, while lower global growth is restraining inbound tourism and reducing the price of commodity exports. Strong net inward migration is set to put a floor under aggregate growth. Many of the migrants are of working age, and labour force growth has been strong, easing labour market tensions. However, employment growth recently turned negative and the unemployment rate is rising.

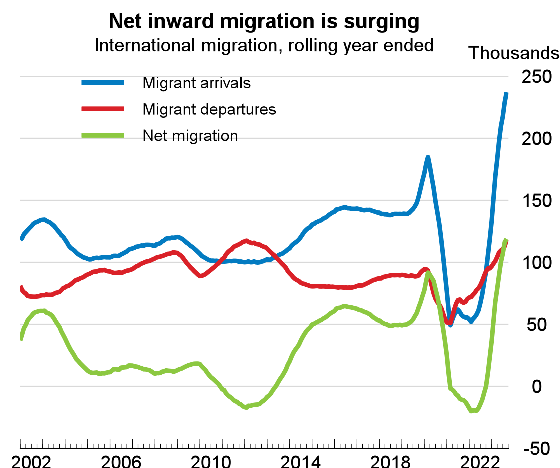
In line with weaker growth and ebbing labour market tensions, inflation is projected to fall to 3.5% in 2024 and 2.5% in 2025 if monetary policy remains restrictive for an extended period. Sticking to a moderate fiscal consolidation path is important for reducing inflation and maintaining the credibility of fiscal policy. Reforms to boost competition, as well as labour, skills and housing supply, are essential to resolve imbalances in the economy and to sustainably raise productivity and growth.

Strong net inward migration is moderating the slowdown in activity

The tightening of monetary policy has slowed the housing market and contributed to a decline in housing construction, which contracted from late 2022 to mid-2023. Weak demand from China for commodity exports has also pushed down prices, export values and farmers' incomes. However, the slowdown is being tempered by rapidly rising net inward migration to more than 118 000 (2.3% of the population), which is helping to support consumption. This surge is likely a temporary release of pent-up demand to migrate to New Zealand following the lifting of most COVID-19 border controls by end-July 2022, but also reflects a more permanent liberalisation of work visa schemes in late 2022. A rapid revival of international tourist arrivals, except from China, has also helped to limit the slowdown. Employment expanded through mid-2023, as employers filled a large stock of vacancies partly with migrant arrivals, but fell 0.2% in the third quarter of 2023. With activity slowing, consumer price inflation has fallen from a peak of 7.3% to 5.6% in the third quarter of 2023.

New Zealand





Source: Statistics New Zealand.

https://stat.link/vhn7xk

New Zealand: Demand, output and prices

New Zealand	2020	2021	2022	2023	2024	2025
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	323.0	6.1	2.3	1.6	1.3	1.9
Private consumption	182.5	7.4	3.2	1.9	0.9	1.7
Government consumption	65.3	8.2	4.6	-0.3	1.0	0.0
Gross fixed capital formation	73.7	12.3	4.1	1.6	-2.4	1.8
Final domestic demand	321.5	8.7	3.7	1.4	0.1	1.4
Stockbuilding[1]	- 1.9	1.4	-0.3	-2.1	-0.3	0.0
Total domestic demand	319.6	10.1	3.4	-0.6	-0.2	1.4
Exports of goods and services	77.5	-2.7	-0.2	9.4	4.1	2.8
Imports of goods and services	74.1	14.8	4.7	0.6	-1.2	1.6
Net exports[1]	3.3	-4.0	-1.2	2.1	1.3	0.3
Memorandum items						
GDP deflator	_	3.0	5.5	5.8	3.4	2.2
Consumer price index	_	3.9	7.2	5.8	3.5	2.5
Core inflation index[2]	_	3.7	6.0	5.8	3.6	2.5
Unemployment rate (% of labour force)	_	3.8	3.3	3.8	4.9	4.7
Household saving ratio, net (% of disposable income)	_	8.7	1.1	-2.4	-3.0	-3.4
General government financial balance (% of GDP)	_	-6.0	-2.8	-2.9	-3.2	-2.9
General government gross debt (% of GDP)	_	48.5	53.0	54.9	57.5	59.7
Current account balance (% of GDP)	_	-5.7	-8.5	-6.7	-5.6	-5.4

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 114 database.

https://stat.link/bq6w4p

Monetary policy has been tightened before fiscal policy

The Reserve Bank will need to maintain tight monetary policy throughout 2024, especially as core inflation is sticky, fiscal consolidation is very gradual and high population growth due to net inward migration will likely re-ignite pressures in the housing market, slowing the decline in inflation. The official cash rate is projected to remain constant at 5.5% until the end of 2024 and then to be cut gradually to 4.25% by the end of 2025 as inflation approaches the middle of the Reserve Bank's 1-3% target range.

A technical assumption is that fiscal policy follows the expenditure path set out in the September 2023 pre-election update of the previous government. Between 2023 and 2025 the headline deficit is projected to remain constant at around 3% of GDP. However, as economic slack will widen, the implied fiscal stance is mildly contractionary, with the underlying primary balance increasing by around ½ percentage point of GDP per annum between 2023 and 2025.

Modest economic growth is projected

Economic growth is projected to be 1.3%in 2024 but to pick up to 1.9% in 2025 as disinflation helps to restore modest real household income and consumption growth. A growing shortage of housing and rising house prices is expected to stimulate housing construction, while higher growth in China and other key trading partners will help to boost exports. Inflation is projected to continue easing gradually in line with the end of supply chain tensions, weaker demand, higher unemployment, and more modest nominal wage increases. Risks around this projection are balanced. El Niño conditions have developed in the Pacific Ocean, with a risk of a strong drought in the coming New Zealand summer that would negatively affect agricultural and

horticultural production and exports. On the upside, stronger tourism growth could spark a more vigorous export-led recovery.

A more coordinated policy approach is needed to restore macroeconomic stability

Despite narrowing, New Zealand's current account deficit still reached an unsustainable 7.5% of GDP in the year to June 2023. Together with high inflation, this indicates that strong excess demand has built up. Up until late 2023, too much weight has been put on monetary policy to reduce inflation, requiring higher interest rates and a stronger exchange rate than otherwise, thereby slowing export growth and the rebalancing of the economy. The fiscal deficit is contributing to this imbalance. Fiscal consolidation has suffered from negative surprises, including increased cost pressures, the bill for storm and cyclone damage, and spending slippages. The previous government twice delayed reaching its target of a return to surplus by one year, despite an expected rise of nearly 3% of GDP in ageing-related health and pension expenditure by 2040. In addition, the disinflationary benefits of easing labour market shortages are being reduced by the housing market pressures created by a heavy reliance on migrants to fill vacancies. Fiscal and structural policies need to contribute to lowering inflation and reducing imbalances by encouraging an increase in domestic labour and housing supply, rather than adding to demand via tax cuts or other non-targeted subsidies.

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