



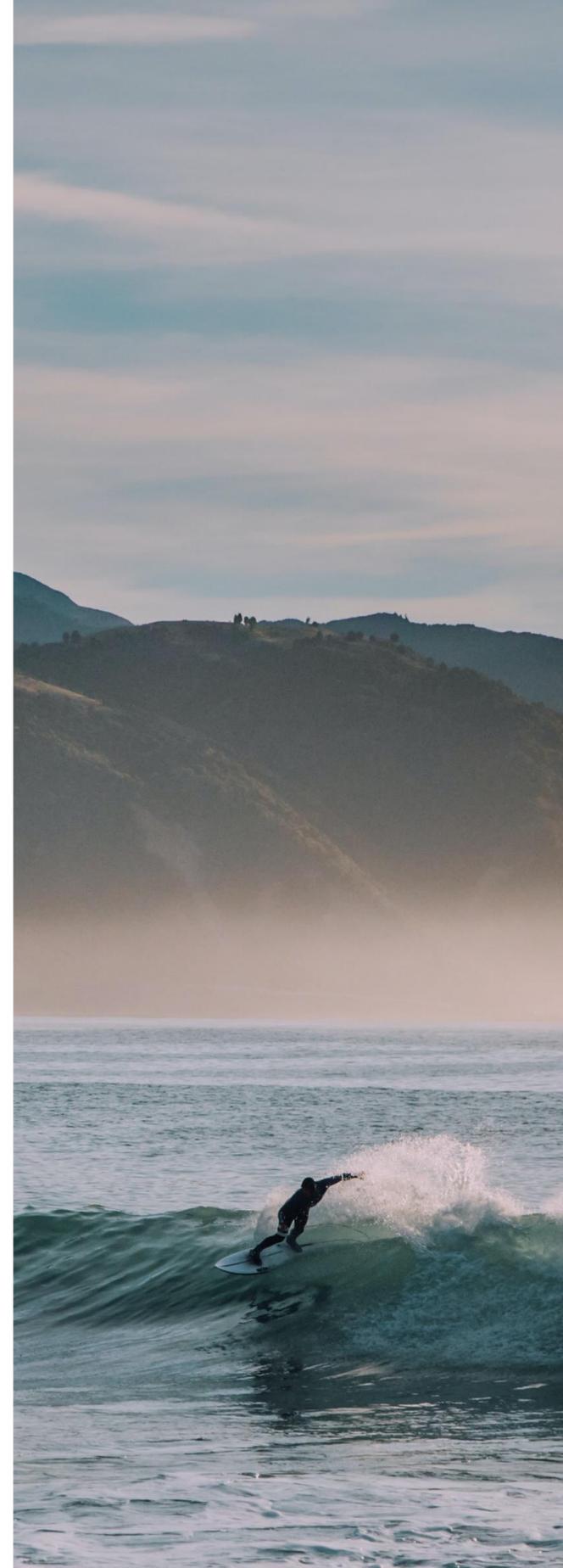
Economic Update

Commerce teachers' professional
development day – Auckland &
Wellington

Nov 2023

Presentation overview

- Treasury forecasts – why and how do we produce economic and fiscal forecasts
- The economic outlook – what we said in our Pre-election economic and fiscal update and how have things evolved?
- How do we encourage more economics students?



Why do we prepare economic and tax forecasts

Three-year ahead economic and fiscal forecasts are mandated under the Public Finance Act (PFA) 1989.

New Zealand is unusual globally in that the Treasury has an independent role to prepare the forecasts based on its best professional judgement. As such, having credible, transparent economic forecasts underpins the credibility and transparency of the fiscal forecasts.

The forecasts are also an important tool for illustrating the context in which policy decisions are being made.

Budget Economic and Fiscal Update (BEFU) usually published mid-May

Half Year Economic and Fiscal Update (HYEFU) usually published mid-December

In election years we produce a *Pre-election Economic and Fiscal Update (PREFU)* a month prior to the election

Forecasting model to produce forecasts for:

- Real and nominal GDP (and components)
- Export and import prices
- CPI
- Interest and exchange rates
- Labour market variables
- Balance of payments

26P Economic forecasts

- (1) The economic forecasts contained in the economic and fiscal update prepared under [section 26O](#) must, for each of the 3 financial years to which they relate, include forecasts of movements in New Zealand's—
 - (a) gross domestic product (including the major components of gross domestic product):
 - (b) consumer prices:
 - (c) unemployment and employment:
 - (d) current account position of the balance of payments.
- (2) The economic forecasts must also include a statement of all significant assumptions underlying the forecasts.

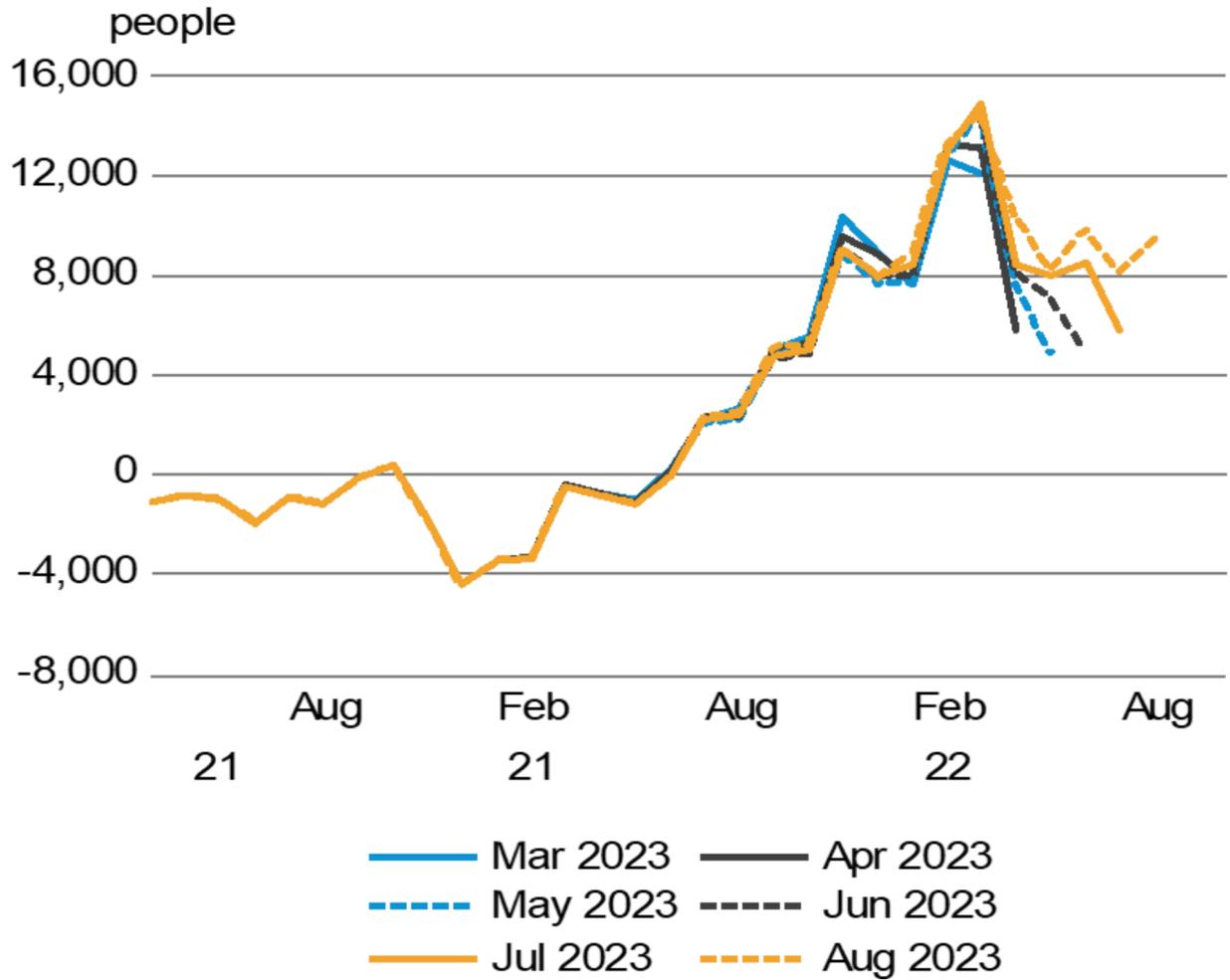
Section 26P: inserted, on 25 January 2005, by [section 7](#) of the Public Finance Amendment Act 2004 (2004 No 113).

Economic outlook

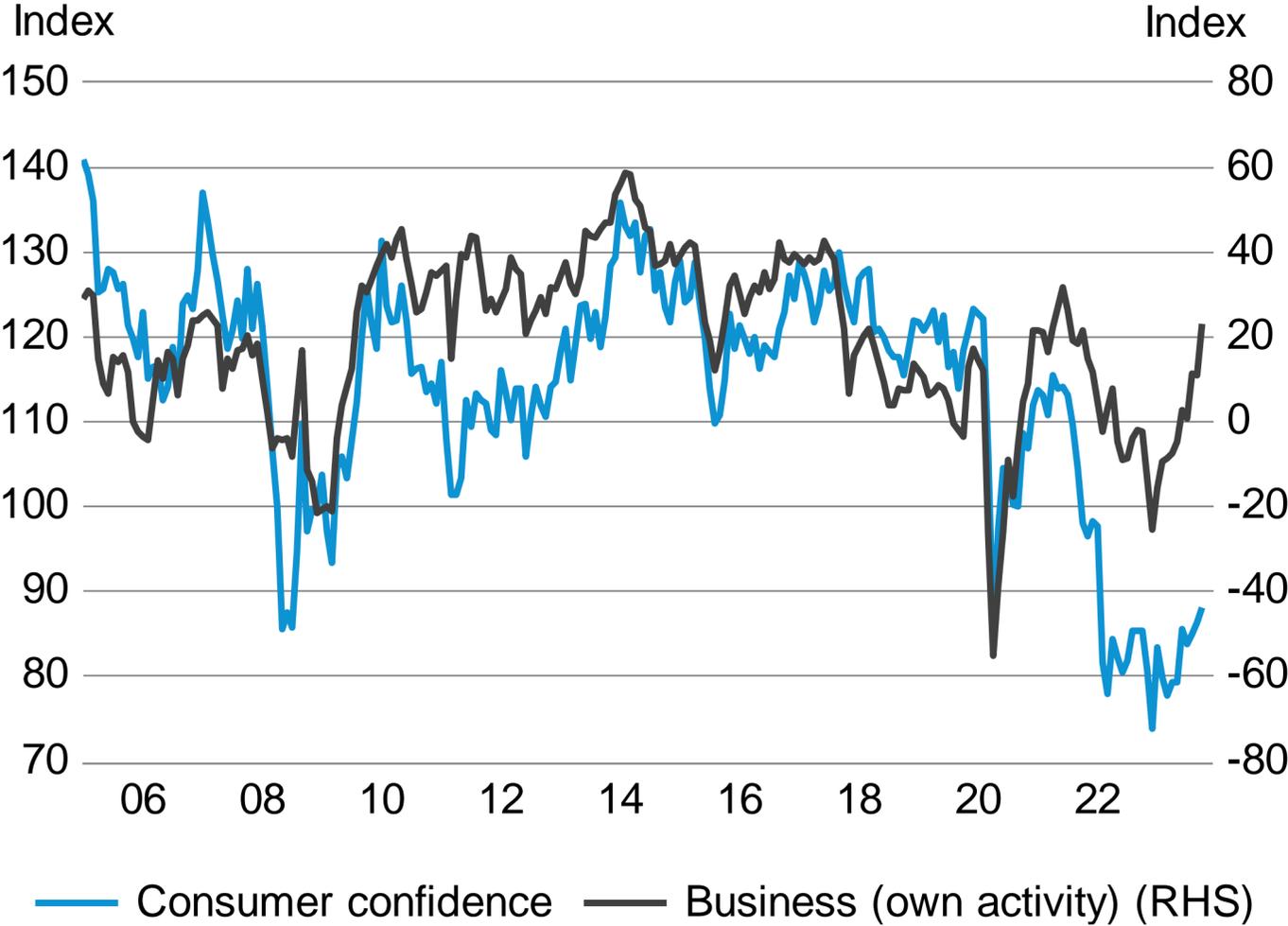
- **In recent years, demand in the economy has been strong, while the supply-side has been constrained, leading to high inflation. A period of soft activity due to high interest rates is required to unwind this imbalance and bring down inflation.**
- **Interest rates are expected to remain elevated** through to late next year, before gradually declining as inflationary pressures ease.
- Near term growth is being supported by:
 - Strong net migration which is adding to demand, including for housing, as well as boosting labour supply.
 - Tourism continuing its post-COVID recovery.
 - Investment associated with the recovery from the North Island weather events which will continue over the forecast period.
- Easing but persistent global inflation requires **high interest rates across many countries** to dampen activity, which **leads to a weak global growth outlook**. This outlook, including growth in China, is expected to result in subdued prices for New Zealand's key export products.
- Both domestic and global factors create considerable uncertainty around these forecasts:

Recent developments and near-term outlook

Net Migration - historical revisions



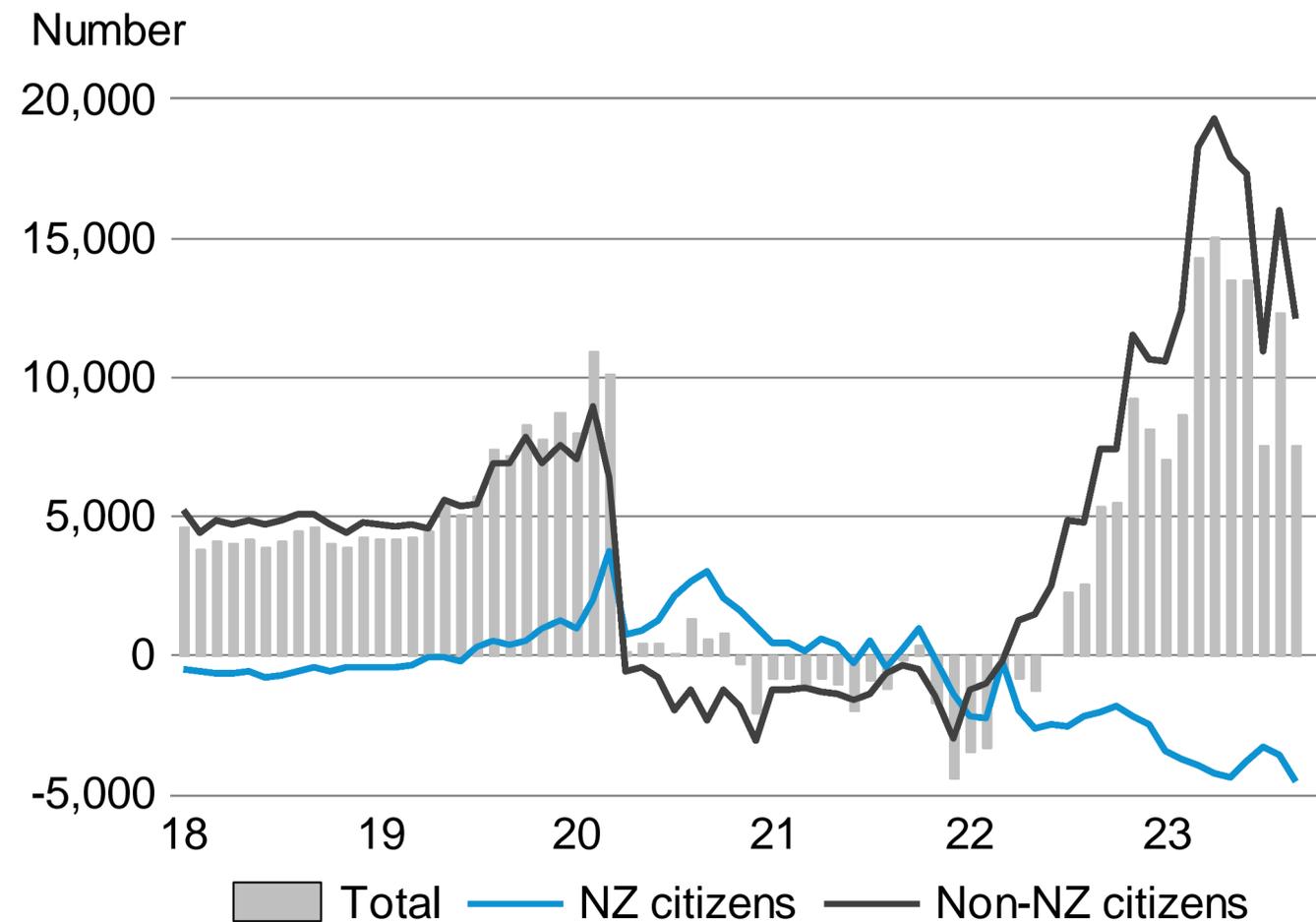
Consumer and business confidence



Sources: ANZ/Roy Morgan, ANZ

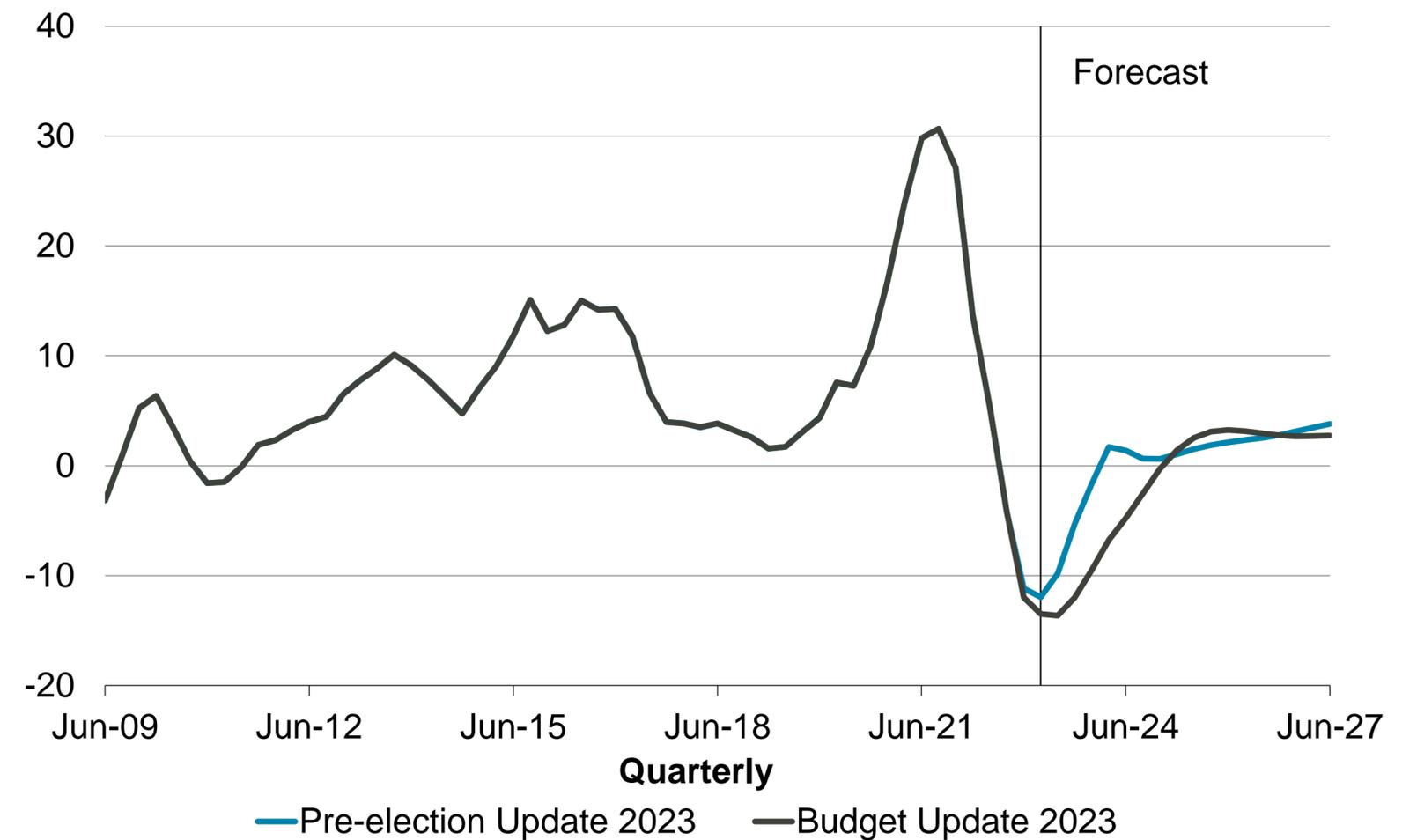
Stronger net migration is supporting near-term growth

Monthly net migration

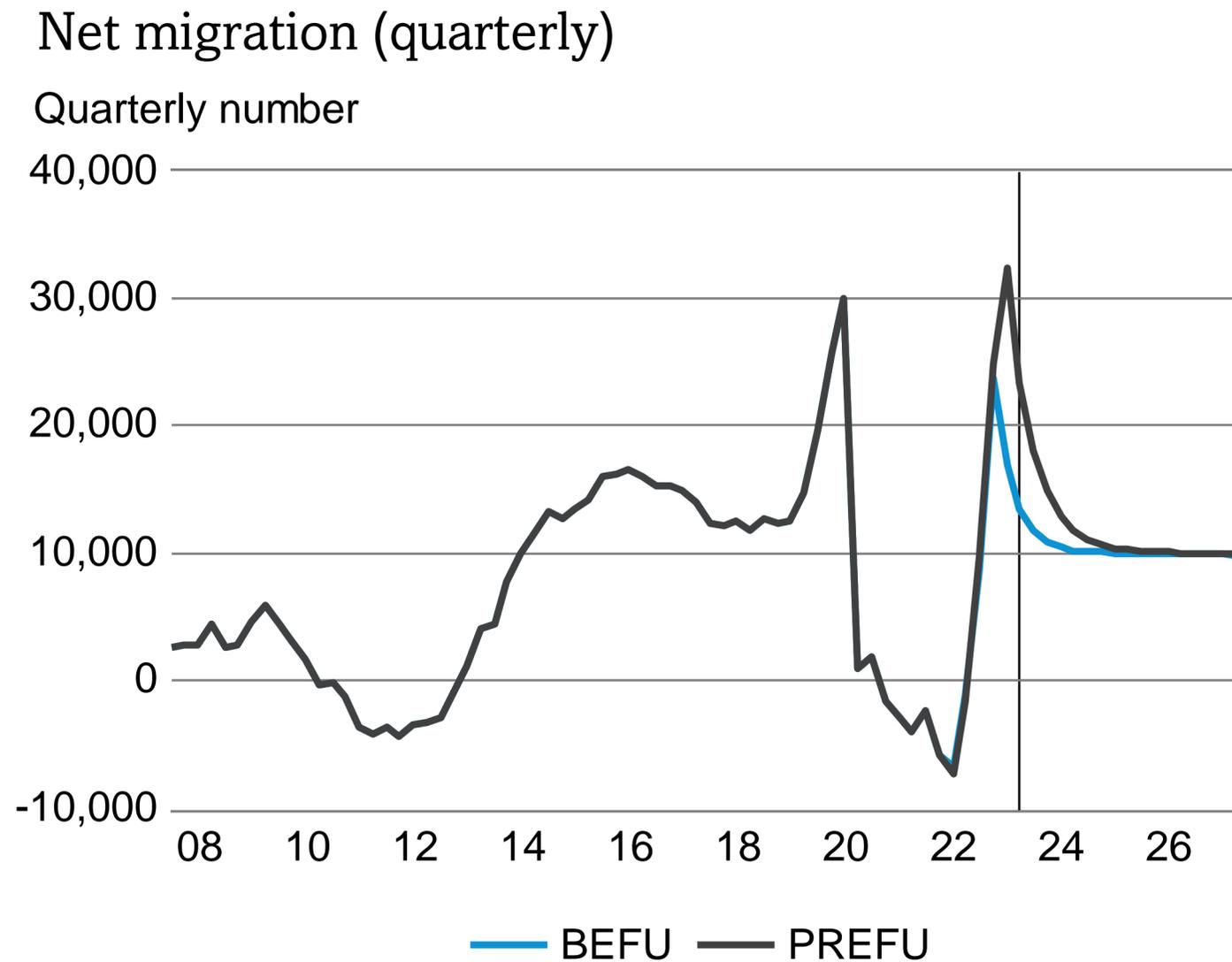


House price growth

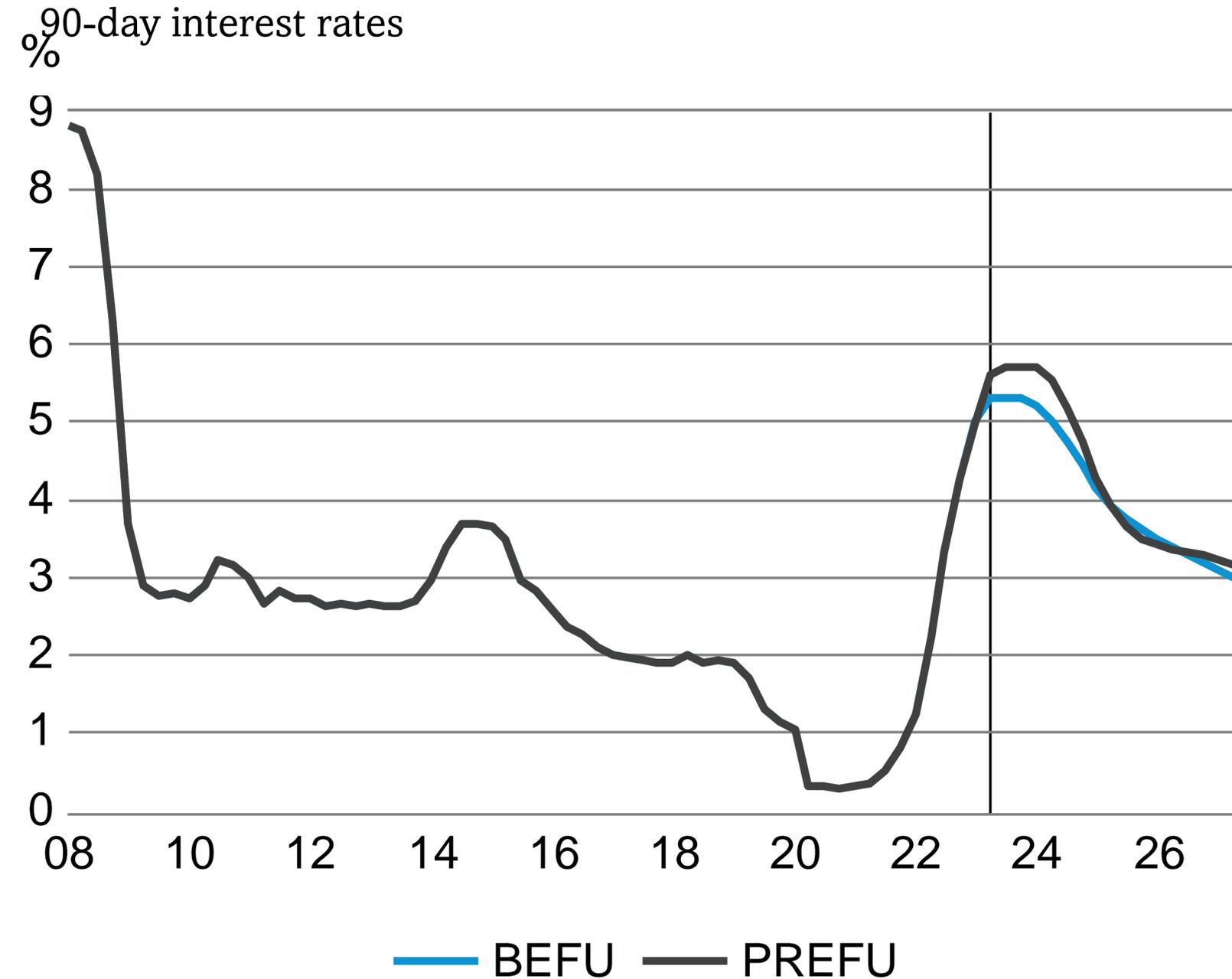
Annual average % change



... and leading to higher interest rates...



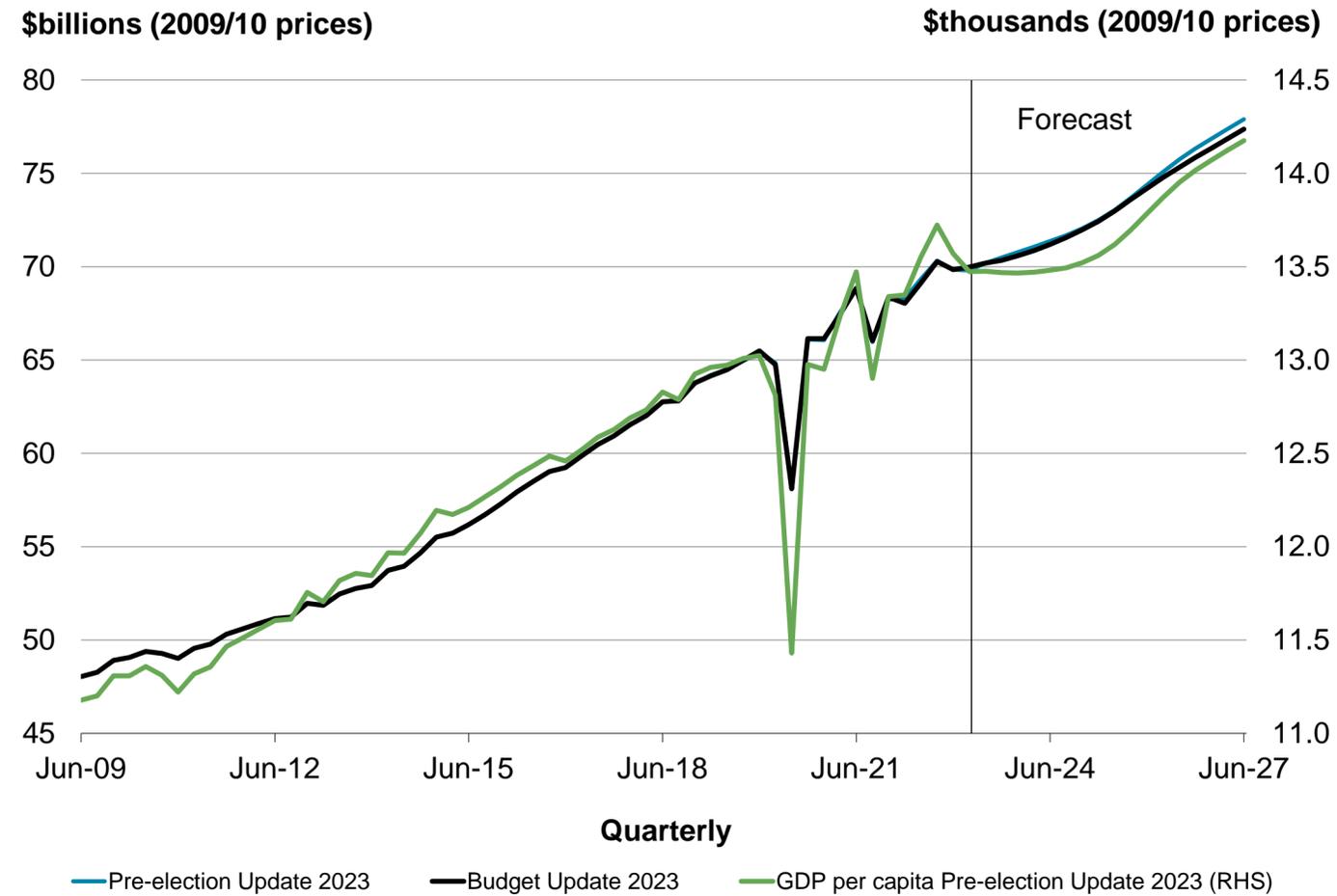
Sources: StatsNZ, the Treasury



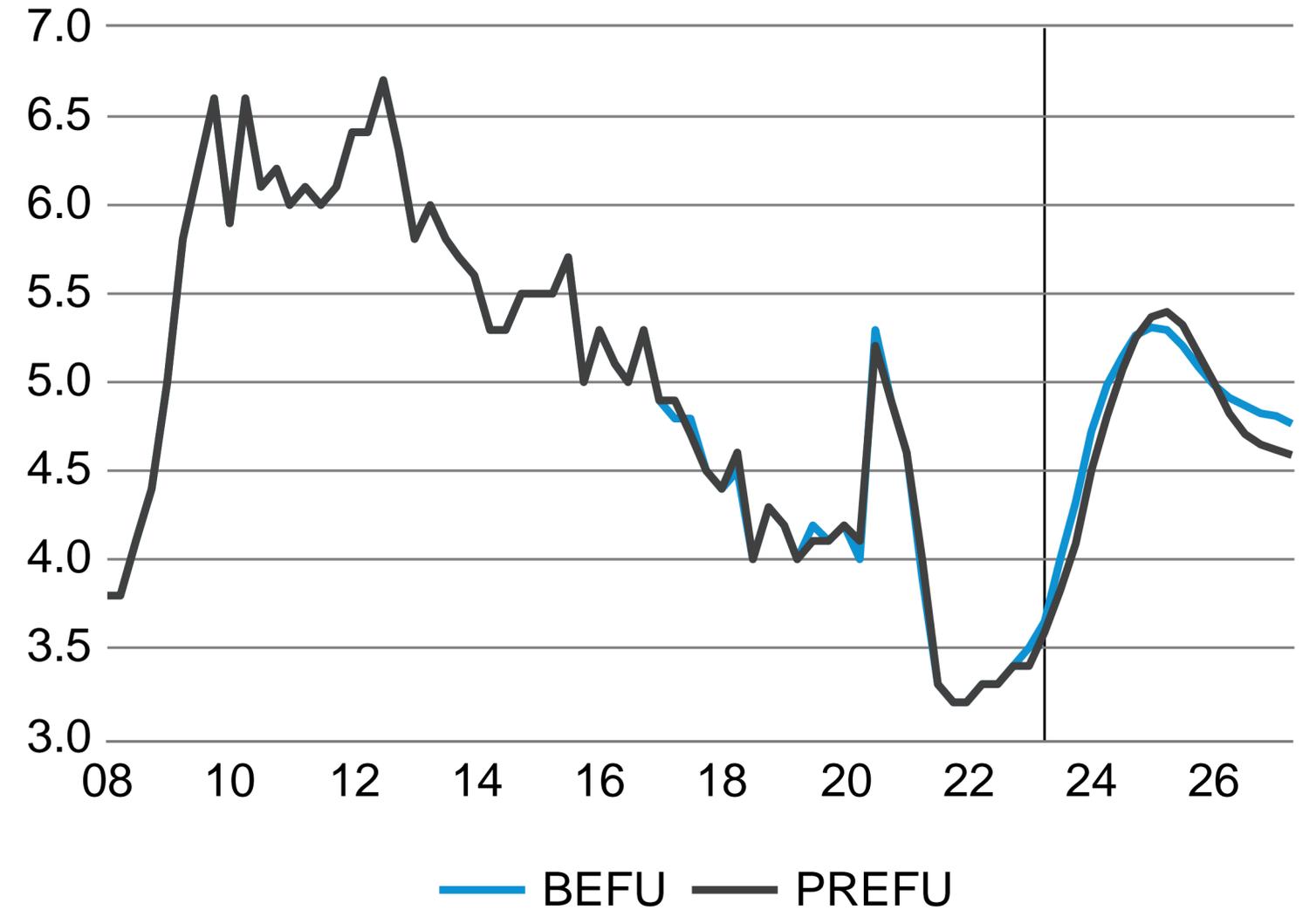
Sources: StatsNZ, the Treasury

...which will slow economic activity in the medium term...

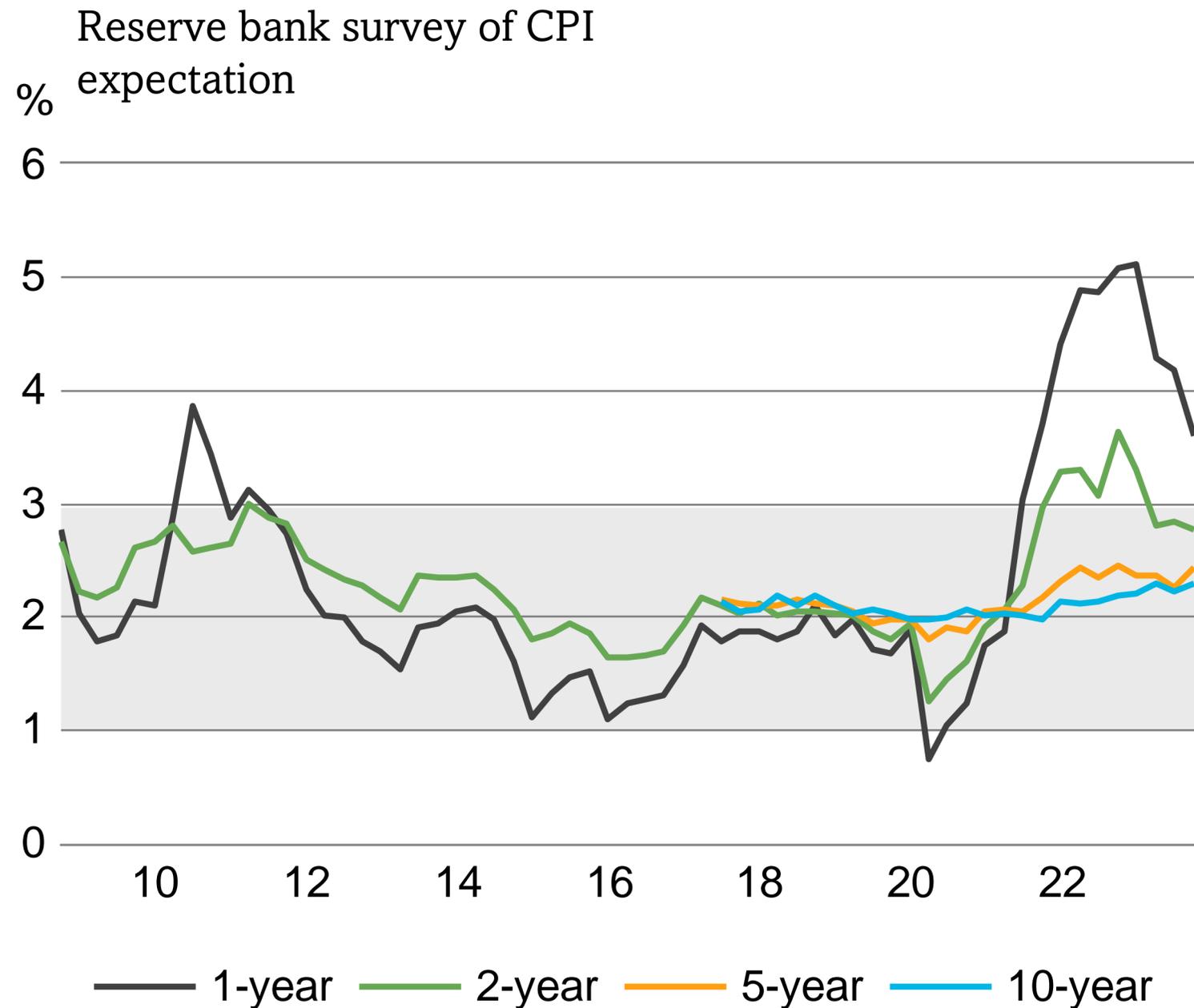
Real GDP growth



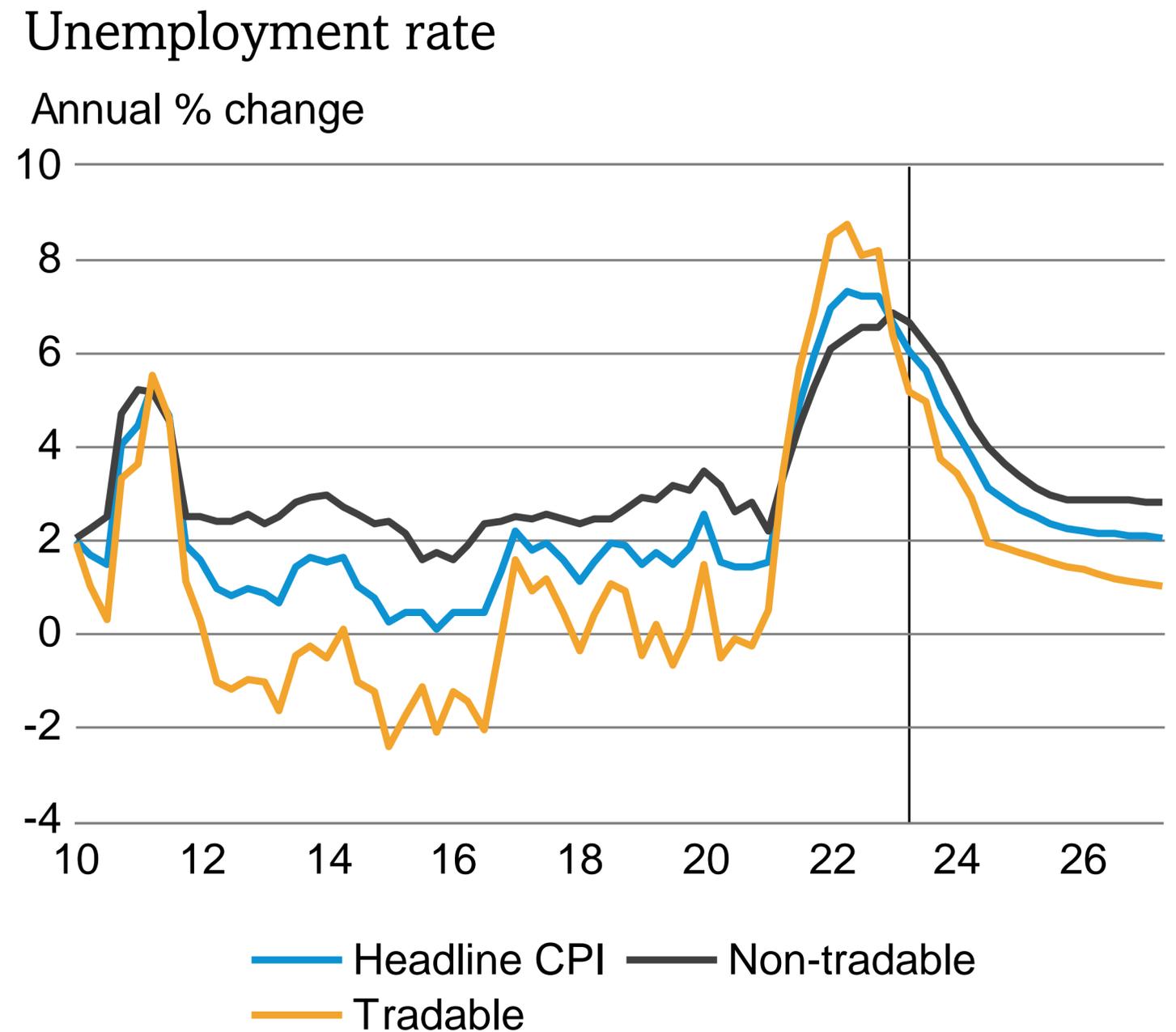
Unemployment rate % of labour force



Price expectations are falling, and so too is inflation...



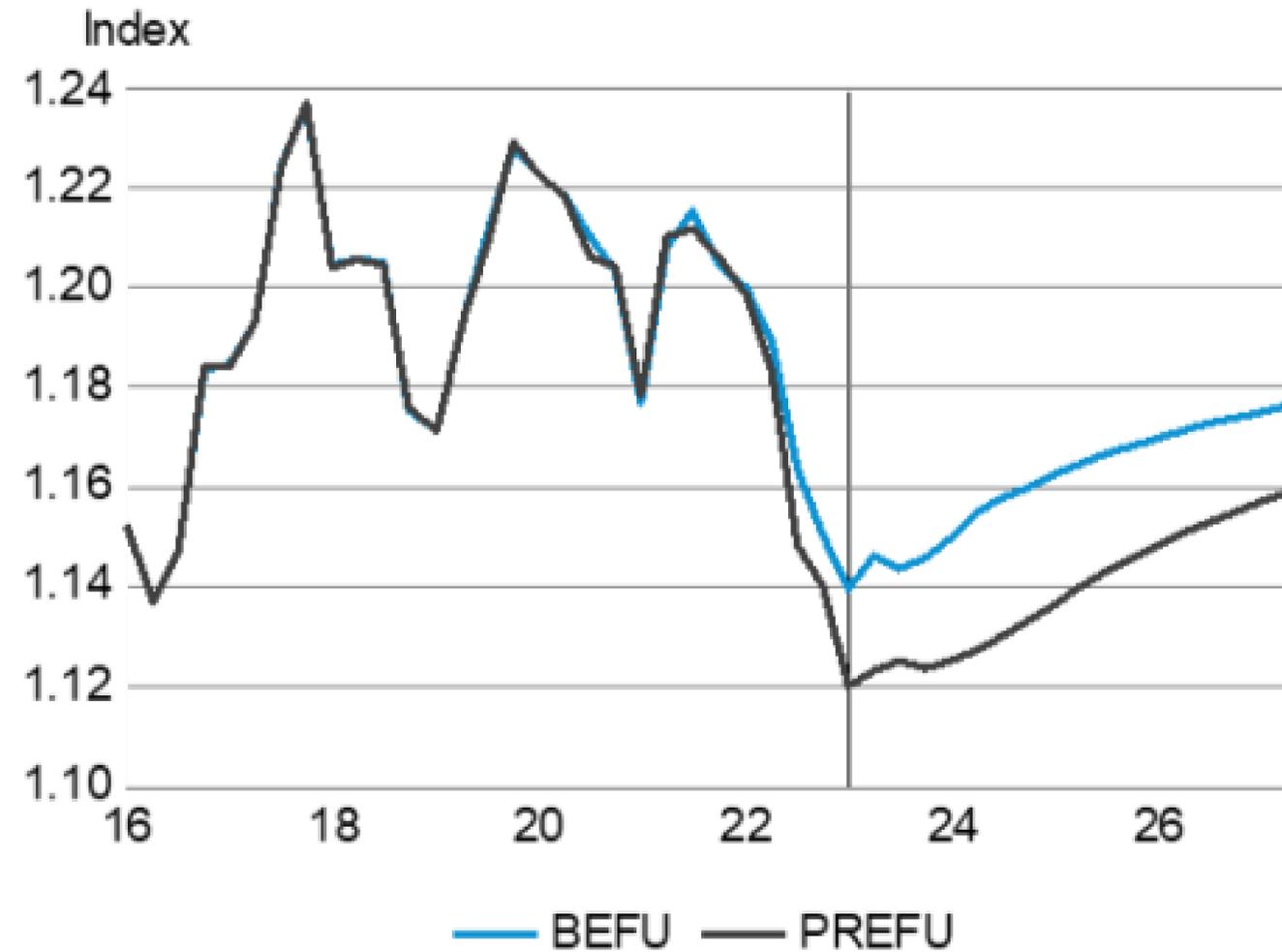
Sources: The Reserve Bank of NZ



Sources: Stats NZ the Treasury

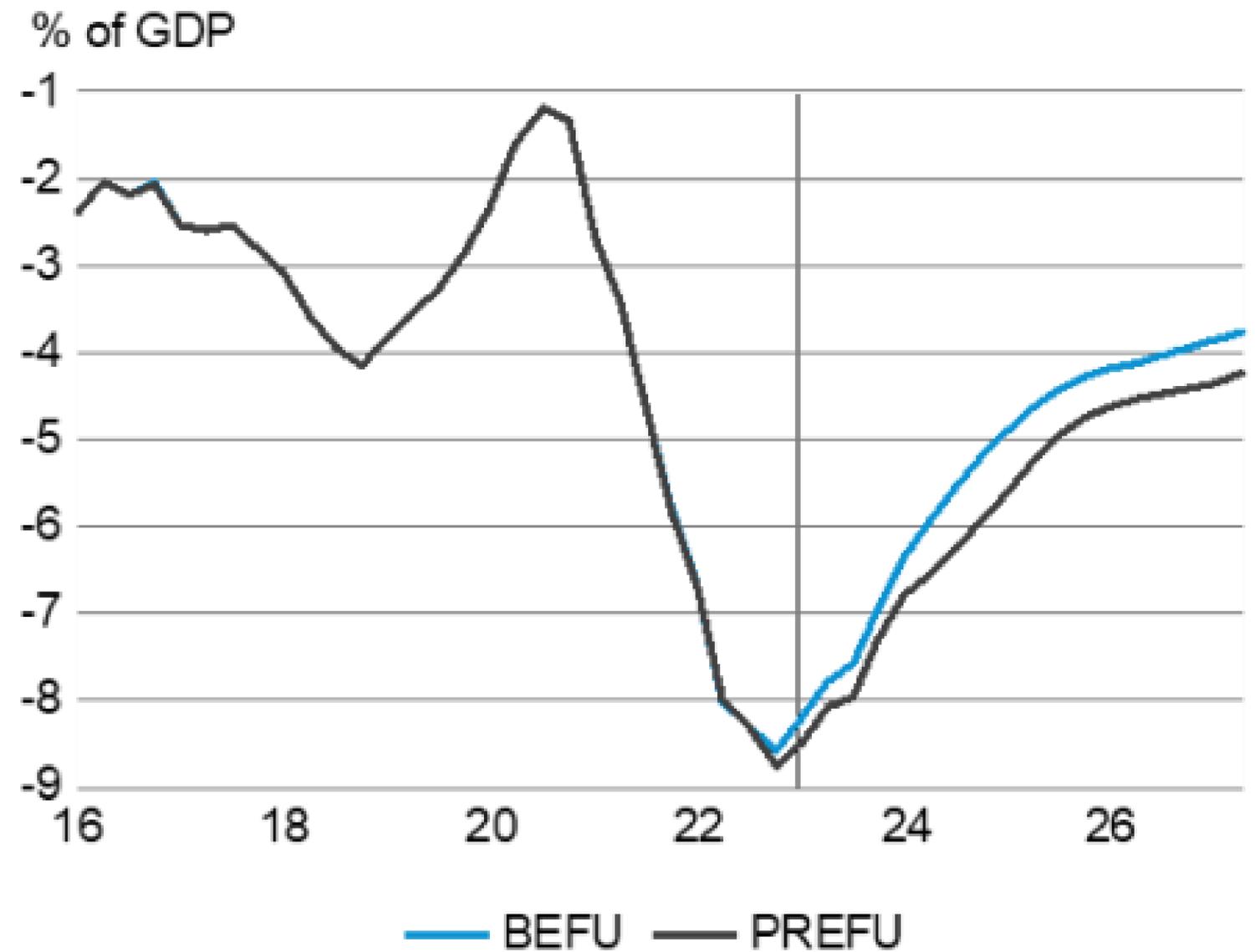
The world outlook remains subdued...

Terms of trade (goods)



Sources: StatsNZ, the Treasury

Current account



Sources: StatsNZ, the Treasury

Economic outlook remains uncertain...

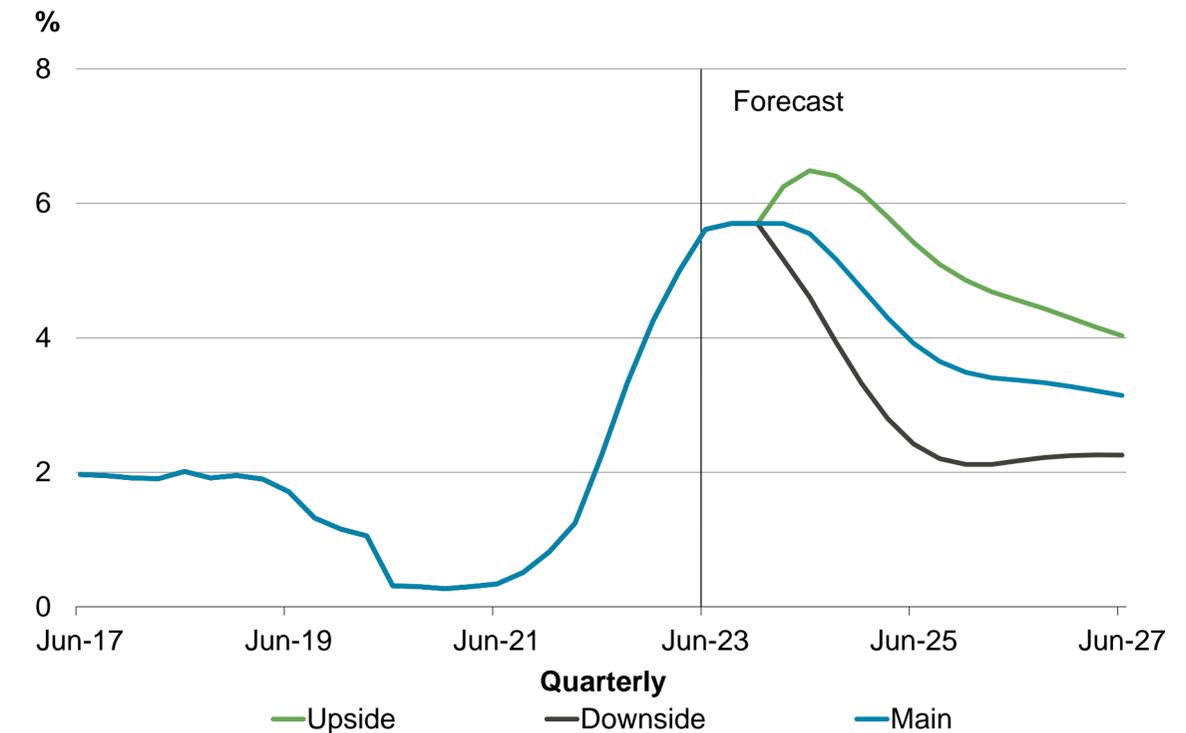
New uncertainties are emerging...

- The situation in the Middle East is a new source of uncertainty, and we have seen this reflected in renewed oil price volatility.
- The El Nino weather pattern is a further source of uncertainty, with higher food prices a risk.
- Domestically, weak confidence could undermine growth
- Housing market has competing forces

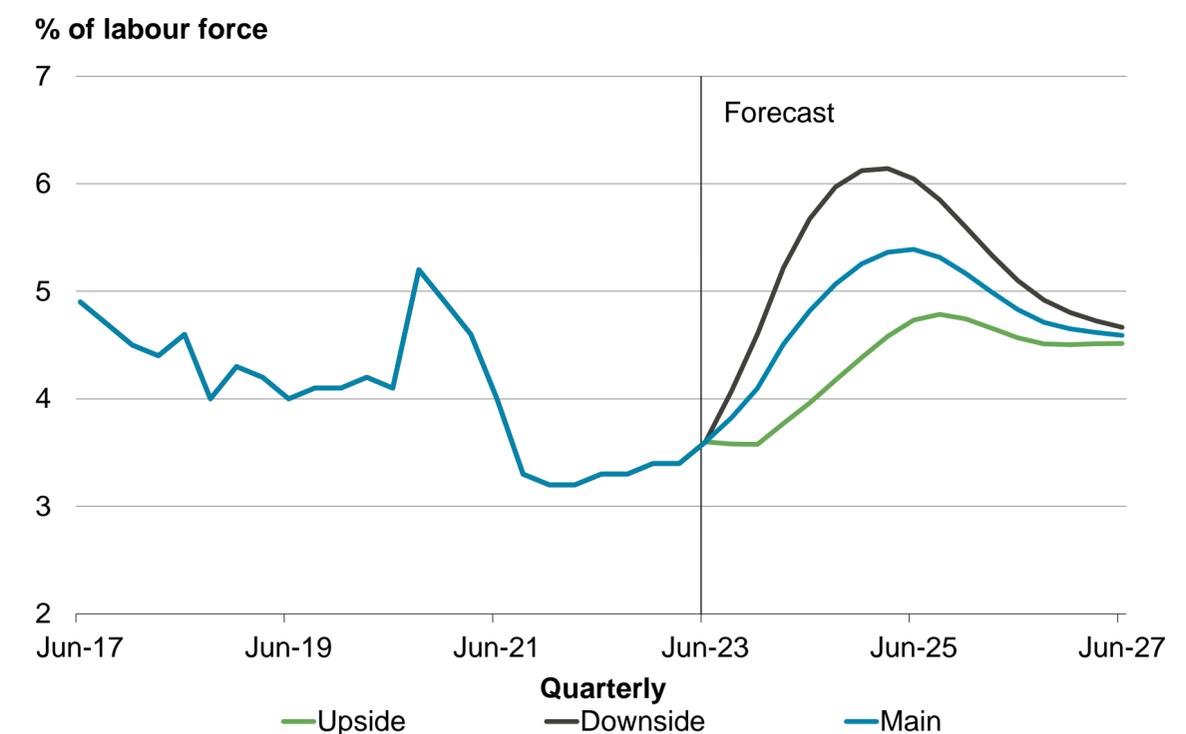
Upside & downside scenarios convey different outcomes:

- **Upside:** stronger domestic demand requires higher interest rates to curb more persistent inflation
- **Downside:** slower growth and int'l demand dampens domestic inflation more quickly

90-day rates



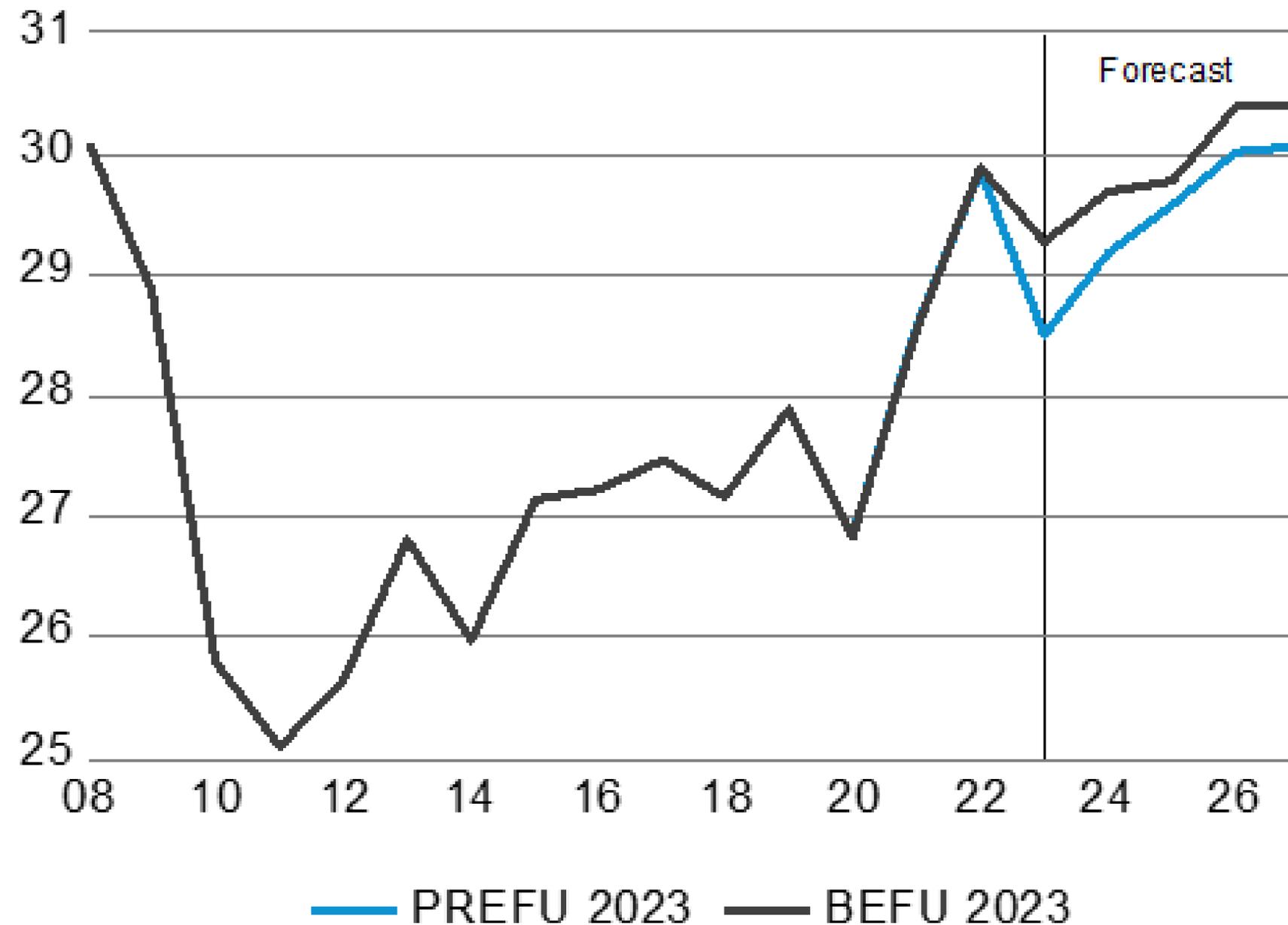
Unemployment rate



Tax outlook is weakening...

Core Crown tax revenue as % of GDP

% of GDP



- Growth in core Crown tax revenue broadly follows the growth in nominal GDP, which is expected to increase across the forecast period.
- Overall, tax revenue is down around \$6.6 billion across the forecast period and \$0.9 and \$0.4 billion in the June 2026 and 2027 years, respectively. Weaker corporate and other persons taxes are partially offset by stronger PAYE & GST due to a slightly stronger domestic activity outlook.
- Overall tax revenue grows by \$35 billion over the forecast period, from \$112 billion in 2022/23 to \$147 billion in

Where have all the economics graduates gone?



- Long-term decline in (macro)economics graduates & quant skills more generally
- More competition for high-quality students
- Difficult to recruit from abroad for the skills we need
- What trends do you see at school level?