



Throttle back

Outlook for the
New Zealand
Economy

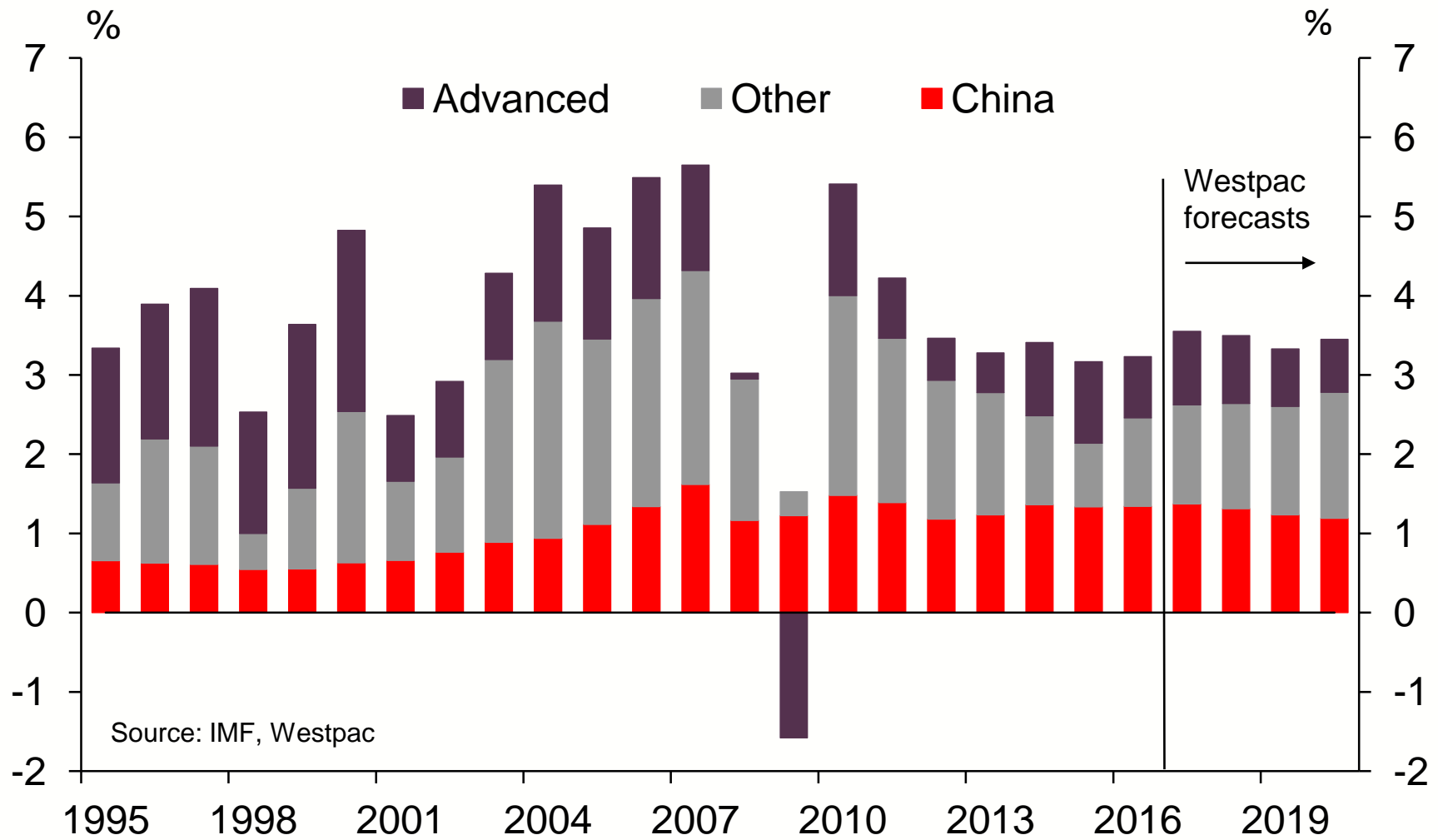
August 2017



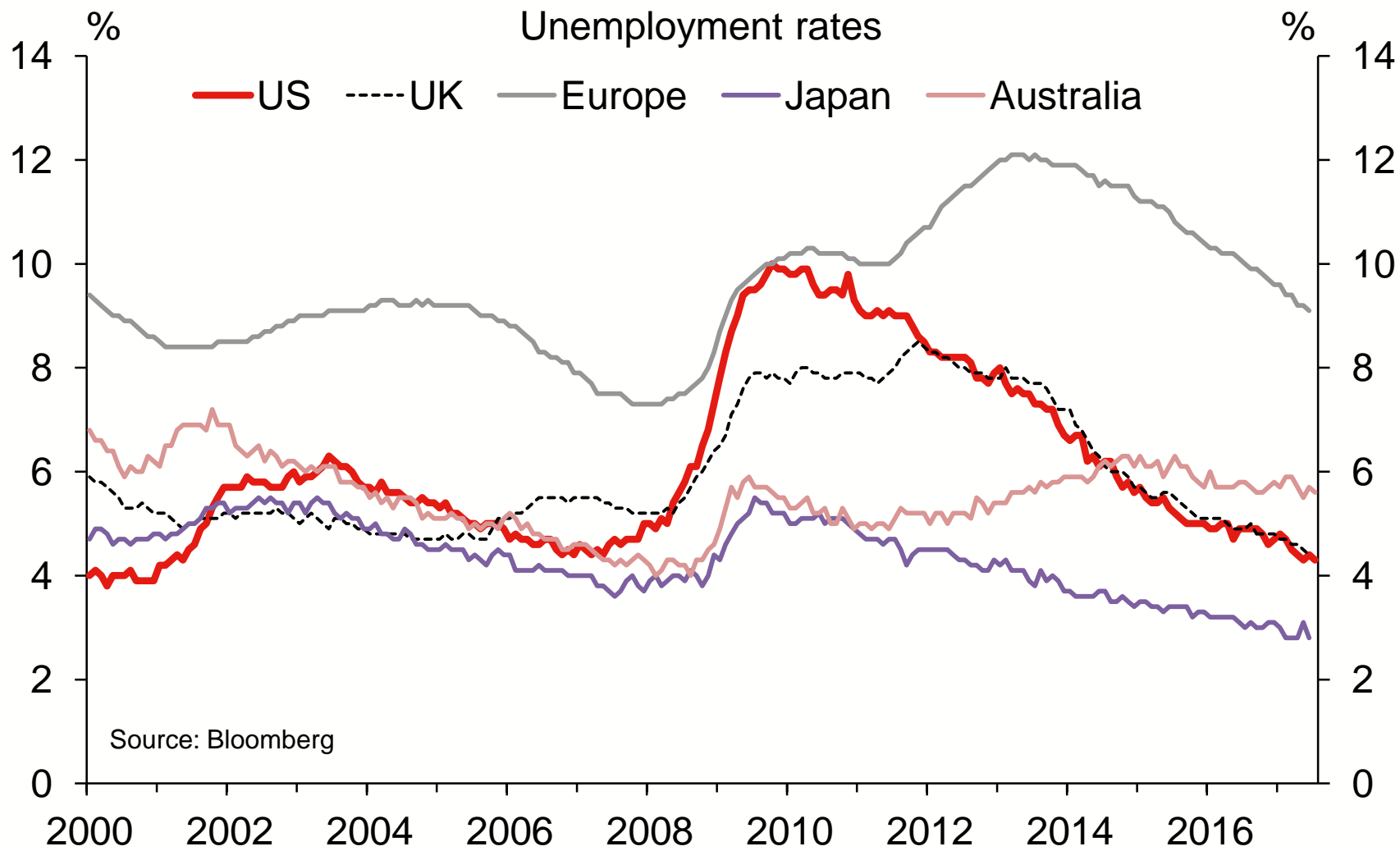
Key themes

- World economy in a modest upswing
- But NZ economy's growth is past its peak
- Housing market has cooled, and we think it will stick this time
- Better dairy prices will help to revive regional economies
- Significant challenges for the construction sector
- But low risk of economy as a whole overheating

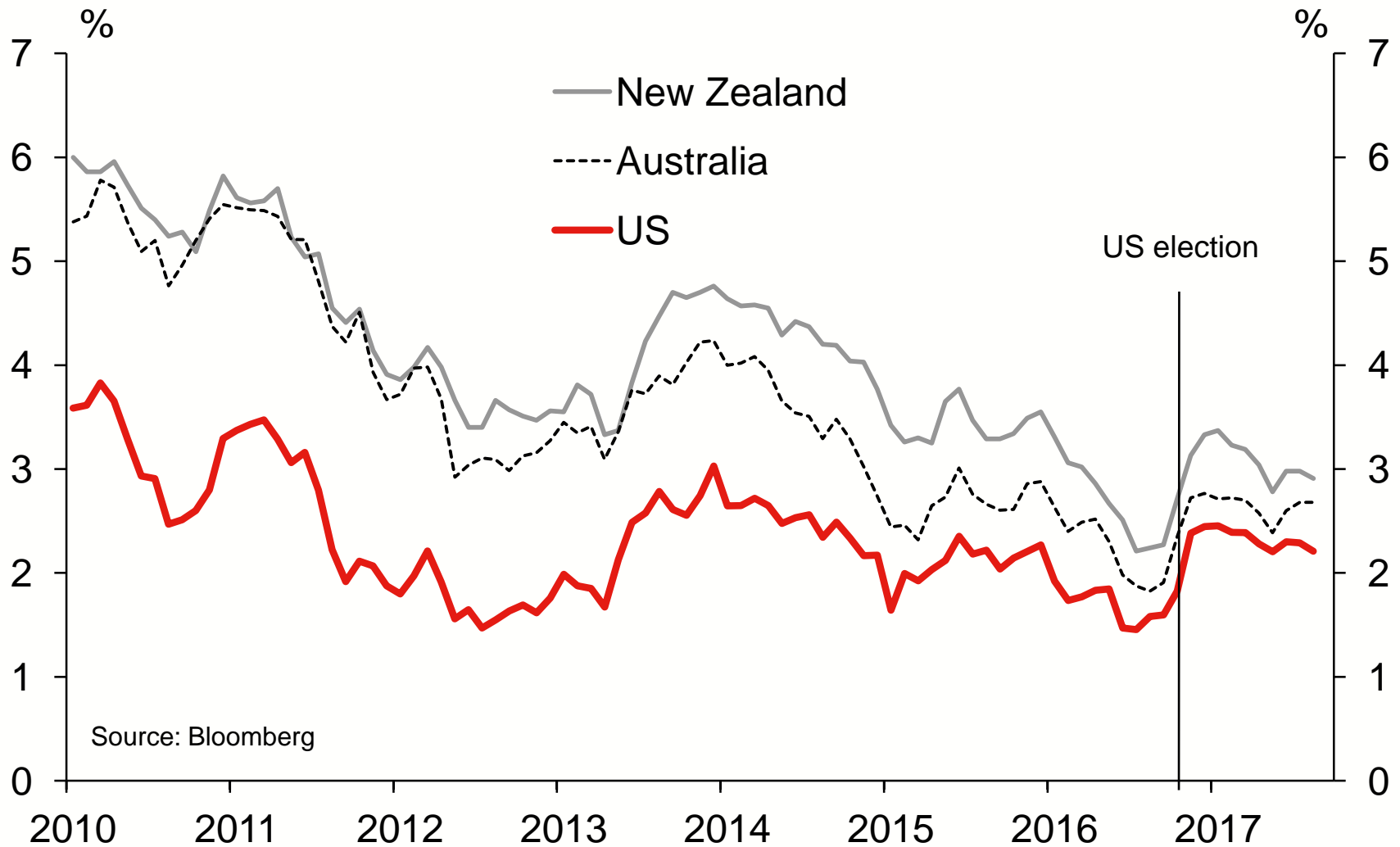
Components of world growth



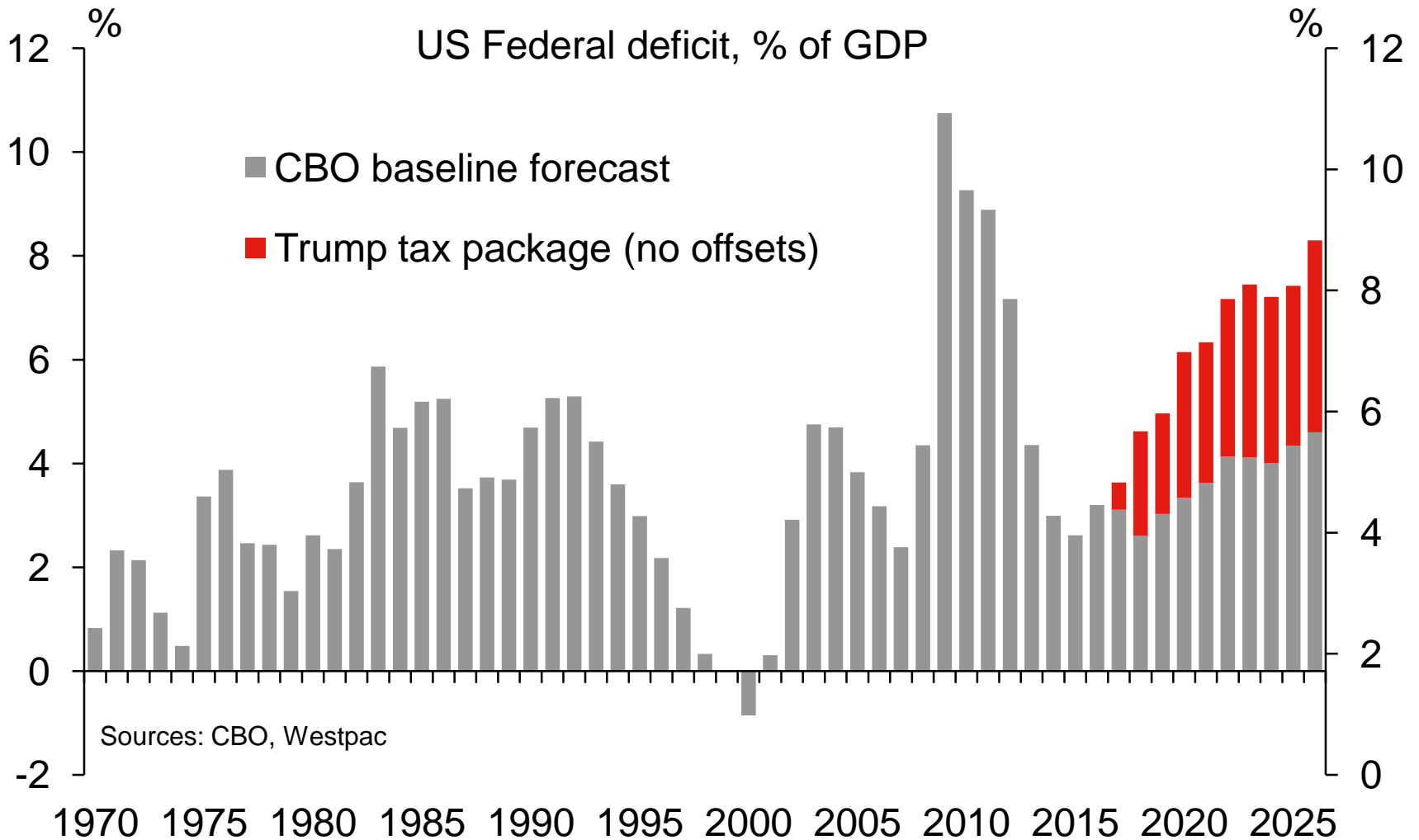
Post-crisis healing continues



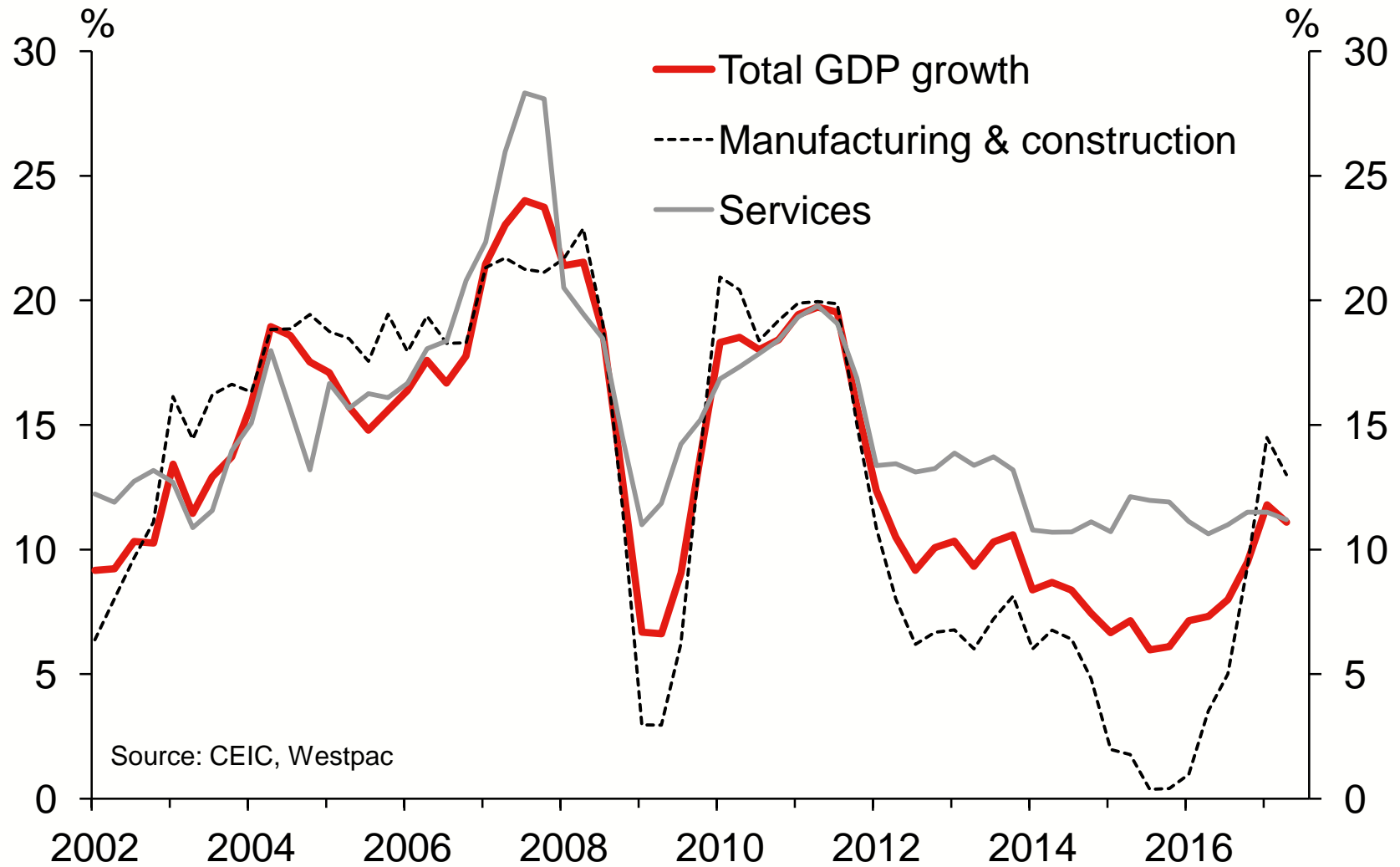
Long-term interest rates rising



'Trumpflation' was always tenuous



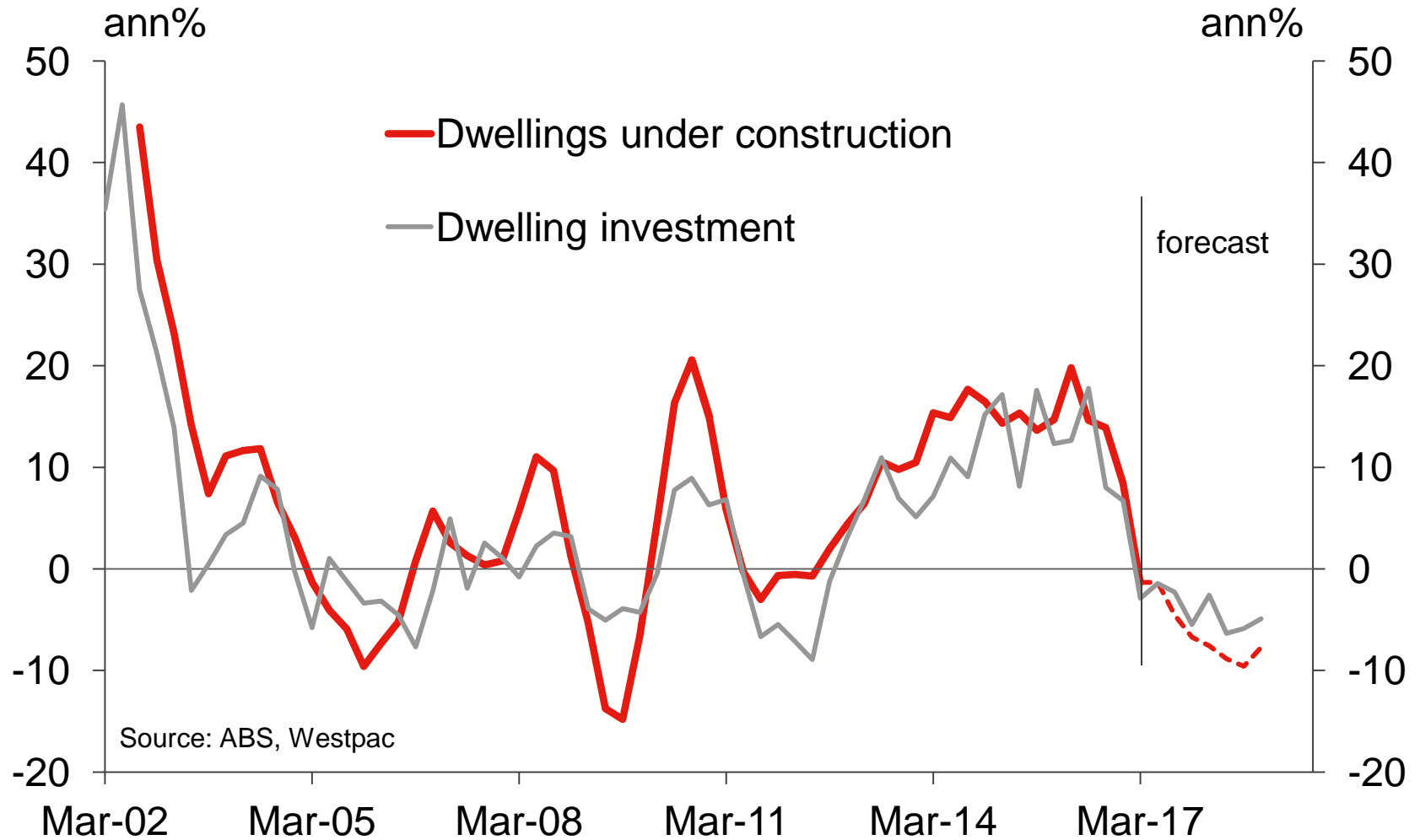
China: doubling down on industry



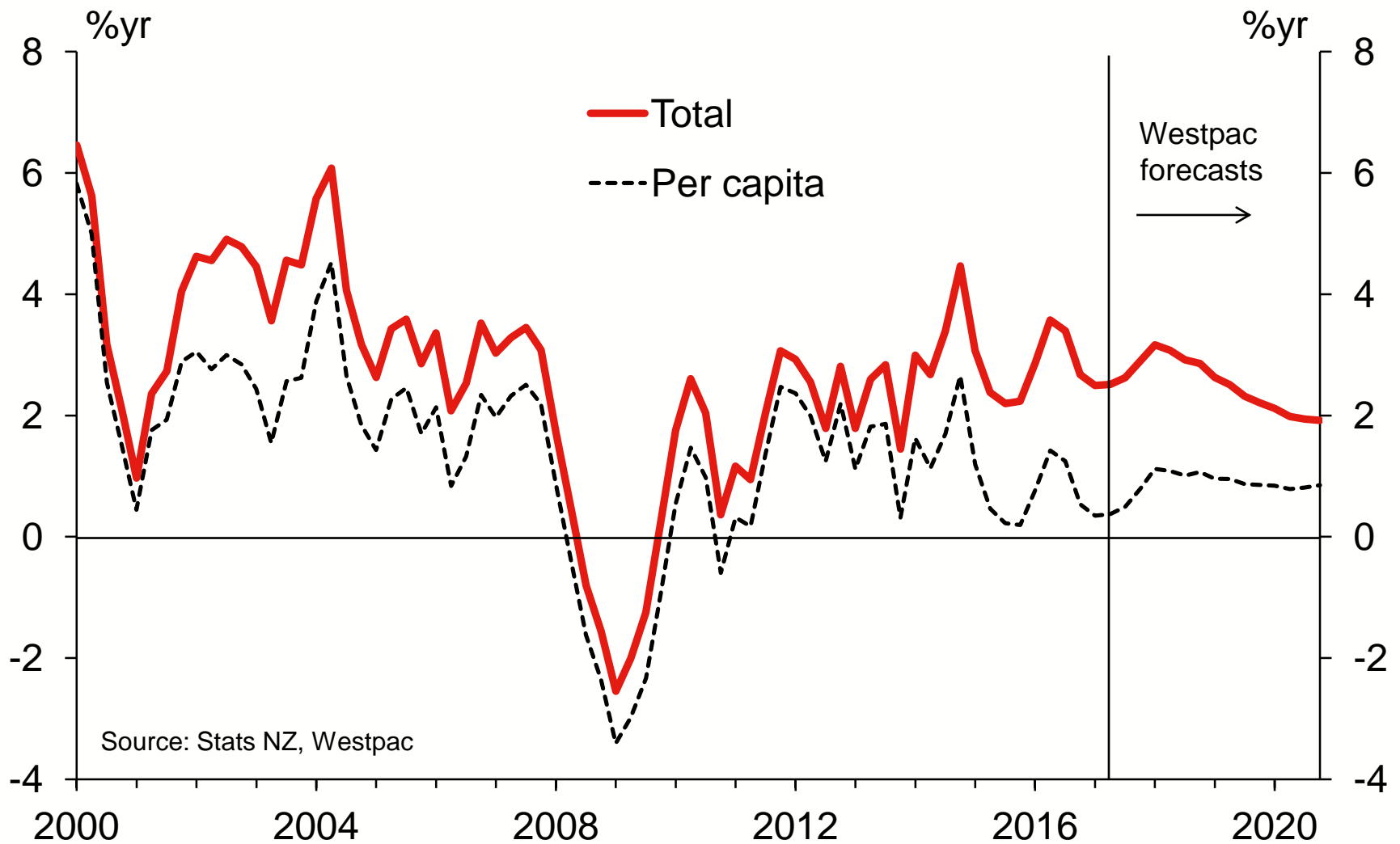
Australia: near-term improvement



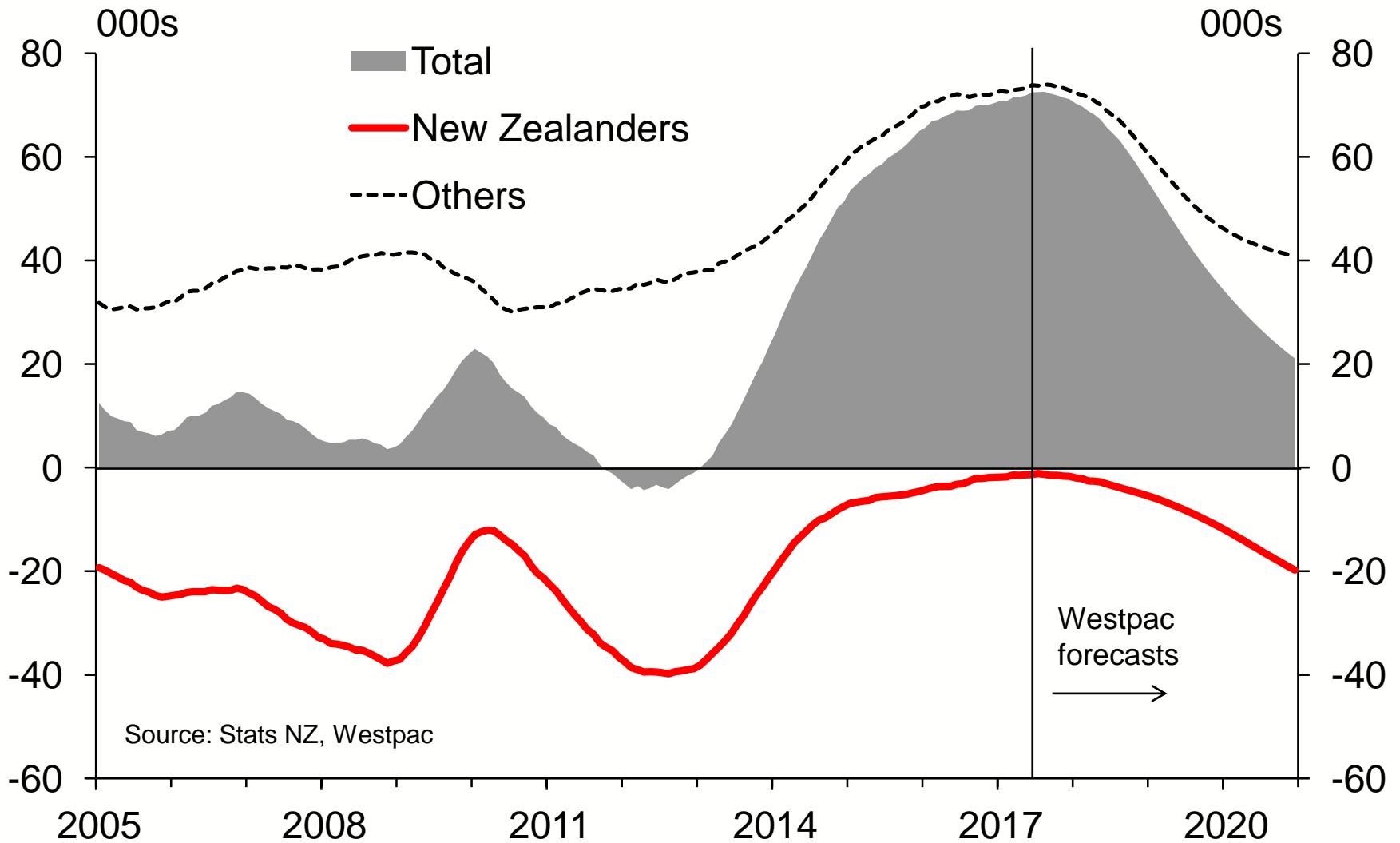
But building industry faces overhang



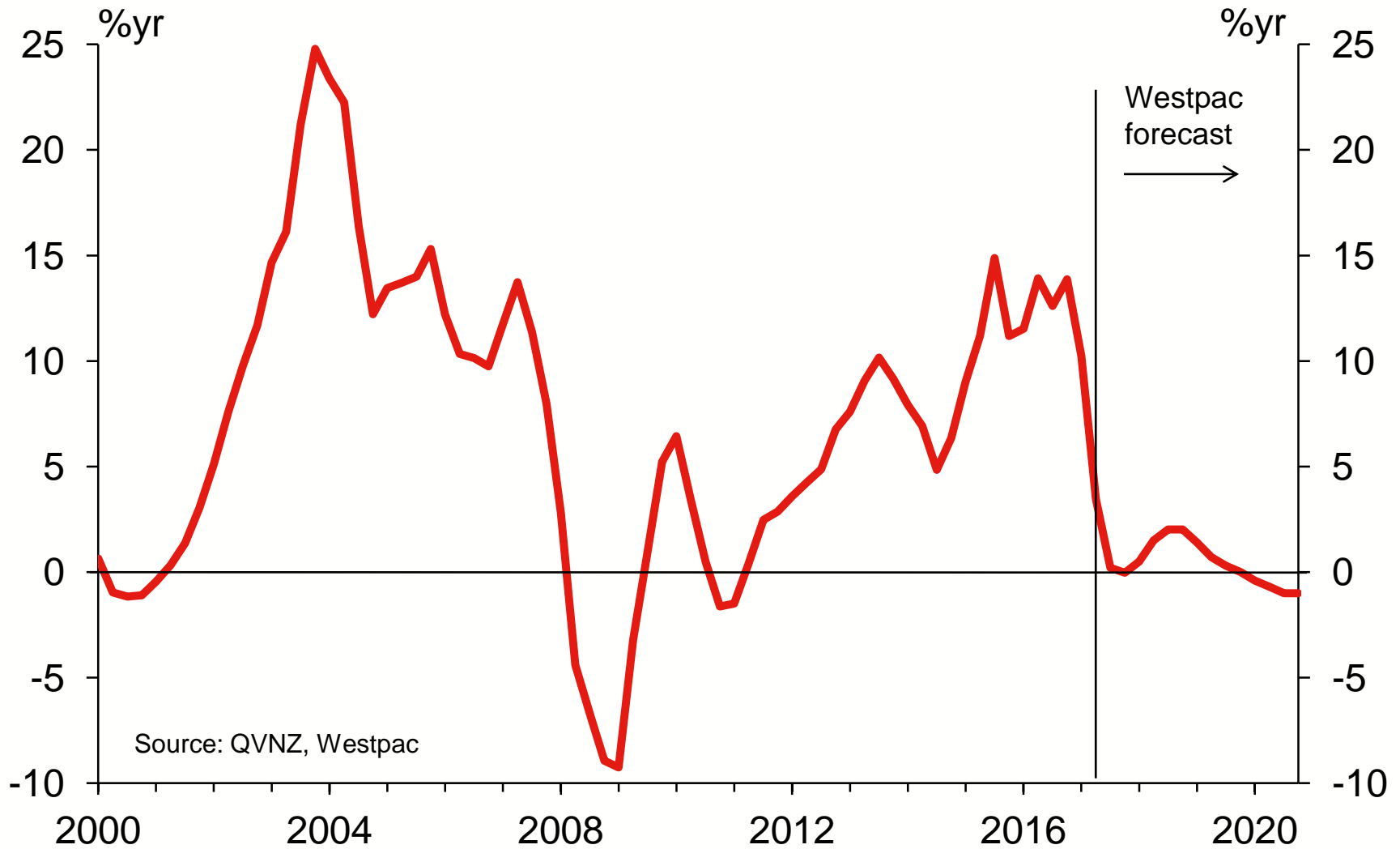
NZ annual GDP growth



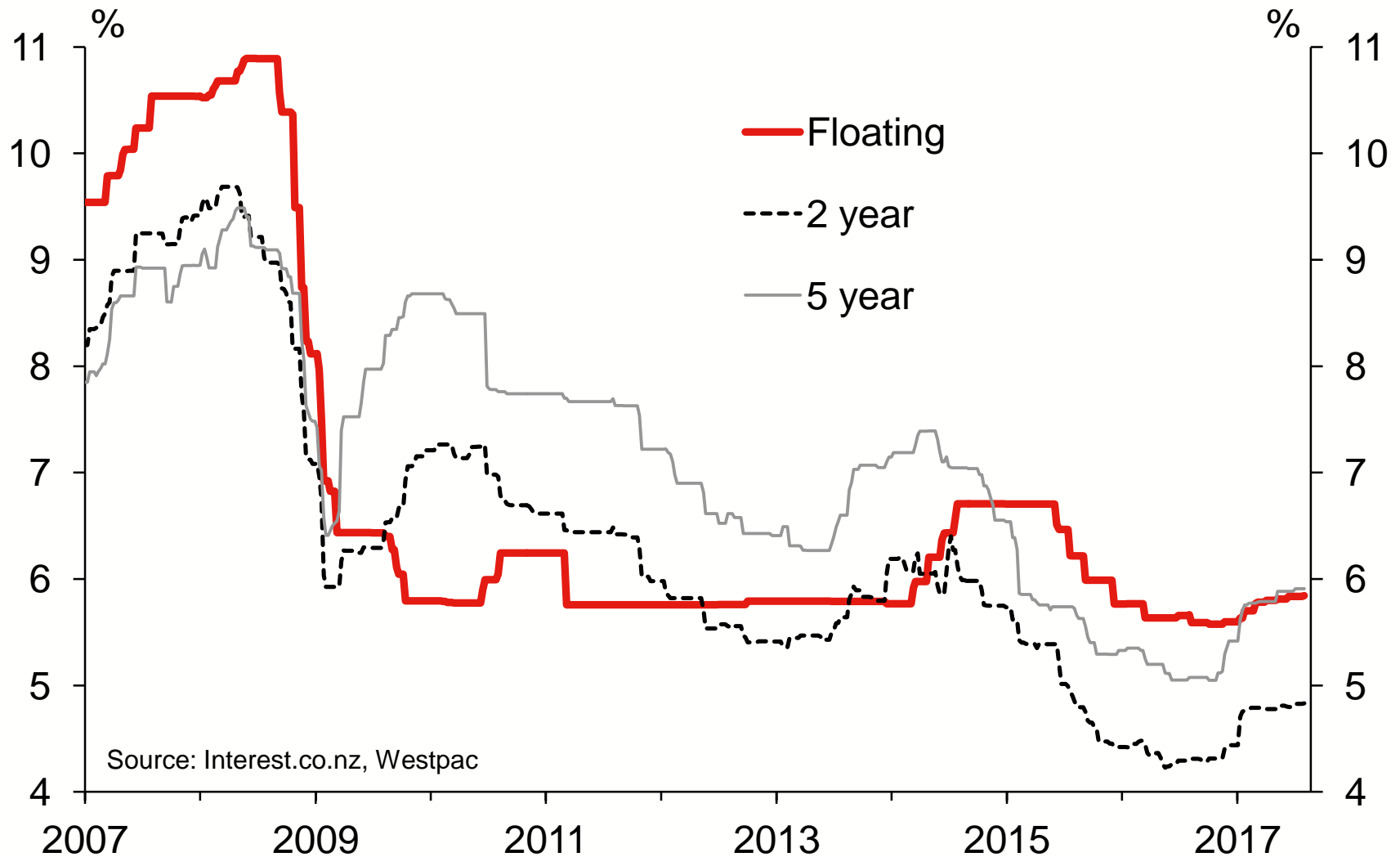
Net migration, annual flows



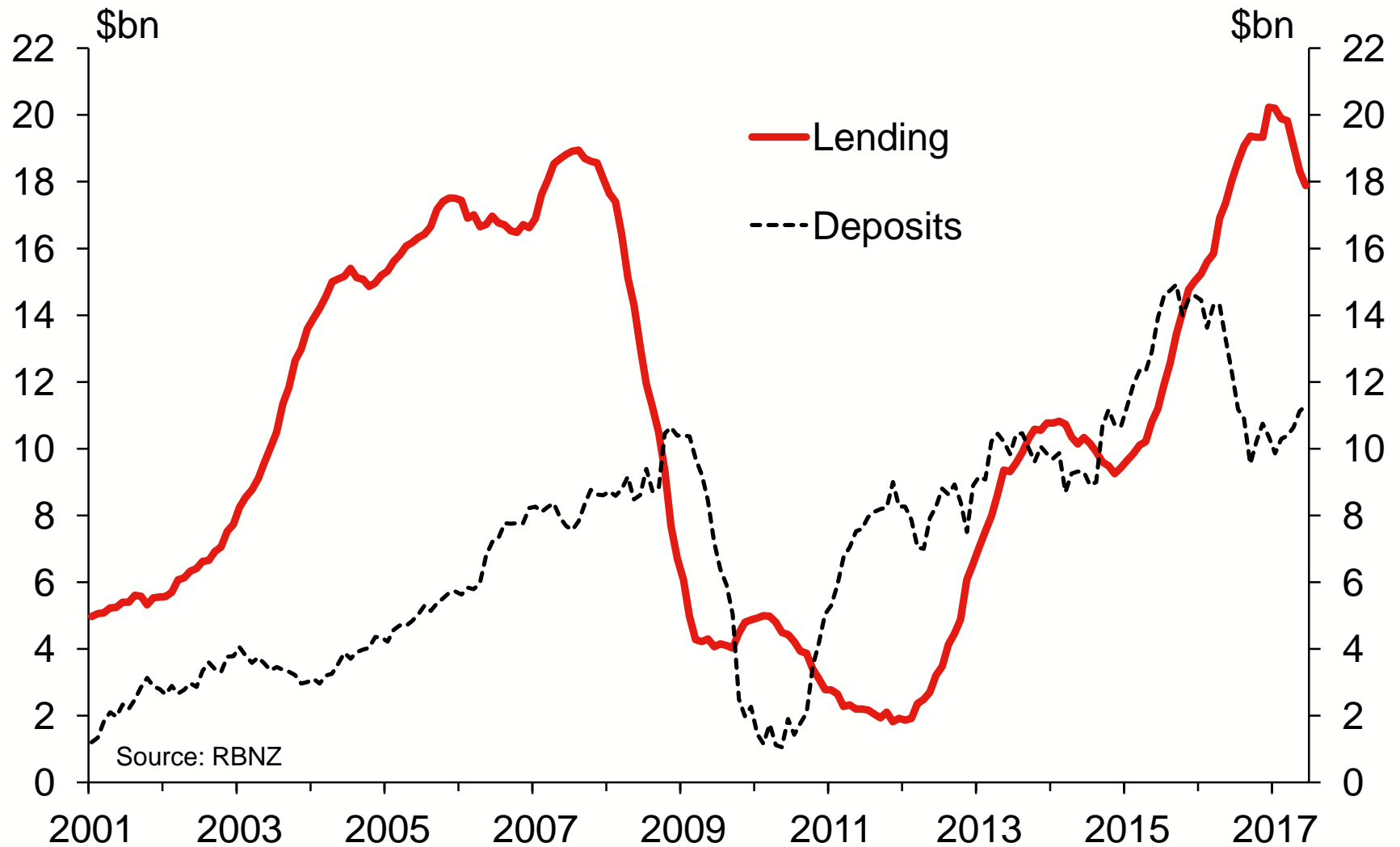
House price growth



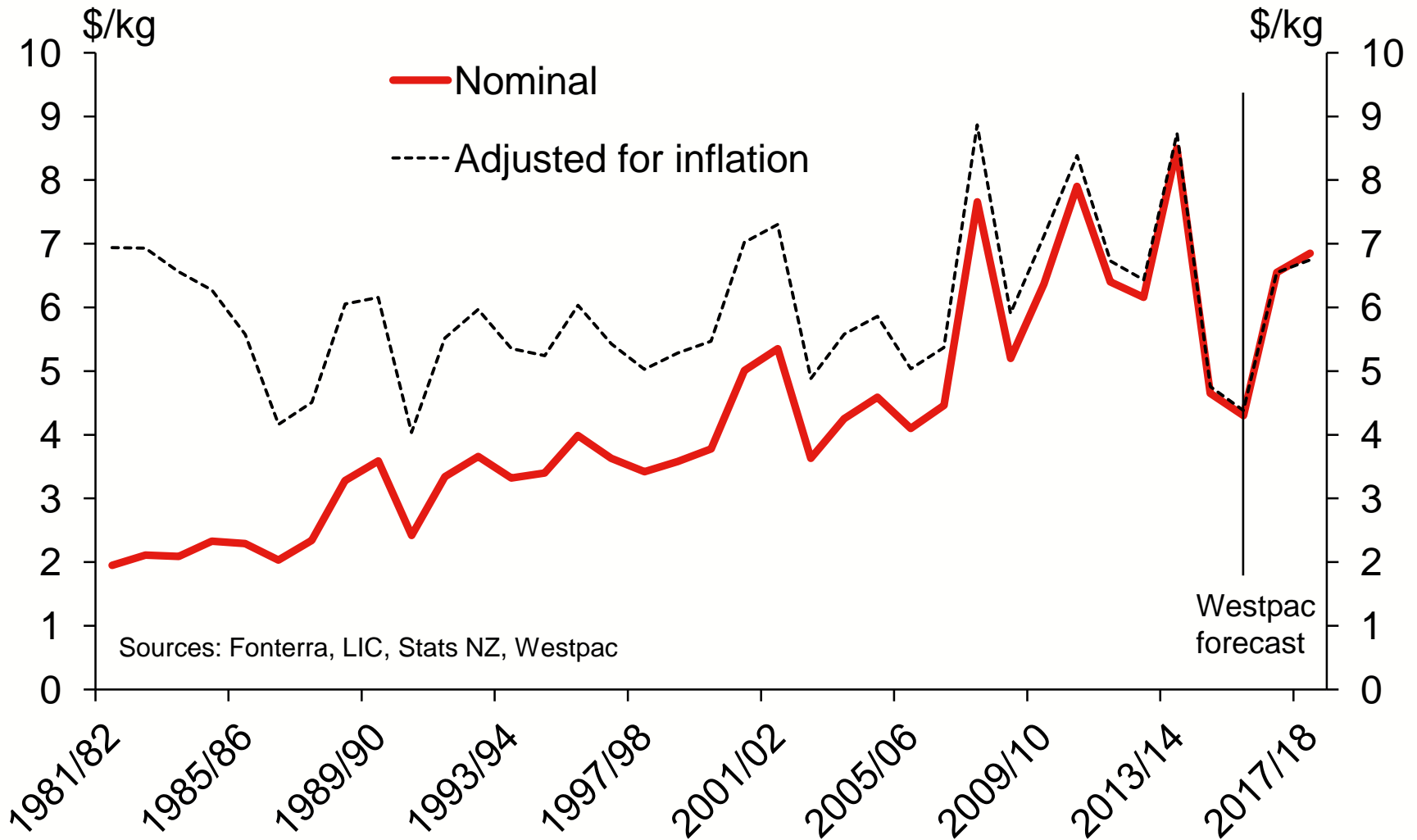
Average advertised mortgage rates



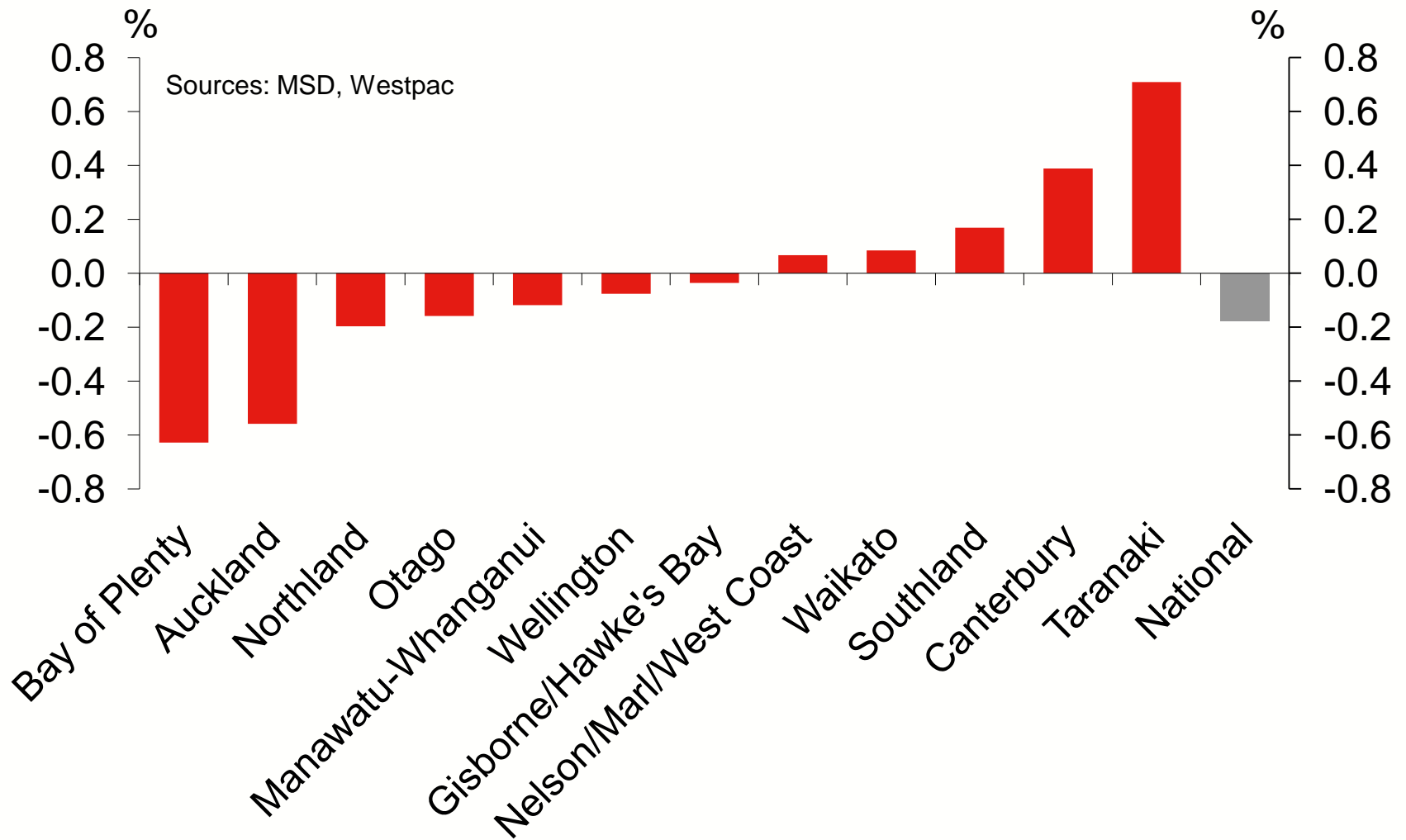
Household lending and deposit growth



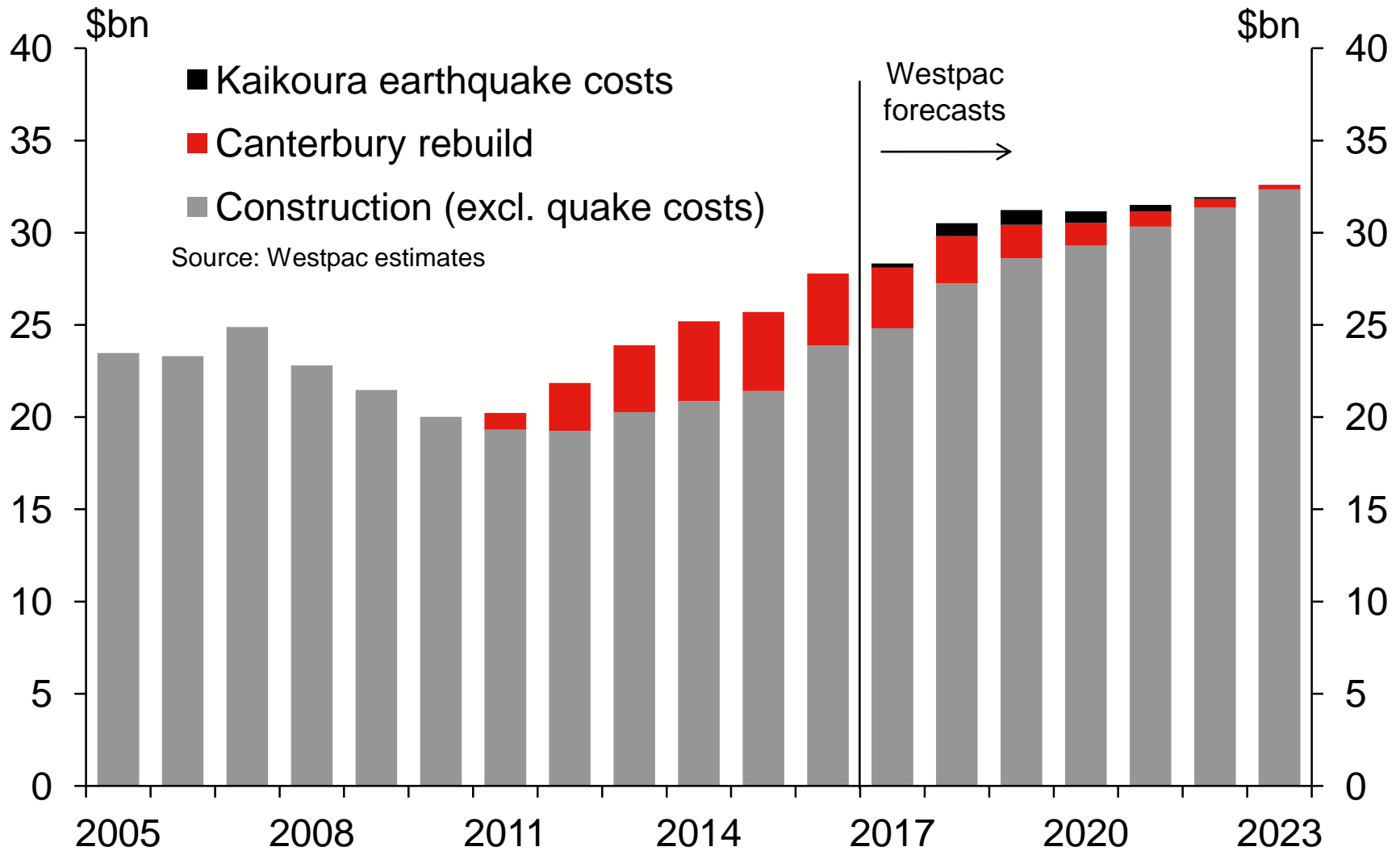
Milk payout (including dividends)



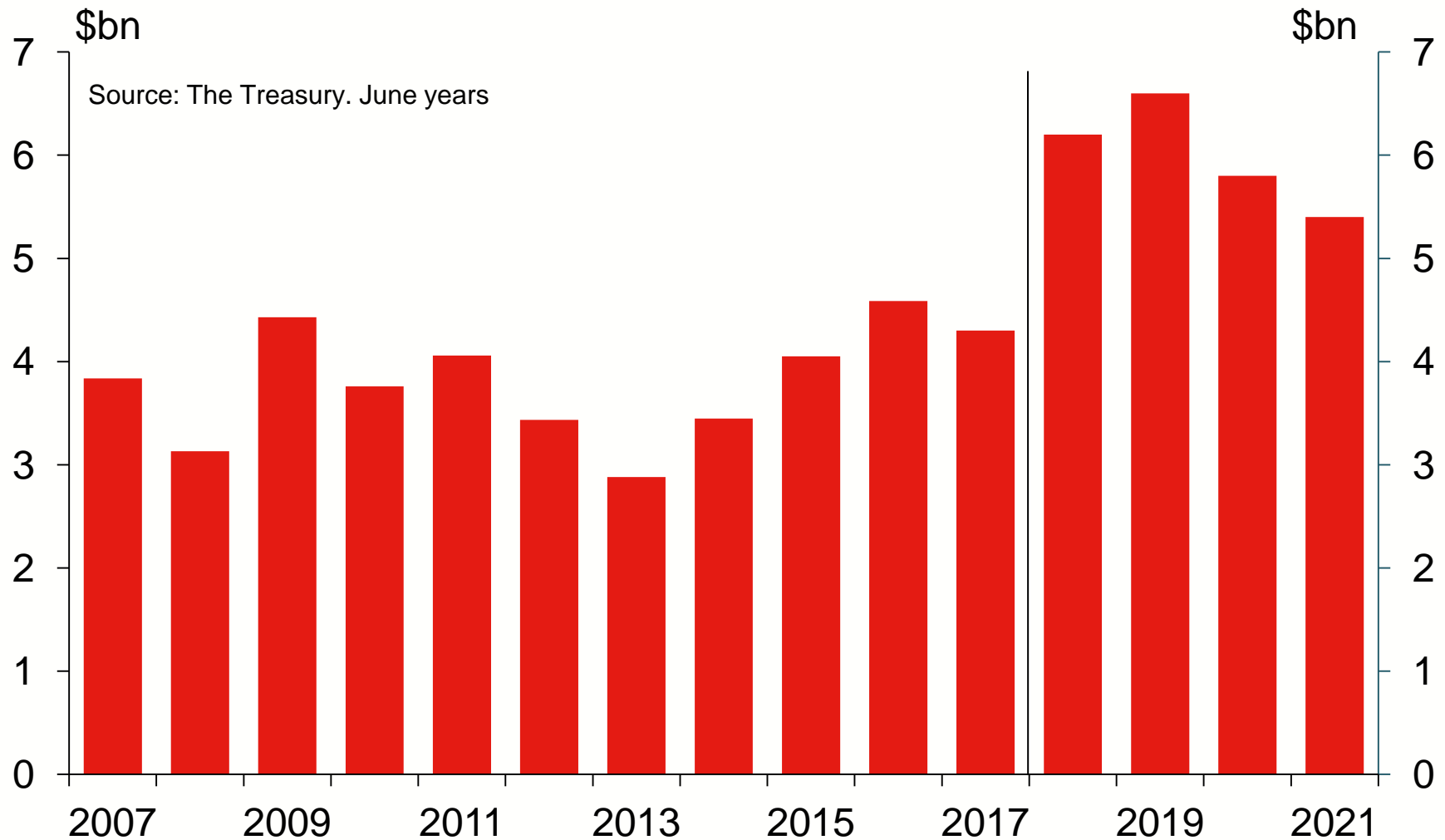
Change in jobseeker benefit rates, 2014-2016



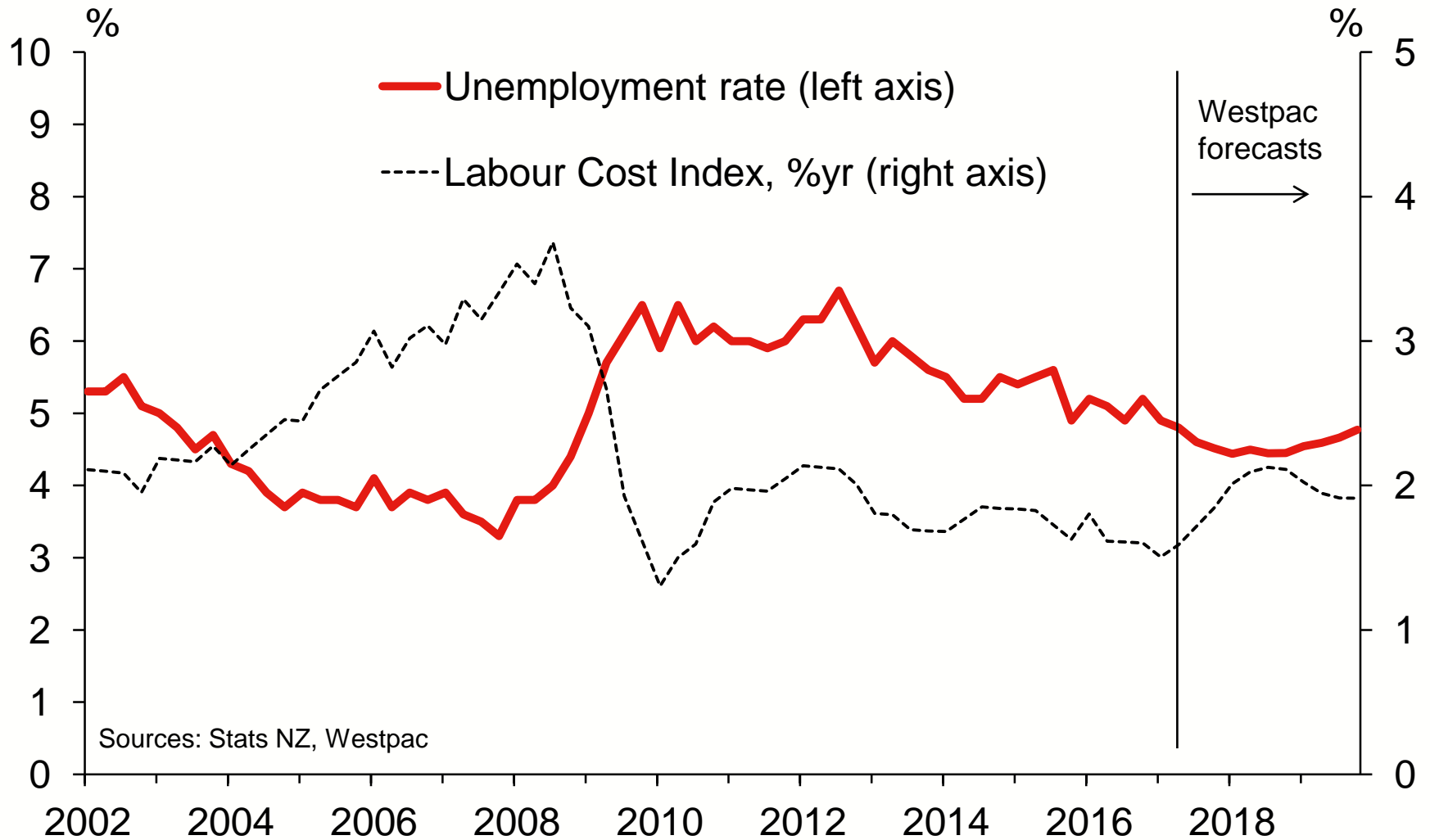
Annual construction activity



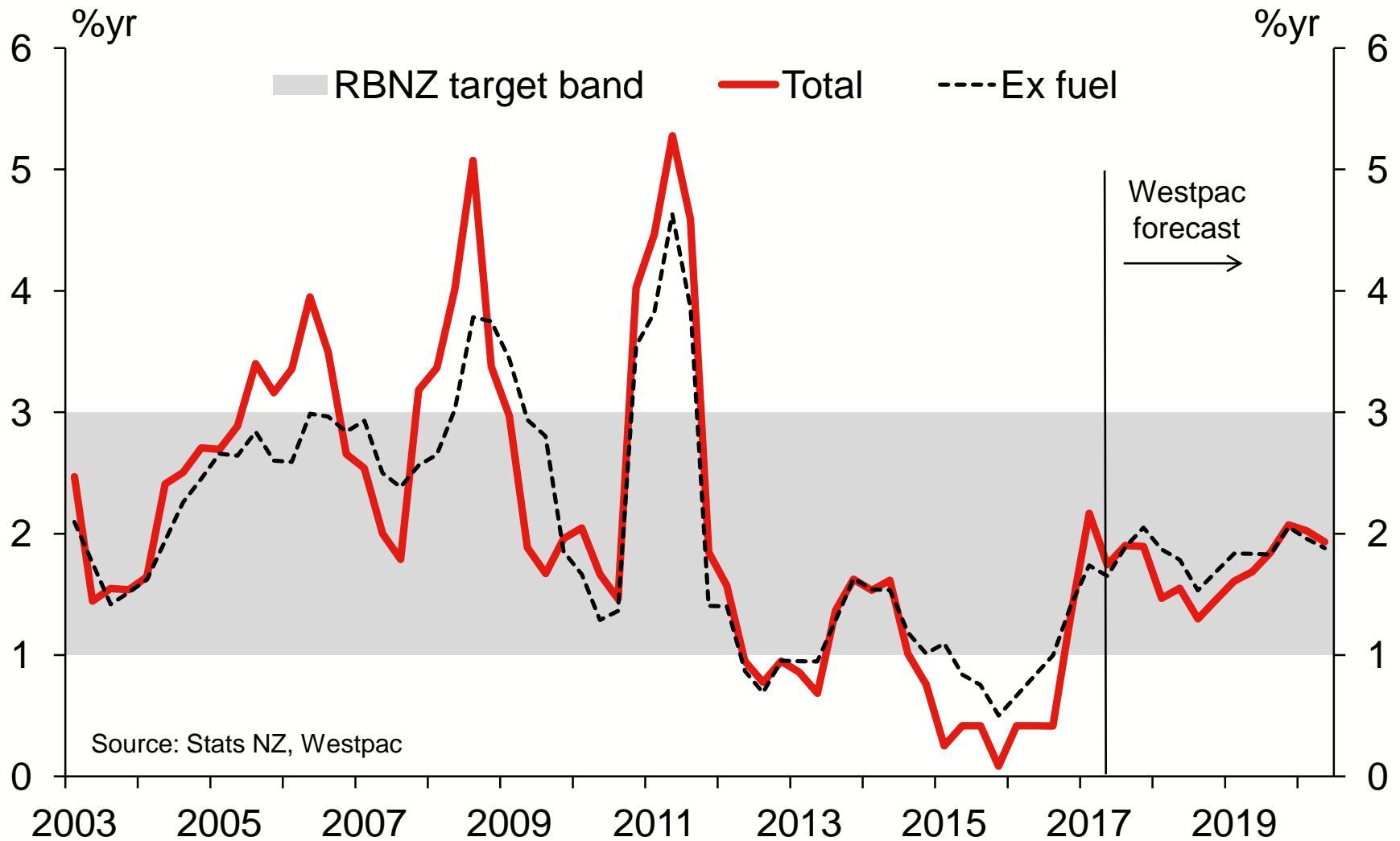
Govt net capital spending



Labour market tightness

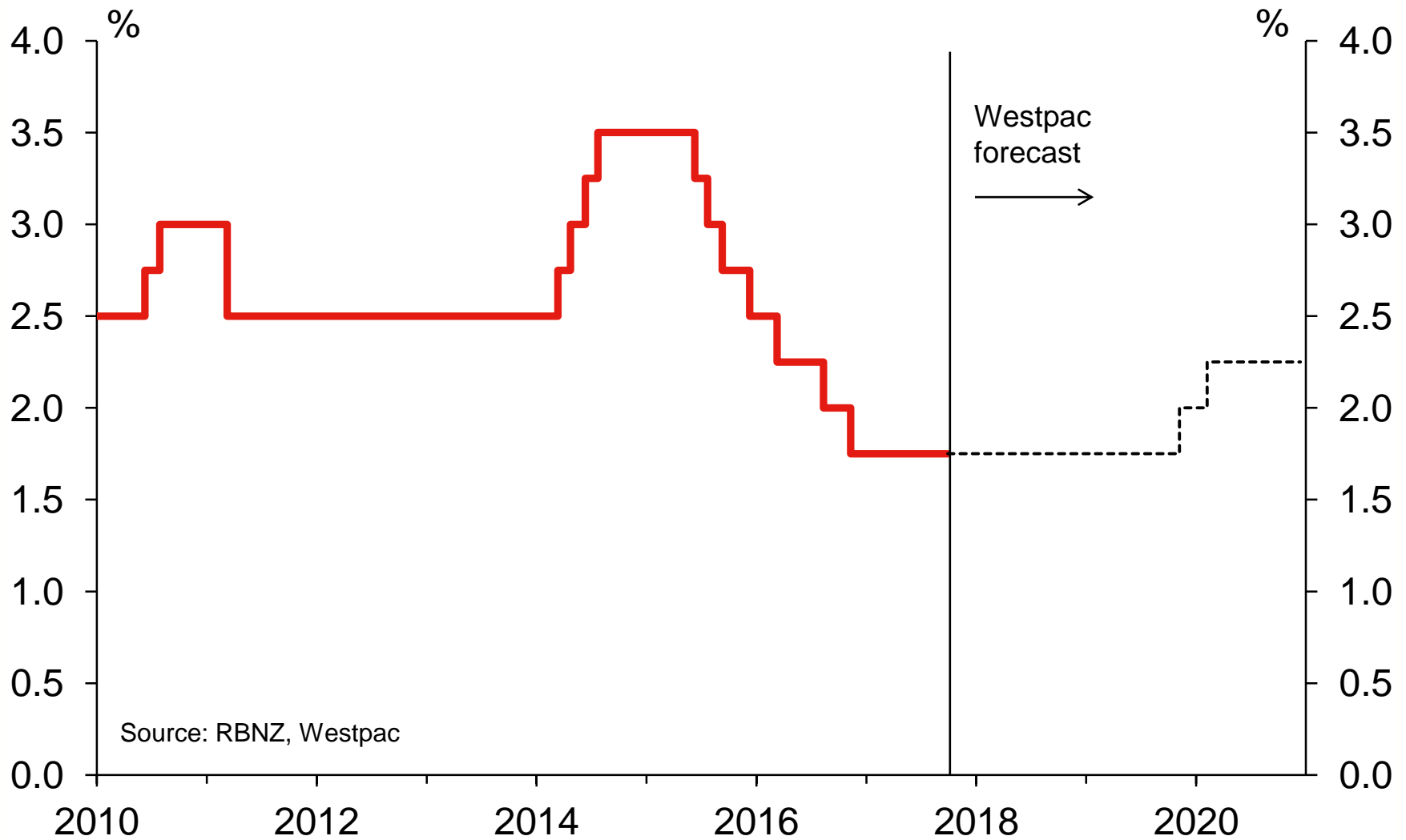


Inflation forecast




Source: Stats NZ, Westpac

Official Cash Rate



Summary of forecasts

- Growth of 2.5-3.0%/yr for the next couple of years
 - Population growth still a major contributor even if migration peaks
 - Less emphasis on consumer spending based on housing wealth
 - More emphasis on income growth
 - Inflation below 2% again next year
 - Economy only gradually using up spare capacity
 - OCR on hold, but longer-term interest rates rising
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