New Zealand Budget Observer

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Still on track for surplus as election looms

New Zealand's Treasury today released their pre-election budget update, ahead of the 20 September vote. The government still expects to get back to surplus in 2014/15, albeit a slightly smaller surplus than expected in May. The growth forecasts were revised down modestly for 2014/15, reflecting the recent decline in dairy prices. GDP growth is now forecast to be +3.6% in 2014/15 (previously +4.0%) and +2.6% in 2015/16 (previously +2.4%): this would still be above or around trend in both years. Lowered nominal growth forecasts also saw lower expectations for future budget surpluses. Current polling sees the incumbent centre-right National party ahead in the lead up to the election.

Facts

- The fiscal forecasts are only marginally weaker than those published in the May budget. The operating balance (excluding gains and losses) is still expected to return to surplus in the current 2014/15 fiscal year. The forecast surplus has been revised down marginally from NZD372m to NZD297m (0.1% of GDP). In 2015/16 the budget surplus was revised down from NZD1262m to NZD818m (0.3% of GDP).

- Net debt is expected to peak at 26.8% of GDP, up from 26.4% in the May budget forecasts.

- The Treasury forecasts for GDP growth over the year to March 2015 (FY2014/15) were revised down from +4.0% to +3.6%, mostly due to a sooner than expected fall in the terms of trade, driven by lower dairy and forestry prices. Forecasts for GDP growth in 2015/16 were revised up slightly to +2.6%, from +2.4%.

Implications

Today's budget update from the New Zealand Treasury reminds us that even though dairy prices have fallen sharply over the past few months, growth is still expected to remain strong. Put simply, New Zealand's current growth story is more than just milk.

Indeed, despite the recent fall in dairy prices, the Treasury's forecasts have been revised down by only -0.4ppts to +3.6% for 2014/15, leaving growth still well above trend (which we see at around +2.5%) and still suggesting that New Zealand is likely to be fastest growing OECD economy this year. Growth is expected to be supported by the Canterbury rebuild, a broader construction ramp up and strong inward migration. The Treasury's growth forecasts were nudged slightly higher for 2015/16, up to +2.6%.

Nonetheless, the -40% fall in the price of New Zealand's major export has knocked a little off the Treasury's nominal growth numbers and off their budget surplus forecasts. They expect a very small budget surplus in 2014/15 of 0.1% of GDP and have also revised down surpluses in the out-years.

At this stage, no additional tax cuts have been announced in the lead-up to the election, with the Minister of Finance, Bill English, today stating that there was 'no room for significant loosening of the purse strings'.

Current polling sees the incumbent centre-right National party, led by John Key, ahead in the lead up to the 20 September election. Three polls were conducted recently. The Fairfax Media Ipsos survey (9-13 August) has 55.1% of the vote going to the National party for an outright majority. Other polls show closer results, but would still suggest a National party win. The One News Colmar Brunton survey (9-13 August) showed the Nationals taking 50% of the vote, while the 3 News Reid Research survey (5-13 August) showed only 47.5% to Nationals, but would still suggest the Nationals are likely to scrape through once smaller parties form coalitions.

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Disclosure appendix

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