

Economic implications of PM John Key's resignation

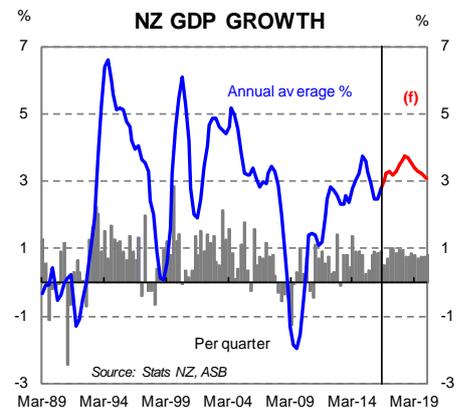
- John Key has announced that he is stepping down as Prime Minister and leader of the National Party.
- The National Party will elect a new leader on December 12.
- Limited implications near term, but scope for increased political uncertainty to disrupt business confidence next year.

John Key steps down after 8 years as NZ Prime Minister

John Key has announced that he is stepping down as Prime Minister and leader of the National Party, with a new leader (and PM) to be elected by the party caucus on December 12. Key cited family reasons for stepping down, as well as the likelihood that he would not want to serve a fourth term as PM.

Market reaction

The market reaction has been muddled by timing, as the Italian PM also resigned due to the result of the weekend's referendum. The NZD/USD was already under pressure as the Italian election results were released, but took another step lower following John Key's resignation. All up, the NZD/USD has fallen around 50 points to 0.7080. The NZ stock market also fell marginally, but most of this reaction appears to be in response to offshore events.



What does this mean for the economy?

For the remainder of the current parliamentary term (less than one year) the implications are quite minimal. Finance Minister Bill English, for example, has played a key role in the settings of fiscal and economic policy. He, and other senior ministers, will remain as senior leaders guiding policy decisions (with some speculation that Bill English could be the next PM). The Government's policy settings have been focussed on returning the Crown accounts to surplus, setting clear goals for government departments to achieve, and making policy changes incrementally. There has been a focus on economic efficiency and on value for money out of government spending.

Longer term, the broad economic strategy of the National Party will depend on the guidance of the new leader. However, under a Bill English government (for example) the differences might not amount to much given the influence he has been having. The fiscal viability of current NZ Superannuation would potentially be more open to debate, as John Key has long said he would resign rather than change the current scheme.

There is now greater uncertainty over economic policy for the next parliamentary term, mainly through greater uncertainty over which parties will form government. Whether the probability of a change in government is increased or reduced will depend on the incoming PM. John Key's popularity with the electorate, and his ability to 'sell' policies, has been high, though after 8 years at the top he is no longer a fresh face.

A National-led government in the next term would still be a largely known quantity, though its exact policies will still be influenced by its coalition partners. A Labour/Green-led government's policies have yet to be clearly defined this far out from the election but would tend to be more interventionist and more redistributive than the National-led government has been to date.

It is possible that business confidence will dip slightly in the short term, and the usual pre-election slowdown of business investment decisions may be larger than normal.

The economic outlook as it stands.

NZ's economic fundamentals are sound: we expect economic growth to hit 3.5% annual average in late 2017. Population growth is strong. As a result, retail spending and construction growth are robust, with construction expected to continue contributing healthily to growth over the next couple of years. A number of key export sectors are faring well, and the dairy sector can now look forward to better financial times through the recovery in dairy prices. We continue to expect the RBNZ to leave the OCR on hold at 1.75%.

NZ's main economic risks remain potential shocks from overseas, particularly through the outcome of the US presidential election, the added political uncertainty generated by the resignation of the Italian Prime Minister, and geopolitical risks in general.

A reflection on the past 8 years

The John Key-led Government came into power in late 2008, when the Global Financial Crisis was at its peak yet the full economic and fiscal impacts were far from clear. It was a tumultuous start, and set the tone for years of fiscal caution as the Government inherited a weakening fiscal position that got completely sideswiped by the deepest recession NZ had experienced in decades. The major Canterbury earthquakes in 2010 and 2011 were cataclysmic events that were also huge challenges for NZ and the Government to respond to. Global turmoil has also been a feature of this period. Through this time NZ has enjoyed a stable hand at the top.

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