

Economic Note

Pre-election Economic and Fiscal Update

24 August 2017

Green light

- The Government's books remain very healthy.
- And, on balance, little changed from the Budget.
- Heading into the election, there remains scope to cut taxes and or increase spending.

Summary

The Pre-election Economic and Fiscal Update incorporates Treasury's latest economic and fiscal forecasts ahead of the 23 September election. Note: no new or upcoming policy announcements are incorporated into the forecasts.

With that in mind and heading into the election, the Government's books are looking very healthy. Surpluses are forecast to grow and the Government's net debt position falls steadily over the forecast horizon. **On this basis, and in our view, there is scope to cut taxes and or increase spending.** Indeed, we see some upside risk to Treasury's growth and surplus forecasts, particularly in the later years of the forecast.

Operating Surpluses

Ahead of the election, the Treasury has confirmed that the Government's fiscal position remains very healthy.

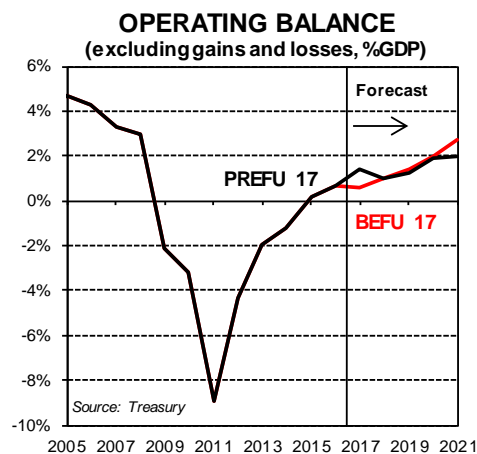
The books are also largely unchanged since the Budget. For example in dollar terms, the OBEGAL is \$0.5 billion higher over the five-year forecast period. In percentage of GDP terms, Treasury forecasts an OBEGAL of 1.4% in 2016/17, which then lifts steadily to 2.0% by 2020/21. These figures compare with 0.6% and 2.7%, respectively, back in the Budget.

However, if anything, we see some upside to Treasury's forecasts. We have forecast more growth (see below growth section) and as a result, a higher tax take and larger surpluses.

Net Debt

The fiscal picture is also remarkably similar in terms of net debt. For example, PREFU shows net debt falling to 18.8% of GDP in 2020/21. This figure is marginally lower than the 19.3% estimated at the Budget back in May.

FISCAL PROJECTIONS - PREFU 2017					
June years	2017	2018	2019	2020	2021
OBEGAL (\$bn)	3.7	2.9	3.5	5.7	6.4
<i>(Budget 2017)</i>	<i>1.6</i>	<i>2.9</i>	<i>4.1</i>	<i>6.1</i>	<i>7.2</i>
OBEGAL (% GDP)	1.4	1.0	1.2	1.9	2.0
<i>(Budget 2017)</i>	<i>0.6</i>	<i>1.0</i>	<i>1.4</i>	<i>2.0</i>	<i>2.7</i>
Net debt (%GDP)	22.5	22.0	21.5	20.0	18.8
<i>(Budget 2017)</i>	<i>23.2</i>	<i>22.8</i>	<i>22.1</i>	<i>20.6</i>	<i>19.3</i>



Growth

Overall, Treasury's growth outlook is a touch weaker than ASB's view. Treasury forecasts growth to pick up from an estimated 2.8% in the 2016/17 June year to 3.7% in 2018/19, before easing to 2.3% by 2020/21. In contrast, we expect growth to remain higher in later years.

Compared to the 2017 Budget, nominal GDP is expected to be a little higher in the near term (mostly reflecting recent gains in the Terms of Trade). Meanwhile, a slightly softer outlook for both real GDP growth and inflation result in a more moderate nominal GDP outlook.

Economic Forecasts June years (ann avg)	2016	2017			2018			2019			2020		
	Actual	PREFU	ASB	Budget	PREFU	ASB	Budget	PREFU	ASB	Budget	PREFU	ASB	Budget
GDP (Production)	2.7	2.8	2.7	3.1	3.2	3.1	3.5	3.7	3.9	3.8	2.8	3.2	2.9
Private consumption	3.2	4.6	4.5	4.6	3.8	3.7	3.9	3.7	4.0	3.7	2.5	3.3	2.2
Govt consumption	1.9	3.2	3.4	3.0	1.8	3.4	2.0	1.4	2.9	1.4	1.4	2.8	1.4
Residential Invest	6.3	6.1	6.8	6.7	-0.1	5.9	0.3	4.5	3.4	8.7	3.0	-1.9	8.8
Non-residential Invest	2.7	5.3	4.4	6.4	7.6	7.1	6.8	5.3	4.9	5.9	6.2	5.0	5.7
Exports	5.1	-0.6	-0.1	-0.6	4.0	3.0	3.4	2.5	2.2	3.3	2.3	2.5	2.7
Imports	1.0	6.7	6.1	6.3	4.1	4.2	3.7	3.8	3.4	4.5	4.4	2.8	4.2
Inflation (ann % chg)	0.4	1.7	1.7	1.8	1.3	1.2	1.6	1.9	1.6	2.1	2.1	2.0	2.2
Unemployment	5.1	4.9	4.8	5.0	4.7	4.7	5.0	4.4	4.5	4.6	4.3	4.4	4.3
90-day bank bills*	2.4	2.0	2.0	2.0	2.0	2.0	2.0	2.6	2.4	2.7	3.3	2.9	3.4
TWI*	73.6	76.5	78.4	76.1	78.1	77.5	76.6	78.5	79.3	76.9	78.7	79.3	76.7

*quarter average

Bond Programme

The bond programme was unchanged, as expected.

Bond tender programme \$bn					
Period Ending June	2017	2018	2019	2020	2021
PREFU 2017	8.0	7.0	7.0	7.0	6.0
Budget 2017	8.0	7.0	7.0	7.0	6.0

Market Reaction

There was no market reaction following the PREFU release.

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