The Treasury

Budget 2021 Information Release

August 2021

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[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] Not in scope

[42] 18(d) - information is already publicly available or will be publicly available soon.

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Budget Economic and Fiscal Update 2021 Final Economic Forecasts

Date:	8 April 2021	Report No:	T2021/852
		File Number:	BM-3-6-1

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	Note that the final BEFU 2021 economic forecasts are similar to the preliminary BEFU 2021 economic forecasts, with the effects of weaker house price growth offset by higher government spending and a lower peak in the unemployment rate.	None

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Carlos So	Analyst, Forecasting	[39]	N/A (mob)	✓
Katy Simpson	Team Leader, Forecasting		[35]	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Budget Economic and Fiscal Update 2021 Final Economic Forecasts

Executive Summary

The overall outlook for the New Zealand economy in the final BEFU 2021 forecast is broadly unchanged compared to the preliminary economic forecasts. The economy contracted 1% in the December 2020 quarter and a further contraction of 0.2% is expected in the March 2021 quarter, reflecting the effects of higher alert levels in February, along with the lack of international travellers in what is usually the peak tourist season. However, these same seasonal factors from limited international travel in the March 2021 quarter are expected to contribute positively to June quarter activity. Overall demand is expected to remain resilient and growth is forecast to pick up once border restrictions begin to ease.

Data showing higher-than-expected monthly house price growth since the preliminary forecasts were finalised results in higher annual house price growth at the start of the forecast period. However, the Housing Package announced in March 2021 along with the reinstatement of higher loan-to-value ratio requirements are expected to result in the pace of **annual house price growth falling from 17.3% in the June 2021 quarter to approximately 1-2% from the beginning of 2022.**

Higher petrol prices, a lower exchange rate and continued supply chain disruptions along with resilient domestic activity results in **consumer price inflation being higher across the forecast period** compared to the preliminary BEFU forecasts.

Overall, nominal GDP in the final economic forecasts is cumulatively around $2.5 billion lower than the preliminary BEFU forecasts. Higher levels of fiscal and monetary support compared to the preliminary BEFU economic forecasts are expected to largely offset the dampening effects of lower house price growth on economic activity. This means nominal GDP is still expected to be cumulatively nearly $100 billion higher over the forecast period compared to the 2020 Half Year Economic and Fiscal Update (HYEFU), reflecting a stronger outlook for the economy alongside historical data revisions.

JobSeeker recipient numbers continued to trend down since the preliminary forecasts were finalised, reaching around 203,000 people at the end of March 2021 after peaking at around 214,000 in mid-January. **The peak in the unemployment rate has been revised down slightly to 5.3% in the September 2021 quarter, from 5.4% in the preliminary economic forecasts** – both of which are much lower than the peak of 6.9% forecast in the 2020 HYEFU.

The economic forecasts include updated data, the Government's Housing Package and likely Budget decisions, **while other key assumptions remain unchanged relative to the preliminary forecasts.** We plan to describe the border restrictions as being *significantly* lifted on 1 January 2022, a revision to the current description that border restrictions are *fully* lifted on that date. This change does not affect our economic profile as the forecasts continue to assume that the recovery in services exports is gradual.

Uncertainty levels remain heightened and there are ongoing measurement challenges in capturing the true state of the economy. While real production GDP came out weaker than expected in the December 2020 quarter, with COVID-19 disruptions creating more volatility in the data, expenditure GDP growth was relatively close to forecast. The differences between the two GDP measures are illustrative of challenges faced by statistical agencies in capturing economic developments at the moment.

Some measures of domestic activity such as electronic card spending and surveys of business sentiment suggest parts of the economy could be slowing down at the start of the year. There are also risks around the global outlook and the effectiveness of vaccines. Resurgences in parts of Europe have resulted in renewed lockdowns and may slow the pace of global recovery.

However, there is upside risk too. While we have upgraded our nominal GDP forecasts significantly compared to the 2020 HYEFU, in the near term this still falls short of the underlying strength that would be suggested by tax outturns alone. If the current strength in tax revenue is sustained, rather than partially unwinding as is currently assumed, not only would tax revenue be higher, but it may mean we have underestimated the strength in the economy too.

Table 1: Forecast summary (Final BEFU vs. preliminary BEFU and HYEFU 2020)

Year to June		**2020 Actual**	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**	**5-yr total**
Real GDP (AAPC)	BEFU 21	-1.7	2.9	3.2	4.4	3.3	2.9	
	BEFU 21 (prelims)	-1.8	4.6	2.6	4.2	3.3	2.9	
	HYEFU20	-2.1	1.5	2.6	3.7	3.8	3.2	
Unemployment rate (June quarter)	BEFU 21	4.0	5.2	5.0	4.4	4.2	4.2	
	BEFU 21 (prelims)	4.0	5.3	5.0	4.5	4.2	3.9	
	HYEFU20	4.0	6.6	6.8	5.7	4.7	4.0	
CPI inflation (APC)	BEFU 21	1.5	2.4	1.7	1.8	2.0	2.1	
	BEFU 21 (prelims)	1.5	2.0	1.5	1.8	2.0	2.2	
	HYEFU20	1.5	1.4	1.2	1.4	1.8	2.1	
Nominal GDP ($billions)	BEFU 21	316.6	334.4	349.7	371.7	392.9	414.4	
	BEFU 21 (prelims)	316.3	336.9	348.6	371.3	393.4	415.4	
	Difference	0.2	-2.5	1.1	0.4	-0.5	-1.0	-2.4

Recommended Action

We recommend that you:

a **note** the Treasury's final Budget Economic and Fiscal Update (BEFU) 2021 economic forecasts show an economic growth outlook that is broadly unchanged from the preliminary economic forecasts and are stronger than the 2020 HYEFU forecasts. This reflects historical data revisions, the stronger-than-expected recovery to date, and less severe scarring effects on potential output;

b **note** that the final BEFU 2021 tax forecasts will be provided in a separate Treasury Report on 13 April 2021. The tax forecasts are expected to show that most of the strength relative to the HYEFU 2020 forecasts has been maintained.

c **note** that the uncertainty around the economic outlook remains higher than usual and we expect to see larger than normal revisions to the fiscal outlook over the coming years as we update our forecasts.

Katy Simpson
Team Leader, Forecasting

Hon Grant Robertson
Minister of Finance

Treasury Report: BEFU 2021 Final Economic Forecasts

Purpose and context of report

1. This report provides an **overview of the Treasury's final economic forecasts for BEFU 2021**. These economic forecasts underpin the final tax and fiscal forecasts currently being compiled, which will be finalised on 9 April and 30 April, respectively.

2. The annex provides tables with additional details on the economic forecasts, including changes since the preliminary BEFU forecasts and provides the same comparisons with HYEFU 2020.

Key assumptions underpinning the economic forecasts

3. **COVID-19 continues to materially influence the economic outlook and uncertainty remains high**. A number of assumptions about the impact and likely timing of border restrictions remain necessary.

4. **Border restriction assumptions are broadly unchanged from HYEFU**. Border restrictions are assumed to be *significantly* removed on 1 January 2022, a change from the previous description of restrictions being *fully* removed. However, the change does not alter the forecasts and we continue to expect that any recovery in services exports is gradual.

5. The Government announced a trans-Tasman travel bubble will commence from 19 April 2021. The final BEFU 2021 economic forecasts assume that border restrictions would be partially lifted from 1 July 2021, reflecting the possibility of such travel arrangements with other countries. The earlier-than-assumed easing of border restrictions places slight upside risks to our forecasts of services exports and net migration. However, **we do not expect the earlier-than-expected trans-Tasman travel bubble will have a fundamental impact on the wider economic outlook.**

6. **We assume there are no further major domestic outbreaks of COVID-19 in the community**, and Alert Level 1 restrictions remain in place for the remainder of 2021. The reinstatement of higher alert levels during February 2021 are assumed to have had a short-lived but small negative impact on activity in the March 2021 quarter followed by a recovery in the June quarter.

7. The 2020 Pre-election Economic and Fiscal Update forecasts assumed that potential output would settle around 3% lower than the pre-COVID-19 trend. A smaller impact from the pandemic on potential output was included in the preliminary BEFU forecasts such that potential output settled around 1% lower than the pre-COVID-19 trend. This reflected evidence that the pandemic has caused less severe scarring than previously assumed (TR 2021/327 refers).

8. Net migration is assumed to start rising gradually from 1,500 a quarter currently, and to reach just above 40,000 per annum by the end of the forecast period.

9. The forecasts assume a level of fiscal support consistent with the information available on 31 March ahead of finalising on 1 April. Paragraphs 26 to 31 provides more detail about the changes and effects of fiscal support in the forecasts.

Economic outlook

Weaker than expected GDP contributes to a slightly softer near-term outlook…

10. Real production GDP fell 1.0% in the December 2020 quarter from the September quarter, a weaker result than the 1.0% growth that had been anticipated in the preliminary BEFU forecasts. The fall was driven by declines in the construction and retail trade and accommodation industries. Real GDP is therefore estimated to be 0.9% lower than pre-COVID levels at the end of 2020. However, real production GDP growth over the last two quarters of 2020 was 12.8%, similar to our HYEFU forecast of 13.0%. Expenditure GDP fell 1.5% in the quarter, closer to the 1.0% fall forecast in the preliminary BEFU forecasts, contributing to a fall in nominal GDP of 1.6%, which was also close to the 1.3% fall in the preliminary BEFU forecasts.

11. A lack of international tourism and spending in other areas dependent on international travellers and students results in a fairly flat outlook for GDP in the first half of calendar 2021. Employment growth is therefore muted, while **unemployment is expected to rise modestly and peak at around 5.3% in the September quarter** (5.4% in the September 2021 quarter in the preliminary BEFU forecasts) (Figure 1).

12. COVID-19 developments continue to play a key role in the outlook, with an acceleration in growth in the second half of 2021 supported by the opening of travel bubbles (along with increased fiscal support including increases to benefits), before accelerating further in 2022 as border restrictions are assumed to be largely removed at the start of 2022. Annual average growth is forecast to rise from 2.9% in the June 2021 quarter to 4.4% by the June 2023 quarter (Figure 2).

Figure 1: Unemployment rate

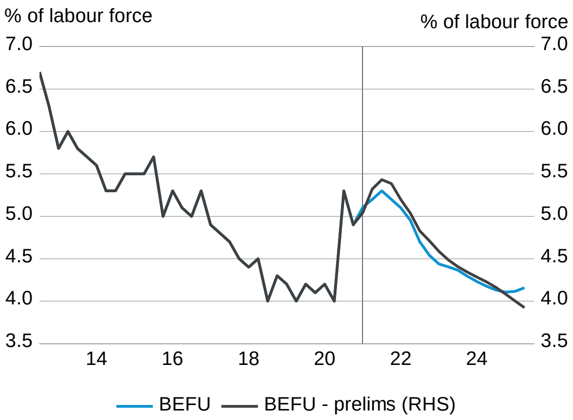
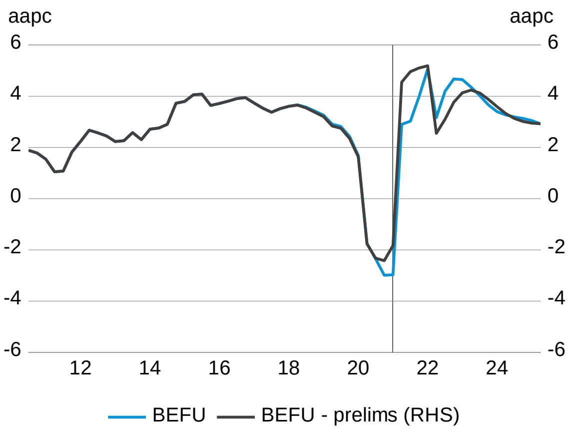


Figure 2: Real GDP growth



…but underlying demand is expected to remain resilient…

13. **The New Zealand economy continues to be more resilient to the COVID-19 pandemic than previously assumed and several other indicators suggest that domestic demand remains fundamentally strong**. Tax outturns have continued to exceed forecasts, the labour market has recovered strongly, house prices and building consents remain elevated, and confidence levels have broadly recovered (though remain below their historical averages).

14. Business Talks with industry representatives in early March illustrated an overall optimistic outlook, with the economy appearing to be functioning better than expected. Residential construction and consumption activity in particular are doing well but tourism and hospitality are facing continued difficulties. Firms continue to highlight difficulty in finding skilled labour and are experiencing supply chain disruptions. These are leading to rising cost pressures and a corresponding increase in inflation expectations.

…contributing to a lower peak in unemployment

15. Border restrictions and the lack of international tourists are still expected to have negative impacts on the labour market and we expect the unemployment rate to rise. However, with JobSeeker support recipient numbers continuing to trend down slightly, peak unemployment is now forecast to be 5.3% in the September 2021 quarter, down slightly from the 5.4% in the preliminary economic forecasts, and much lower than the 6.9% peak forecast in HYEFU 2020.

16. The slight rise in the unemployment rate is also attributable to the softer near-term outlook compared with the preliminary BEFU forecasts, resulting in flat near-term employment. As the border restrictions ease, employment is forecast to rise and the unemployment rate is expected to trend down from the peak of 5.3% to 4.2% by June 2025. Household incomes are expected to remain resilient over the forecast period, with the Welfare Package supporting private consumption activity.

The Housing Package is expected to change housing market participants' behaviour…

17. The Government's Housing Package announced in late March, particularly the changes around interest deductibility, is expected to produce a material reduction in house price growth in the months ahead. However, there are still many uncertainties about the design of the policy and the price impacts.

18. Removing interest deductibility will significantly increase tax costs for affected highly-leveraged property investors, which makes it less attractive for debt-financed investors to purchase and hold on to residential property. **Debt-financed investors will likely demand less property, and some may divest their existing property as the changes are phased in** (over four years).

19. However, cash-financed investors and owner occupiers are unaffected by the tax change. The impact of removing interest deductibility depends on the price at which these alternative groups will enter the market. We have assumed that prices will continue to rise but at a much lower pace than they otherwise would have without the Housing Package.

20. The exemption on interest deductibility for new builds creates further uncertainties about the impact of the policy. This provides an incentive for debt-financed investors to move into the new build market, which would likely displace cash investors and owner occupiers, moving them into the existing homes market. This could create an adjustment period where prices for new builds and existing homes reach some form of equilibrium in the short term.

21. The extent of leveraged investors' demand for new builds, and therefore the impact on prices, depends on the as-yet-undecided details of a new build exemption. It also depends on whether the market for new build properties can accommodate a larger debt-financed investor population.

22. After a preliminary analysis, we have not included any effects on house prices over the forecast period resulting from the extension of the bright-line test to 10 years or the additional $3.8 billion Housing Acceleration Fund. The effects of these policies over the forecast period are likely to be small. However, we will continue to monitor the effect of these policies and incorporate the any expected impact as our analysis develops.

…and reduce house price growth

23. House prices continued to grow at a high rate following the finalisation of the preliminary BEFU forecasts, and **annual growth is now expected to reach 17.3% in the June 2021 quarter, around 1.5 percentage points higher than the peak rate of increase in the preliminary forecasts (Figure 3)**. Annual house price growth eases to 0.9% in the June 2022 quarter before rising gradually to reach 2.5% by June 2025. These annual growth rates would be amongst the lowest in the past 10 years and slower than the pace at which wages are forecast to rise over the forecast period.

24. Without the removal of interest deductibility in the Housing Package, high house price growth would have likely continued for longer than currently forecast, even with the reinstatement of the higher loan-to-value ratio requirements for investors by the Reserve Bank. Compared to HYEFU 2020, house prices are expected to have risen much quicker in the short term than previously forecast, but slower growth over the remainder of the forecast period is expected to result in 4% lower house prices by the end of the forecast period. Compared to a scenario without the Housing Package, house prices are around 16% lower by June 2025 quarter in the final BEFU 2021 economic forecasts than they otherwise would have been.

Figure 3: House prices

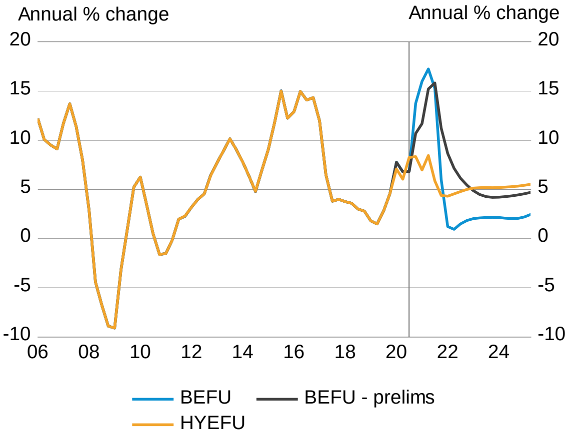
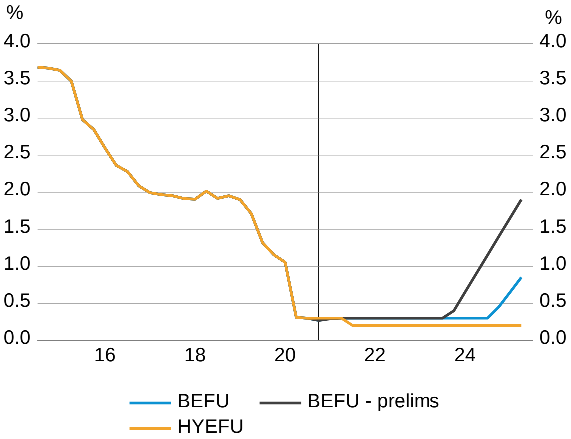


Figure 4: 90-day rate



25. Lower house price growth feeds through to the wider economy by lowering consumption and residential investment growth. **All else equal, this implies a slower recovery and a slower normalisation of monetary policy**. Whereas previously the 90-day had been forecast to begin rising in late 2023 in the preliminary forecasts, it is now expected to begin rising in late 2024, reaching 0.9% by the end of the forecast period (Figure 4). Prolonged monetary stimulus works to mitigate the impacts of the Housing Package on house price growth.

Higher fiscal support is expected to provide positive offsetting effects…

26. Compared to HYEFU 2020, the total level of government spending is around $11 billion higher over the forecast period. Based on the information available when we finalised the forecasts, we assumed operating allowances of $3 billion for Budget 2022 to Budget 2024 and the 2021 Budget package is assumed to be $3.7 billion. The multi-year capital allowance is assumed to be $12 billion.

27. The $6.5 billion increase in operating allowances over the forecast period includes $3.2 billion for the Welfare Package. The welfare package impacts the economy through its impact on household incomes which supports private consumption.

28. The changes in capital allowances are assumed to boost business (non-housing) investment. Without further information about the use of these funds, a default spending profile is assumed to result in $2.3 billion of the $4.2 billion increase in capital allowances being spent in the forecast period.

29. We have assumed that funds allocated to the Housing Acceleration Fund (HAF) will be used for roading, infrastructure and land remediation works that will be classified in the national accounts as business (non-housing) investment. These funds have been reallocated from the COVID-19 Response and Recovery Fund (CRRF).

30. Overall, the economic forecasts include all known Government expenditure including the full CRRF as at 31 March 2021. While a proportion of the CRRF was allocated to the HAF, it is assumed that the remainder will either be used in the event of a resurgence of COVID in the community, or if the assumption that NZ remains in Alert Level 1 until the end of the year holds, that it will be used for recovery purposes.

…but final Budget decisions reduce the fiscal impacts slightly

31. Since the economic forecasts were finalised, Budget decisions about future operating allowances imply government spending will be around $1.4 billion lower over the forecast period than assumed in the final Economic forecasts. All else equal, lower government spending would result in a slower pace of recovery and a downgrade to labour market outcomes. However, heightened levels of uncertainty in the current environment mean **we do not expect this difference to have a material impact on the economic outlook.** The BEFU document will outline any material inconsistencies between the economic and fiscal forecasts.

Capacity constraints and continued uncertainty are expected to weigh on investment

32. Total investment dipped 1.4% in the December 2020 quarter, in line with our preliminary economic forecast for a 1.5% fall following a large rebound in the September 2020 quarter. Investment is expected to remain broadly flat in the first half of 2021 before rising over the remainder of the forecast period as border restrictions ease and business sentiment recovers.

33. Residential investment grew 1.9% in the December 2020 quarter to be up 7.3% from a year ago and is expected to remain elevated over the year ahead. Annual building consents have increased towards the record highs of the 1970s. This implies robust growth in the New Zealand housing stock, which should over time start contributing to an easing in some of the long-standing supply issues.

34. However, labour shortages, supply chain disruptions and weaker housing market activity are expected to constrain further growth in residential investment over 2021 before rising over the remainder of the forecast period as population growth rises and supported by accommodative monetary policy. Residential investment is forecast to be lower than the preliminary forecasts from the June 2021 quarter onwards, reflecting the effects of lower house price growth, but remains much higher compared to the HYEFU 2020 forecasts (Figure 5).

Figure 5: Residential investment

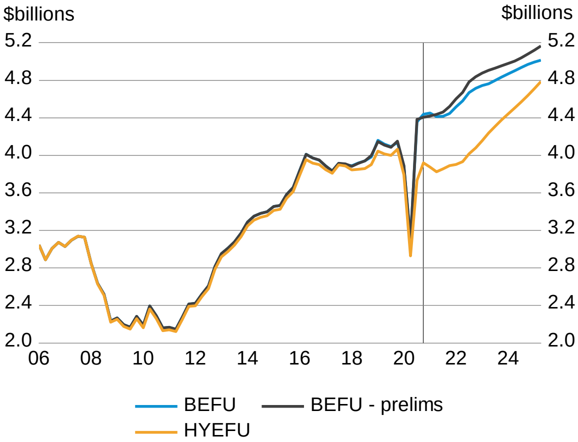
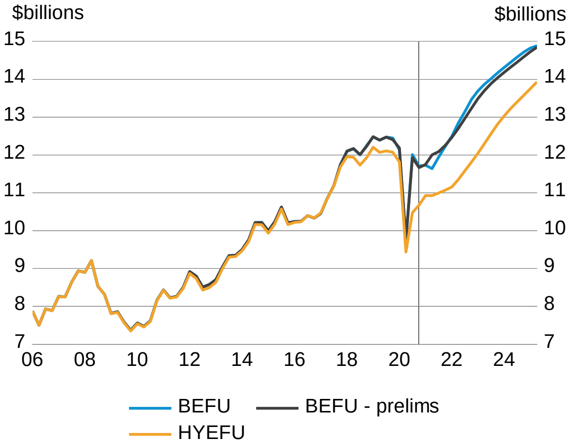


Figure 6: Business investment



35. COVID-19-related impacts are expected to continue to dampen business investment growth in the near term, but activity is expected to recover to pre-COVID-19 levels within the next year, a much faster recovery than anticipated in HYEFU 2020 with increased fiscal support providing a boost (Figure 6). Some businesses during our Business Talks suggested that they are looking for new opportunities or restarting existing plans that had been delayed by the impacts of COVID-19.

The global outlook continued to improve…

36. **Growth prospects for several of our key trading partners continued to improve since the preliminary BEFU forecasts,** particularly for the United States, China and Australia. The OECD revised up the forecast pace of global growth in 2021 to 5.6% in its March *World Economic Outlook*, an improvement of more than 1 percentage point from the December *World Economic Outlook*.

37. Developed economies are generally expected to see a widespread deployment of vaccines by late 2021, with vaccination rollouts currently on track in the United States and the United Kingdom, but supply constraints have limited progress in the euro area. Rollouts are expected to require a much longer period of time in many emerging economies, including some of our key trading partners in emerging Asia.

38. Despite resurgences of COVID-19 in parts of the world, which have resulted in tighter restrictions on activity in Europe, the outlook for trading partner growth has continued to improve from the preliminary BEFU forecasts. The recovery in 2021 has also been upgraded from 5.5% in the preliminary BEFU forecasts to 5.8%.

…and strong demand for our exports is boosting export prices…

39. **This improved growth outlook along with an upward trend in commodity prices is expected to support our terms of trade over the forecast period**. The demand fundamentals remain strong for most of our key export products, and while there are some risks with regards to supply chains, this has not yet had a marked impact on primary exporters.

40. Commodity prices continued to rise strongly since the preliminary forecasts were finalised. Dairy prices in particular have risen strongly, reaching their highest levels since 2014 with some buyers looking to build stocks to get around potential supply chain disruptions. Higher export prices are therefore expected to boost the terms of trade and increase exports of goods values compared to the preliminary forecasts, contributing to a higher goods trade balance (Figure 7).

41. **The recovery in imports following the sharp fall in the 2020 June quarter is expected to continue**, supported by the steady recovery in domestic demand, but will be constrained by various supply chain issues in the near term, in New Zealand and abroad. Goods import values are forecast to rise gradually towards pre-pandemic levels by the end of 2021, and import values are expected to higher than the preliminary forecasts through the entire forecast period.

Figure 7: Goods trade balance

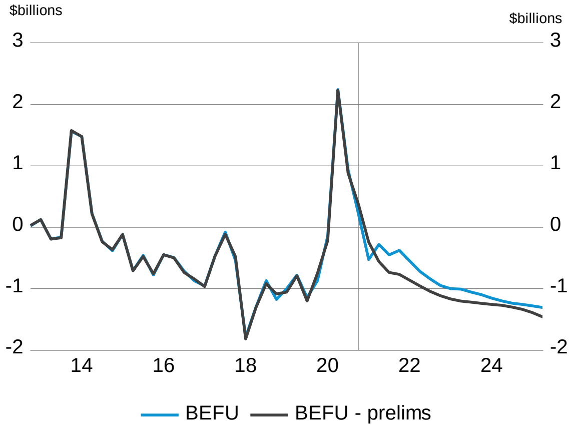
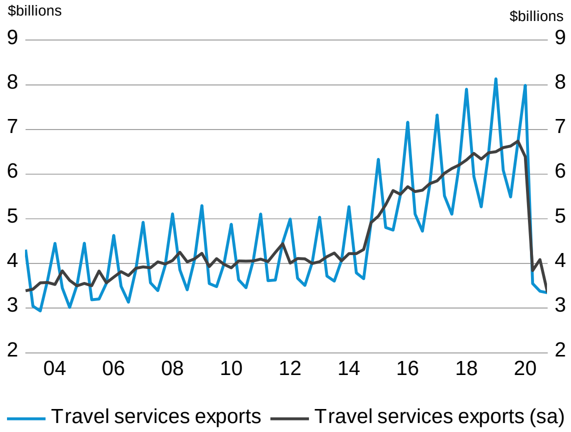


Figure 8: Travel services exports



…but weak services exports will be a drag

42. **Seasonally adjusted services exports fell 17.3% in the December 2020 quarter, influenced by the lack of the usual tourist spending in what would have been the beginning of the peak travel season.** The non-seasonally adjusted value of travel services exports is expected to have remained broadly unchanged since the second half of 2020 and into the March 2021 quarter. However, the lack of a usual large inflow of travelers will register as a decline in seasonally adjusted terms in the March 2021 quarter. Equally, the lack of the usual outflow of travelers abroad in the June 2021 quarter will register as an increase in seasonally adjusted terms (Figure 8).

43. The announcement of the trans-Tasman travel bubble presents slight upside risks to our services exports forecast now that Australian travellers will be allowed to enter the country earlier than assumed. However, the net effect on the services balance will be at least partially offset by an increase in services imports as New Zealanders travel to Australia.

Supply chain disruptions and capacity constraints expected to raise inflationary pressures…

44. Higher import costs and less discounting by retailers are expected to result in a continued period of elevated inflationary pressures in the near term, supported by a weaker exchange rate and higher petrol prices. These cost pressures are believed to be contributing to rising inflation expectations in the near term.

45. Annual inflation is forecast to reach 2.4% by the middle of the year before easing as temporary cost pressures unwind. Continued spare capacity in the economy which is expected to weaken inflationary pressures and annual inflation falls below 2% in 2022. Over the medium term, spare capacity including in the labour market is expected to reduce, supported by continued accommodative monetary policy. Consumers Price Index inflation is forecast to return to the 2.0% mid-point of the Reserve Bank’s target range by March 2024.

…which offsets slightly weaker real GDP to leave nominal GDP broadly unchanged

46. Overall, real expenditure GDP is around 0.5% lower over the forecast period compared to the preliminary BEFU forecasts. Stronger price growth, including Consumer Price Index inflation and a higher terms of trade offsets this, with cumulative nominal expenditure GDP around $2.5 billion (0.1%) lower in June 2025 compared to the preliminary forecasts, and remains significantly stronger than the HYEFU 2020 forecasts. Consequently, we expect most of the upward revisions to tax revenue in the preliminary forecasts to remain.

Comparison to bank forecasts

47. The BEFU GDP forecast for the first half of 2021 is in line with those of other forecasters, with broad agreement that this will be a period of relatively flat activity. In the medium term, the BEFU forecast includes stronger GDP growth than other forecasters, reflecting the judgement that the permanent impacts of the COVID-19 shock will be less severe than previously assumed and other forecasters have not yet incorporated any additional spending that will be announced at the Budget.

48. Bank forecasters are expecting a slight rise in unemployment during 2021 from the 4.9% unemployment rate recorded in the December quarter, while there are differing judgements around how quickly the unemployment rate will fall from there. The unemployment forecast in BEFU is roughly in the “middle of the pack” in terms of the medium-term recovery.

49. Most bank forecasters agree with the BEFU forecast that annual inflation will rise over 2021 before falling back at the end of the year, and then gradually rising towards the Reserve Bank’s 2% target midpoint.

Risks to our central forecasts

50. **There are several upside and downside risks to our central forecasts that could lead to different outcomes for the economy, with associated implications for tax revenues**. We will once again communicate some of these risks with scenarios in the published BEFU document.

51. **The Government’s Housing Package may produce a stronger or weaker impact on housing market activity than assumed**. If cash-financed investors and owner-occupiers are more able to take the place of debt-financed investors than assumed, house price growth might not ease by as much as expected. On the other hand, there may be a larger increase in the supply of residential property in the market than expected if more existing debt-financed investors expect to encounter material cash-flow and profitability issues after interest deductibility is removed.

52. **Our central forecasts assume there will be no further material domestic outbreaks of COVID-19 in the community**. Further outbreaks of COVID-19 in the community that necessitate the reinstatement of higher alert levels could lead to further declines in GDP, push up the unemployment rate, and threaten to worsen the scarring effects of the pandemic.

53. **Should vaccines turn out to be more or less effective against the spread of the disease than assumed, border restrictions may be lifted earlier or later than assumed in the forecasts.** A less effective vaccination programme could lead to a slower recovery in our trading partners' economies and slow the pace at which border restrictions are eased, thereby dampening the recovery in our exports of services.

54. On the other hand, **there is a risk that momentum is even stronger than we are assuming and that there will not be a slowdown in real GDP growth over the course of 2021**. In this case we may see a stabilisation or decline in the unemployment rate instead of an increase. The recent strength in tax data could suggest the economy is performing better than the economic data is suggesting – which may mean the economic data will be revised up in future.

Annex 1: Forecast summary tables

Table A1: Summary of economic forecasts – June years

(Annual average percent change, unless specified otherwise)

June Years	2017	2018	2019	2020	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Private consumption	6.4	4.6	4.3	-0.9	5.0	3.0	2.9	2.5	2.4
Public consumption	2.9	3.8	3.6	6.7	4.1	3.1	1.4	1.5	2.0
TOTAL CONSUMPTION	**5.6**	**4.4**	**4.1**	**0.8**	**4.8**	**3.0**	**2.5**	**2.2**	**2.3**
Residential investment	3.7	-0.1	3.7	-6.1	16.0	1.7	5.2	2.7	2.6
Business investment*	1.7	12.3	4.1	-4.8	0.6	5.1	9.4	5.1	3.6
TOTAL INVESTMENT	**2.2**	**8.9**	**4.0**	**-5.1**	**4.4**	**4.2**	**8.3**	**4.5**	**3.4**
Stocks (contribution to GDP growth)	0.4	0.2	-0.5	-0.5	0.3	0.3	0.0	0.0	-0.0
GROSS NATIONAL EXPENDITURE	**5.2**	**5.8**	**3.4**	**-1.1**	**5.1**	**3.6**	**3.9**	**2.8**	**2.6**
Exports	0.6	4.0	3.2	-5.6	-10.3	6.1	6.8	5.5	4.7
Imports	6.7	8.4	2.4	-6.0	-5.0	10.7	6.0	4.0	3.5
EXPENDITURE ON GDP	**3.5**	**4.6**	**3.7**	**-1.0**	**4.3**	**1.9**	**3.8**	**3.0**	**2.8**
GDP (PRODUCTION MEASURE)	**3.5**	**3.7**	**2.9**	**-1.7**	**2.9**	**3.2**	**4.4**	**3.3**	**2.9**
- annual % change, June quarter	3.5	3.7	2.3	-11.4	13.4	4.9	3.7	3.2	2.7
Other Output Measures									
Real Gross National Disposable Income	4.4	3.9	2.7	0.1	3.0	3.5	4.1	3.2	2.9
Nominal GDP (Expenditure Basis)	6.6	7.4	4.8	2.0	5.6	4.6	6.3	5.7	5.5
Potential GDP	3.2	2.9	2.6	-1.0	5.9	2.4	2.5	2.6	2.7
Output gap (June qtr,% of potential)	0.5	1.4	1.1	-0.7	-3.1	-0.8	0.3	0.8	0.8
Total Population (thousands, mean quarter ended)	4,805	4,893	4,972	5,090	5,125	5,167	5,219	5,279	5,347
Real GDP per capita (Production basis)	1.3	1.7	1.2	-3.7	1.5	2.4	3.4	2.2	1.7
Labour Market									
Employment	5.3	3.6	1.9	1.7	0.2	1.4	2.4	1.9	1.8
Unemployment Rate (June quarter)	4.8	4.5	4.0	4.0	5.2	5.0	4.4	4.2	4.2
Labour Productivity (Hours worked basis)	-1.6	-0.6	0.4	-0.6	-0.2	2.5	2.0	1.4	1.2
Wages (QES average hourly ord time earnings, APC)	1.5	3.0	4.4	3.0	3.5	3.0	2.4	2.8	3.2
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	2.0	2.0	1.7	0.3	0.3	0.3	0.3	0.3	0.9
10-year Bond Rate (June quarter ave)	2.9	2.8	1.8	0.8	1.8	2.2	2.4	2.7	2.9
TWI (June quarter ave)	76.5	73.8	72.7	69.7	74.5	74.5	74.5	74.7	75.1
- annual % change (June quarter)	3.9	-3.5	-1.5	-4.1	6.9	0.0	0.0	0.3	0.5
Price Measures									
CPI Inflation (ann % change, June quarter)	1.7	1.5	1.7	1.5	2.4	1.7	1.8	2.0	2.1
Consumption Deflator	1.1	1.3	1.6	2.0	1.1	1.5	2.1	2.4	2.5
GDP Deflator	2.9	2.6	1.1	3.1	1.2	2.6	2.4	2.6	2.6
House Price Inflation (ann % change, June qtr)	6.5	3.6	1.5	6.8	17.3	0.9	2.1	2.1	2.5
Key Balances									
Current account balance ($ million)	-7,733	-10,677	-11,636	-5,677	-8,996	-11,824	-12,963	-13,103	-12,886
Current account balance (% of GDP)	-2.8	-3.6	-3.8	-1.8	-2.7	-3.4	-3.5	-3.3	-3.1
Terms of Trade (goods) - SNA Basis	4.9	4.6	-3.5	4.6	0.3	1.0	-0.9	-0.4	-0.3
Net International Investment Position (%GDP)	-54.3	-51.9	-54.0	-57.0	-54.9	-55.9	-56.0	-56.4	-56.5

* Total investment excluding residential

Table A2: Change in economic forecasts from preliminary BEFU – June years

(Annual average percent change, unless specified otherwise)

June Years	2017	2018	2019	2020	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Private consumption	0.0	-0.0	0.0	0.1	-0.1	-0.4	-0.2	-0.0	-0.3
Public consumption	0.0	0.0	-0.0	-0.1	-0.0	0.9	0.2	0.7	0.5
TOTAL CONSUMPTION	**0.0**	**-0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**	**-0.1**	**0.2**	**-0.1**
Residential investment	-0.0	-0.0	0.1	-0.0	0.0	-1.7	-1.1	0.3	-0.1
Business investment*	0.0	-0.0	0.0	-0.1	-0.5	0.6	1.6	-0.6	-0.3
TOTAL INVESTMENT	**0.0**	**-0.0**	**0.0**	**-0.1**	**-0.4**	**-0.0**	**0.9**	**-0.3**	**-0.2**
Stocks (contribution to GDP growth)	0.0	-0.0	0.0	0.1	-0.2	0.1	-0.1	-0.0	0.2
GROSS NATIONAL EXPENDITURE	**0.0**	**-0.0**	**0.0**	**0.1**	**-0.5**	**0.1**	**0.0**	**0.0**	**0.0**
Exports	0.0	-0.0	-0.0	-0.1	0.5	2.0	-1.2	-0.7	-0.3
Imports	0.0	-0.0	-0.0	0.0	2.9	-1.0	-1.3	-0.5	-0.4
EXPENDITURE ON GDP	**0.0**	**-0.0**	**0.0**	**0.1**	**-1.4**	**0.7**	**0.1**	**0.0**	**0.1**
GDP (PRODUCTION MEASURE)	**-0.0**	**0.0**	**0.1**	**0.0**	**-1.7**	**0.6**	**0.1**	**-0.1**	**-0.0**
- annual % change, June quarter	*-0.0*	*0.0*	*0.1*	*-0.0*	*-2.1*	*1.2*	*-0.4*	*0.2*	*-0.2*
Other Output Measures									
Real Gross National Disposable Income	-0.0	0.0	0.1	0.0	-1.2	1.2	-0.4	-0.4	-0.1
Nominal GDP (Expenditure Basis)	0.0	-0.0	0.0	0.1	-0.9	1.1	-0.2	-0.3	-0.1
Per Capita Output Measures									
Real GDP per capita (Production basis)	-0.0	0.0	0.1	0.0	-1.6	0.6	0.1	-0.1	-0.0
Real Gross Nat. Disp Income per capita	-0.0	0.0	0.1	0.0	-1.2	1.1	-0.4	-0.4	-0.1
Nominal GDP per capita (Expenditure basis)	0.0	-0.0	0.0	0.1	-0.8	1.1	-0.2	-0.3	-0.1
Labour Market									
Employment	0.0	0.0	0.0	0.0	-0.1	0.1	0.0	-0.1	-0.2
Unemployment Rate (June quarter)	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.2
Labour Productivity (Hours worked basis)	-0.0	0.0	0.1	0.0	-1.5	0.4	0.1	0.1	0.2
Wages (QES average hourly ord time earnings, APC)	0.0	0.0	0.0	0.0	-0.1	0.3	-0.2	-0.4	-0.2
Unit Labour Costs (Hours worked basis)	0.0	-0.0	-0.1	-0.0	1.5	-0.2	-0.2	-0.4	-0.5
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-1.0
10-year Bond Rate (June quarter ave)	0.0	0.0	0.0	0.0	0.4	0.4	0.3	0.3	0.2
TWI (June quarter ave)	0.0	0.0	0.0	0.0	-0.5	-0.5	-0.5	-0.6	-0.6
- annual % change, June quarter	0.0	0.0	0.0	0.0	-0.7	0.0	0.0	-0.1	0.0
Price Measures									
CPI Inflation (ann % change, June quarter)	0.0	0.0	0.0	0.0	0.4	0.3	0.1	0.0	-0.1
Consumption Deflator	-0.0	0.0	0.0	0.0	0.4	0.2	0.0	-0.0	-0.0
GDP Deflator	0.0	0.0	-0.0	0.0	0.5	0.4	-0.3	-0.3	-0.2
House Price Inflation (ann % change, June quarter)	0.0	0.0	0.0	-0.0	2.0	-6.2	-2.4	-2.2	-2.2
Key Balances									
Current account balance ($ million)	6	15	21	-34	-1,175	1,842	824	-171	-378
Current account balance (% of GDP)	0.0	0.0	0.0	-0.0	-0.4	0.5	0.2	-0.0	-0.1
Terms of Trade - SNA Basis	-0.0	0.0	0.0	-0.0	1.0	1.3	-1.4	-0.6	-0.3

* Total investment excluding residential

Table A3: Change in economic forecasts from HYEFU – June years

(Annual average percent change, unless specified otherwise)

June Years	2017	2018	2019	2020	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Private consumption	0.1	0.6	1.1	0.4	3.7	-0.1	-0.3	-0.7	-0.7
Public consumption	0.1	0.2	0.1	1.5	-0.9	0.7	-0.5	0.1	0.2
TOTAL CONSUMPTION	**0.1**	**0.5**	**0.9**	**0.6**	**2.6**	**0.1**	**-0.3**	**-0.5**	**-0.5**
Residential investment	-0.2	-0.2	1.5	0.5	12.2	0.2	-0.6	-4.2	-3.4
Business investment*	-0.4	1.1	1.6	0.5	6.0	1.5	2.3	-3.0	-2.2
TOTAL INVESTMENT	**-0.3**	**0.7**	**1.6**	**0.5**	**7.5**	**1.1**	**1.5**	**-3.4**	**-2.5**
Stocks (contribution to GDP growth)	-0.0	0.1	0.1	-0.0	-0.5	-0.0	0.3	-0.1	0.2
GROSS NATIONAL EXPENDITURE	**0.0**	**0.7**	**1.1**	**0.6**	**3.2**	**0.3**	**0.4**	**-1.2**	**-0.8**
Exports	0.0	0.0	-0.0	0.0	2.1	1.2	-1.0	-0.4	0.2
Imports	0.0	0.0	-0.0	-0.0	4.1	2.8	-0.2	-2.0	-1.2
EXPENDITURE ON GDP	**0.0**	**0.6**	**1.1**	**0.6**	**2.6**	**-0.2**	**0.2**	**-0.7**	**-0.4**
GDP (PRODUCTION MEASURE)	**0.1**	**0.5**	**0.1**	**0.4**	**1.4**	**0.5**	**0.7**	**-0.5**	**-0.3**
- annual % change, June quarter	*0.4*	*0.5*	*0.2*	*1.0*	*-0.5*	*2.0*	*-0.2*	*-0.3*	*-0.5*
Other Output Measures									
Real Gross National Disposable Income	0.1	0.5	0.1	0.4	2.1	1.2	0.2	-0.9	-0.4
Nominal GDP (Expenditure Basis)	0.1	0.7	1.2	0.5	3.1	-0.0	0.1	-0.7	-0.3
Per Capita Output Measures									
Real GDP per capita (Production basis)	-0.1	0.3	-0.0	0.3	2.5	0.5	0.7	-0.5	-0.3
Real Gross Nat. Disp Income per capita	-0.1	0.3	-0.0	0.3	3.2	1.2	0.2	-0.9	-0.4
Nominal GDP per capita (Expenditure basis)	0.0	0.7	1.2	0.4	3.0	-0.0	0.1	-0.7	-0.3
Labour Market									
Employment	0.0	-0.0	-0.0	0.1	1.1	0.9	-0.0	-1.1	-0.8
Unemployment Rate (June quarter)	0.0	0.0	0.0	0.0	-1.4	-1.9	-1.3	-0.5	0.2
Labour Productivity (Hours worked basis)	0.1	0.5	0.1	0.3	-0.9	0.0	0.7	0.7	0.6
Wages (QES average hourly ord time earnings, APC)	-0.0	-0.0	-0.0	-0.0	1.3	0.8	0.1	-0.0	-0.1
Unit Labour Costs (Hours worked basis)	-0.1	-0.5	-0.1	-0.3	1.9	1.0	-0.5	-0.7	-0.7
Monetary Conditions									
90-day Bank Bill Rate (June quarter ave)	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.6
10-year Bond Rate (June quarter ave)	0.0	0.0	0.0	0.0	1.3	1.6	1.3	1.0	0.8
TWI (June quarter ave)	0.0	0.0	0.0	0.0	3.5	3.5	2.9	2.1	1.6
- annual % change, June quarter	0.0	0.0	0.0	0.0	5.0	0.0	-0.8	-1.1	-0.6
Price Measures									
CPI Inflation (ann % change, June quarter)	0.0	0.0	0.0	0.0	1.0	0.6	0.4	0.2	-0.0
Consumption Deflator	0.1	0.1	0.1	0.1	-0.2	-0.5	0.2	0.5	0.4
GDP Deflator	0.0	0.0	0.1	-0.1	0.4	0.2	-0.1	0.0	0.1
House Price Inflation (ann % change, June quarter)	0.0	0.0	0.0	0.7	8.8	-3.6	-3.1	-3.2	-3.1
Key Balances									
Current account balance ($ million)	10	18	25	49	-195	669	-1,207	-1,097	-163
Current account balance (% of GDP)	0.0	0.0	0.1	0.1	0.1	0.4	-0.1	-0.1	0.1
Terms of Trade - SNA Basis	-0.0	0.0	0.0	-0.0	1.6	2.7	-1.6	-1.2	-0.3

* Total investment excluding residential