

Outlook for the economy


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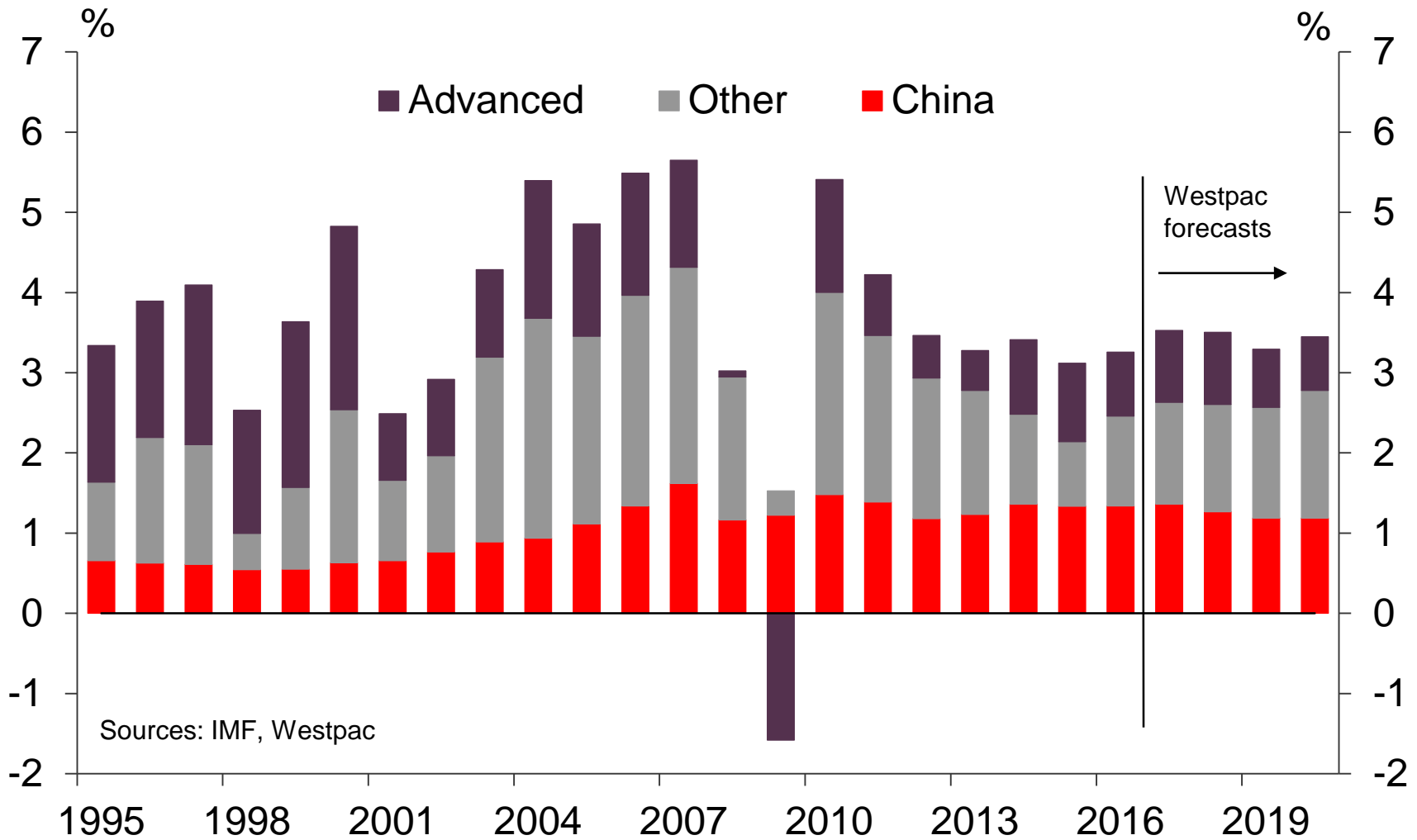
July 2017



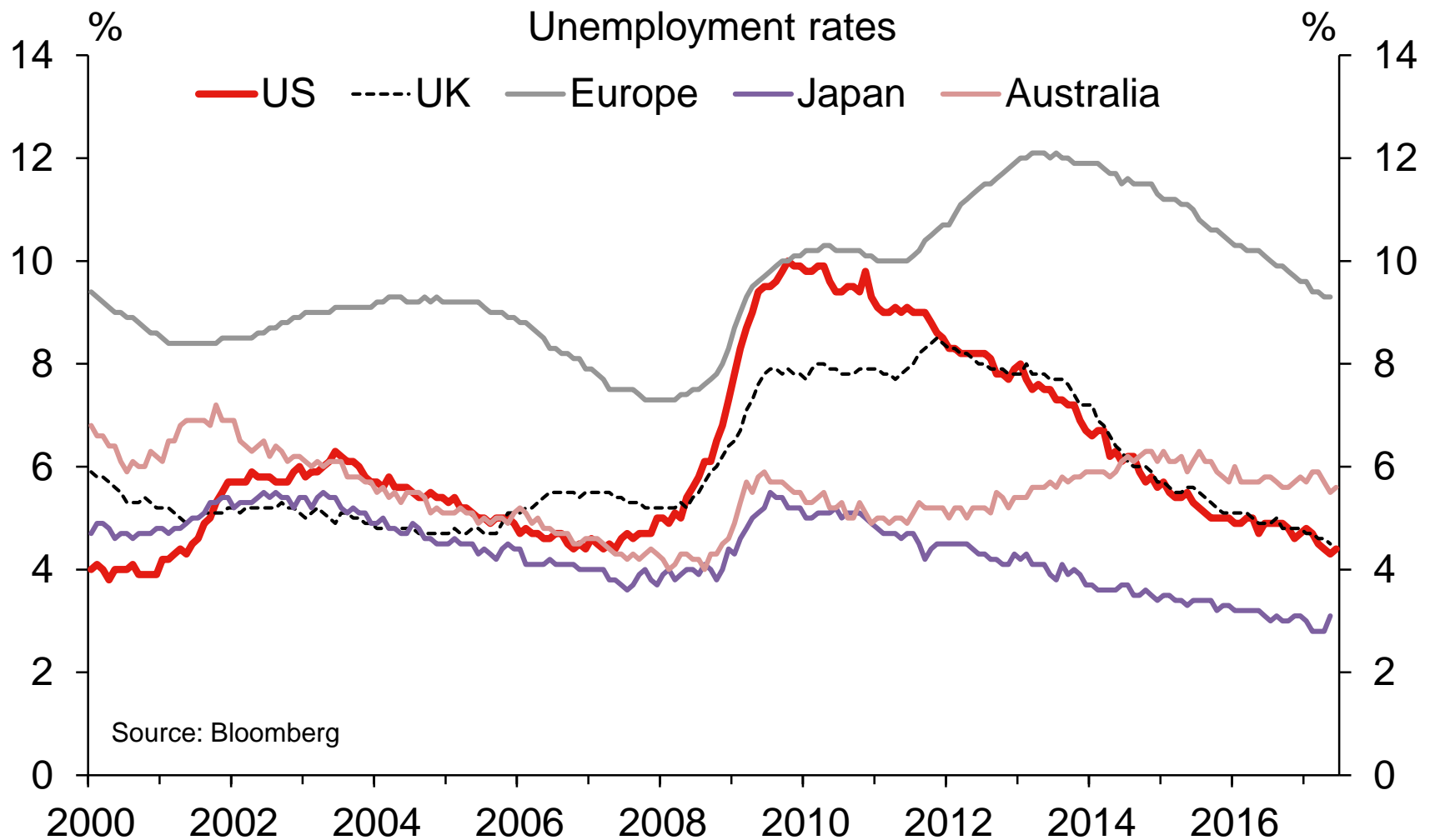
Key themes

- World economy in a modest upswing
 - Some changes are emerging in the mix of NZ growth
 - Housing 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
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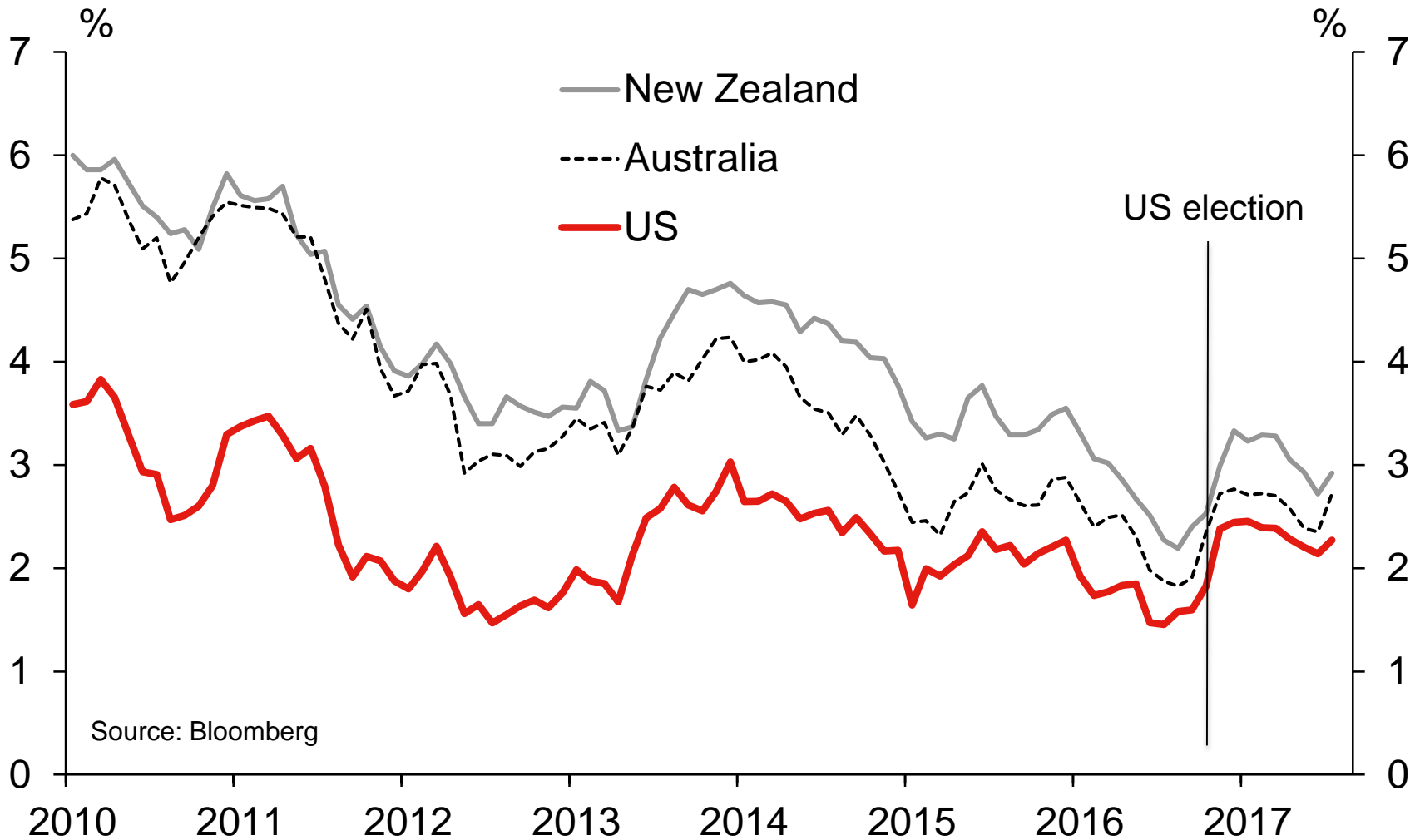
Contributions to world growth



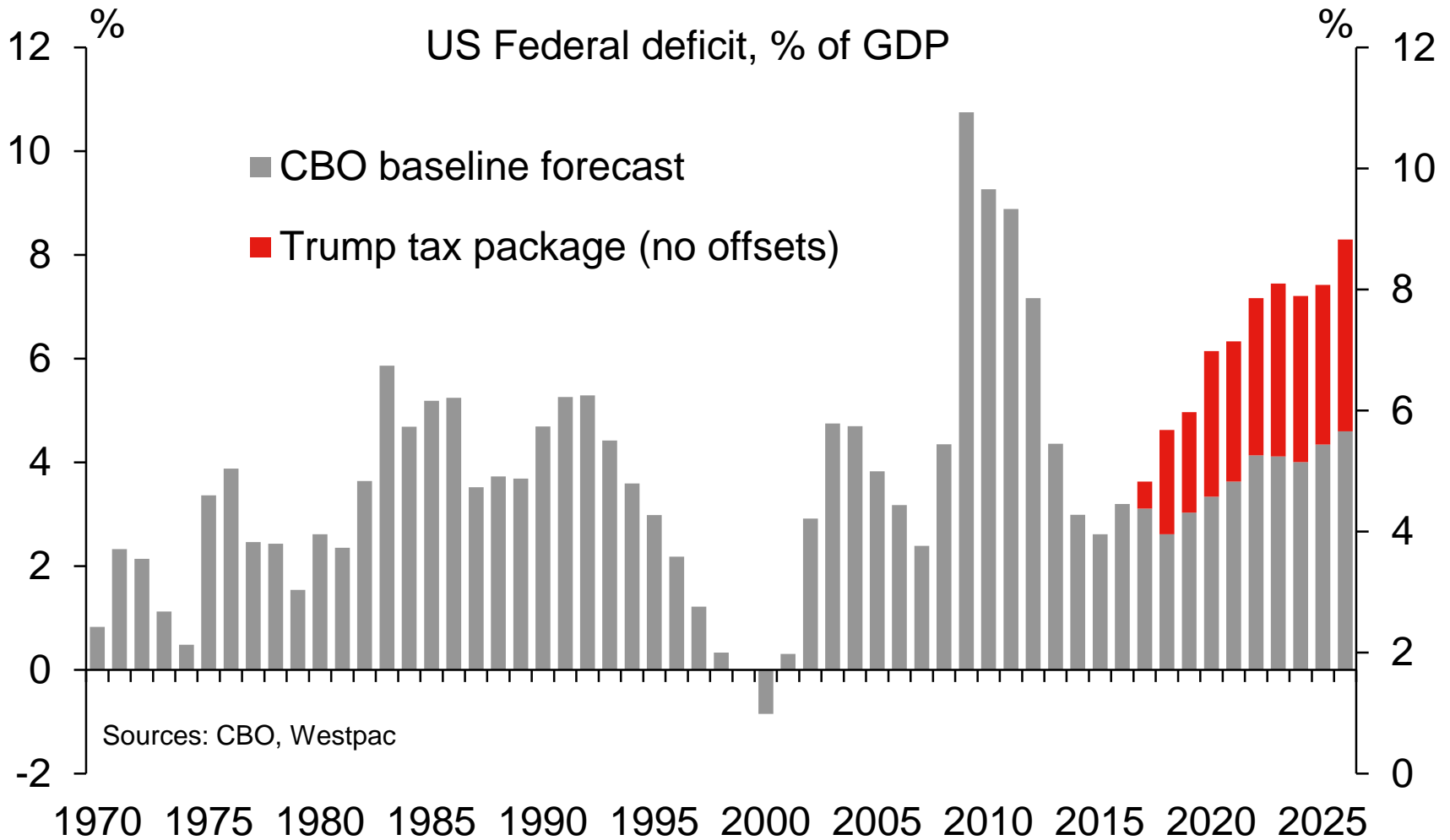
Post-crisis healing continues



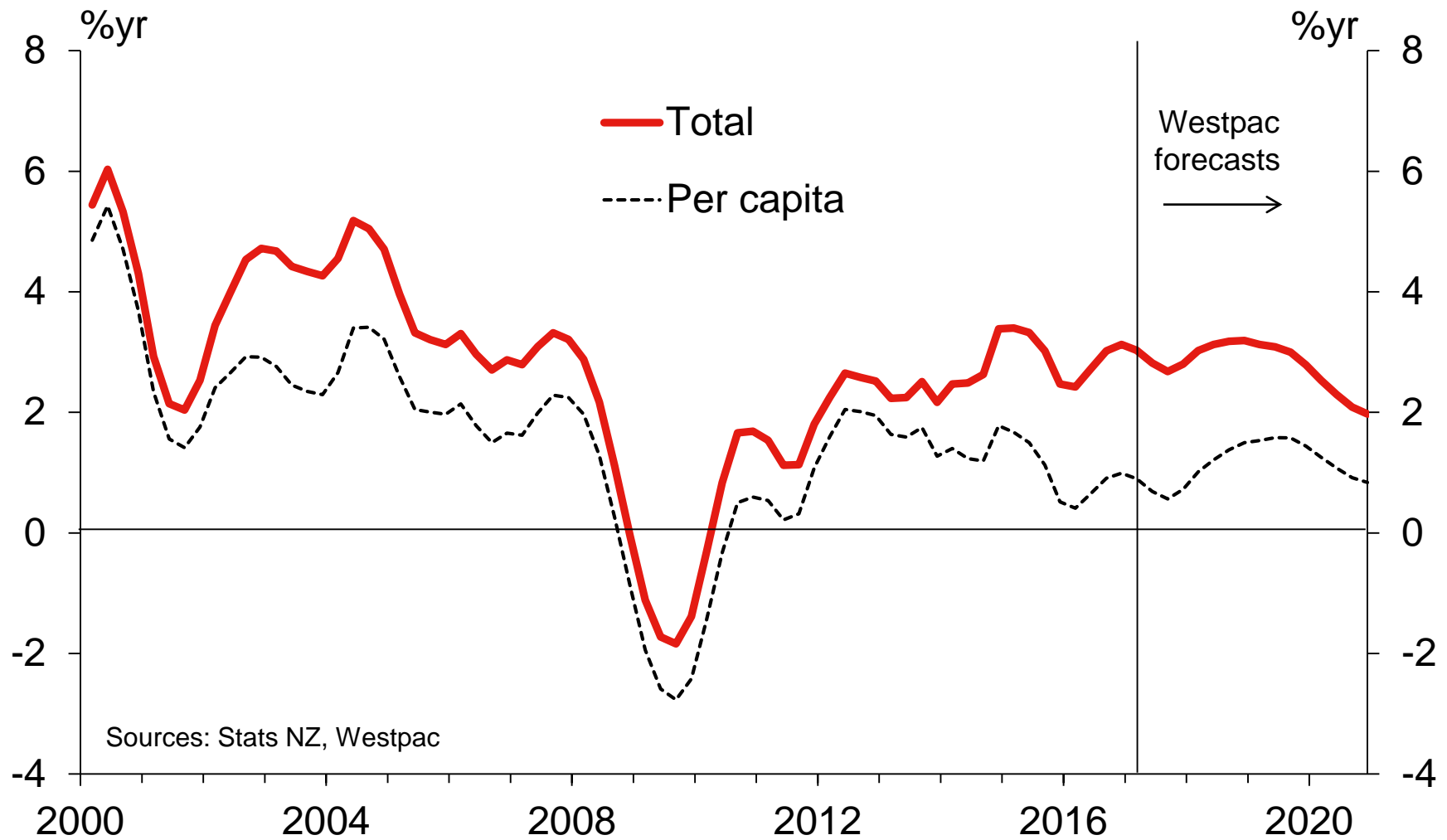
Long-term interest rates rising



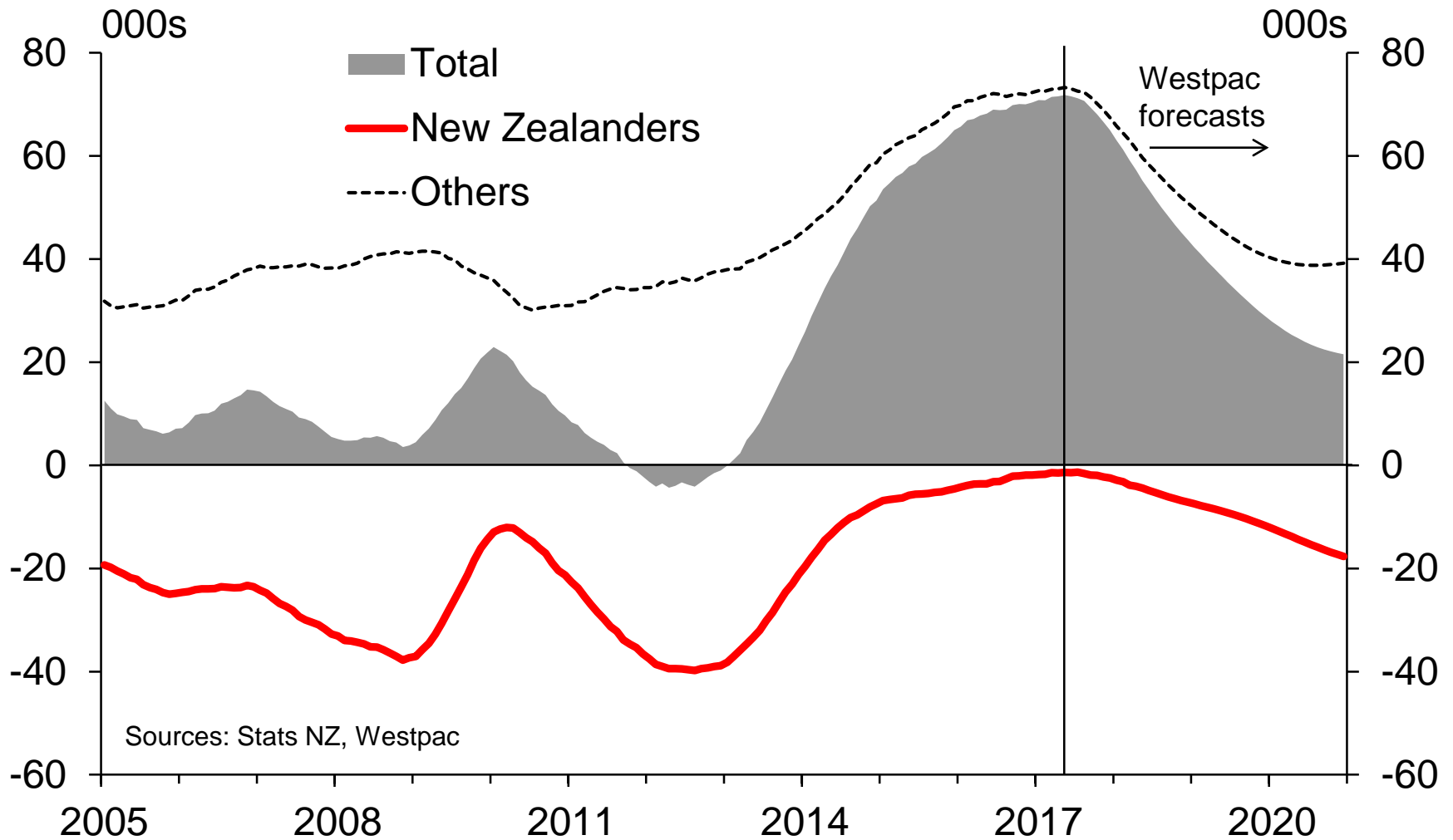
'Trumpflation' was never credible



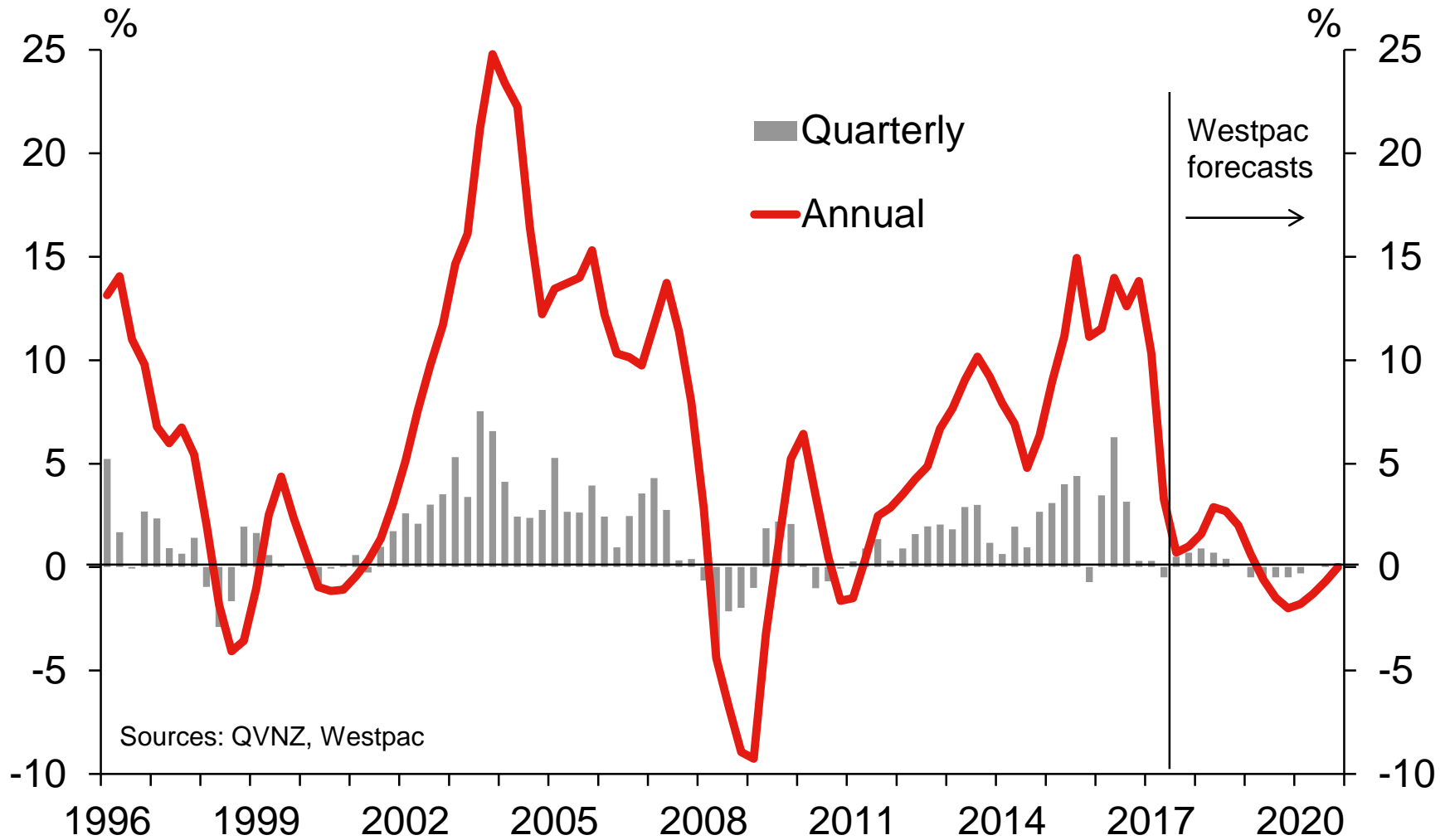
New Zealand GDP growth



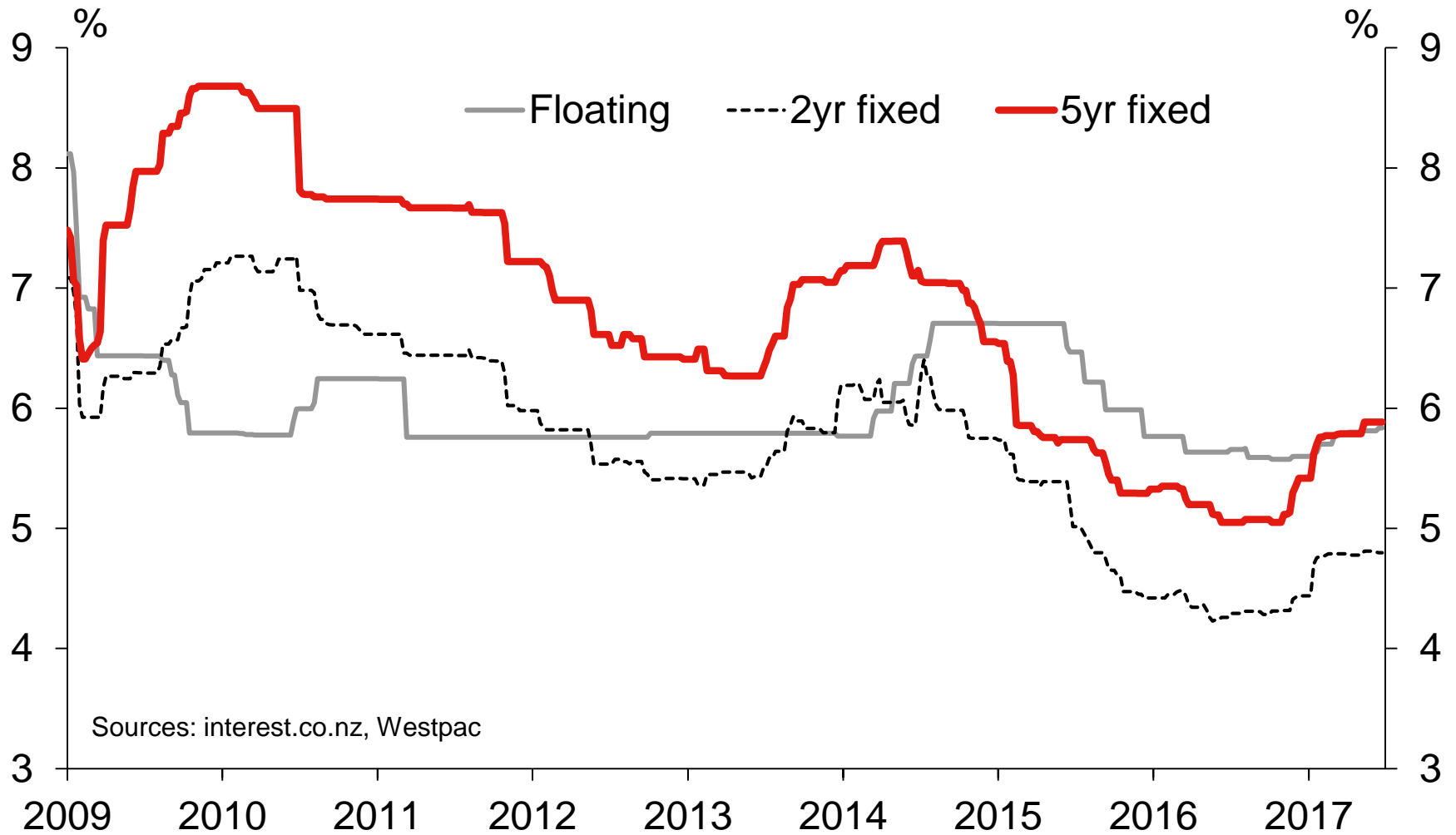
Net migration, annual flows



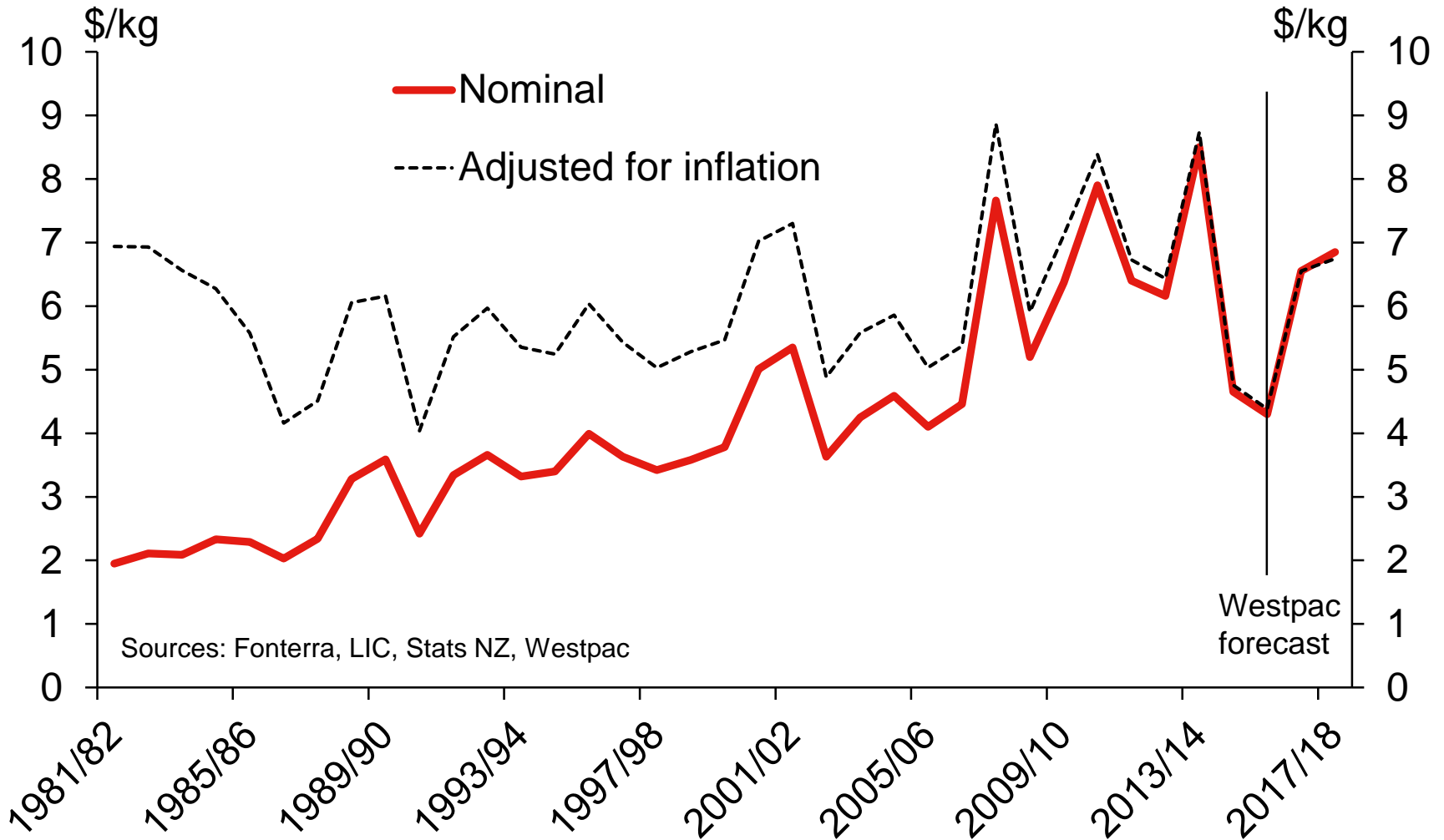
House price growth



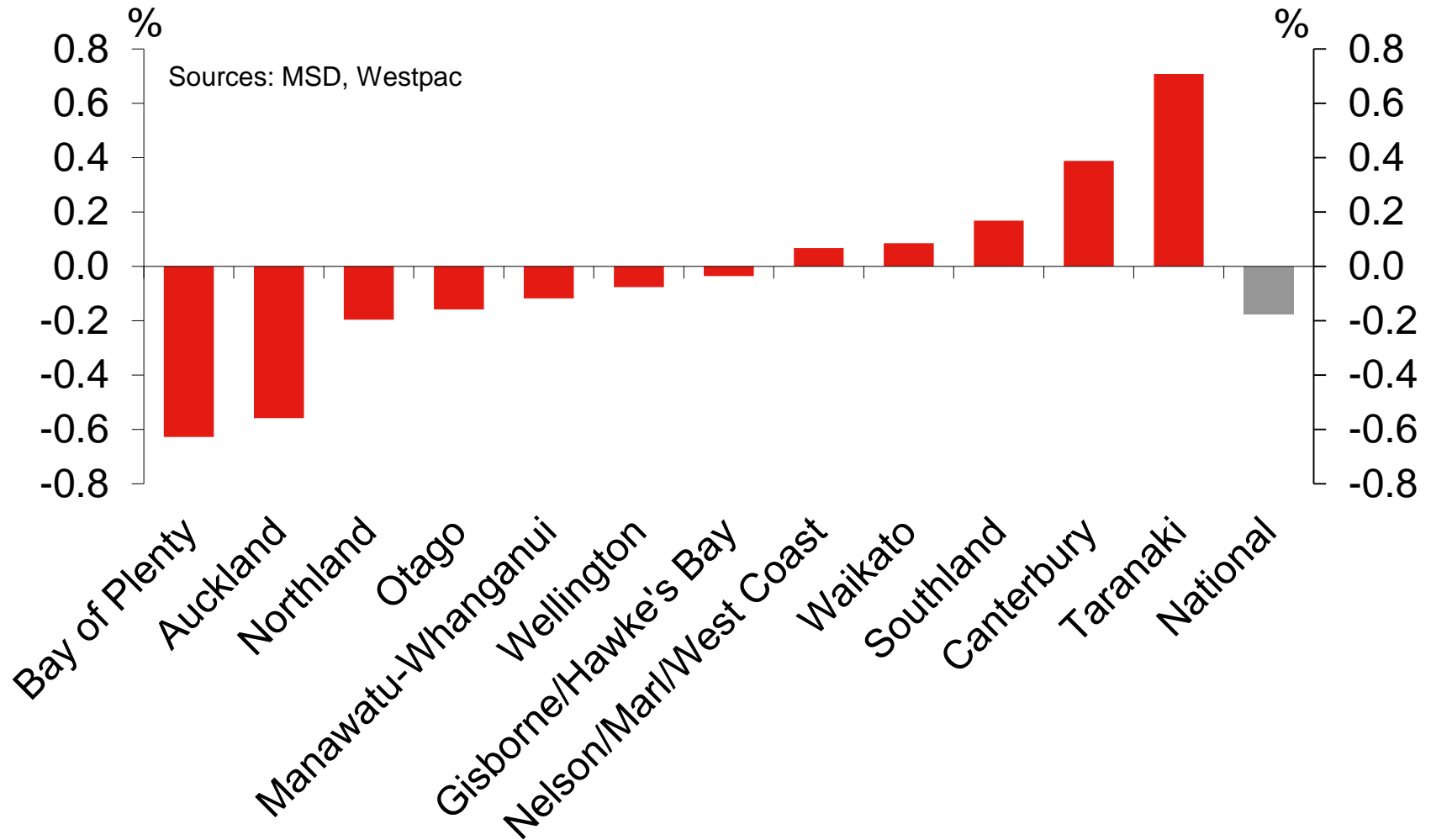
Mortgage rates



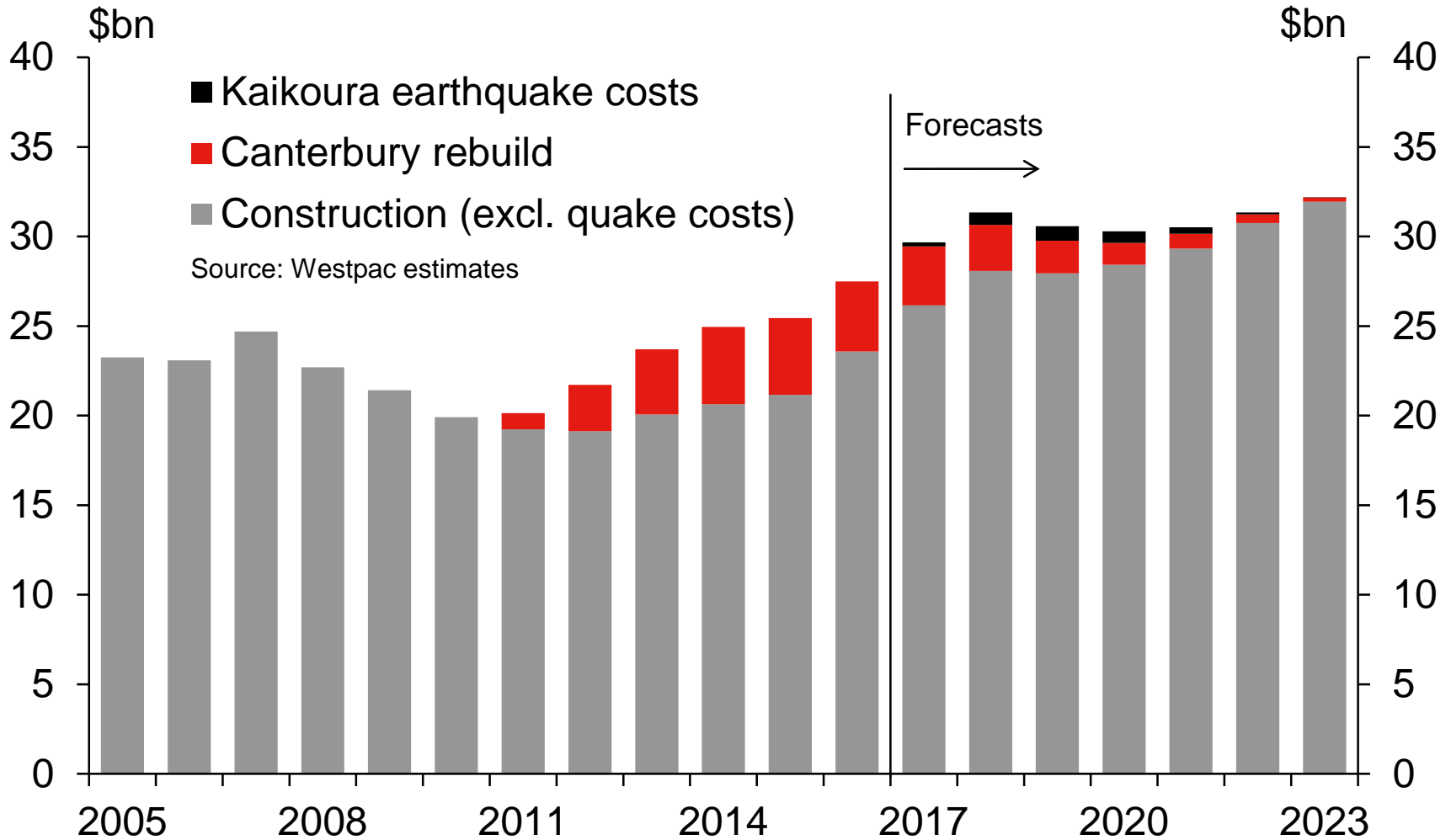
Milk payout (including dividends)



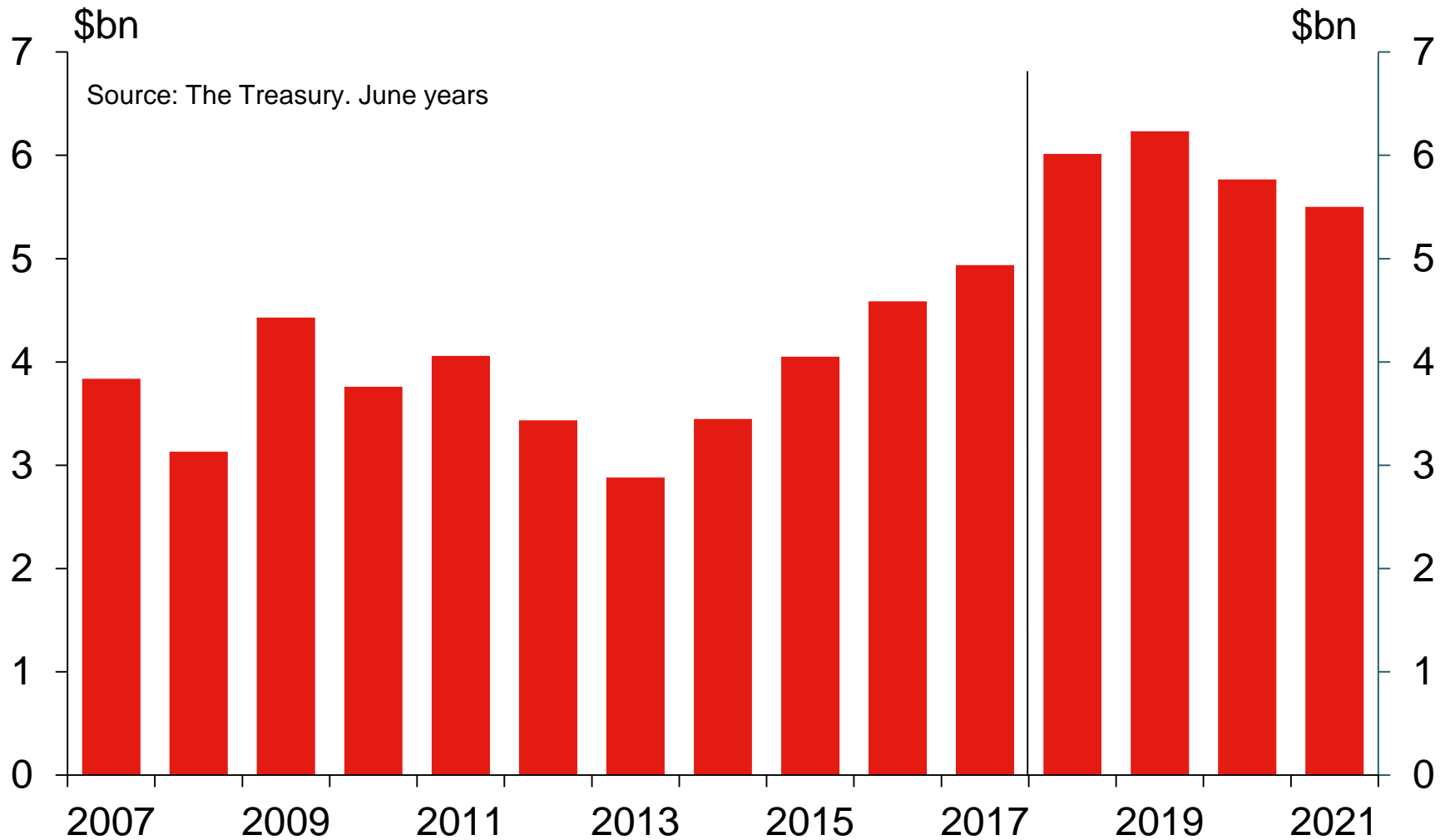
Change in jobseeker benefit rates, 2014-2016



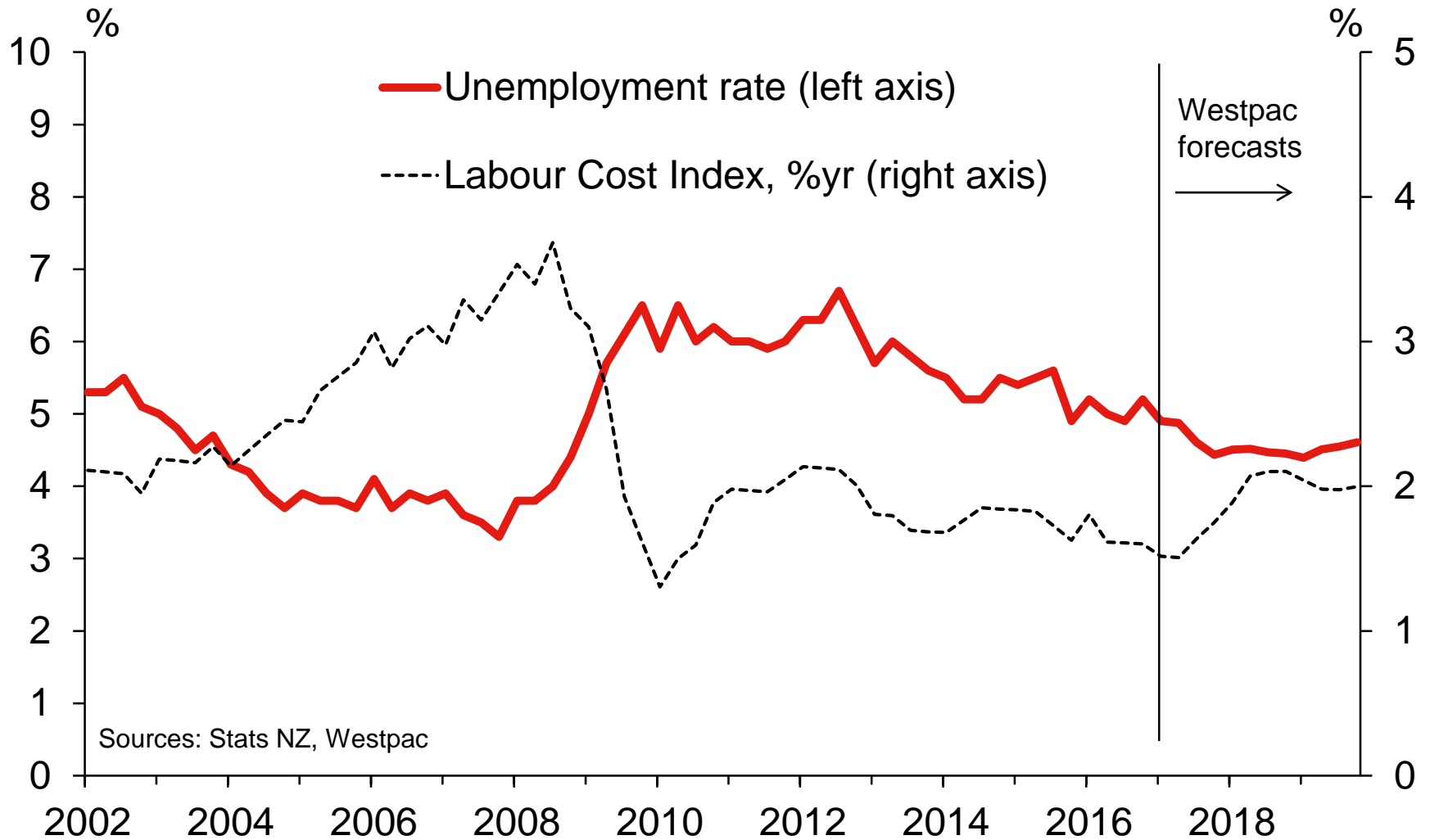
Annual construction activity



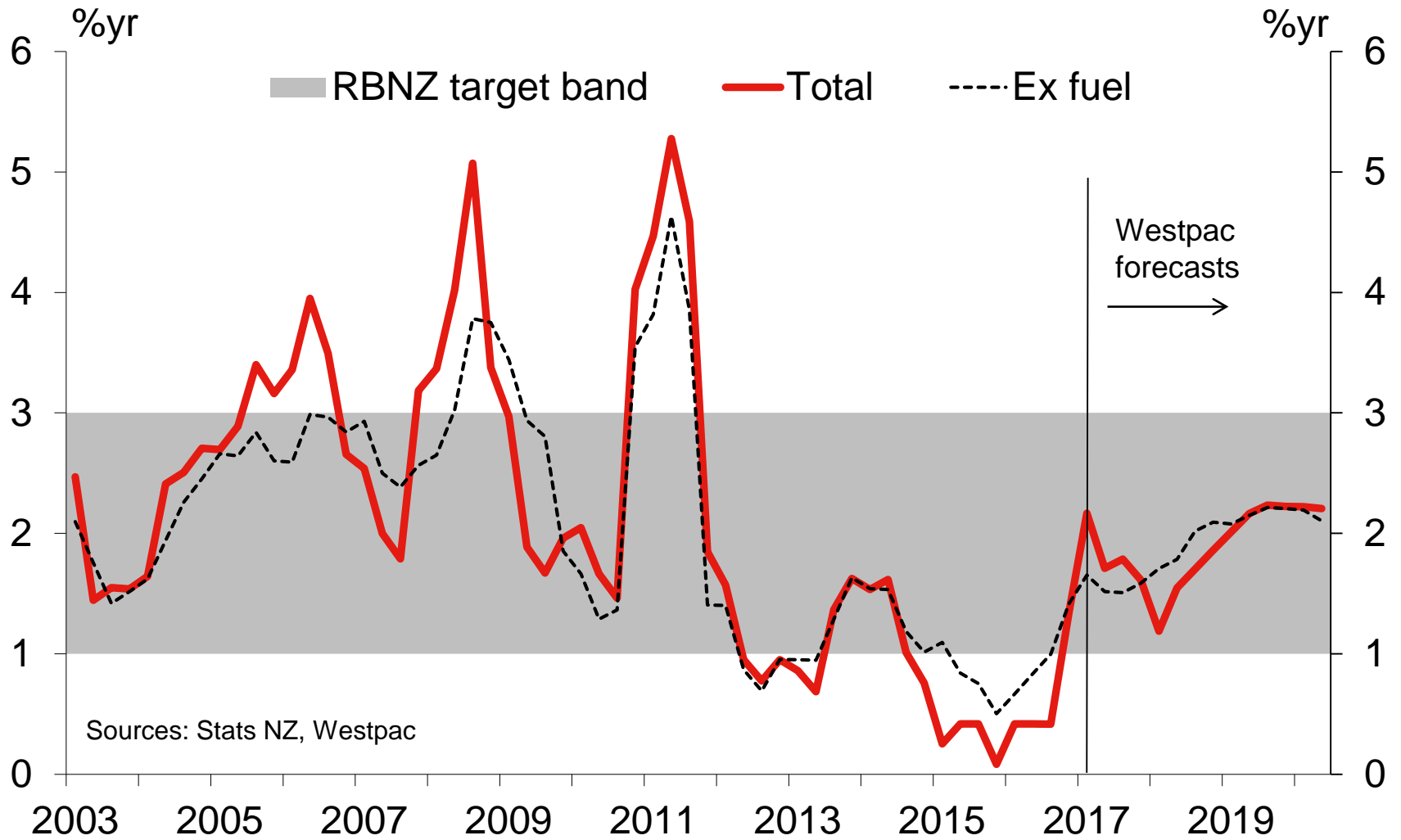
Govt net capital spending



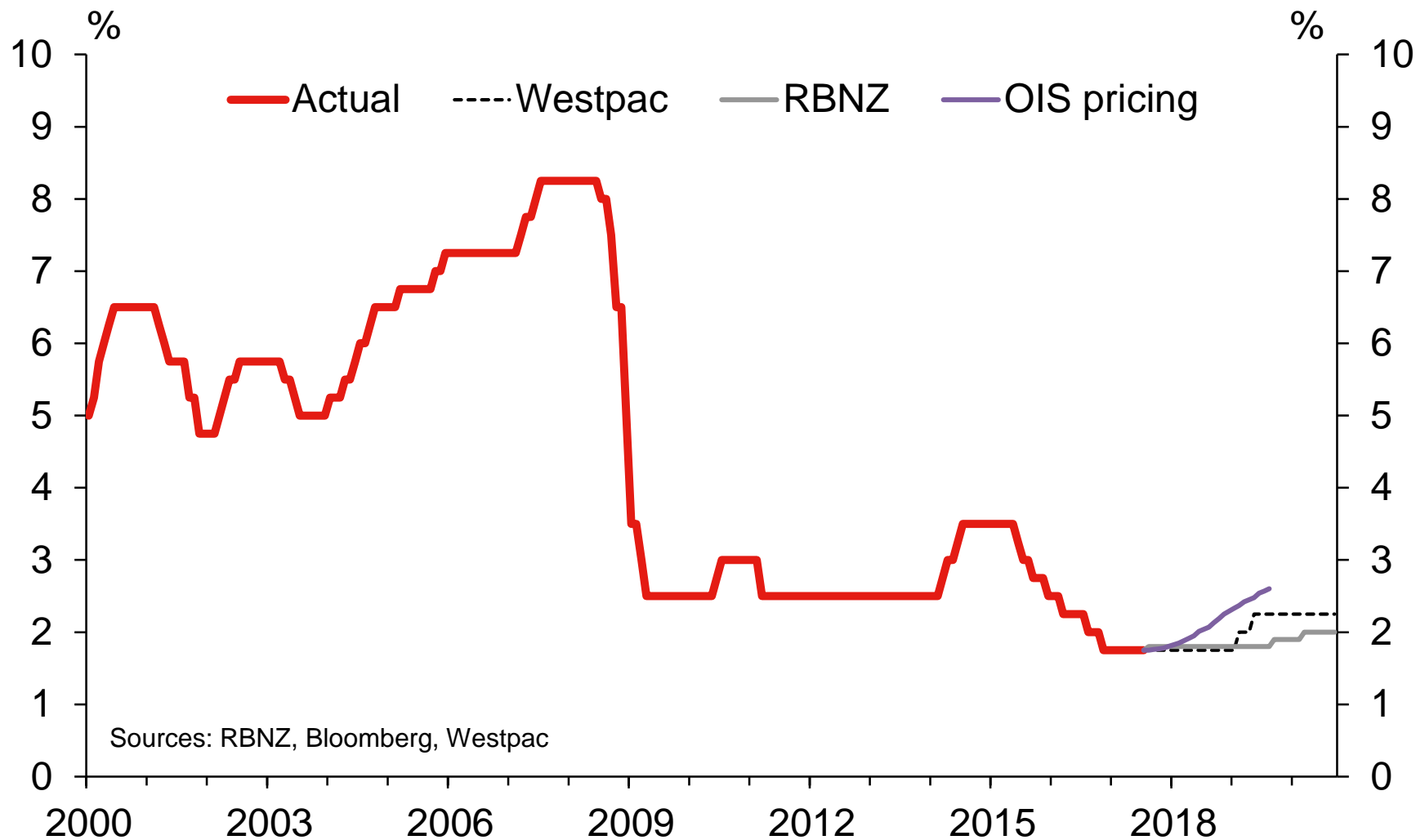
Labour market tightness




Inflation forecast



OCR expectations



Summary of forecasts

- Growth around 3%/yr for the next couple of years
 - Population growth still a major contributor even as 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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