Keeping it simple – a no-frills budget that suits the times

KEY HIGHLIGHTS OF NEW ZEALAND'S FEDERAL BUDGET 2023

The New Zealand economy is slowing, and it is likely to be the injection of government money to help the North Island recover from cyclone and floods that will prevent a slide into recession.

The economy grew by 2.4% in 2022, but will slow to 1% in the year to June 2024. It's meagre, but at least the Treasury is no longer forecasting a recession.

Inflation peaked at 7.3% in June 2022, before easing to 6.7% at the start of 2023. It's now forecast to gradually fall within the Reserve Bank's target band of 1-3% by late-2024. However, the Budget notes that this also means interest rates are likely to stay higher for longer.

The labour market will deteriorate, with the unemployment rate rising to 5.3% by late-2024.

Wages are expected to grow faster than inflation across the next four years.

Prime Minister Chris Hipkins describes it as a "no frills" Budget – one that focuses on cost of living, cutting inflation, and recovering from the devastating North Island floods and cyclone.

> The Budget papers put it even more bluntly – a **"focus on doing fewer things better."**

New spending in the Budget is offset by $4 billion in savings and reprioritisation, and $1.3 billion in additional revenue. The Budget deficit will be $7 billion in 2022/23 and $7.6 billion in 2023/24. There is no expected return to surplus until 2025/26.

KEY TAKEAWAYS

- Economic growth to slow to 1%
- Interest rates to remain higher for longer
- Jobless rate to rise to 5.3%
- Apprentice support extended

Cost of living

There is a major focus on easing cost-of-living pressure on families and individuals at a cost of $1.2 billion, including:

- Scrapping prescription co-payments at a cost of $619 million
- Free public transport for children under 13 and half-price fares for under 25s at a cost of $327 million
- KiwiSaver contributions for paid parental leave, costing $20 million
- Lowering household energy bills through an expanded Warmer Kiwi Homes Programme, costing $403 million.

Flood and cyclone recovery

The Budget builds on the existing response to the Auckland floods and Cyclone Gabrielle, with funding to support the recovery, including:

- Infrastructure investment in affected regions worth $804 million
- Business and community support including funding for temporary accommodation and health services worth $130 million
- Measures to protect against future climate events, costing $120 million.

Infrastructure investment pipeline

The government has committed $71 billion across five years for new and existing infrastructure investments, in addition to funding set aside for projects that are still in the planning stage, including:

- $3.1 billion in capital funding and $465 million in recurrent funds for 3,000 additional public housing places
- A total of $200 million toward increasing the supply of Māori housing and repair for Māori properties, and $23 million to fund an extension to the Te Ringa Hāpai Whenua Fund.

Skills and training

There are some new measures to lift apprentice take-up and to enhance opportunities for employment in the tech sector, including:

- An extension of the Apprenticeship Boost initiative to the end of 2024, costing $77.1 million, enabling an estimated 30,000 apprentices to start or continue being supported
- $27 million for a digital skills package that will support apprenticeship-like pilot programmes to include part payments for trainee wages, employer support and costs for trainees
- A total of $138 million to permanently reinstate the Training Incentive Allowance to assist sole parents, disabled people and their carers to study, and to continue the Oranga Mahi health and employment service trials for disabled people.

Industry

The private sector sees a number of new initiatives, with a focus on measures to quicken the transition to a carbon-neutral economy, including:

- Expanding the network of electric vehicle charging infrastructure, costing $120 million
- Providing $300 million to New Zealand Green Investment Finance Limited to accelerating private investment in lower emissions activities
- A 20% rebate for the game-development sector
- Investing in Industry Transformation Plans for Horticulture, Digital and Tourism to support economic resilience
- New Science and Innovation Hubs, backed by $400 million capital investment, plus more than 260 additional researchers and PhD students
- Aligning the Trustee tax rate with 39% top tax rate to create fairness and remove a potential loophole.

Tough times ahead

This is a sobering Budget. The outlook is extremely subdued and while the official forecast is for New Zealand to narrowly avoid a recession, it may not feel like that for everyone.

Unemployment will rise and interest rates will remain above trend.

While the New Zealand economy is unquestionably weak, it is the impact of this year's severe weather events that overhangs the whole exercise.

The Auckland floods in late January and Cyclone Gabrielle in February saw tremendous damage and loss of life.

In economic terms, these events are now a two-edged sword – they have cut national economic output by about $1 billion, but the rebuilding will add around $7 billion and contribute to an increase in employment and gross domestic product.

With interest rates to remain higher for longer, Treasury is forecasting a further 4.6% decline in house prices to mid-2024, taking the peak-to-trough decline to 21%.

For employers who have grappled with a tight labour market and skills shortages, that is about to change as the labour market weakens.

This will be a turning point. The Budget has been kept simple, but the outlook is anything but.

If you wish to find out more, please contact your Account Manager on: 0800 453 559 or email at Wendy.Hewson@programmed.co.nz