

Budget 2014: CPAG Budget Breakfast

Steve Poletti

Key Points

- Strong growth forecast for next two years, but weak thereafter
- Wage share of the economy's income forecast to fall

Treasury wage forecasts relied on by Government overestimate increases

- Unemployment forecast to be still above 5 percent (131,000) in March 2016
- Current account deficit to rise

Key Points

- Larger than expected Budget surplus forecast for year to June 2015
- But expenses are forecast to fall as a proportion of GDP for at least the next four years
- This will lead to cuts in spending on many public services in real terms
- Net debt to fall, reaching 20 percent of GDP by 2020, when contributions to New Zealand Superannuation Fund will resume
- Net effect of government spending and revenue policies is negative for economy

Key Points

- Further \$50 million over next two years for Christchurch Earthquake Recovery Authority
- The partial privatisations are forecast to cost \$ 99 million per year (net) in lost dividends
- Social Welfare spending forecast to reduce by 2.9 percent 2015 and 4.9 percent in 2016
- in real terms
- \$100 million over 4 years for 8,000 places for employment and work readiness services
- Paid parental leave extended to 18 weeks and to seasonal and casual workers

- Parental Tax Credit raised to \$220 weekly and extended to 10 weeks
- Free doctors' visits and prescriptions for under 13 year olds commence in July 2015.
- \$155.7 million increase over four years in ECE
- \$359 million over 4 years for principal and teacher mentoring in Education
- Few new housing initiatives
- \$80 million over 4 years to administer new more restrictive social housing policies
- Tertiary education organisations face a cut in real terms to their core funding
- Funding for Health estimated to fall short by \$224 million

Intro: Budget 2014

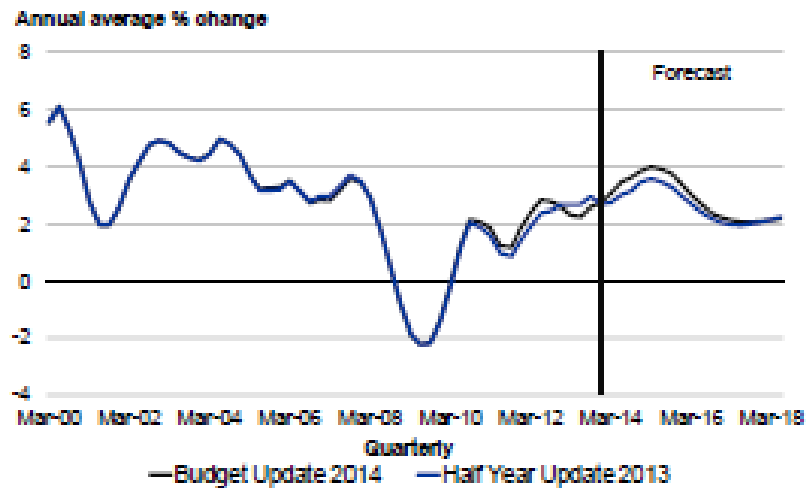
- Environment of growing economy
- Nevertheless social settings disturbing.
- This budget does little to address social problems.
- $\frac{1}{4}$ children in poverty (AHC of 60% of median income)
- Opportunity to address issues such as child poverty.
- Sadly not addressed.
- Overall continues program of spending cuts in real terms and smaller government

Macro position

- Economic recovery
- GDP expected to increase
- Unemployment expected to decrease

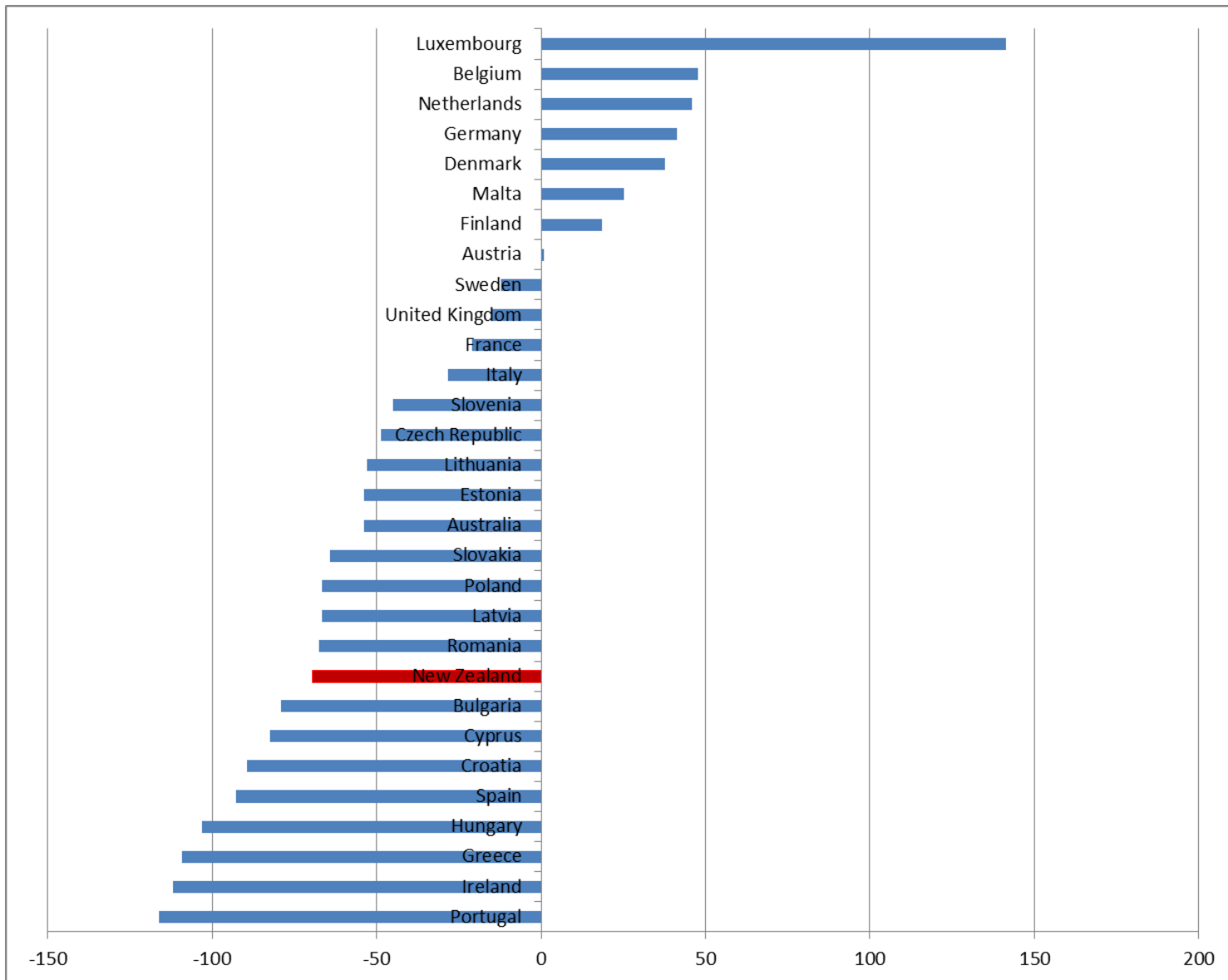
GDP expected to increase and U/E to decline from 6% to 4.5%

Figure 1.1 – Real GDP growth



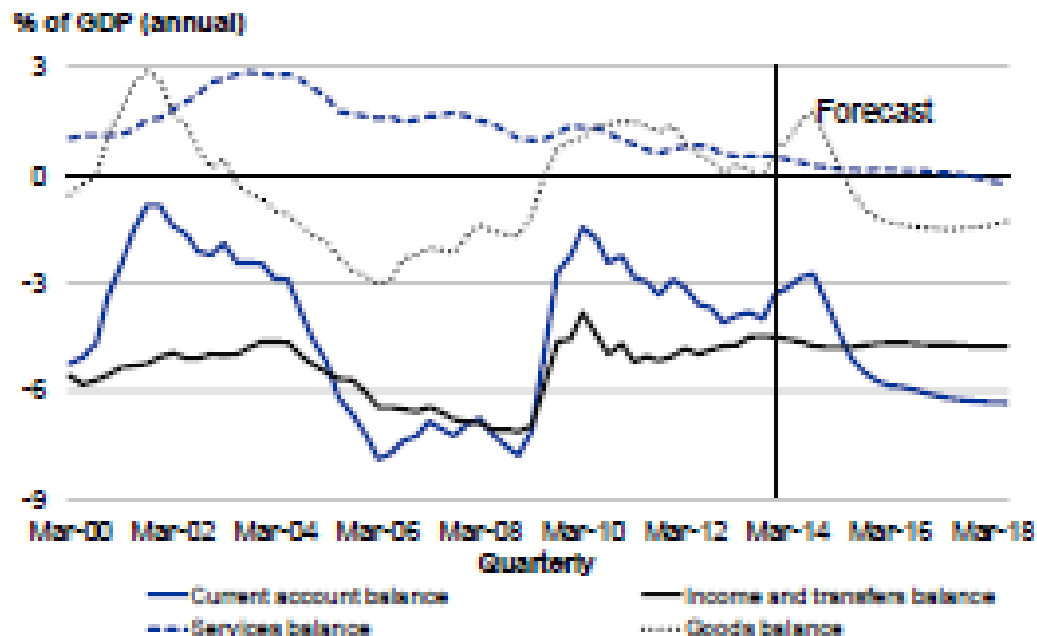
Sources: Statistics New Zealand, the Treasury

New Zealand Net International Liabilities cause for concern.....



Balance of Payments. Still a concern

Figure 1.15 – Current account

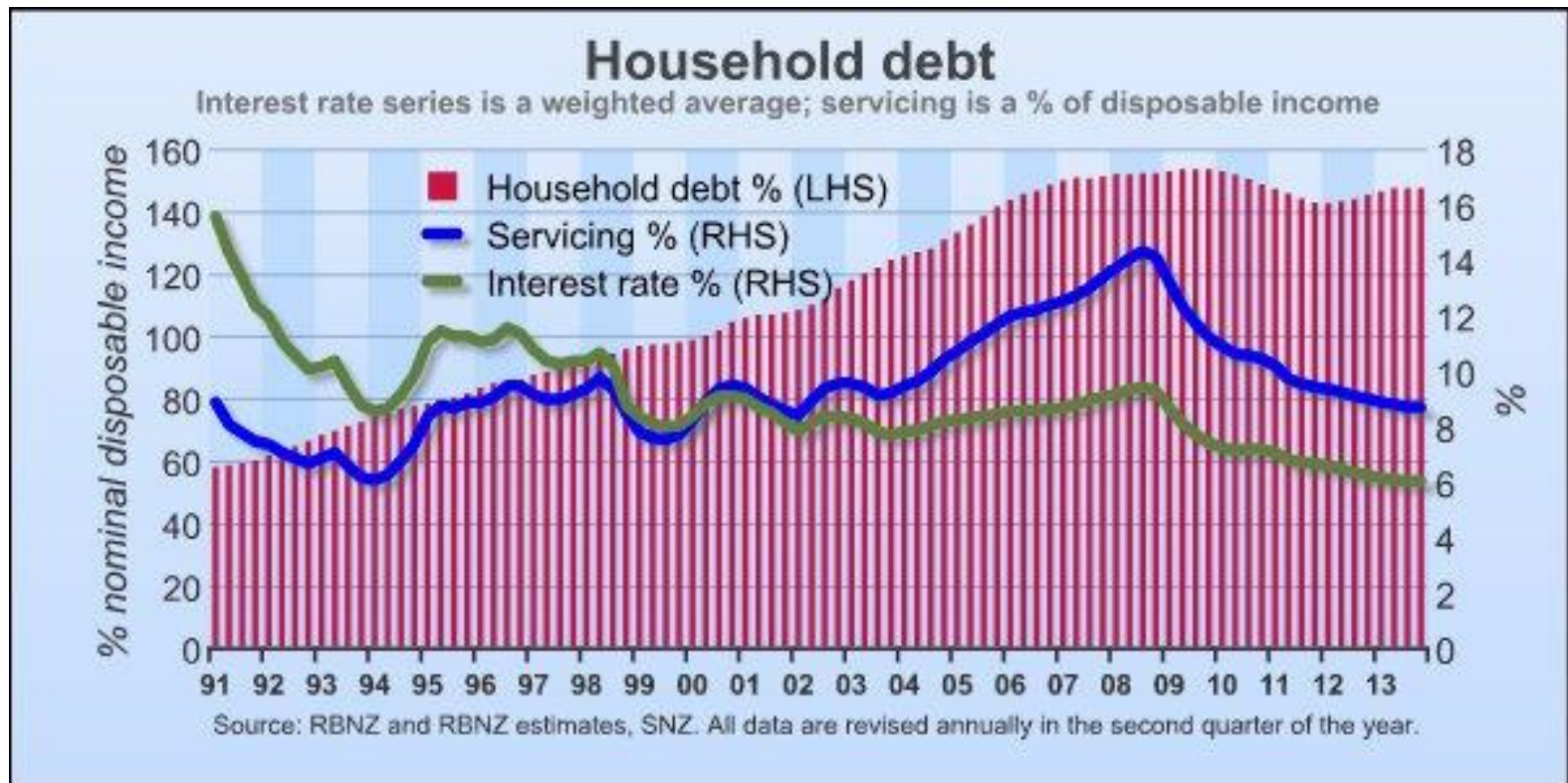


Sources: Statistics New Zealand, the Treasury

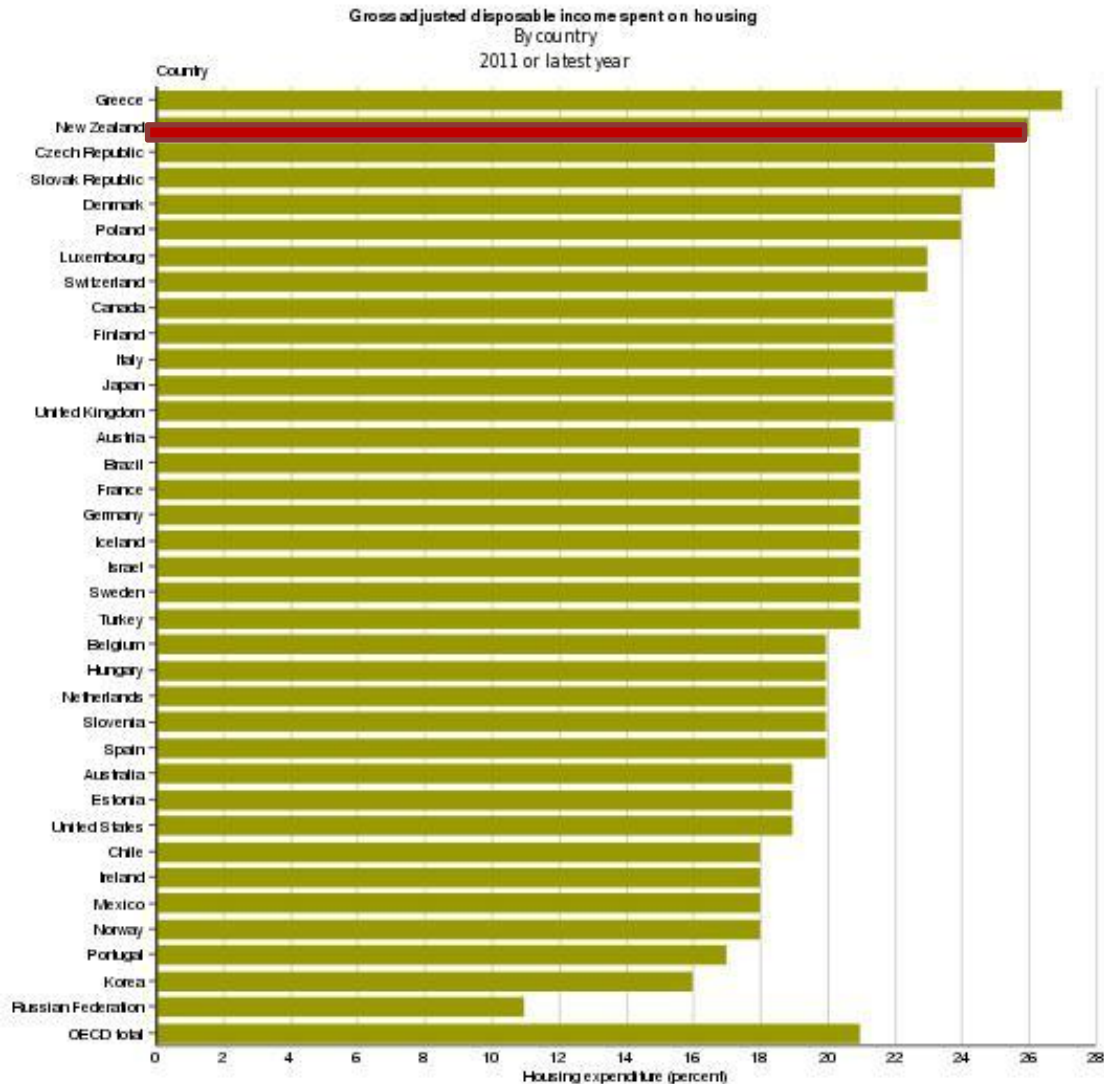
Housing: Background

- Household debt at high levels
- Housing affordability continues to be an issue.
- House price rises unsustainable. Signs of an asset bubble

Household debt. Interest rate expected to rise.....



Housing affordability continues to be an issue.....



Housing bubble.....

After brief pause house prices increasing by 10% a year. NOT SUSTAINABLE..... The International Monetary Fund (IMF) has issued a warning about Auckland's booming property market, saying it's one of the biggest risks our economy faces.

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Housing- Budget

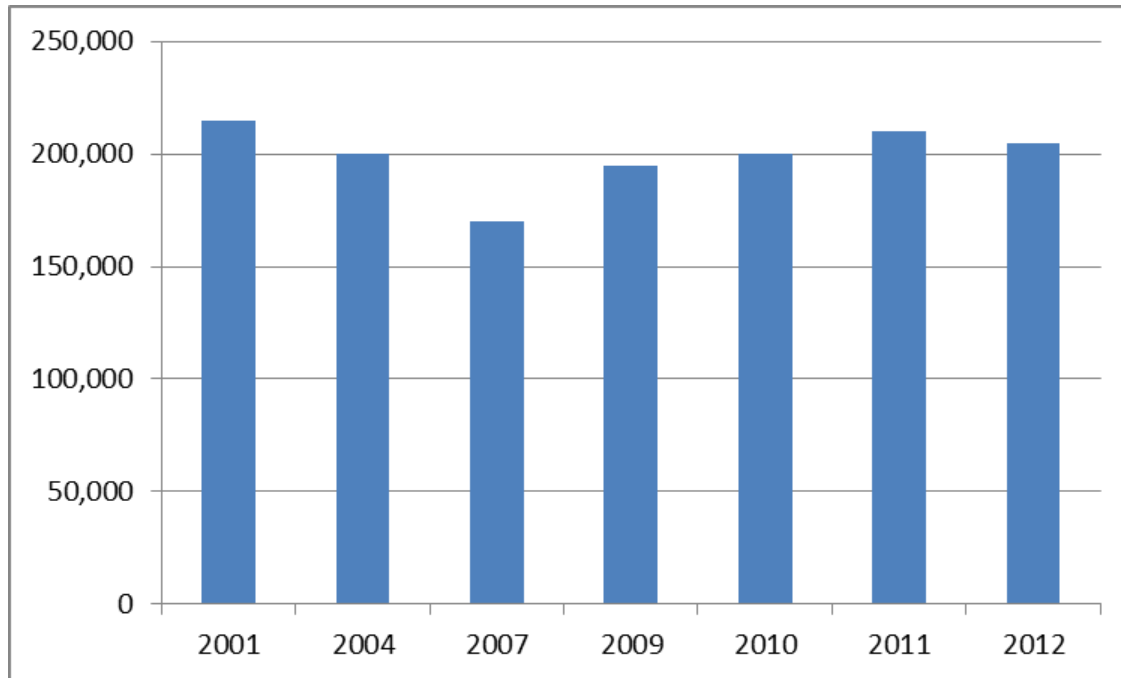
- Declining Accommodation Supplement will not address rising rents
- Increase in Income Related Rent to NGO social housing providers is welcomed – additional budgets are totally inadequate
- House prices expected to increase by almost 20% in next three years. (And rents likely to increase)
- IMF HOUSE PRICES OVERVALUED BY 25% “house prices, which are already elevated by standard metrics, are a growing concern, as they could lead to an increase in debt-financed household spending which would put pressure on aggregated demand, and increase the risk of an abrupt price correction.

Graph from Alan with AS and income
related rents

Social Welfare

- Child poverty continues to remain high
- Inequality continues to increase

No sign of a reduction in extreme child poverty



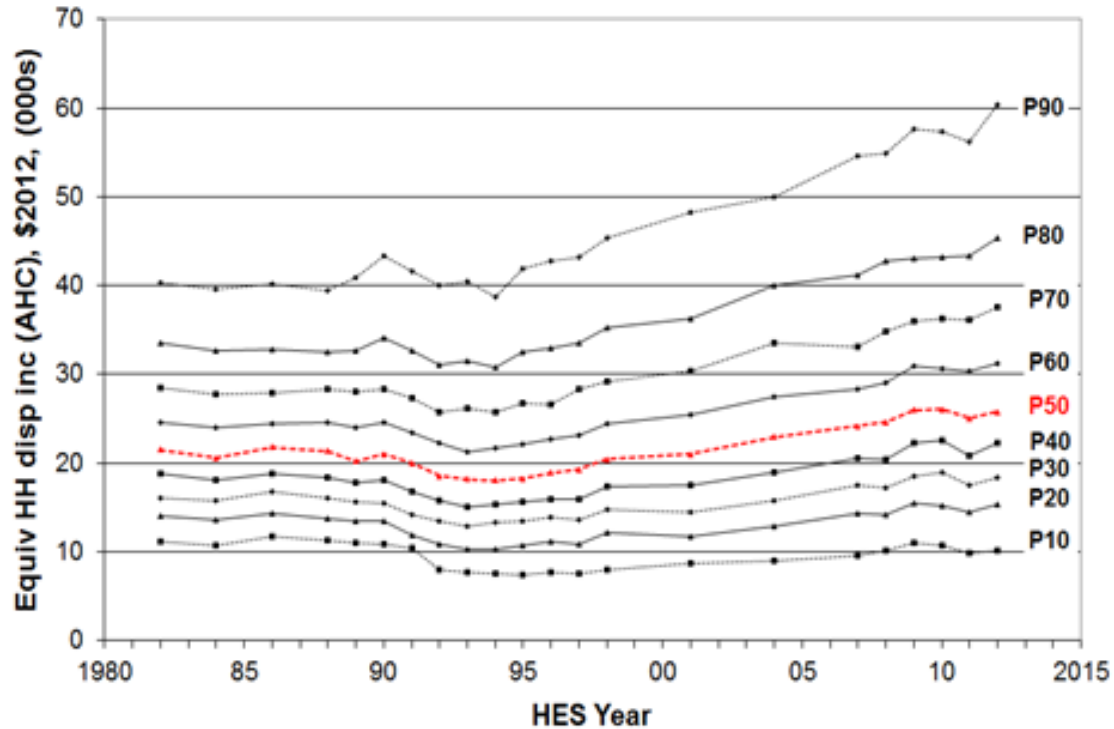
205,000 children live in households with incomes below 50% (After Housing Costs) of the mean.

285,000 below 60% line (27% or 1 child in 4)

Impact

- Poverty: New Zealand has a high proportion of children in significant poverty for long periods.
- Poverty has a deep impact on child health leading to more severe and recurrent illnesses in ways which are under recognised.
- This includes the ill-effects on growing children of a lack of regular nutritious food and the effects on the immune system functioning for children living with high levels of household stress and insecure living situations,
- Poverty creates further difficulties for learning and education.

Inequality continues to increase

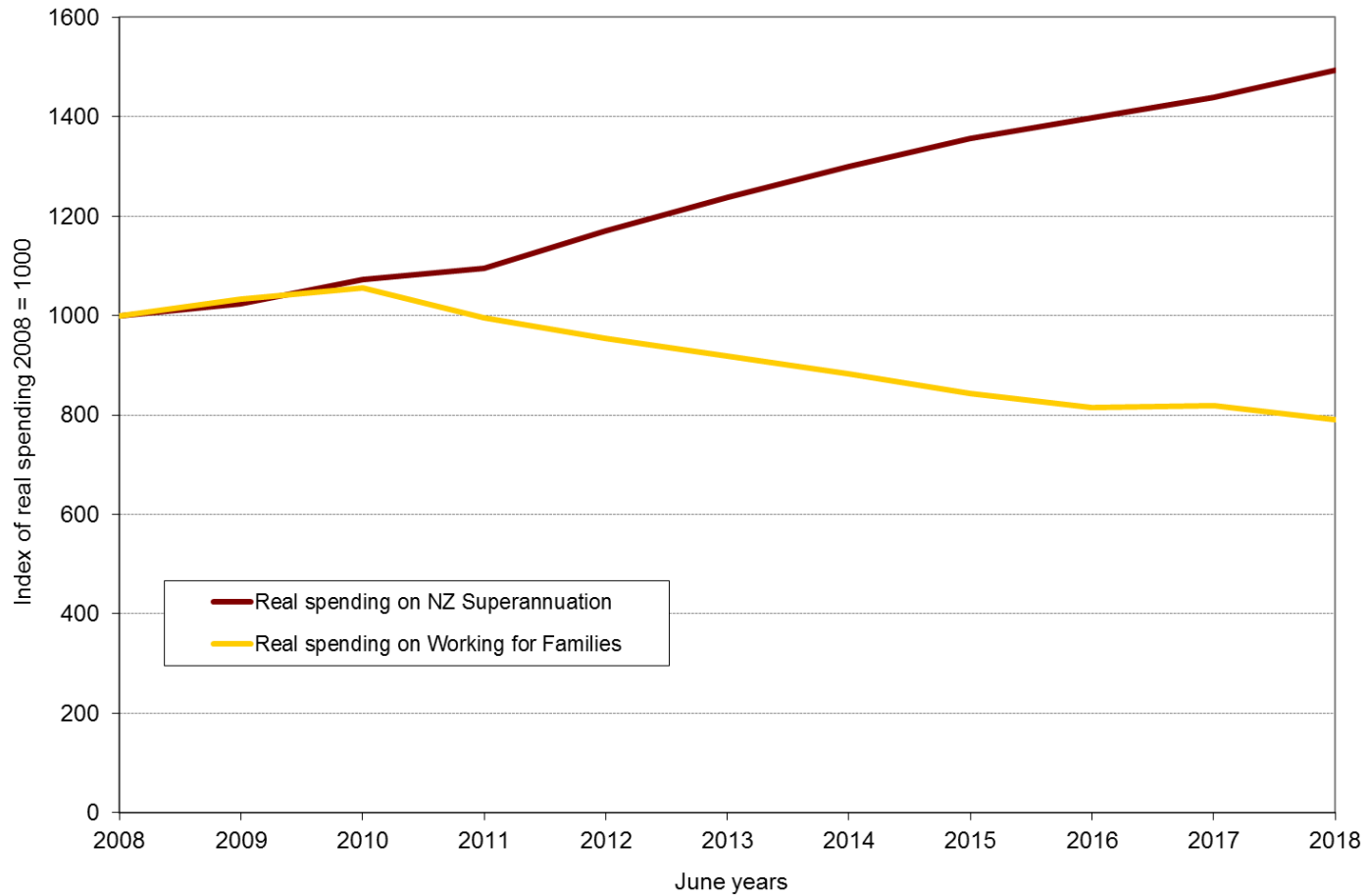


**Figure 2 Real equivalised household incomes (AHC):
decile boundaries, 1982 to 2012 (2012 dollars)**

Budget

- Nothing in the budget increases benefit levels or assists- our poorest children in benefit dependent households
- A growing proportion of welfare spending is in NZ Superannuation : 50% in 2014, 55% in 2018
- The real value of Working for Families continues to decline because of failure to properly index payments, rising abatement rates and a reducing threshold.
- There is declining spending on the Accommodation Supplement at a time of increasing rents. This will place additional pressure on household budgets and housing conditions.
- The paid parental leave increase is not well-targeted and will not reduce child poverty.
- The extra \$13 million per annum for the parental tax credit is a tiny drop in the ocean, and leaves out the most needy newborns.

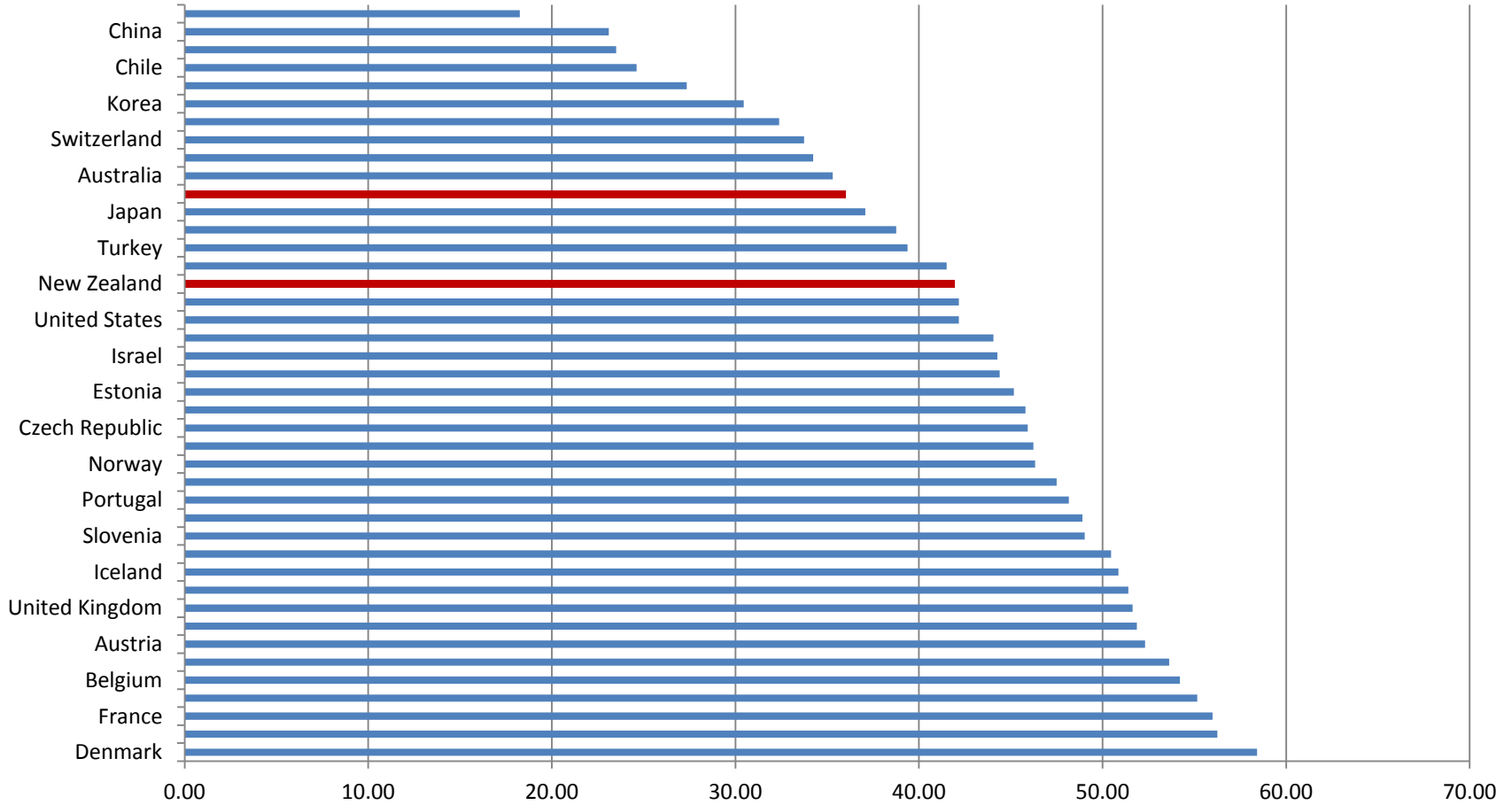
Working for families spending



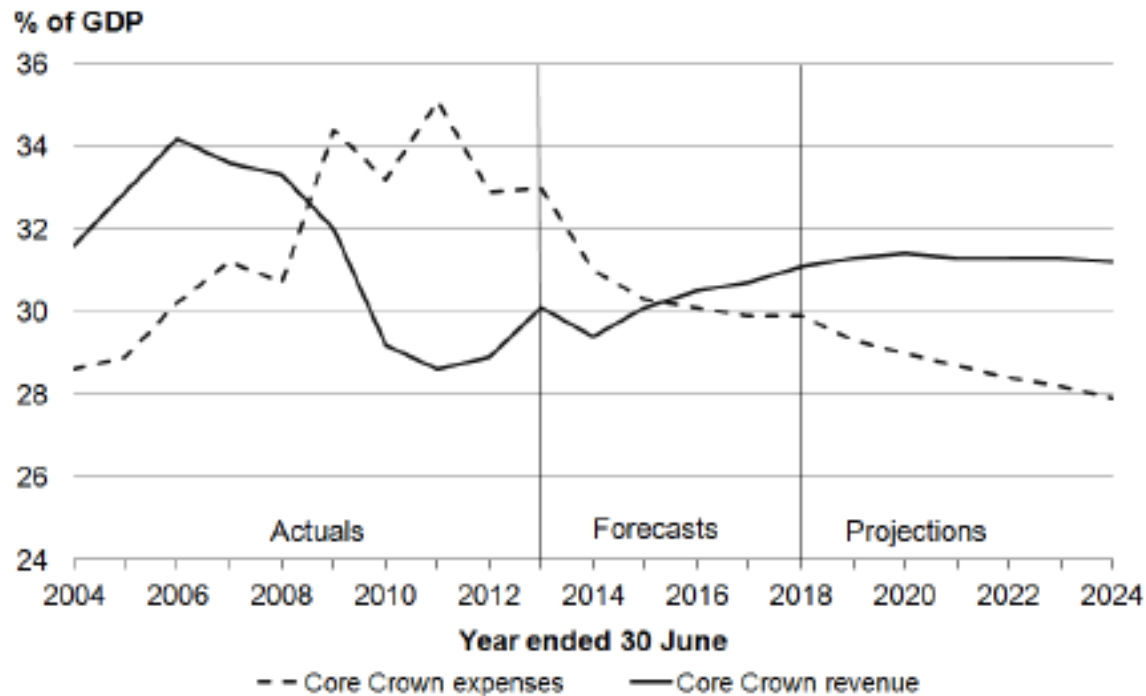
Fiscal Position

- Government has used scare to drive through spending cuts.
- NZ govt spending low compared to other OECD countries
- NZ debt extremely low (and expected to fall)

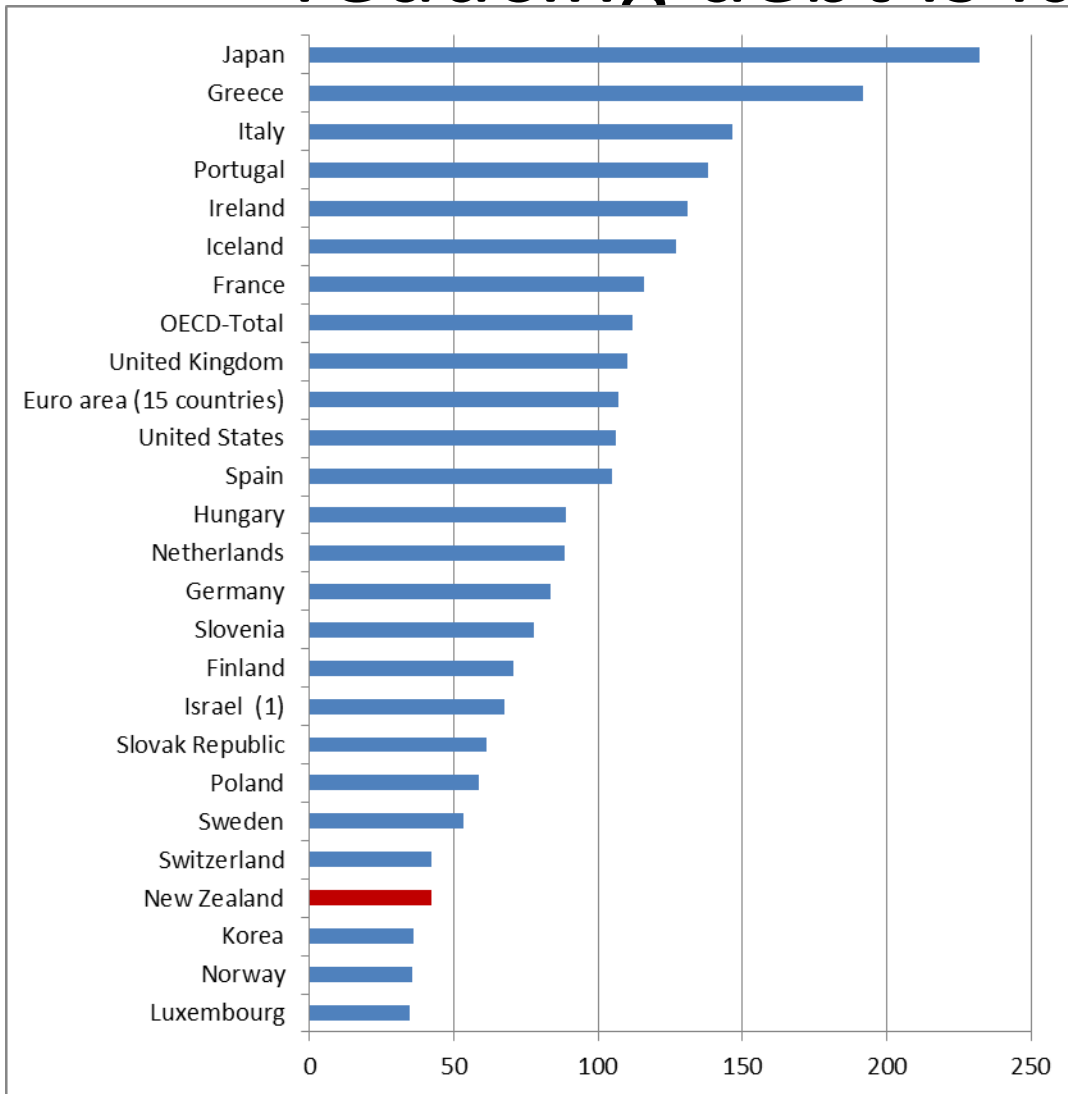
Government spending 2011



Government's Agenda is one of continuing spending cuts "small government"



Emphasis on spending cuts and reducing debt is ideological



Gross debt.

Net debt position much better at 28%.

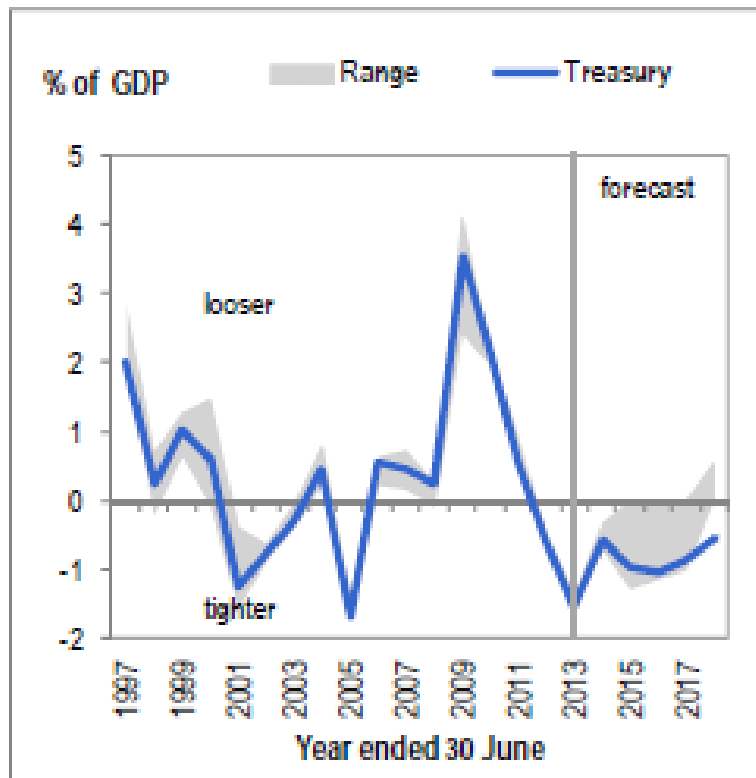
Should really net off superfund of \$25billion which would reduce ratio to 17% !

Budget – Fiscal position

- Planned new spending in key areas such as health and education not keeping pace with inflation.
- Govt spending reduced from 34% of GDP in 2009 to 30% now and planned to decrease further to 28%
- Will be contractionary

Fiscal policy is contractionary. Will the private sector make up the difference?

Figure 6 – Core Crown fiscal impulse range



Counting on private sector to make up the difference.

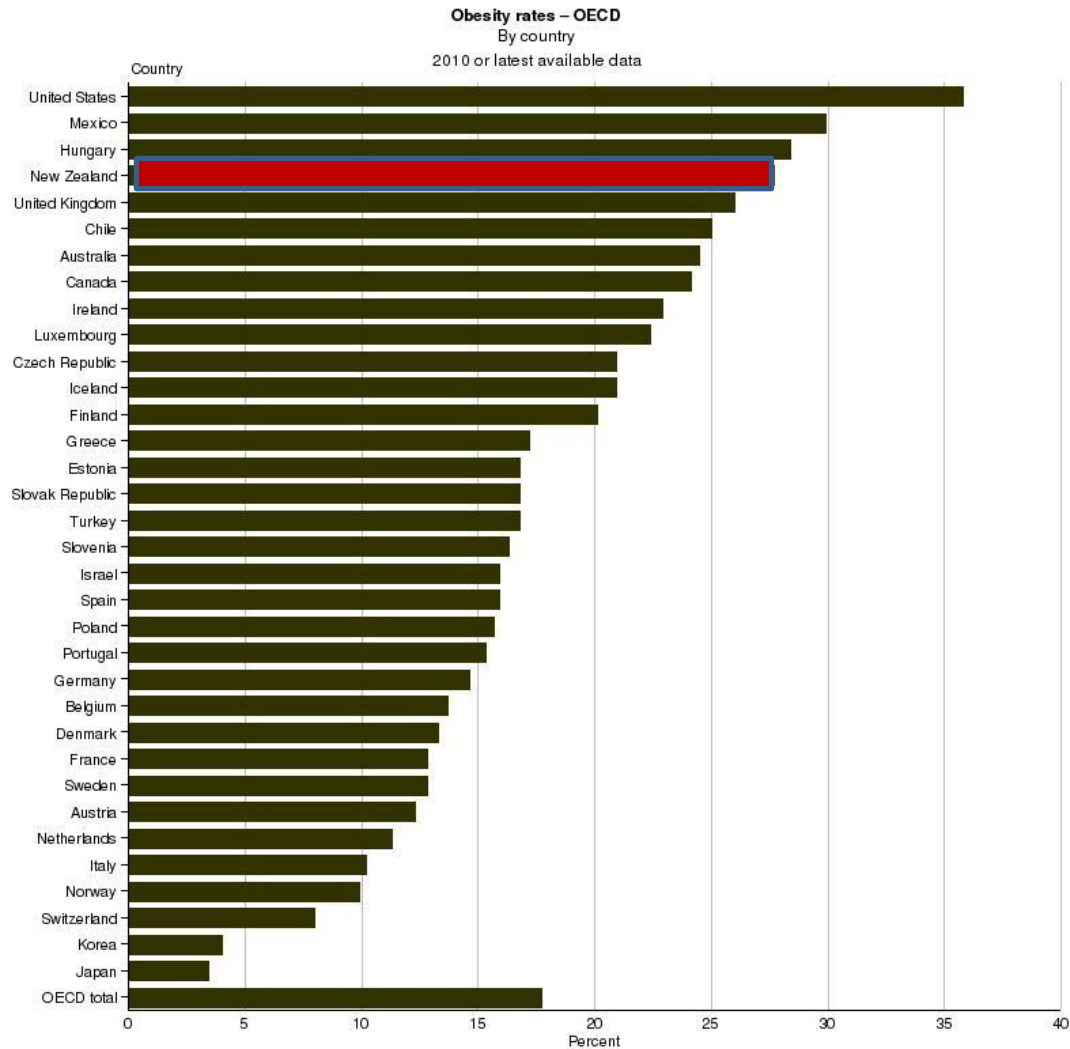
Key risks: China (eg. Cities with no-one in them) and housing bubble here.

Source: The Treasury

Health

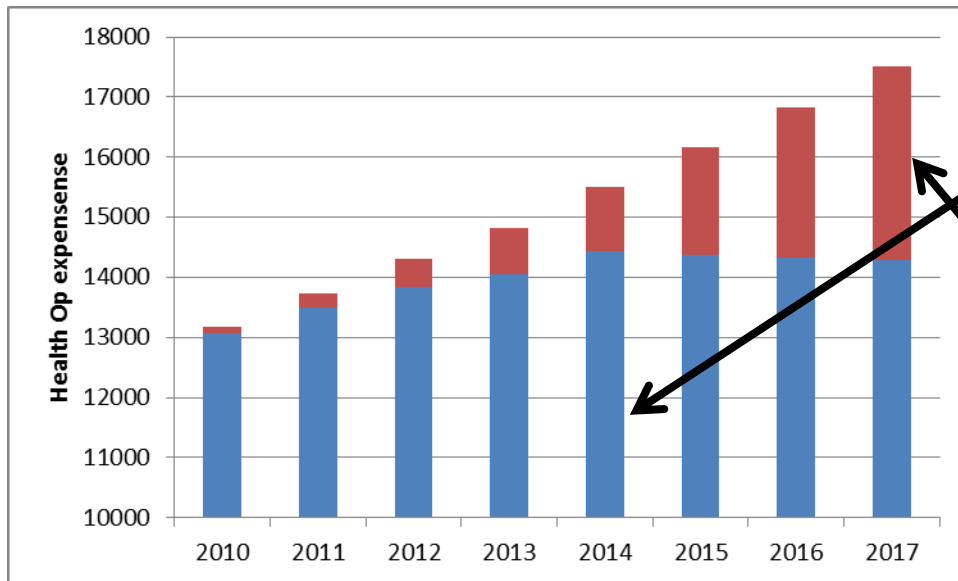
- Funding increases in recent years not enough to maintain services.
- Not enough spent on prevention of diseases such as diabetes.
- Poverty and diseases such as rheumatic fever very high for developed country.
- Hospital and ambulance services stretched

Not enough spent on preventable diseases such as diabetes and obesity



Health

- Increase of \$395million is \$275 million below that needed to maintain service compared to last year given inflation and demographic changes and changes in demand. It also doesn't address cumulative shortfall over last few years. Since 2010 that shortfall is \$1.05billion



1.05 Billion shortfall by 2014.
Projections for future years held
Constant but there will be some
increases from the \$1.5 billion set
aside

3.2billion shortfall if unfunded.
Likely to be around \$2billion.....

“The allowance for Budget 2015 has therefore been lifted to \$1.5 billion, growing after that at 2 per cent each Budget. This is a moderate increase that will provide the Government with future options around investment in public services **and/or modest tax reductions**, but not materially affect interest rates.”

Health summary

- 24 hour access to GPs and free prescriptions for under 13s - a highlight (\$22.5 million a year).
Delayed until April next year.
- Overall spending not keeping up with price increases and demographic demand
- Decline in health-care as a share of GDP.
- Boost in Disability Support Services (\$112 million - of which \$96 million is increased spending on home based support services); other small programmes

Education

- Declining per capita & GDP share – disappointing
- Overall cut to 2017/2018 is 5.5% in real terms
- Declining real spend per student in primary and secondary but spend maintained in Early childhood care and education
- **2.6% real cut in special needs education** – Huge disappointment – most vulnerable children and families
- \$156 million extra in ECCE over four years – sector says potential for fees to rise and services to fall – 2.5% rise for non-salary costs but salaries are bulk of cost so only 1% overall

Bill Rosenberg, CTU

- “If the full amount is not funded, New Zealanders will face some combination of deterioration of services, inability to access new treatments and more or increased user charges.”

Summary

- The budget may be in surplus but due to continuing spending cuts in real terms for most services while super spending grows.
- At the expense of deficits and imbalances elsewhere.
- Child poverty
- Inequality.
- Health
- Current Account deficit
- Education
- Climate Change (the elephant in the room)
- Aging population.