Hon Bill English

Minister of Finance

Speech to the Auckland Chamber of Commerce and Massey University

Stamford Plaza, Auckland

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Good afternoon.

Thank you Michael and the Auckland Chamber of Commerce, and Steve and Massey University, for inviting me back to this annual event.

It's a pleasure to be here again.

Today I want to take you through some of our initiatives through to 2017. I can tell you there is no letup in pace this term – we've got a busy policy programme, and there is much to do.

I also want to share with you some of our longer term thinking, particularly with ongoing reform of urban planning and the Government's finances.

Economic Outlook

But first I'd like to talk about the current economic outlook. There are positive signs despite international turbulence.

The last decade has been challenging for New Zealand businesses.

They've weathered the global financial crisis, Canterbury earthquakes, interest rates higher than the rest of the developed world, and a high New Zealand dollar.

Initially the response was around resilience. Businesses and households tightened their belts and became more efficient.

That was also the case for the Government. Spending was constrained to turn an $18.4 billion deficit in 2011 into a surplus last year.

Now as I visit businesses around the country, I'm seeing that resilience turn into confidence.

The Prime Minister puts it well when he says we are an open and confident country that backs itself on the world stage.

Exporters who were forced to become more efficient when the exchange rate was around US 88 cents are now able to reap the rewards of a much lower exchange rate.

Annual business investment has increased from $31 billion in 2010 to $39 billion last year – and that is expected to grow to $48 billion by 2020.

The Performance of Manufacturing Index shows the manufacturing sector has notched up 40 straight months of expansion.

And services – which make up 70 per cent of the economy – have been growing at the fastest level in seven years.

Treasury forecasts economic growth over 2016 and 2017 will average over 3 per cent, better than most countries we compare ourselves to.

The success of businesses is benefitting New Zealand families.

Wages increased by 3.1 per cent on average in the last year, significantly higher than 0.1 per cent inflation.

And unemployment recently fell to 5.3 per cent, although I want to see it reduce further.

In fact, the proportion of New Zealand adults not in work - and this includes retirees and people that choose not to work - is the third lowest in the OECD at 35.5 per cent.

This compares to 39 per cent in Australia, 41 per cent in both the UK and the US, and 48 per cent across the European Union.

These relatively strong domestic results come despite some ongoing wobbles in the global economy.

Uncertainty remains around the impact of US interest rate hikes, China’s rebalancing path looks rocky, and risks around European banks are becoming more apparent.

Central banks around the world are grappling with very low inflation.

There is a lot of uncertainty about exactly what is keeping inflation so low, and the implications for our economies.

Markets are reflecting an anxiety that economies with zero or negative interest rates can’t rely on central bank interventions as they have in the past.

New Zealand is in a better position than most because the Reserve Bank still has room to move if needed.

Lower prices are also affecting the dairy sector.

Some farmers are doing it tough, but we do have to keep this in perspective. Dairy exports make up five per cent of the economy, and the industry has a positive view about its long-term prospects.

Other export sectors continue to do very well.

Tourism now directly contributes $10.6 billion to the economy, nearly 5 per cent of our GDP. A record 3 million overseas visitors came here in the past year.

Annual beef exports have reached $3.3 billion, up a third in the last year.

International education is now worth $2.85 billion and supports more than 30,000 Kiwi jobs

Wine exports are now worth $1.5 billion, up 14 per cent in the last year.

And the ICT sector has had compound 9 per cent growth per annum since 2008.

China is also a concern, but the direct impact for New Zealand will depend on the changing composition of its economy.

Its investment cycle is waning, but China's household income and consumption are growing considerably faster than GDP, at 11 per cent and 9 per cent respectively.

The number of affluent and upper middle class Chinese households - those that earn over NZ $24,000 - is expected to increase from 44 million in 2012 to 225 million in 2022.

This is a big opportunity for New Zealand, given our main exports like dairy, beef, lamb, wine, horticulture and tourism are typically targeted at the wealthier consumer market.

So while we can expect continued volatility in global markets, the New Zealand longer-term outlook is sound.

An uncertain global picture underlines the importance of trade deals like the Trans-Pacific Partnership, which gives us better access to 800 million customers in 11 countries that account for 36 per cent of the global economy.

This is a hugely significant deal.

On current trade volumes, TPP will provide around $274 million a year in tariff savings, and by 2030 is forecast to add $2.7 billion to the New Zealand economy.

Based on previous free trade agreements, we believe this is conservative.

Take the China FTA as an example. Since the start of that agreement in 2008, trade between our two countries quickly doubled to $20 billion dollars a year.

As a small, open economy trade is pivotal to growth. We are among the smallest of the TPP signatories, so the agreement has even more significance for us than other countries.

Free trade agreements are just part of the Government's Business Growth Agenda, in which there are nearly 350 active projects, on top of the 250 already completed.

These include

- reducing ACC levies by around $1.5 billion a year,
- rolling out ultra-fast broadband as part of an $11.5 billion capital investment programme over the next two years, and
- launching three new ICT Graduate Schools in the next 12 months to help people obtain the skills needed in this growing industry.

The Government will continue to work actively with businesses to add to these initiatives.

The benefits of this programme add up to a positive outlook for the economy.

Treasury prepared its latest forecasts in December, looking out to 2020.

They expect the average annual wage to reach over $63,000, $6,000 more than it is today and $17,000 more than in 2008.

Unemployment is projected to fall to 4.5 per cent.

And an additional 173,000 jobs are expected to be created by 2020.

That's just a forecast, we want to do better. But it does show what can be achieved with an ongoing focus on growth.

Fiscal Responsibility

I'd now like to talk about the Government's thinking on two longer-term policy priorities – fiscal control and urban planning.

We have worked hard to establish a track record of fiscal responsibility following the Global Financial Crisis and Canterbury Earthquakes.

New Zealand families work hard to pay their taxes.

And I know that if those families kept that money they could do a lot with it, so we need to treat it carefully.

We need to keep a tight rein on spending in order to pay down debt.

Over the last few years, we've managed spending tightly while improving public services.

The Prime Minister set the public service 10 challenging targets in 2012 covering areas like welfare, education, crime and health. Since then:

- there are more than 40,000 fewer children living in a benefit dependent household,
- the proportion of 18-year olds who achieve a NCEA Level 2 qualification has increased from 74 per cent to 81 per cent, and
- total crime has dropped by 17 per cent, with youth crime down by almost 40 per cent.

These substantial improvements to public services have occurred because of, rather than in spite of, financial constraint.

It has forced us to address the drivers of social dysfunction rather than simply servicing misery, which is very expensive.

Instead of mindlessly paying a sickness benefit for 40 years, we're taking steps to intervene now to help vulnerable New Zealanders lead a better life, and save the Government money in the long run.

We call this approach Social Investment. It's about using data and investment techniques to understand what makes the most difference to someone's life and doing more of that.

This approach is long-term. But it is working.

Latest figures show the welfare system's future lifetime cost has reduced by $12 billion over the last four years as a result of

Government actions.

This equates to welfare customers spending 900,000 fewer years on benefits over their working lifetimes, compared to pre-reform expectations.

That’s the equivalent of 60,000 people each spending 15 years less on a benefit.

We’re also applying rigorous investment practices to the $280 billion of assets we own.

As in many other businesses, the Government’s operating spending can be is affected by management of its capital.

We are working to get much better information about our existing assets, establishing measures of performance where none existed and sharpening our monitoring of new investments.

Last year we released the first annual report of the Government’s overall investment programme, covering 409 projects such as ICT, schools, Defence and construction with an annual cost of $6 billion.

The pressure of publication has helped drive real improvement in the way the projects are managed and makes them more likely to succeed.

Just like Social Investment, improved efficiency across a large asset base can deliver significant savings for taxpayers.

Where other countries are seeing deficits and debt, we have fiscal stability. We can make sensible, long-term decisions because we are not rushing around trying to save money.

And more importantly, we have a toolkit that can deliver better results for our communities at the same time as saving money for taxpayers.

We can choose to invest when the need arises, for example to deal with population growth in Auckland.

Keeping a tight rein on spending gives us options. It means we are in a better position to deal with longer-term spending pressures, such as superannuation and health care.

New Zealand’s current public pension costs are relatively low, at under 5 per cent of GDP. This compares with an OECD average of over 9 per cent.

If we keep current policy settings, Treasury estimates that in 2050 the cost will increase to 8 per cent of GDP, still well under the current OECD average.

There is no getting around the fact that a 3 per cent of GDP increase in costs is significant.

But to put that in context, in just four years since 2011 we've reduced Government spending as a proportion of GDP by 4 percentage points to around 30 per cent.

And that will fall further if we can continue to focus on reducing the long-term costs of welfare and social dysfunction.

Urban Planning

The final issue I want to turn to is urban planning.

The Government is focused on rapidly rising house prices for three reasons.

1. They can have a significant effect on the macro-economy and financial stability.

2. They can drive inequality, as high prices favour current owners.

3. They are a fiscal risk for the Government.

We spend $2 billion each year on accommodation subsidies. 60 per cent of all rentals are Government subsidised, and the Government owns one in every 16 Auckland houses.

When house prices skyrocket, it means these services become more expensive

There's no quick fix to the Auckland housing shortage.

Lack of land supply, and hence higher prices, occur when the planning system isn't working properly.

We want a planning system that recognises the consequences for all current and future residents, and for the country. One that coordinates these interests, but does not restrict growth.

Led by Nick Smith, we are working jointly to resolve this so that more houses can be built sooner.

That includes the Auckland Housing Accord, which has seen almost 24,000 dwellings and sections consented in its first two years. The target is 39,000 consents before the end of this year.

We’ve set up 120 Special Housing Areas.

Government development projects are expected to deliver at least 10,000 houses by 2020, including the Hobsonville Point and Tamaki developments.

The Tamaki Redevelopment Company will become the owner of 2,800 former Housing New Zealand houses at the end of March, which the company plan to redevelop into around 7,500 houses.

The National Construction Pipeline Report predicts an extra 80,000 new homes will be built in Auckland in the six years to 2020, more than double the rate of the preceding six years.

But because increased supply won’t be immediate, we’ve also taken other steps.

New rules ensure investors, particularly those from overseas, now pay their fair share of tax when buying and selling residential property for profit.

And Inland Revenue has extra funding for compliance and enforcement.

Combined with the Reserve Bank’s tighter loan-to-value rules, these changes appear to be having some effect on Auckland house prices.

Over 9,200 building consents were issued in Auckland in the year to December.

That’s the highest figure in over a decade, although it’s still short of the estimated 13,000 new houses needed each year.

The latest figures from REINZ show that Auckland prices have fallen 5.7 per cent since September.

Regardless of whether these figures signal a turn in the market, we need an enduring solution to housing supply.

By 2045 Auckland is expected to grow by more than 700,000 people. It is essential that central and local government works together in deciding how to best meet these demands

So there is plenty of work ongoing.

New RMA legislation has been introduced so we can tackle planning issues standing in the way of getting houses built faster.

And we're working to improve the ability of water and roading infrastructure to meet growth.

Last week Simon Bridges and Mayor Brown launched the first stage of the Auckland Transport Alignment Project, which aims to achieve an agreed approach for developing Auckland's transport system over the next 30 years.

And as an aside, it is my hope that election year in Auckland won't affect the positive relationship between central government and Auckland city, developed in recent years.

We have developed a focus on generating solutions based on a common understanding of the problems.

I hope mayoral and councillor candidates will feel the same pressure we in central government feel – the need to solve obvious problems faster.

Auckland Council will have to respond to the Independent Hearings Panel on the Auckland Unitary Plan this year.

It is critical that the plan provides enough scope for increasing housing supply to meet the demands of this growing city.

Exactly how that is delivered – the combination of up and out – is something that Auckland should decide for itself.

Longer term, we are looking at a wider set of options for regulation our housing market, because our cities need to grow efficiently.

The Government has asked the Productivity Commission to undertake a first-principles review of planning legislation, covering the Resource Management Act, Local Government Act and Land Transport Management Act.

All this progress is necessarily slow, because these issues are complex.

It isn't just about Auckland.

Housing is our biggest asset class and our biggest market, with housing stock worth eight times the share market.

Over the past 25 years New Zealand has gone through extended processes to reform our electricity, telecommunication and financial markets.

In each case it took years to understand the impact of existing rules, and how to change them to achieve a more efficient market.

Now we are addressing housing in the same way.

Often politicians are accused of being focused on the short term. That’s one of the reasons issue like long-term social dysfunction and housing market reform haven’t been dealt with properly in the past.

This Government is taking a long term view.

Thank you.