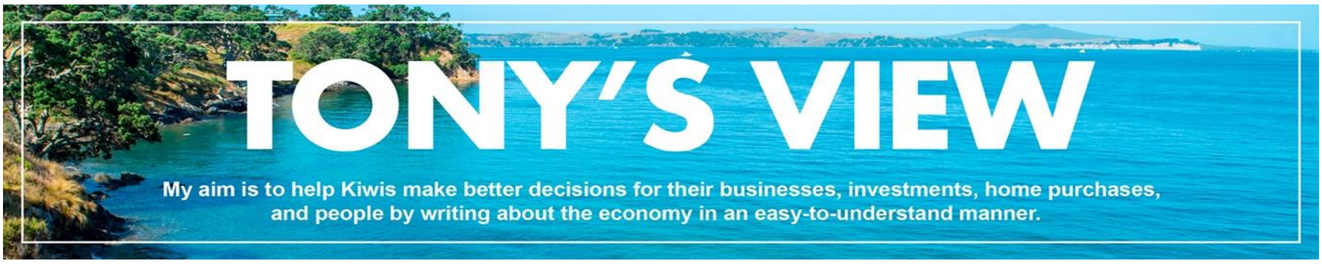

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The 2024 Budget

Note that there will be no Tony's View next week as I'll be tramping. If there's none the week after that, live long and prosper.

This afternoon the Finance Minister delivered the first proper Budget for the coalition government, and you'll have no shortage of articles to read which go through everything line by line. Reporters will be picking out the winners but mainly perhaps focussing their attention on those facing an unwinding of the special spending which has gone their way in recent years – often in haphazard manner.

A notable aspect of the weeks leading into this Budget was the absence of media interviews of people asking them what type of lollies they wanted from the Minister. I always find this treatment of the annual Budget as an occasion when people get special treats does a disservice to what the Budget really is – an accounting exercise revealing whether the government can pay its way.

The things I chose to pay attention to in the Budget were the following. Others can deal with social policies, health, defence, Maori affairs etc. They are not my areas of expertise.

1. Has the track for fiscal deficits and debt ratios been improved?
2. Is the government making a fresh contribution to helping the Reserve Bank lower inflation?
3. Are there measures which will boost productivity eventually?
4. Will housing availability for average Kiwis be improved?
5. Do the Budget measures encourage self-reliance or state-dependence?

Plus, because these are specific questions I've been asked to address in a webinar tomorrow…

6. What does the Budget generally mean for the NZ economy?
7. What does the Budget generally mean for businesses?
8. What is the cost of living impact?

Overall, will the Budget work towards unwinding the negative impact on New Zealand of the previous government's policies and fiscal incompetence?

1. **Has the track for fiscal deficits and debt ratios been improved?**

Yes, if we take as our starting point the fact that without changes the accounts would not be projected to be back in surplus until the year ending June 2031. Now that will be achieved in mid-2028. But the actual track has deteriorated since December because of a weaker outlook for the economy including Treasury downgrading their prediction of the country's ongoing rate of productivity growth in light of our recent learning that Kiwi productivity has substantially worsened.

The degree of fiscal policy tightening is minor so the tracks for fiscal measures are not radically changed.

2. Is the government making a fresh contribution to helping the Reserve Bank lower inflation?

Technically Treasury assess that there is some slight extra downward pressure on growth, inflation, and interest rates than would have been the case without the Budget changes. But it is meaningless in the context of all the other uncertainties currently in play and will not encourage the Reserve Bank to adopt a less hawkish stance.

3. Are there measures which will boost productivity eventually?

One might say yes in terms of reduced wasteful government spending, slightly more money in the hands of those who earn it and can better make decisions on what to do with it, and better funding for infrastructure and education.

But this is not a reforming budget. There is no whiff of the Lange-Douglas years' reforming policies, no freeing up of government constraints on private enterprise or interference in the economy generally.

Therefore the Budget does not set the scene for a shift upward in New Zealand's long-term rate of productivity growth. This budget is all about stemming the fiscal rot caused by the previous government.

4. Will housing availability for average Kiwis be improved?

I'm not seeing it. Landlords benefit from the brightline test change and restoration of interest expense deductibility which at the margin will encourage some greater provision of rental accommodation. But taken alongside removal of the first home grant the extra 1,500 social houses planned to be built will make no noticeable dent in the privations experienced by those without adequate stable housing or the home ownership rate of Kiwis generally. This is not a housing budget.

5. Do the Budget measures encourage self-reliance or state-dependence?

The tax bracket changes are minor and go little way towards unwinding the bracket creep of recent years. The early childcare family boost and in work tax credit handouts will be of assistance to people with children and cannot be sneezed at. But this is not a tax policy budget. There is no move towards encouraging work effort and risk-taking by substantially leaving people with more of their wage earnings or business profits.

The budget therefore does not move the dial on encouraging people to forsake potential state dependence and go out on a limb to make their lives better themselves.

6. What does the Budget generally mean for the NZ economy?

There is a slight negative fiscal pulse underway so it will retract from growth in the near future. However Treasury share my view that scope exists for interest rates to be cut before the end of this year. Having said that, their forecasts of economic growth are much stronger than those released by the Reserve Bank last week. There is downside risk to their economic and therefore fiscal projections. Growth of 1.7% in the year to June 2025 does feel a tad optimistic.

The budget does not enough change the incentive to work to allow one to say workforce participation will be boosted. The tax changes are so minor that one could not say they will dissuade record numbers of Kiwis from leaving the country.

There are no incentives or rule changes which would encourage extra business investment or innovation.

However, additional hefty rounds of cutbacks in public sector spending will be required in future budgets to provide funding needed for any new spending ventures as all projected operating allowances beyond this year of $2.4bn will be consumer by inflation and wages growth.

This will hit Wellington. But the implied reduction in government's role in the economy will be a benefit – though only over the long-term.

7. What does the Budget generally mean for businesses?

No tax changes. No capital expenditure incentives. Road network improvements will take many years to show up. No employment rules have been changed.

For business the Budget means little beyond a slightly reduced long-term chance of a credit downgrading for the country. One more shock to the economy and a downgrading will be back on the table given these fiscal numbers.

8. What is the cost of living impact?

No new taxes, levies, or duties and instead some minor tax relief of $39 a week for the average family and $16 a week for the average worker. The impact is fairly small and disappointing as the tax cuts were the first in 14 years, a time in which average wages have risen by 63% and many people have been pushed into higher tax brackets.

The changes will provide little offset to current large increases in insurance premiums and the string of expected large increases in council rates as the infrastructure maintenance deficit is addressed in the coming decade.

Note that universal free prescriptions have ended.

Overall, there were no large freebie expectations heading into the Budget nor expectations of substantial economic restructuring. Expectations of tax cuts, public sector cutbacks, more funding for the usual candidates (health, education, infrastructure, police) were met.

It was a bit boring but a necessary start on reversing Labour's mismanagement and recognising the need to shrink the size of the government to better match the newly worsened long-term outlook for the New Zealand economy.

Aspects of that newly worse outlook include

- a deteriorating global free trade regime,
- loss of skilled young Kiwis offshore with replacement by lower-skilled immigrants,
- higher living costs to pay for insurance in a shaky country and catch-up of ignored local government infrastructure maintenance,
- lower than expected underlying productivity growth,
- reduced scope to handle shocks with Crown net debt to GDP solidly above the target 20% - 40% range,
- rising homelessness, youth crime, and shootings,
- destruction of city centres as a location for retailers, and
- rising racial tensions.

In case you missed it

My monthly survey of residential property investors alongside Crockers Property Management has shown the following key results.

- The proportion of investors looking to buy another property has fallen to a record low of 17%.
- Of those looking to buy only 17% also would consider a new property versus 30% a year ago and 53% in July 2021.
- A record low 50% of investors now say they will hold their property for at least ten years or have no plans to sell.

05-crockers-tony-alexander-investor-insight-may-2024.pdf

The quarterly survey of portfolio investors which I run with sponsorship from Sharesies showed the following.

- Despite deep concerns about geo-politics investors continue to favour investing in

assets whose prices can be affected by such factors. Many respondents noted that they have a long-term focus, and events of the next 1-2 years are of little concern.
- Interest in holding both residential and commercial property continues to decline.

[Investing Insights with Tony Alexander: Investors are cautiously optimistic—Sharesies New Zealand]

The monthly survey of businesses which I run with sponsorship from Mint Design showed the following main things.

- All indicators for labour market strength have deteriorated. Firms plan spending less in all staffing areas from recruitment to workplace culture.
- In the face of weakening customer demand and despite cost pressures remaining, a net 12% of businesses now plan cutting or keeping their selling prices flat in the coming year. Monetary policy is starting to affect the Reserve Bank's ultimate target – not crunched household spending but crunched business pricing ability.
- In the face of cash flow pressures businesses are cutting back on plans for advertising, inventories, new technologies, machinery and climate change mitigation.

[Mint Business Insights - May 2024 - Mint Design]

If I were a borrower, what would I do?

Wholesale fixed rate borrowing costs have risen around 0.1% this week following a similar rise last week. There was a small upward move in rates following the 2.00pm Budget but the main impetus has been higher rates in the United States on the back of some firmer than expected data. The higher than expected inflation rate of 3.6% in Australia also delivered some upward pressure.

Fow now there is nothing to suggest a shift in market pricing towards expecting earlier cuts in the Reserve Bank's official cash rate. But the fall in business pricing plans revealed in yesterday's ANZ Business Outlook Survey reinforces the move down already seen in my own monthly survey. This is the start of the scene being set for the Reserve Bank pulling its predicted easing timing back in from mid-2025 – but not until late this year.

If I were borrowing at the moment, I would take a mix of 6 and 12 month fixed rates and expect to make a similar decision in 6-12 months time.

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.