Hon Bill English

Minister of Finance

Speech to the Auckland Chamber of Commerce and Massey University

Grand Tea Room, Heritage Hotel, 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 with you again today. I make this the sixth time I've spoken at this forum since becoming Minister of Finance.

With the National-led Government now into its third term, I'd like to update you on our priorities for the next three years.

We have three busy years ahead of us. And there is much to do.

There is broad agreement among commentators that New Zealand is doing well compared to other developed economies.

Our economy is growing. Employment is increasing. And wages are rising.

Households and businesses are benefitting from low inflation and a long period of stable, low interest rates.

We're making good progress in improving public services in areas like welfare, health, education and law and order.

We're now drilling down to the people who really need our help the most. Their lives are often complex and their problems are longstanding.

We're prepared to invest in them now because we can make a difference to their lives and that will have a financial payoff for taxpayers down the track.

The Government is working towards surplus and repaying debt.

We're pressing on with wide-ranging economic reforms under the Business Growth Agenda spanning capital markets, innovation, skills, natural resources, infrastructure and export markets.

The Government's seventh Budget on 21 May will set out the next steps in our economic programme.

We will remain focused on our four main priorities:

- Responsibly managing the Government's finances.

- Building a more productive and competitive economy.
- Delivering better public services.
- And continuing to support the rebuilding of Christchurch.

We made good progress across all of these priorities last term.

This is allowing us to ensure New Zealanders benefit from our growing economy and the Government's responsible fiscal management.

In Budget 2014, we announced a half a billion dollar support package over four years for families and children.

And over the next few months, a number of important policies we promised before the election will be implemented.

For example, from 1 April paid parental leave will increase by two weeks to 16 weeks, and then by another two weeks from 1 April next year.

The parental tax credit for lower-income families will rise from $150 a week to $220 a week, and the entitlement will increase from eight weeks to 10 weeks.

Also from 1 April, the Government's new HomeStart scheme will help around 90,000 Kiwis into their first home over the next five years.

And average ACC levies paid by employers and self-employed people will fall to 90 cents per $100 of liable earnings, down from 95 cents.

Then from 1 July, children under 13 will have access to free GP visits and free prescriptions.

And the average ACC levy for a private motor vehicle will fall by around $130 a year.

We can implement our election commitments because we have a strong, growing economy, supported by responsible and predictable government policy.

Over the next few years we must ensure the economy continues to grow solidly, year on year.

Current signs are encouraging. Business investment increased from $30.5 billion in 2010 to $38.4 billion last year – an almost $8 billion improvement in real terms in just four years.

And the 146,000 new jobs created in the past two years represent the strongest employment growth we've seen in New Zealand for over a decade.

Forecasts show the economy growing by an average of almost 3 per cent a year over the next five years, following annual growth of between 2 and 3 per cent in each of the past three years.

This will be an eight year stretch of sustained growth capable of supporting more jobs and higher incomes.

Several factors are supporting a further period of steady growth.

The labour market has exceeded expectations.

It has been able to meet the demands of the Christchurch rebuild as well as a general pick-up in the economy by enticing more people into the workforce. This has been reinforced by high net migration.

We have the highest ever proportion of working-aged New Zealanders available to work, lifting our labour market participation rate to 69.7 per cent compared to 64.8 per cent in Australia.

And net migration has stayed high for a surprisingly long time, with a net inflow from Australia to New Zealand in recent months.

So the strong demand for labour hasn't yet resulted in pressure creating a wage and price inflation cycle.

Actually, inflation is surprisingly low and could head towards zero this year.

New Zealand's non-tradeables inflation is low after running at around 4 per cent just a few years ago.

We are finally seeing better cost management in areas where price increases have traditionally persisted – for example, in local government, the electricity sector and central government.

Debt growth in business, government and households has stabilised – albeit at too high a level in the case of households.

Despite strong house price increases, credit growth looks reasonable at about the rate of GDP growth – a further sign that New Zealanders' appetite for debt has stabilised.

Policy settings and global influences are holding debt, inflation and labour supply at sustainable levels.

Government finances are stable and heading towards moderate surpluses and declining debt.

Consumer and business confidence remains moderately strong, but has stabilised at more sustainable levels.

The result is a strong employment market, with 80,000 new jobs created in the last year.

We've now had six years of rising real incomes and another five years of growth are forecast. Interest rates are staying lower for longer, which is supporting household incomes.

There is often debate about measures of real incomes. The best measure is the Quarterly Employment Survey, which successive governments have used to calculate increases in New Zealand Superannuation so superannuation maintains its relativity to wages.

Including the upcoming 2.07 per cent increase from 1 April, New Zealand Superannuation will have increased by 31 per cent since April 2008. This is double consumer price inflation of 15.4 per cent in that time.

This confirms that on average wage and salary increases have consistently exceeded inflation.

There are of course many risks to New Zealand's positive outlook.

They include an extended period of lower dairy prices or, from this point, rising oil prices, and excessive house prices followed by a sharp adjustment.

Less visible risks include the economic performances of China and Australia. It’s hard to know whether the Chinese economy is over-extended on infrastructure, investment and financial risk.

We assume the Chinese Government will head off any major negative impacts of rebalancing on China’s growth.

Thirty years of growth in Australia has supported New Zealand’s growth. But current uncertainty about Australia’s outlook - particularly the impact of the end of the mining boom - and doubts about its competitiveness mean we can’t rely on them in the same way as we have for many years.

Certainly, more Kiwis are staying home and don’t see the same prospects they used to see in Australia.

If both economies stay on their current course, I believe we can sustain around 3 per cent annual economic growth here in New Zealand.

So in this context, the Government’s programme will focus on reinforcing the business confidence needed to invest, create more jobs and increase incomes.

The Business Growth Agenda of 350 micro-economic initiatives will continue to be refreshed.

The Government will work closely with businesses and work places to identify barriers to growth and productivity and to search for opportunities where business and the Government can work together.

It’s a highly productive process, holding the Government to account for achieving continuous improvement.

New Zealand businesses continue to rate infrastructure as hindering productivity.

On top of large public investment in roads and ultra-fast broadband, we are keen to advance better management of new and existing infrastructure through common data standards, more effective pricing and improving our long-term vision through the 2015 Infrastructure Plan.

We are now making real progress in getting more Kiwis over the start line with skills through NCEA, vocational pathways and better tertiary performances.

I would like to see businesses pay as much attention as the Government to their role in improving the skills pipeline.

The evolution of water policy over the next few years is central to New Zealand's ability to maintain both world-leading agriculture activity and high water quality standards consistent with our international brand.

We will build on the collaborative problem solving approach that has been tested with business, iwi, environmental groups because it has proved to be a successful way to resolve complex trade-offs.

New Zealand's ability to maintain sound public policy underpinning sustained growth will require business, iwi, the social sector and local government engaging in open, responsible and purposeful discussion with the Government.

We will run the same sort of intensive engagement to deal with another significant risk to sustainable economic growth – persistent house price inflation.

The Government will continue to focus on housing this term for three reasons.

First, housing can drive significant macro-economic problems such as higher than necessary interest and exchange rates, and financial instability if house prices stay above historical norms for an extended period.

Second, the housing market is a significant fiscal risk for the Government. With $18.7 billion of houses on its books, the Government carries a huge opportunity cost when this capital is misallocated.

Rising rents push up our $2 billion annual cost of subsidising around half of all housing rentals in New Zealand, and high house prices maintain pressure for income transfers to households.

Our third concern is that rising house prices contribute to unfairness and inequality.

Poor planning and rising input and construction costs have increased housing costs as a proportion of low and middle income household budgets.

We have the opportunity in the next few years to secure lasting solutions while demand conditions are positive and there is broad agreement on how to fix supply constraints.

In particular, both central government and the Auckland Council need to develop more of their own land for housing.

We are the two biggest land holders in the city.

In the case of central government, we own 7 per cent of all houses in Auckland and, because we under utilise our land, we own a greater proportion of the land in the city.

The challenges created by unaffordable housing are clear.

Average New Zealand house prices doubled between 2000 and 2007.

This was accompanied by a sharp rise in household debt from just over 100 per cent of nominal disposable income to around 160 per cent in 2007.

After the global financial crisis, this debt ratio declined modestly but it has since started to increase again.

Affordable houses have gone from being 30 per cent of new builds to just 5 per cent in 25 years.

More expensive houses are being built to recover land, infrastructure and building costs.

The Government’s approach to housing is having an impact, but we need to press on.

Residential construction increased 21 per cent last year and more than 24,000 building consents were issued – the highest number since 2008.

We expect this growth in construction to pick up as special housing areas accelerate development capacity through increased land availability, enabling higher density and improved consenting.

The Government recognises that it’s often hard for people to save for their first house.

As I’ve mentioned, the new HomeStart programme for first home buyers starts on 1 April. It will help 90,000 people into their first home over the next five years through extra subsidies and higher house price limits.

We will also allow them to access more of their KiwiSaver funds.

This support is targeted at new housing construction that will deliver more homes.

As the Prime Minister promised in his speech last month, the Government is committed to ensuring there is more social housing for New Zealanders in need.

Most social housing is provided by Housing New Zealand. It owns or leases around 68,000 houses around the country, which are on the Government’s books at more than $18 billion.

We will increase funding for income-related rent subsidies and ensure that those who need housing can access it from a wider range of providers – not just Housing New Zealand.

We’ve set a number of objectives for our social housing programme.

Our top priority is more effectively meeting the needs of people with serious housing need.

Another objective is increasing the supply of affordable housing for people to buy, particularly in Auckland.

This important aspect of our programme – to increase the supply of affordable houses – has not had much attention.

Housing New Zealand is the largest residential landowner in the country and much of its land is used inefficiently by the standards of modern urban planning.

We want Housing New Zealand to free up more land for housing development and to do this more quickly.

Here in Auckland, for example, the Tāmaki Redevelopment Company, which is a partnership between the Government and Auckland Council, is setting out to rejuvenate the suburb.

It’s delivering new social housing alongside affordable housing and other homes as part of a major urban renewal project.

We want to accelerate this type of activity, so small and large redevelopments of Housing New Zealand land and properties are completed with more urgency.

The Cabinet will soon make further decisions about Tāmaki and we will be in a position to confirm details in the next few weeks.

But today I can set out some broad parameters of what we envisage.

There are 5,000 homes in Tāmaki. Housing New Zealand is by far the largest property owner with around 2,800 houses – over half of the suburb.

Most of those houses were built more than 50 years ago and don’t meet the needs of today’s social housing tenants.

Frankly, some are getting to the point where they need to be replaced.

There is substantial redevelopment potential in Tāmaki. Section sizes are, on average, over six times the size of the house.

When the Government and Auckland Council set up the Tāmaki Redevelopment Company in 2012, it was tasked with tackling social and economic issues in the suburb including housing.

Over the next decade or so, the company and its partners expect to build around 7,500 affordable and social homes, along with other community facilities.

That’s a net increase of around 5,000 houses after accounting for removals or demolitions of older properties.

Work is already underway.

Tāmaki’s first neighbourhood regeneration project, called Fenchurch, began over a year ago. The development, which is being led by Housing New Zealand, is in the middle of Glen Innes and will deliver 32 quality homes on what were empty sections.

And we are building more than just houses in Tāmaki.

The Ministry of Education and the Tāmaki Redevelopment Company are also building a new early childhood education centre for up to 60 children.

And the Tāmaki Redevelopment Company has partnered with the Department of Conservation to renovate an old building and convert it into a community hub that will be managed by residents.

This is just the start of what will be a transformation in Tāmaki.

I want also to note that lessons have been learned from some of the missteps earlier in the Tāmaki programme.

As I said earlier, we will be in a position to announce more details in the next few weeks.

Conclusion

So in conclusion, as a country we’re in a good position to build on the progress we’ve all made over the past six years.

We have a growing, sustainable economy.

Wages are increasing faster than the cost of living and tens of thousands more jobs are being created every year – the fastest rate for more than a decade.

Cost of living increases are low and interest rates are staying lower for longer.

More New Zealanders are getting off welfare and into work and the crime rate is falling.

We're working to return to surplus so we can start repaying debt and investing a bit more in priority public services.

We're taking a range of steps to get more affordable houses for New Zealanders.

And businesses are investing for growth and jobs.

We have the opportunity to build on New Zealanders' resilience and confidence to achieve significant gains for every household.

But the global economic situation remains uncertain and risks remain. That means we must continue working hard to get our own economy as competitive as we can.

Thank you.