

MAY 2021

# NEW ZEALAND BUDGET 2021 REPORT FOR INDUSTRY

The Real Media Collective and Print NZ



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# INTRODUCTION

The last twelve months has been one of uncertainty, challenge and constant change. New Zealand went through a significant health and economic shock as a result of COVID-19. Last year required the government to respond with significant expenditure to minimise the effects of COVID-19 on the economy, on business and the population.

This year's budget has been entitled "Wellbeing Budget 2021 – Securing our Recovery" and the Minister for Finance, the Hon. Grant Robertson, has stated that it is the next step in the recovery process for the country. Having borrowed \$60b last year to fund COVID related initiatives, the aim of this year's budget is to simultaneously invest in stimulating the economy, address societal inequities, and balance significant government debt of over \$100b.

Although there is nothing specifically targeted for our industry or business generally, the Labour Government's overarching policy goals for the next 3 years have been identified as:

- > Continuing to keep New Zealand safe from COVID-19
- > Accelerating the recovery and rebuild from the impacts of COVID-19
- > Laying the foundations for the future, including addressing key issues such as our climate change response, housing affordability and child poverty.

Considering last year's initiatives, and based on this year's budgetary forecasts, it is expected that government debt will peak at 48% of GDP in 2023 and return to surplus in 2027. Treasury forecasts an annual average real GDP growth of 2.9% for the current financial year to June 2021, rising to 4.4% in the following years. Further, it has been forecast that, based on the current tracking of the economy, unemployment will fall to 4.2% by 2024.

The following report is an overview of the 2021 budget with a focus on the few influential aspects that have been announced as most relevant to PrintNZ and The Real Media Collective members and the industry sectors we represent. Some aspects of this year's budget will benefit members and employees, while other initiatives will hopefully have a flow on effect across customer sectors and the industry supply chain.

# BACKGROUND

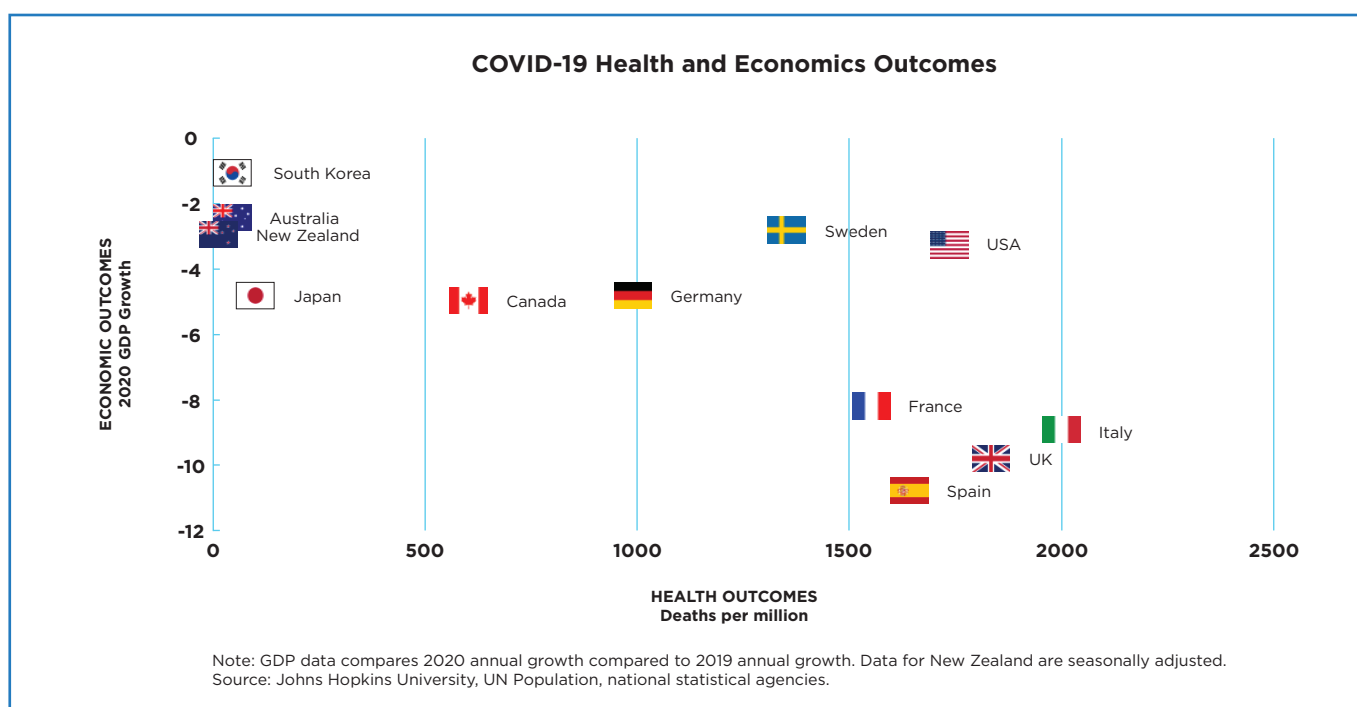
## BACKGROUND

Last year's budget focussed on the COVID-19 Response and Recovery Fund (CRRF) that was announced in April 2020. The CRRF was generally non-recoverable expenditure that sought to address a range of COVID related issues beyond the immediate health impacts. This included budgetary allocations towards emergency financial assistance in response to COVID-19, unemployment, primary sector shortfalls caused through the reduced availability of temporary migrant workers, business debt hibernation, infrastructure, small business assistance and digital transformation, and expenditure to identify a range of economic recovery initiatives. Coming into this budget the CRRF maintains approximately \$5.1b should there be a resurgence of COVID-19.

Last year's budget built upon the governments COVID-19 economic response package which provided a range of flexibilities for businesses. Those initiatives included interest write offs on late tax payments, flexibilities on tax deadlines for affected SME's, amendments to tax loss continuity rules, a tax loss carry back scheme, a business finance guarantee scheme, measures to support commercial tenants, and an estimated \$12.2b in wage subsidies.

As a result, and compared to many other developed countries, New Zealand has weathered the storm to this point. Along with the implementation of targeted border restrictions and the suppression of COVID, those fiscal and monetary policy levers being pulled in 2020 has resulted in stronger economic conditions and health outcomes than was expected. Although other developed countries may have had similar GDP outcomes, many did not implement restrictions and the cost to those countries has been tragically and significantly higher rates of COVID related deaths.

# BACKGROUND



Leading into this year's budget, these outcomes of effective health policies and fiscal initiatives have resulted in upgraded expectations for economic recovery. Nonetheless, various sectors of the New Zealand economy, such as tourism and hospitality, remain in difficulty and have yet to fully recover.



# AUTHOR

## **CHARLES WATSON IS THE GM - IR, POLICY AND GOVERNANCE AT THE REAL MEDIA COLLECTIVE.**

Watson brings twenty (20) years' experience across law firms, industrial and workplace agencies, and industry bodies. A high level of expertise across the nine (9) Awards our member sectors operate within, specifically focused for thirteen (13) years. Specialties include:

- > Governance and compliance,
- > Advocacy before various tribunals and to government,
- > Managing claims and disputes,
- > Change management and organisational design,
- > Workplace investigations,
- > Negotiation and mediation,
- > Enterprise agreements,
- > Training and communications, and
- > Policy development.

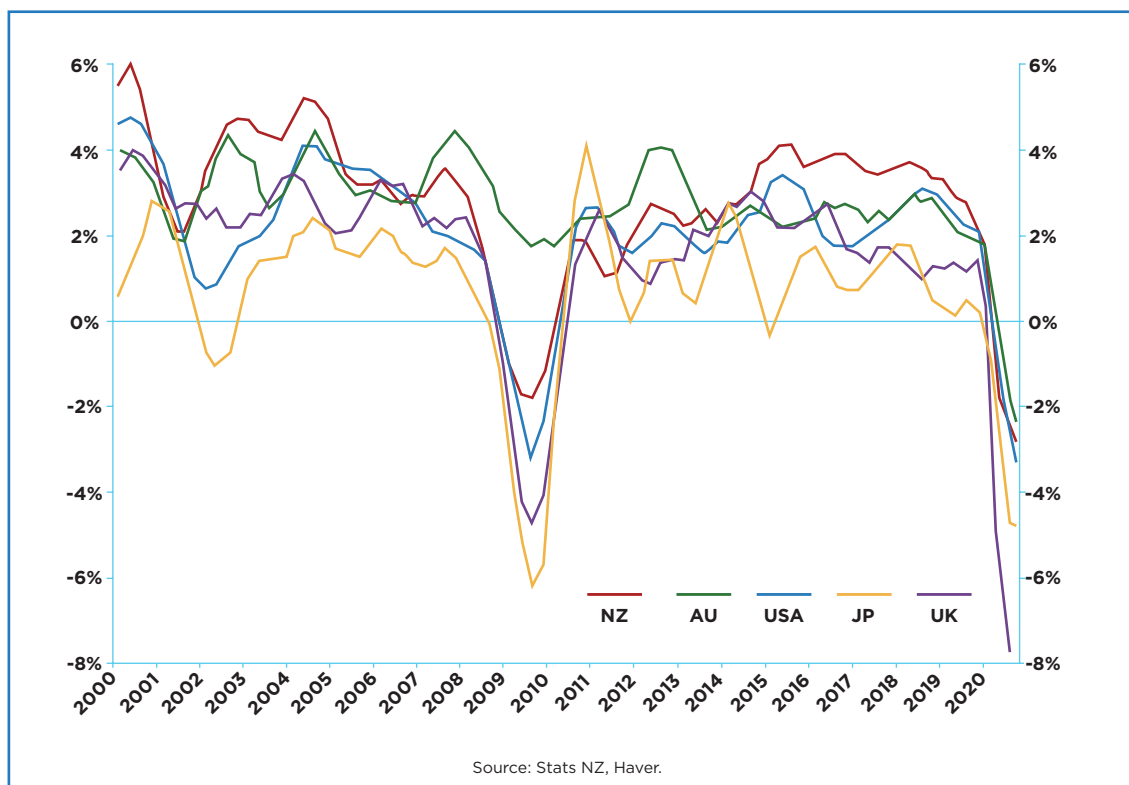
# ECONOMIC CONTEXT

Although the global economic outlook continues to improve generally, ongoing government fiscal and monetary stimulus measures are continuing to underpin the global recovery in economic activity. However, and although the forecasts look promising, economic uncertainty remains elevated and divergences in economic growth both within and between countries are significant. However New Zealand's commodity export prices continue to benefit from robust global demand.

The state of the following indicators provides members with the context behind the government's approach to the 2021 budget.

## GROSS DOMESTIC PRODUCT

Gross domestic product (GDP) represents the value of all goods and services produced in New Zealand. The growth or decline in real GDP is New Zealand's official measure of economic growth. Real GDP excludes the effects of changing prices (i.e. inflation).



As at December 2020, the NZ Real GDP figure came in at -2.9% dropping down from +2.4% in December the previous year, and down from 1.7% in March 2020. The -2.9% GDP December 2020 figure compares to -2.9% for Australia, -3.5% for the USA, and -4.8% for Japan.

# ECONOMIC CONTEXT

## INTEREST RATES

As predicted, the NZ Official Cash Rate (OCR) has remained at 0.25% for the last 12 months. Back in March 2020, the Reserve Bank determined to exercise its monetary stimulus lever and reduce the OCR (down from 1.0%) in response to the impending negative economic implications of COVID-19. As at 14 April 2021, the Reserve Bank determined to maintain the current stimulatory level of monetary settings in order to meet its consumer price inflation and employment objectives. The Reserve Bank has stated it will keep the OCR unchanged.

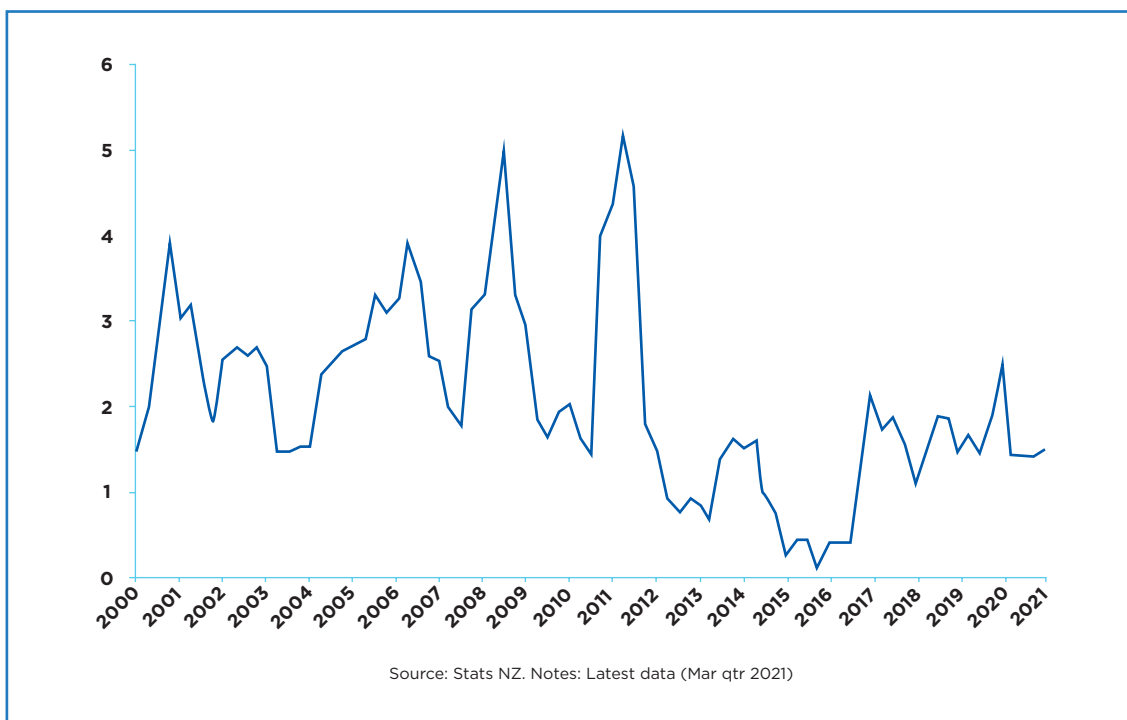
The Reserve Bank agreed to maintain its current stimulatory monetary settings until it is confident that consumer price inflation will be sustained at the 2 percent per annum target midpoint, and that employment is at or above its maximum sustainable level. Meeting these requirements will necessitate considerable time and patience. The Monetary Policy Committee of the Reserve Bank agreed that it was prepared to lower the OCR if required.



# ECONOMIC CONTEXT

## CONSUMER PRICE INDEX/INFLATION

The Consumers Price Index (CPI) measures changes to the prices of the consumer items New Zealand households buy, and provides a measure of household inflation.



As at March 2021, CPI comes in at 1.5%. In March 2020 CPI spiked to 2.5% but has since remained steady at 1.4% or 1.5% for the quarters that followed.

Under the current Policy Targets Agreement (PTA) the Reserve Bank is required to keep annual increases in the CPI between 1 and 3 percent on average over the medium term, with a focus on keeping future average inflation near the 2 percent target midpoint.

# ECONOMIC CONTEXT

## **BUSINESS CONFIDENCE**

The ANZ Bank in New Zealand regularly undertake a business confidence survey of 1500 NZ businesses. Although there have been periodic falls and rises in business confidence over the last 12 months, the generally held view is that conditions have been improving at varying speeds. A preliminary view for May 2021 evidences a 9 point jump in business confidence generally to +7%. Export, investment and employment intentions, capacity utilisation, and profit expectations all rose between 4 and 10 points.

## **EMPLOYMENT**

In the March 2021 quarter, the seasonally adjusted unemployment rate fell to 4.7% (compared to 4.3% in March 2020), down from 4.9% in the December 2020 quarter, and down from a peak of 5.2% in September 2020.

# 2021 BUSINESS RELEVANT BUDGETARY ANNOUNCEMENTS

## INFRASTRUCTURE

A big allocation of funds in this budget is to infrastructure projects. Building on existing infrastructure investment, the government has allocated \$57b across a range of projects in the period 2021 to 2025. These projects will encompass road, rail network upgrades, civil aviation, and housing. The expenditure is expected to create employment and stimulate the economy.

Some examples of budget commitment for infrastructure and housing projects include:

- > \$306m to redevelop the Scott Base in Antarctica across a 6 year timeframe.
- > \$85m in train wagon assembly in South Dunedin.
- > Funding towards new homes built for Maori.
- > Further funding for ongoing rebuild programs in the Christchurch region.

## BUSINESS CONNECT

The government has allocated \$36m over the next four years to the Business Connect digital platform that aims to integrate services so businesses can apply for a range of permits and registrations across different government agencies. Continued investment on this government platform should assist business by saving time and costs on compliance.

## SMALL BUSINESS DIGITAL TRAINING AND SUPPORT PROGRAM

The government has allocated \$44m across the next two years on this initiative. The purpose of this initiative is to enable partnering with the private sector to deliver a two-year nationwide programme to supply core digital business skills training to small businesses, and a digital business advisory service to assess digital needs and create digital business action plans.

## VOCATIONAL EDUCATION AND TRAINING

This initiative provides a 13.4 percent increase in Vocational Education and Training (VET) funding by 2024 (\$279.5m across the next 4 years). This funding will support the implementation of the new unified funding system for vocational education from 1 January 2023, a key part of the Reform of Vocational Education. The new system aims to better support high-quality, work-integrated provision, better support learner needs and help sustain a network of VET provision across the regions.

# 2021 BUSINESS RELEVANT BUDGETARY ANNOUNCEMENTS

## **SOCIAL UNEMPLOYMENT INSURANCE**

The government has also announced a new unemployment insurance programme could cover 80% of a worker's income if they lose their job. It will be funded by a levy on pay cheques such as that already collected for the Accident Compensation Commission scheme.

The Social Insurance Tripartite Working Group will be consulting stakeholders on what the right settings could be, balancing the support needed to find quality new jobs against the costs of running the scheme. Public consultations are expected to be held later this year, although it is envisaged that such a scheme will not be in operation until at least 2023.

Such insurance schemes that provide 80% of income to an individual who has lost their job have been in place in Scandinavian countries and Canada for many years. However, like all insurance schemes they come with positives and criticisms depending upon how they operate, appropriate governance, whether they are compulsory or voluntary schemes, and related fee structures.

## **CLIMATE**

Funding in this area includes:

- > \$300m to recapitalise New Zealand Green Investment Finance to continue to invest in support of climate change mitigation, with a particular focus on decarbonising public transport, waste and plastics
- > \$67m total funding to deliver a coordinated programme and support for agencies to reduce emissions, with the aim of making a number of government organisations carbon neutral by 2025
- > Commencement of efforts in hard-to-abate sectors, like transport, by preventing higher emissions through keeping trucks off the road and investing in the future of rail, while expanding the Low Emission Vehicle Contestable Fund by creating a new Low Emission Transport Fund.

# IN CONCLUSION

- > The 2021 budget has moved away from the business support initiatives of last year and is disappointingly light on direct business assistance this year. This year's budget is aimed at medium term general stimulus compared to the emergency measures implemented last year.
- > There is no clear assistance to areas of the economy that were hard hit last year, including tourism and hospitality. However, the approach to this year's budget is in keeping with the government's budget policy goals leading into this budget.
- > Members should consider how to position your business to potentially benefit from the significant government spending initiatives, particularly in relation to supplying into those industries that will directly benefit from infrastructure funding.
- > This budget has been made on assumptions that the borders will open in 2022 beyond Australia and the Pacific, and with a high rate of vaccinations by next year.
- > Given the relatively strong state of the New Zealand economy it remains to be seen whether a greater allocation of funds across more sectors could have been delivered, or if the balance has been found for further economic growth and that government does in fact move towards a surplus in the next six years.

# ACKNOWLEDGEMENTS AND REFERENCES

## ACKNOWLEDGEMENTS

Acknowledgement to the Executive and Boards of The Real Media Collective and Print NZ, who have tirelessly worked to navigate through a difficult time for their own businesses and organisations but also provided time, support and contribution to the requirements of Print NZ and The Real Media Collective teams, their membership and the industry.

Additional acknowledgements also to our industry partners for their contributions.

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