

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* show a lower growth outlook beyond the higher starting point

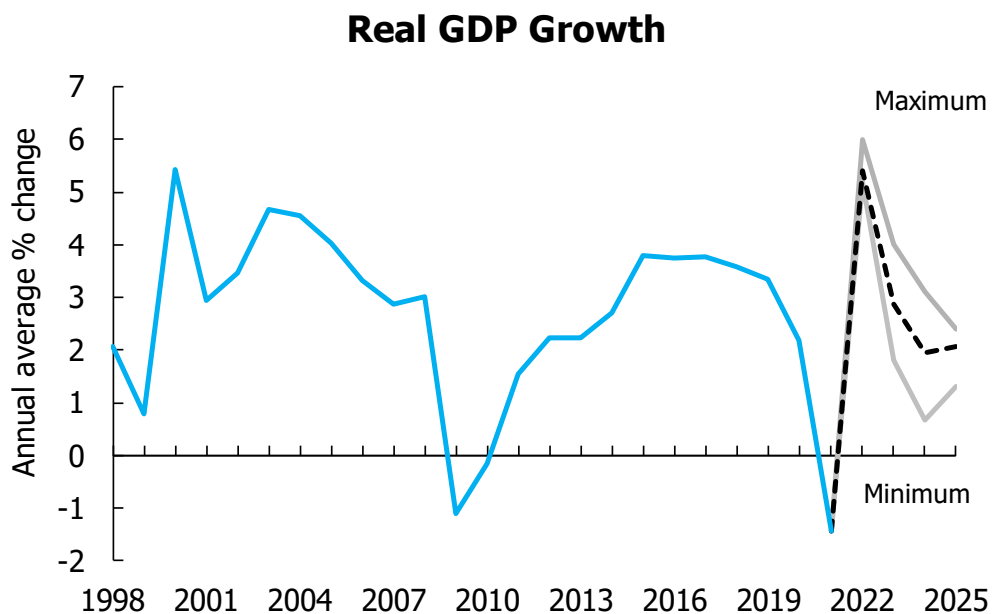
The latest NZIER *Consensus Forecasts* show a downward revision to the growth outlook over the coming years, despite the stronger starting point. The revisions reflect expectations of weaker activity across most sectors from 2023. Although the recovery in demand was stronger than initially expected as lockdown restrictions were relaxed, there are increasing headwinds for the New Zealand economy. These headwinds include continued global supply chain disruptions as countries continue to grapple with COVID-19, the war in Ukraine and rising interest rates.

Households and businesses are starting to feel more downbeat, with the increased pessimism expected to flow through to reduced household spending and business investment. One positive aspect is the expected strong demand for New Zealand exports, despite growing concerns about the global growth outlook as interest rates rise around the world.

Meanwhile, the inflation outlook has been revised up. This reflects expectations that high inflation will remain persistent in the New Zealand economy. Capacity pressures remain acute, largely reflecting the effects of global supply chain disruptions and labour shortages. The wage growth outlook has been revised up markedly, while annual CPI inflation is expected to remain above the Reserve Bank’s inflation target band mid-point of 2 percent through to 2025.

With central banks here and abroad moving to tighten monetary policy in the high inflation environment, the interest rate outlook for the coming years has been revised up.

Figure 1 Lower expectations of growth over the medium term

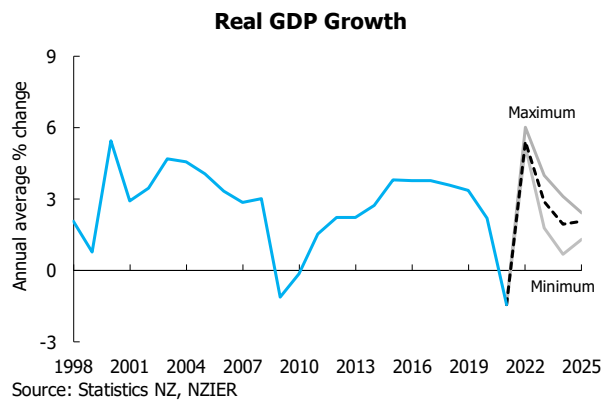


Source: Statistics NZ, NZIER

Growth forecast to be weaker from 2023

Beyond the higher starting point, *Consensus Forecasts* for GDP have been revised down throughout the projection period. This reflects headwinds facing the economy as the COVID-19 pandemic continues to cause global supply chain disruptions and central banks raise interest rates in response to the surge in inflation.

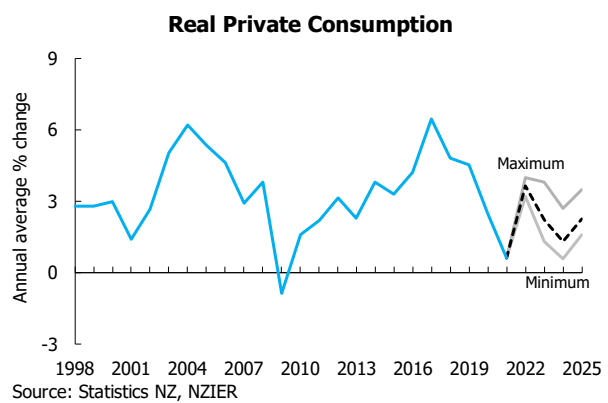
Annual GDP growth is expected to ease to below 2 percent for the year to March 2024 before recovering slightly in the subsequent year.



Household spending expected to weaken

The outlook for household spending has been revised down through the coming years. Although the tight labour market is underpinning a pick-up in wage growth, higher mortgage rates are dampening consumer confidence.

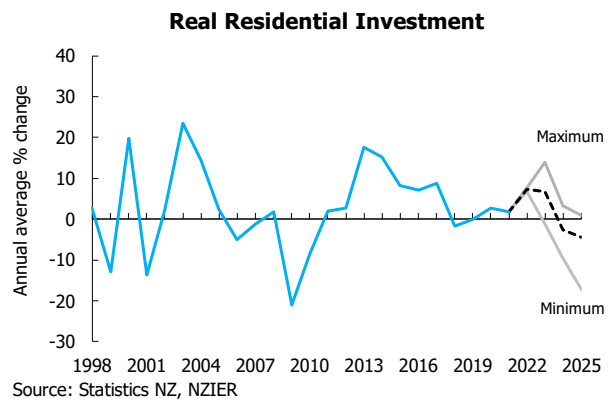
As households roll off historically low fixed mortgage rates onto markedly higher rates over the coming year, increased mortgage repayments will likely crowd out discretionary spending.



Investment outlook softer

Despite the stronger starting point for investment, the outlook from 2023 has been revised lower. Nonetheless, expectations for the coming year are for continued solid growth in investment.

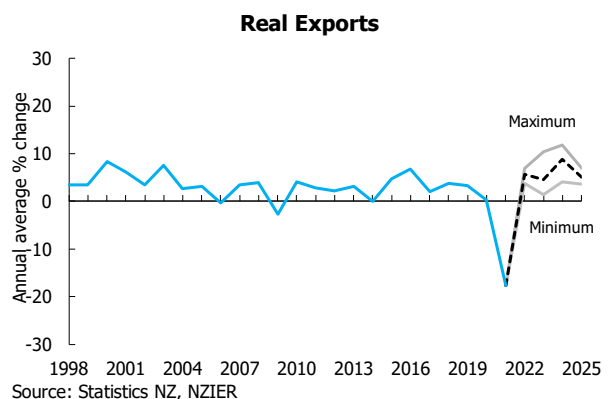
Although dwelling consent issuance points to a solid pipeline of residential construction for the remainder of 2022, higher interest rates are expected to dampen demand from 2023.



Export growth outlook remains solid

Despite the uncertainty over the global growth outlook, expectations are for continued solid demand for New Zealand exports over the coming years. Constraints in the supply of food commodities in other countries are underpinning demand for New Zealand exports.

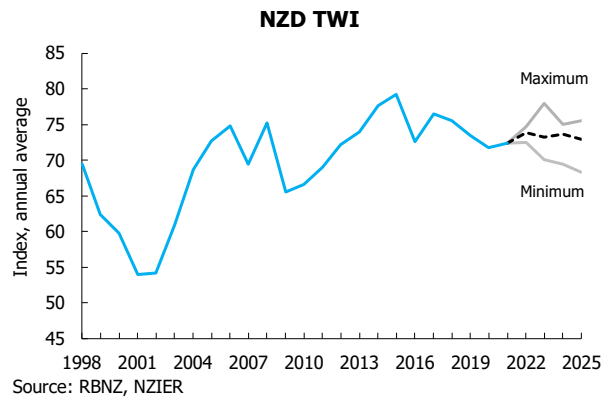
Although import growth is expected to remain strong over the coming year, as higher interest rates dampen demand, this is expected to weigh on import growth from 2024.



NZD revised lower through to 2025

The NZD TWI has been revised lower across the projection horizon. Although the Reserve Bank of New Zealand was early in tightening monetary policy, as other central banks have followed suit, this has reduced the yield attractiveness of NZD-denominated assets. This has put downward pressure on the New Zealand dollar.

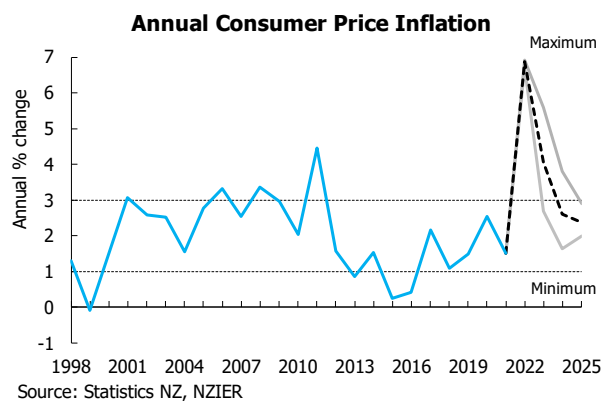
The NZD TWI is expected to track around 73 over the coming years.



Higher inflation outlook

The inflation outlook has again been revised higher, with annual CPI inflation expected to remain above the Reserve Bank's inflation target mid-point of 2 percent through the coming years. The high inflation environment reflects the effects of supply constraints on the price of imported goods and capacity pressures in the New Zealand economy.

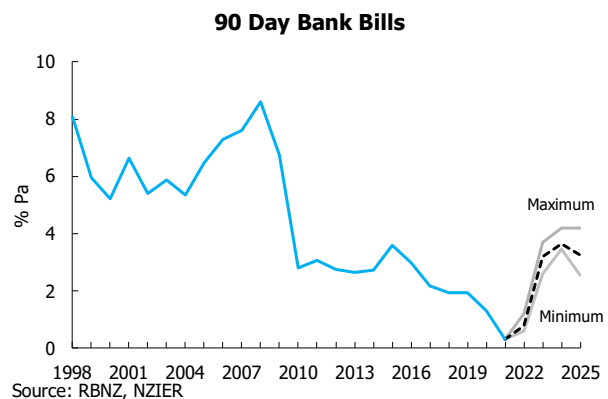
Annual CPI inflation is expected to moderate to 4.1 percent for the year to March 2023 before easing to 2.4 percent in 2025.



Underpinning higher rate outlook

With major central banks around the world highlighting their increased concern with inflation and embarking on monetary policy tightening, the interest rate outlook has again been revised up.

The upward revision to short-term interest rates reflects the RBNZ's May *Monetary Policy Statement*, which showed it would look to increase the Official Cash Rate at a faster pace and by more than it had earlier indicated.



Tight labour market underpins wage growth

The unemployment rate outlook is broadly unchanged, with expectations for slightly softer employment growth and a slightly higher unemployment rate later in the projection.

However, wage growth has been revised markedly higher throughout the projection. The labour market remains very tight, and the generally high inflation environment is supporting stronger wage growth.

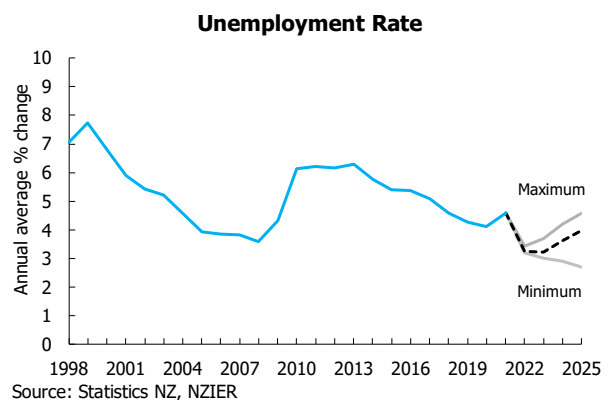


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Jun-2022 survey				Mar-2022 survey			
	2021/22	2022/23	2023/24	2024/25	2021/22	2022/23	2023/24	2024/25
GDP	5.4 ↑	2.9 ↓	1.9 ↓	2.1 ↓	5.2	3.6	2.7	2.5
Private consumption	3.7 ↓	2.2 ↓	1.3 ↓	2.2 ↓	3.8	3.3	2.2	2.5
Public consumption	10.5 ↑	3.4 ↑	-0.5 ↓	0.3 ↓	7.9	2.7	1.2	1.5
Fixed investment:								
Residential	7.3 ↓	6.8 ↓	-2.6 ↑	-4.4 ↓	10.1	6.9	-3.1	-2.9
Other	8.8 ↑	7.1 ↓	2.3 ↓	2.2 ↓	6.3	7.4	4.2	2.5
Total	8.4 ↑	7.0 ↓	1.1 ↓	0.6 ↓	7.2	7.2	2.3	1.2
Exports, goods & services	5.6 ↑	4.6 ↓	8.9 ↑	5.1 ↑	5.4	5.3	7.0	5.0
Imports, goods & services	18.9 ↑	6.9 ↑	3.3 ↓	2.3 ↓	18.0	6.1	4.1	2.9
Consumer price index (apc)	6.9 ↑	4.1 ↑	2.6 ↑	2.4 ↑	6.7	3.5	2.5	2.3
New Zealand TWI (avg yr to Mar)	73.9 ↓	73.3 ↓	73.6 ↓	72.9 ↓	74.0	73.7	73.8	73.2
90 day bank bill (avg yr to Mar)	0.8 ↓	3.2 ↑	3.6 ↑	3.2 ↑	0.9	2.6	3.0	2.9
10 year govt bond (avg yr to Mar)	2.3 ↓	3.6 ↑	3.5 ↑	3.4 ↑	2.4	3.1	3.2	3.2
Current account balance (NZ\$b; Mar yr)	-19.0 ↓	-23.5 ↓	-20.9 ↓	-20.8 ↓	-12.7	-16.7	-16.9	-15.5
Employment	2.9 ↓	1.2 ↑	1.0 ↓	1.2 ↓	3.3	1.1	1.2	1.3
Unemployment (% of labour force)	3.3 ↑	3.2 ↓	3.6 →	4.0 ↑	3.2	3.3	3.6	3.8
Wages (private sector avg hourly earnings)	4.2 ↑	5.5 ↑	4.7 ↑	3.6 ↑	3.8	4.4	3.7	3.4
Government operating balance (NZ\$b, September yr)	-18.9 ↓	-6.4 ↓	-3.0 ↓	2.5 ↑	-16.9	-4.8	-1.1	-0.1

Source: NZIER

Table 2 Breakdown of the forecasts

qpc, quarters	Mar-22 f			Jun-22 f			Sep-22 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.0	0.6	1.5	0.3	0.8	2.0	0.2	0.7	1.4			
	Jun-22 f			Sep-22 f			Dec-22 f					
CPI (qpc)	0.9	1.3	1.5	0.8	1.3	2.0	0.4	0.7	1.1			
aapc, March years	2021/2022 f			2022/2023 f			2023/2024 f			2024/2025 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	5.2	5.4	6.0	1.8	2.9	4.0	0.7	1.9	3.1	1.3	2.1	2.4
Private consumption	3.2	3.7	4.0	1.3	2.2	3.8	0.6	1.3	2.7	1.6	2.2	3.5
Public consumption	9.5	10.5	11.9	0.3	3.4	5.5	-4.9	-0.5	2.1	-2.6	0.3	2.6
Fixed investment												
- Residential	6.8	7.3	7.6	-1.2	6.8	13.9	-9.7	-2.6	3.2	-17.4	-4.4	0.8
- Other	8.0	8.8	9.9	4.5	7.1	11.9	-0.1	2.3	4.3	-0.6	2.2	3.7
- Total	7.7	8.4	8.9	4.5	7.0	12.4	-1.1	1.1	4.0	-1.5	0.6	1.9
Exports, goods and services	3.7	5.6	6.9	1.4	4.6	10.5	4.1	8.9	11.9	3.6	5.1	6.9
Imports, goods and services	18.5	18.9	19.5	4.5	6.9	9.5	0.4	3.3	5.4	0.7	2.3	4.0
Consumer price index (apc)	6.7	6.9	6.9	2.7	4.1	5.6	1.6	2.6	3.8	2.0	2.4	2.9
New Zealand TWI (avg yr to Mar)	72.5	73.9	74.8	70.1	73.3	78.0	69.4	73.6	75.0	68.3	72.9	75.5
90 day bank bill (avg yr to Mar)	0.6	0.8	1.2	2.6	3.2	3.7	3.5	3.6	4.2	2.5	3.2	4.2
10 year government stock (avg yr to Mar)	2.1	2.3	2.8	3.3	3.6	3.7	3.1	3.5	4.3	2.7	3.4	4.5
Current account balance (NZ\$b; Mar yr)	-23.5	-19.0	-5.8	-28.7	-23.5	-7.2	-30.6	-20.9	-4.5	-28.5	-20.8	-18.0
Employment	2.8	2.9	3.3	0.5	1.2	2.4	-0.1	1.0	2.4	0.7	1.2	1.8
Unemployment rate (% of labour force)	3.2	3.3	3.4	3.0	3.2	3.7	2.9	3.6	4.2	2.7	4.0	4.6
Wages (private sector avg hourly earnings)	2.6	4.2	5.3	3.5	5.5	6.4	2.8	4.7	6.0	2.3	3.6	5.0
Government operating balance (NZ\$m, December yr)	-19.0	-18.9	-18.7	-6.6	-6.4	-5.8	-4.0	-3.0	-2.6	2.1	2.5	2.6

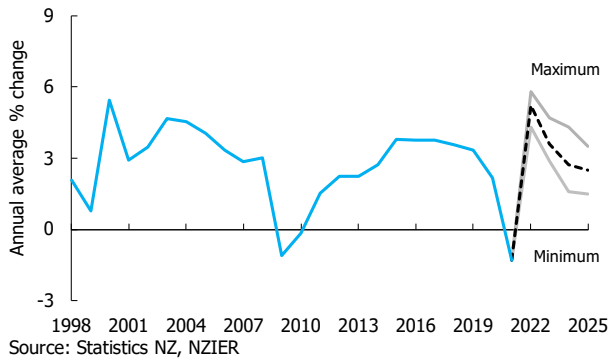
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change

These results show only means; standard deviations are available on request

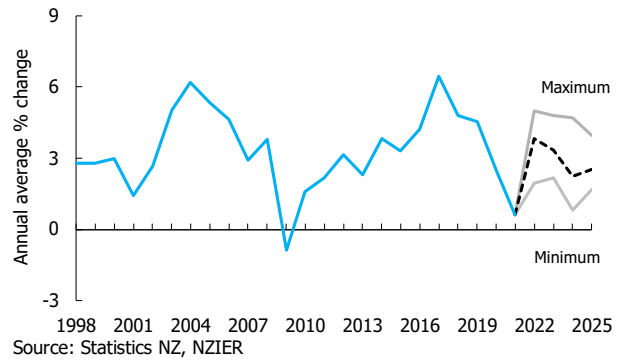
Source: NZIER

Summary charts

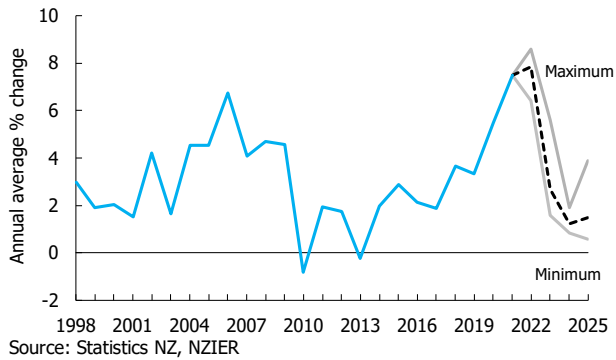
Real GDP Growth



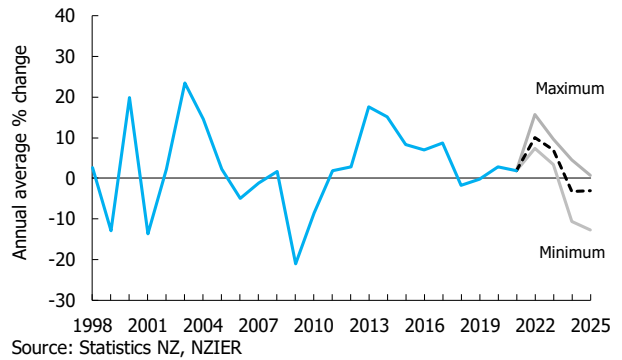
Real Private Consumption



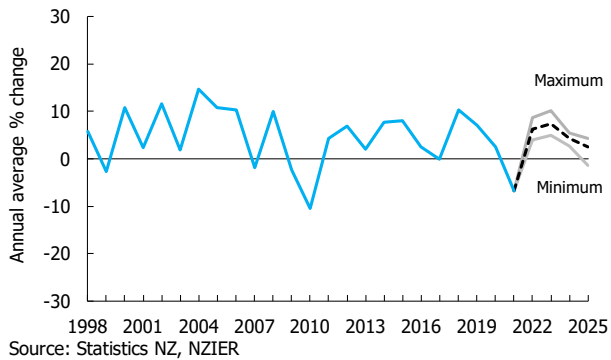
Real Public Consumption



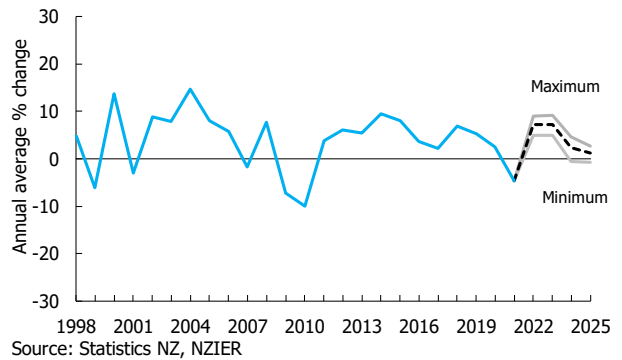
Real Residential Investment



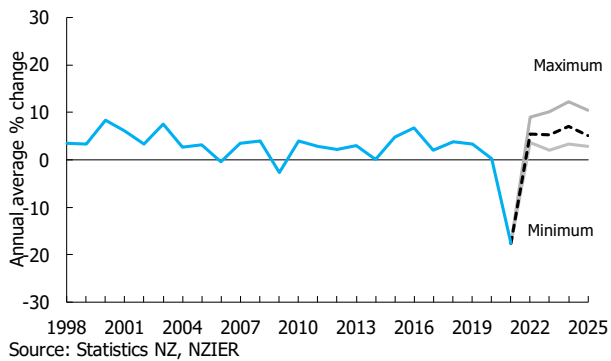
Real Other Investment



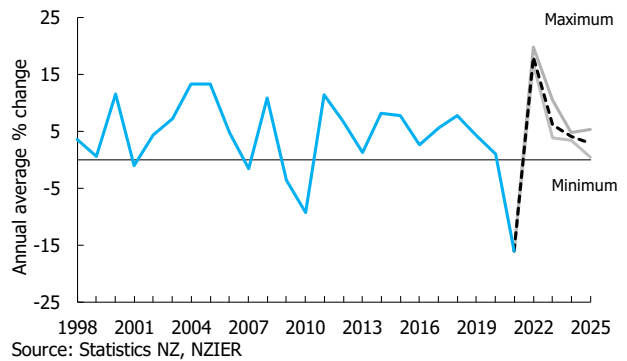
Real Total Investment

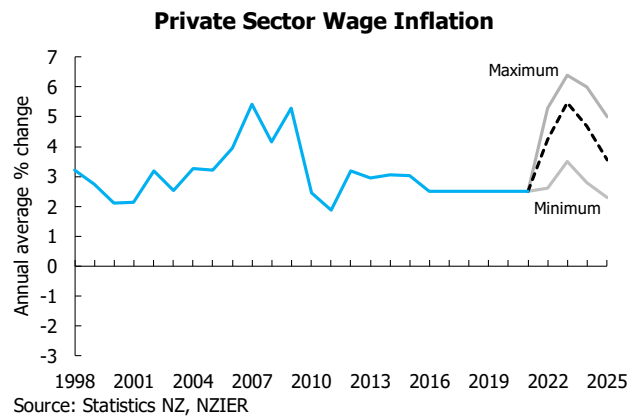
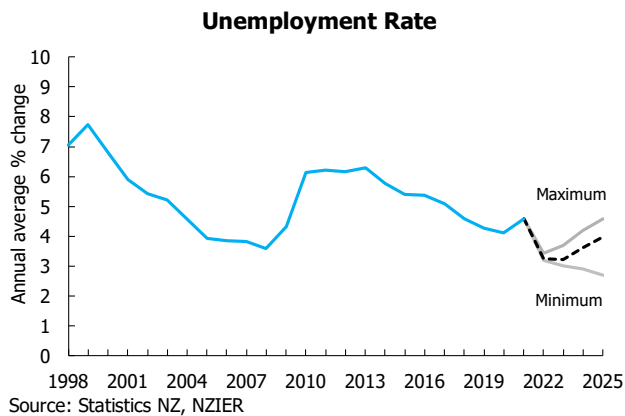
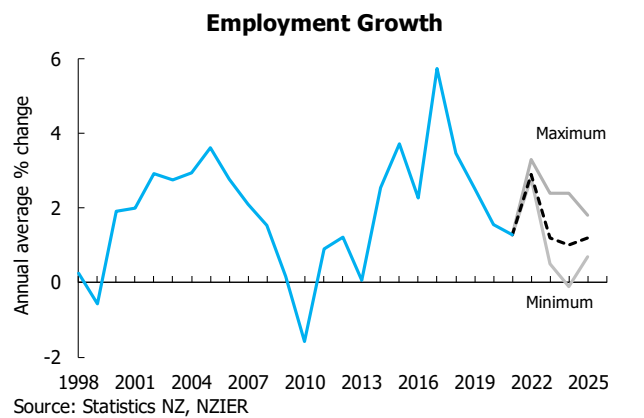
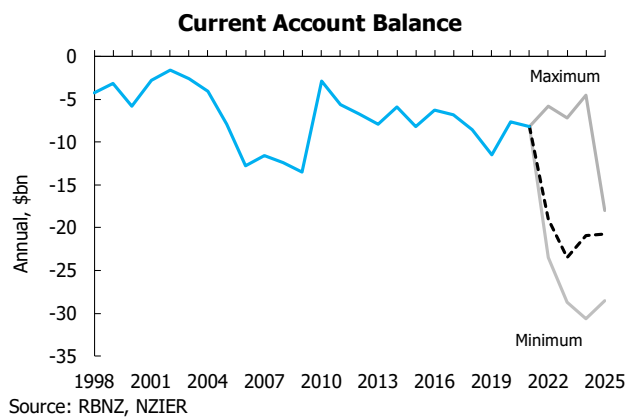
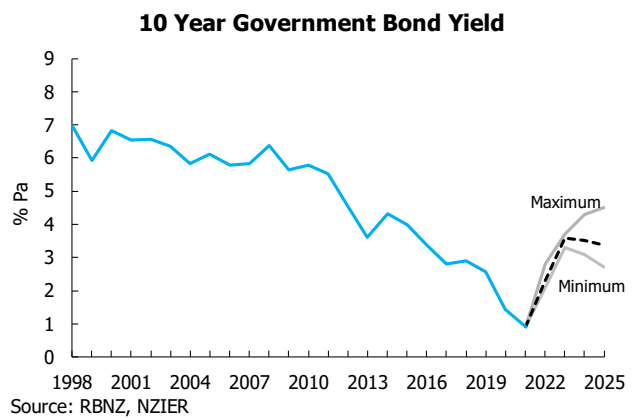
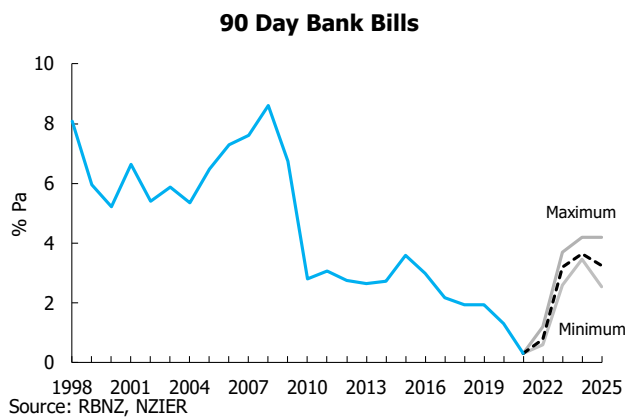
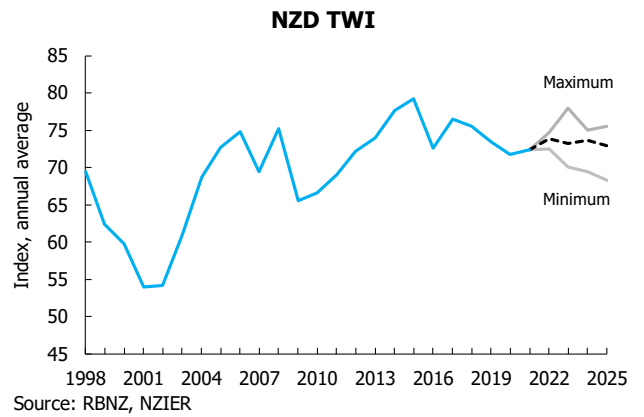
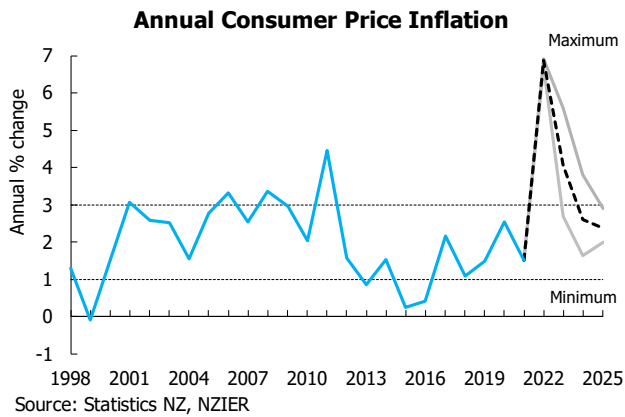


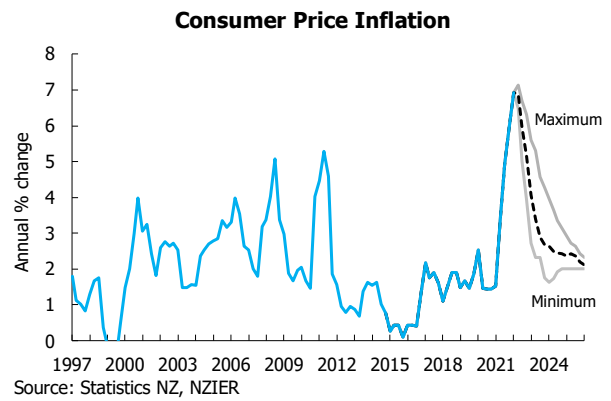
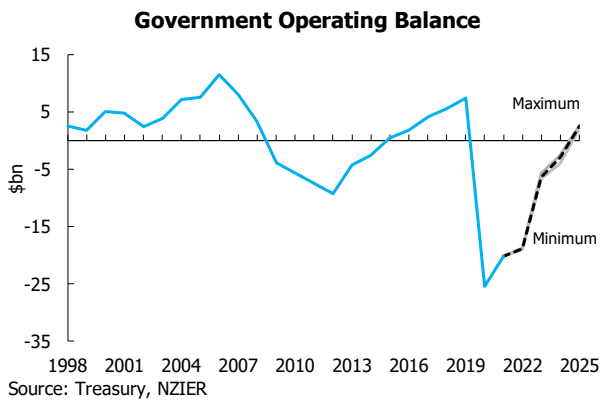
Real Exports



Real Imports







The NZIER Consensus Forecasts are an average of New Zealand economic forecasts compiled from a survey of financial and economic agencies. These are not NZIER's forecasts. The average forecasts do not necessarily represent the views of individual participants. Forecasts are for March years, e.g. 2022 refers to the year ended March 2022.

Respondents

ANZ Bank
ASB Bank
Bank of New Zealand
Kiwibank
New Zealand Institute of Economic Research
Reserve Bank of New Zealand
The Treasury
Westpac

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