

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

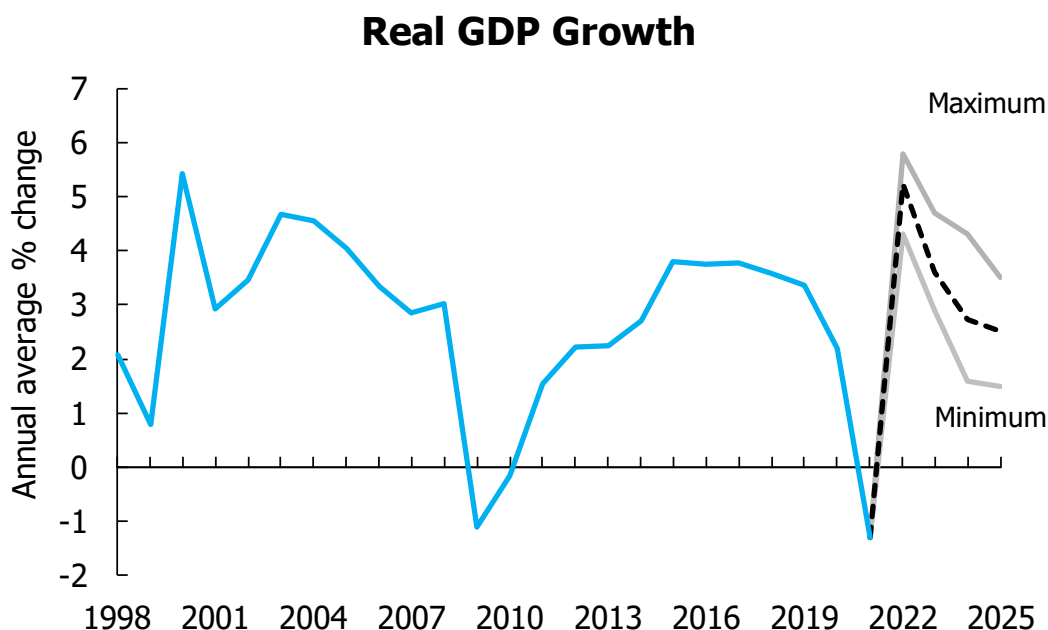
NZIER *Consensus Forecasts* show a mixed growth outlook amidst higher inflation

The latest NZIER *Consensus Forecasts* show an upward revision to the near-term growth outlook for the New Zealand economy, but softer growth is forecast for the subsequent year. These revisions reflect recent activity indicators, suggesting that while the New Zealand economy weathered the latest lockdown reasonably well, there is more caution about the longer-term outlook. With the latest Omicron surge widespread across the country, fears of infection or having to self-isolate has seen people limit their movements even though restrictions were relaxed in December last year.

Reflecting this heightened caution, forecasts for household spending have been revised lower for the coming year. However, the upward revision to the residential investment forecast shows there are still areas of strength for the New Zealand economy. Activity indicators such as consent issuance and the NZIER *Quarterly Survey of Business Opinion* measure of architects' activity in their own office point to a solid pipeline of construction over the coming year.

Inflation has risen sharply as global supply chain disruptions and labour shortages drive up costs. With demand holding up fairly well, more businesses have been able to pass on higher costs by raising prices. Annual growth in the Consumers Price Index (CPI) picked up sharply to 5.9 percent for the year to December 2021 – well above the Reserve Bank's 1 to 3 percent inflation target band. Annual inflation is expected to pick up further, particularly as higher global crude oil prices drive up petrol prices here at the pump. Higher inflation pressures both here and abroad have driven up the interest rate outlook over the coming years.

Figure 1 Lower expectations of growth over the medium term



Growth forecast to be stronger in the near term

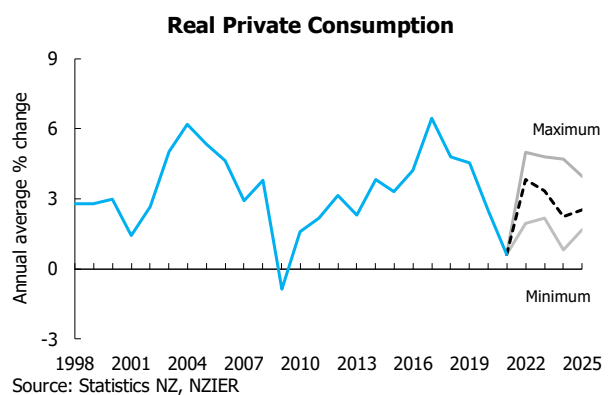
Consensus Forecasts for GDP have been revised higher in the near term, as the negative impact of the latest lockdown appears milder than initially expected.

However, heightened uncertainty over what the accelerating spread of Omicron would mean for economic activity as people limit their movements for fear of infection or self-isolation has reduced growth forecast for the subsequent year.



Forecast of softer growth in household spending

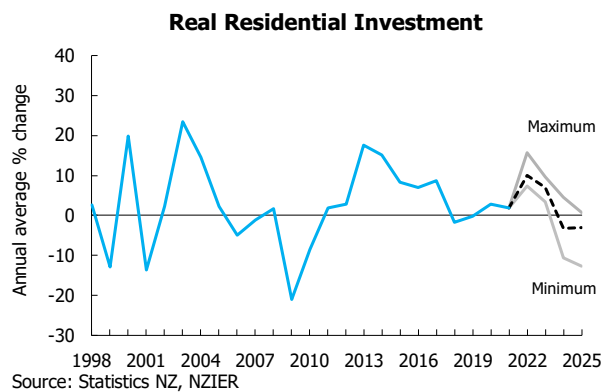
The forecast of household spending through to 2023 has been revised lower, reflecting weaker consumer confidence. Although the labour market is resilient, the household sector faces headwinds such as higher interest rates and increased living costs. Meanwhile, the easing in housing market activity weighs on spending on durables, given households tend to buy new furniture and electronics to furnish their new homes.



Investment outlook mixed

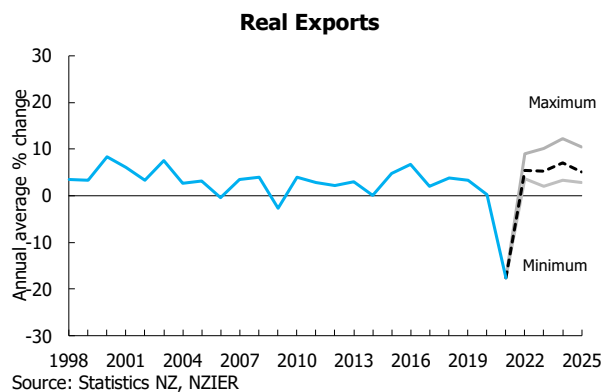
Expectations of stronger residential investment drive the upward revision to the near-term investment outlook. Activity indicators point to a solid pipeline of construction for the coming year.

Beyond 2023, heightened uncertainty is forecast to weigh on business investment more broadly. Business confidence has softened as the Omicron spread broadened across New Zealand, with businesses paring back on investment plans.



Export growth outlook pared back

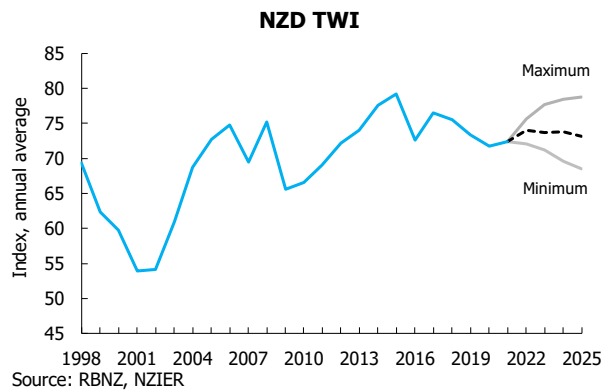
Although the outlook for exports remains solid, forecasts for export growth has been reduced for the coming year. Strong global demand for New Zealand commodity exports, particularly dairy, is supporting expectations of robust growth. However, the continued spread of Omicron globally and Russia's invasion of Ukraine has increased uncertainty over the global growth outlook.



NZD revised lower through to 2024

The NZD TWI has been revised lower across most of the projection horizon. Although interest rate expectations in New Zealand have increased, market expectations for monetary policy tightening by the US Federal Reserve have also increased. This has reduced the yield attractiveness of NZD-denominated assets, thus putting downward pressure on the New Zealand dollar.

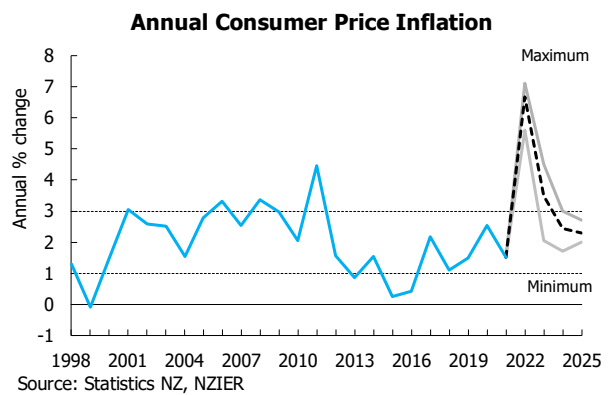
The NZD TWI is expected to edge up modestly over the coming year before easing to 73.2 in 2025.



Much higher inflation outlook

The inflation outlook has been revised higher, reflecting the effects of acute capacity pressures and depreciation in the New Zealand dollar. Annual CPI picked up to 5.9 percent for the year to December and is forecast to rise further to 6.7 percent over the coming year.

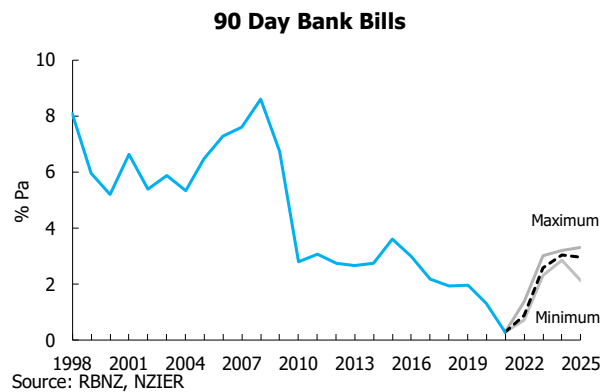
Beyond that, annual CPI is forecast to moderate to 2.3 percent in 2025. Overall, inflation is expected to remain above the inflation target mid-point of 2 percent over the projection horizon.



Interest rate outlook also higher

Forecasts for interest rates have been revised higher across the projection horizon, as the intensification of inflation pressures both here and abroad drive market expectations of monetary policy tightening by the major central banks.

The upward revision to short-term interest rates has been particularly large, as the surge in inflation in New Zealand firms up market expectations of OCR increases over the coming years.



Labour market outlook mixed

Although forecasts for the unemployment rate have been revised lower, employment forecasts have also been revised lower beyond 2022. Meanwhile, forecasts for wage growth have been revised up in the near term but reduced from 2024.

The softer growth outlook has reduced expectations of employment growth, but the labour market is expected to remain tight, with the unemployment rate forecast to remain below 4 percent over the coming years.



Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Mar-2022 survey				Dec-2021 survey			
	2021/22	2022/23	2023/24	2024/25	2021/22	2022/23	2023/24	2024/25
GDP	5.2 ↑	3.6 ↓	2.7 ↑	2.5 ↓	4.3	4.6	2.4	2.6
Private consumption	3.8 ↓	3.3 ↓	2.2 ↑	2.5 ↑	4.5	4.0	2.1	2.4
Public consumption	7.9 ↑	2.7 ↑	1.2 ↑	1.5 ↓	6.5	1.9	1.1	2.5
Fixed investment:								
Residential	10.1 ↑	6.9 ↑	-3.1 ↓	-2.9 ↑	8.7	6.8	-2.0	-4.1
Other	6.3 ↑	7.4 ↓	4.2 ↓	2.5 ↓	5.2	8.3	4.3	3.3
Total	7.2 ↑	7.2 ↓	2.3 ↓	1.2 ↓	6.1	7.9	2.6	1.5
Exports, goods & services	5.4 ↓	5.3 ↓	7.0 ↑	5.0 ↑	5.9	8.4	6.5	4.5
Imports, goods & services	18.0 ↑	6.1 ↓	4.1 ↓	2.9 ↑	16.3	7.7	4.6	2.8
Consumer price index (apc)	6.7 ↑	3.5 ↑	2.5 ↑	2.3 ↑	5.1	2.4	2.3	2.2
New Zealand TWI (avg yr to Mar)	74.0 ↓	73.7 ↓	73.8 ↓	73.2 ↑	74.3	74.5	74.0	72.7
90 day bank bill (avg yr to Mar)	0.9 ↑	2.6 ↑	3.0 ↑	2.9 ↑	0.6	1.6	2.0	2.0
10 year govt bond (avg yr to Mar)	2.4 ↑	3.1 ↑	3.2 ↑	3.2 ↑	2.1	2.7	2.9	2.9
Current account balance (NZ\$b; Mar yr)	-12.7 ↑	-16.7 ↑	-16.9 ↑	-15.5 ↓	-15.7	-17.3	-17.1	-14.0
Employment	3.3 ↑	1.1 ↓	1.2 ↓	1.3 ↓	3.2	1.4	1.5	1.4
Unemployment (% of labour force)	3.2 ↓	3.3 ↓	3.6 ↓	3.8 ↓	3.6	3.6	3.9	3.9
Wages (private sector avg hourly earnings)	3.8 ↑	4.4 ↑	3.7 ↓	3.4 ↓	3.7	4.1	3.9	3.7
Government operating balance (NZ\$b, September yr)	-16.9 ↑	-4.8 ↑	-1.1 ↑	-0.1 ↑	-18.3	-8.2	-4.6	-0.6

Source: NZIER

Table 2 Breakdown of the forecasts

qpc, quarters	Dec-21 f			Mar-22 f			Jun-22 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	2.3	3.5	5.0	0.0	1.2	3.8	0.3	0.8	2.0			
	Mar-22 f			Jun-22 f			Sep-22 f					
CPI (qpc)	1.0	1.6	2.0	0.5	1.1	1.6	0.7	1.1	1.7			
aapc, March years	2020/2021 f			2021/2022 f			2022/2023 f			2023/2024 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	4.3	5.2	5.8	2.9	3.6	4.7	1.6	2.7	4.3	1.5	2.5	3.5
Private consumption	1.9	3.8	5.0	2.2	3.3	4.8	0.8	2.2	4.7	1.7	2.5	4.0
Public consumption	6.4	7.9	8.6	1.6	2.7	5.6	0.9	1.2	1.9	0.6	1.5	3.9
Fixed investment												
- Residential	7.4	10.1	15.6	3.4	6.9	9.7	-10.6	-3.1	4.5	-12.7	-2.9	0.8
- Other	4.1	6.3	8.7	4.9	7.4	10.1	2.7	4.2	5.4	-1.3	2.5	4.2
- Total	4.9	7.2	9.0	4.9	7.2	9.1	-0.5	2.3	4.6	-0.7	1.2	2.6
Exports, goods and services	3.7	5.4	9.0	2.0	5.3	10.1	3.4	7.0	12.2	2.8	5.0	10.5
Imports, goods and services	16.8	18.0	19.8	3.9	6.1	10.5	3.4	4.1	4.8	0.5	2.9	5.4
Consumer price index (apc)	5.6	6.7	7.1	2.1	3.5	4.5	1.7	2.5	3.0	2.0	2.3	2.7
New Zealand TWI (avg yr to Mar)	72.1	74.0	75.6	71.3	73.7	77.7	69.6	73.8	78.5	68.5	73.2	78.8
90 day bank bill (avg yr to Mar)	0.7	0.9	1.4	2.3	2.6	3.0	2.9	3.0	3.2	2.1	2.9	3.3
10 year government stock (avg yr to Mar)	2.1	2.4	2.9	2.7	3.1	3.4	3.0	3.2	3.6	2.8	3.2	3.7
Current account balance (NZ\$b; Mar yr)	-22.3	-12.7	19.4	-25.9	-16.7	16.3	-25.0	-16.9	15.0	-25.3	-15.5	13.7
Employment	2.8	3.3	3.7	0.5	1.1	2.4	0.6	1.2	2.5	1.0	1.3	1.8
Unemployment rate (% of labour force)	3.1	3.2	3.5	2.9	3.3	3.7	3.4	3.6	4.0	3.4	3.8	4.2
Wages (private sector avg hourly earnings)	2.6	3.8	4.4	3.4	4.4	5.4	2.7	3.7	5.2	2.4	3.4	4.8
Government operating balance (NZ\$m, December yr)	-21.0	-16.9	-11.6	-7.6	-4.8	-2.9	-2.3	-1.1	0.0	-3.9	-0.1	2.1

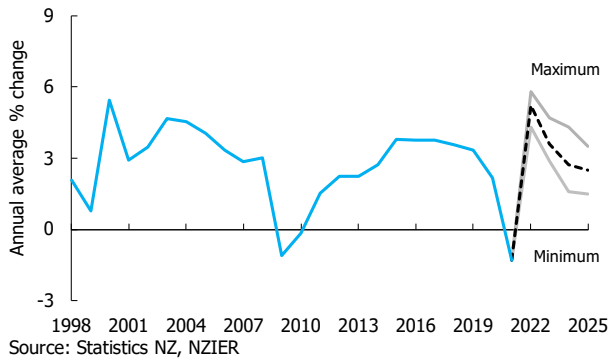
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change

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

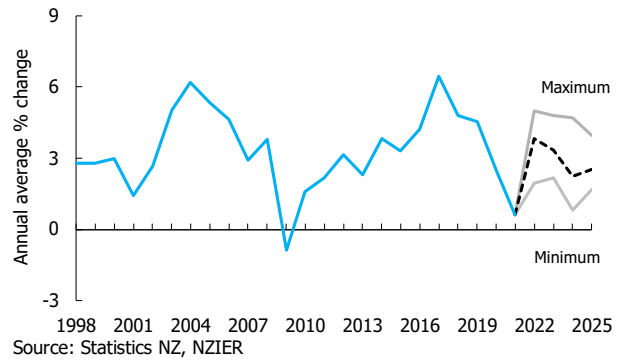
Source: NZIER

Summary charts

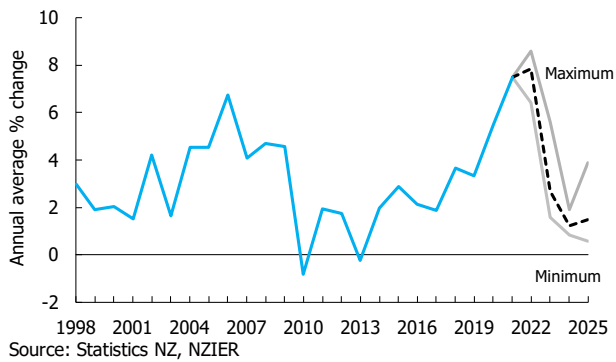
Real GDP Growth



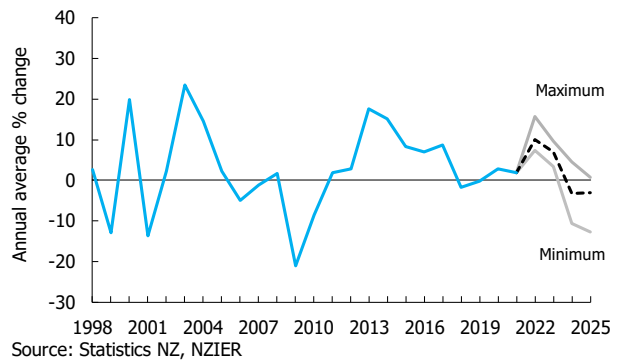
Real Private Consumption



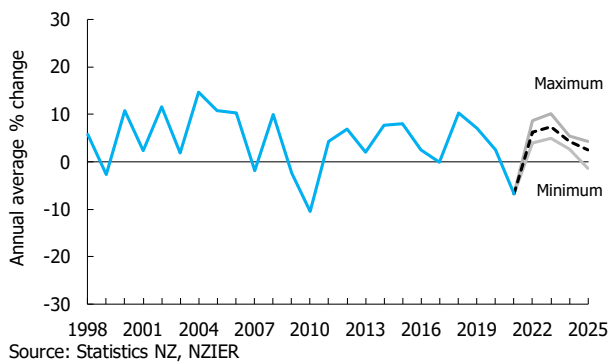
Real Public Consumption



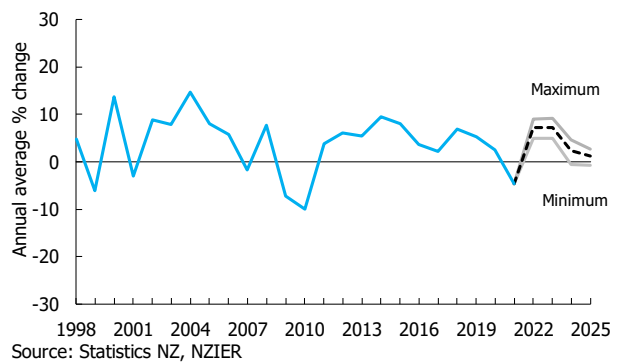
Real Residential Investment



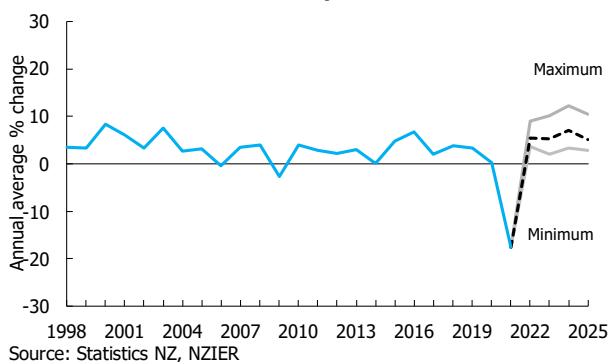
Real Other Investment



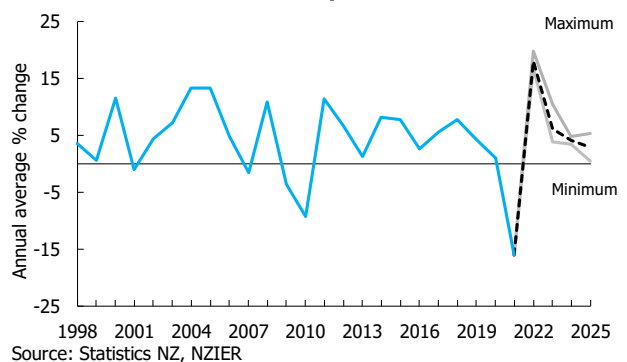
Real Total Investment



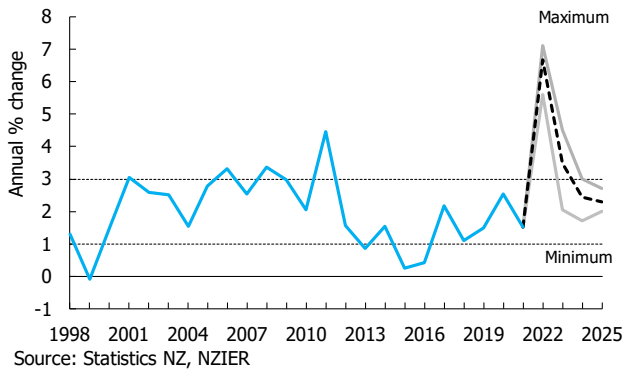
Real Exports



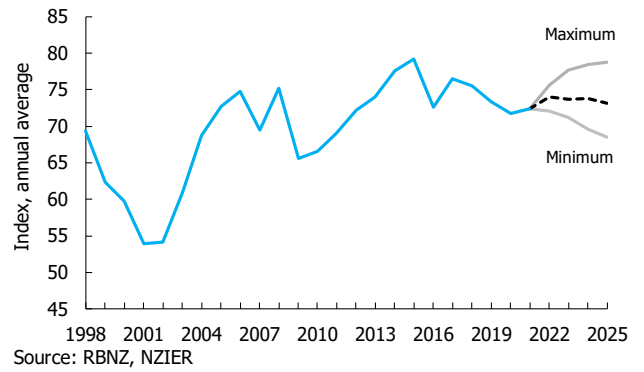
Real Imports



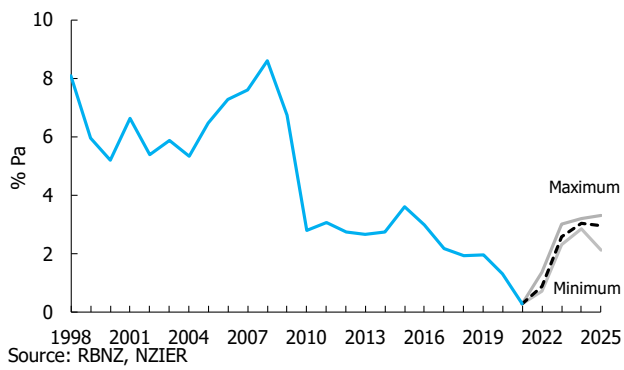
Annual Consumer Price Inflation



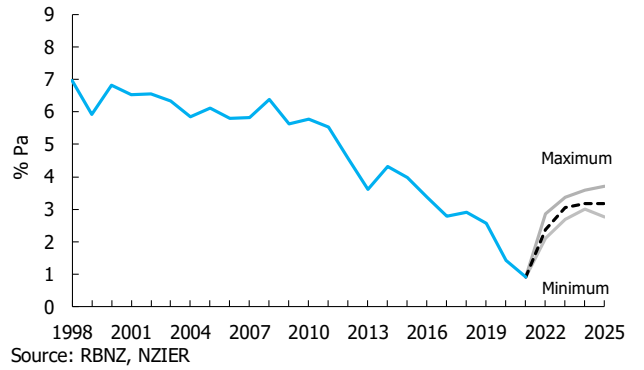
NZD TWI



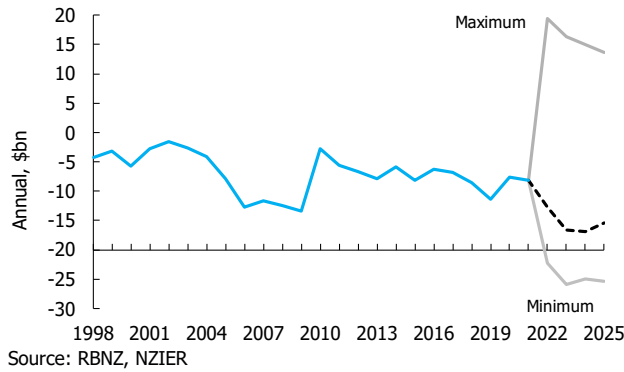
90 Day Bank Bills



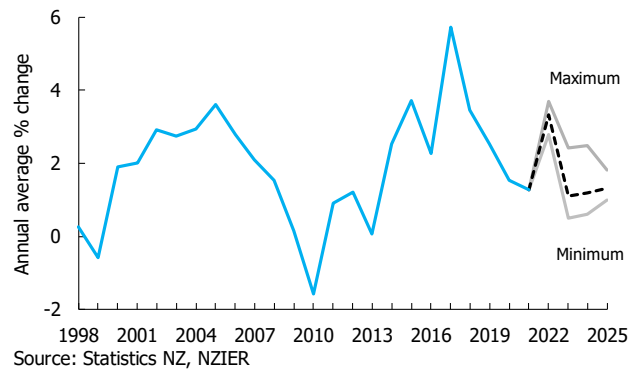
10 Year Government Bond Yield



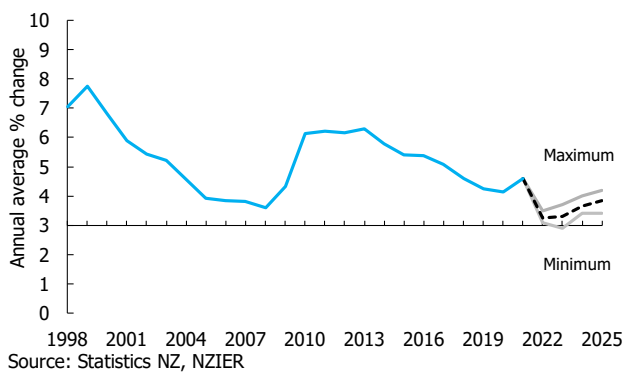
Current Account Balance



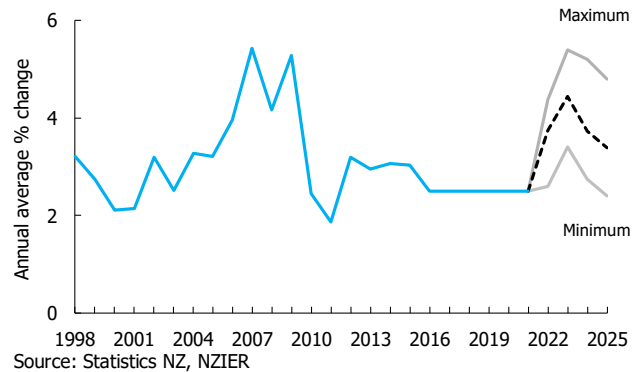
Employment Growth

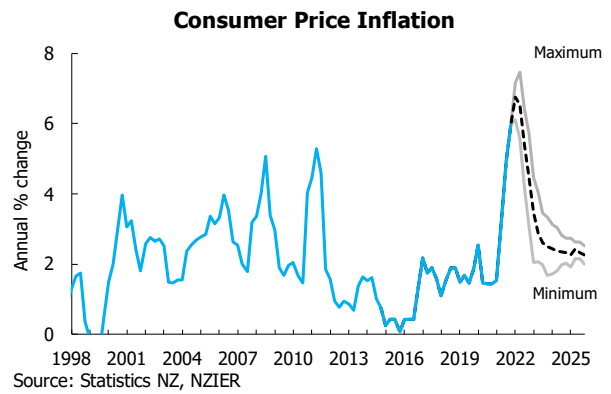
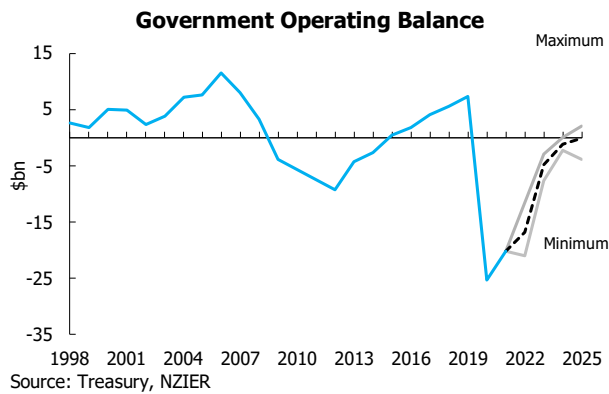


Unemployment Rate



Private Sector Wage Inflation





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. 2021 refers to the year ended March 2021.

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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