

NZ Institute of Economic Research (Inc)
Media release 13 March 2023

Consensus Forecasts

NZIER *Consensus Forecasts* show much weaker growth in 2024

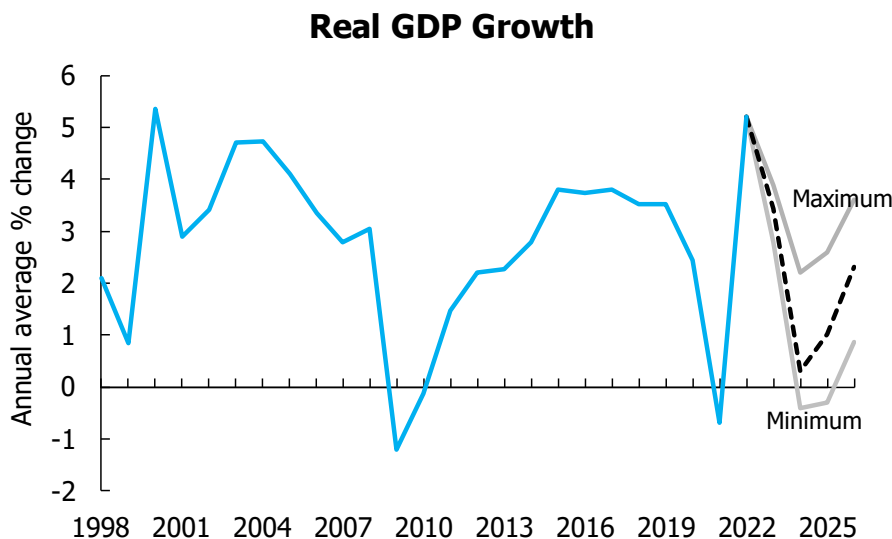
The latest NZIER *Consensus Forecasts* show an upward revision to the near-term growth outlook for the New Zealand economy but a downward revision for the subsequent two years. Annual average GDP growth is forecast to slow to 0.3 percent for the year to March 2024 before picking up to 1 percent in the following year. Demand has remained resilient in the economy over the past year despite the large increases in the Official Cash rate (OCR). The full dampening impact of OCR increases on demand is expected to reach the broader New Zealand economy as many fixed-term mortgages get repriced onto much higher rates within the coming year. Demand from the post-storm rebuild will likely offset some of this.

Household consumption has been revised down for the years through to 2025. The increased household saving ratio and declined sales of durable goods over the past year point to a reduced appetite for household spending. Further slowing in household consumption is expected as many households face significantly higher mortgage repayments over the coming year. The medium-term outlook for residential investment has improved. Although the weaker housing market and higher interest rates are weighing on residential construction demand over the coming years, the post-storm rebuild will likely offset some of this easing.

Overall, the medium-term outlook for New Zealand’s export growth remains solid. However, the forecast for export growth for the coming year has been revised lower. This reflects expectations of reduced agriculture production and export volumes due to the recent weather events.

The inflation outlook has been revised up for the years through to 2025. Annual CPI inflation is forecast to reach 7 percent for the year to March 2023 and ease to 3.9 percent for the following year before easing further to 2.5 percent in 2025. The loss of productive capacity due to the recent weather events and demand from the rebuild will likely contribute to inflation pressures over the coming years, especially for construction cost inflation.

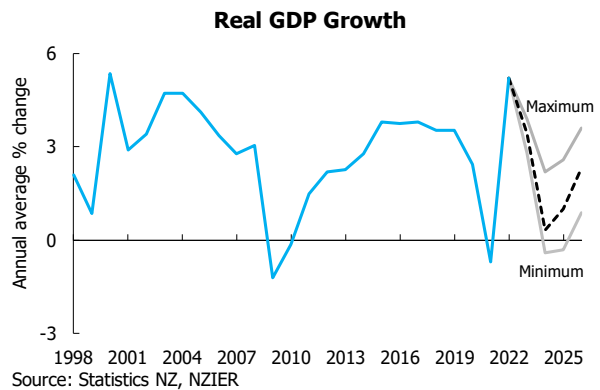
Figure 1 Lower expectations of growth for the two years ahead



Weaker growth between 2024 and 2025

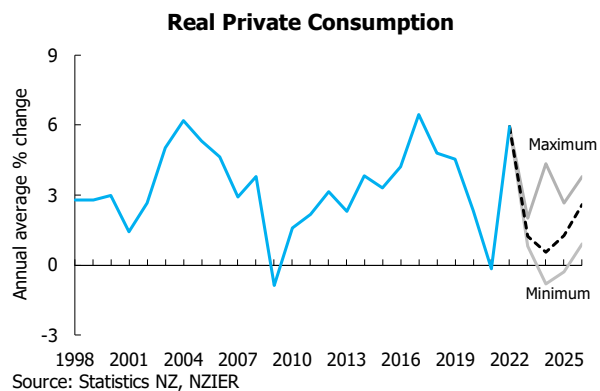
Consensus Forecasts for GDP have been revised higher for the near term. However, the growth forecast for the subsequent two years has been revised down. GDP growth is forecast to slow to 0.3 percent in the coming year to March 2024.

The stronger starting point of forecast GDP growth reflects still-solid demand in the economy. However, demand will soften as mortgages face repricing onto much higher rates, with some offset from the post-storm rebuild.



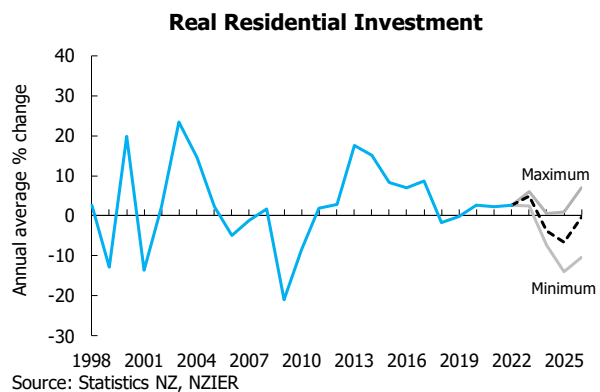
Weaker growth in household spending through to 2025

The forecast of household spending through to 2025 has been revised lower. Over the past year, household saving has increased relative to spending and sales of durable goods have declined. The outlook reflects expectations of further slowing in household spending over the coming years as many households roll off historically low fixed-term mortgage rates onto much higher rates.



Residential investment outlook improved

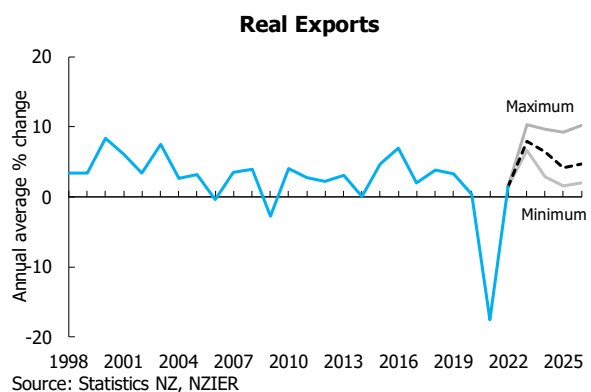
The overall business investment outlook for 2024 has been revised lower. However, forecasts show an improved outlook for residential investment through to 2026. Dwelling consent issuance points to a solid construction work pipeline for the near term. Although the weaker housing market and higher interest rates are still driving expectations for an easing in residential construction over the coming years, there will likely be some offset from the post-storm rebuild.



Export growth revised lower for 2024

Near-term export growth has been revised higher as global demand for New Zealand exports improved in recent months. However, export growth for the year to March 2024 has been revised lower, reflecting expectations for reduced agriculture production and export volumes due to the recent extreme weather events. Overall, the export outlook remains solid.

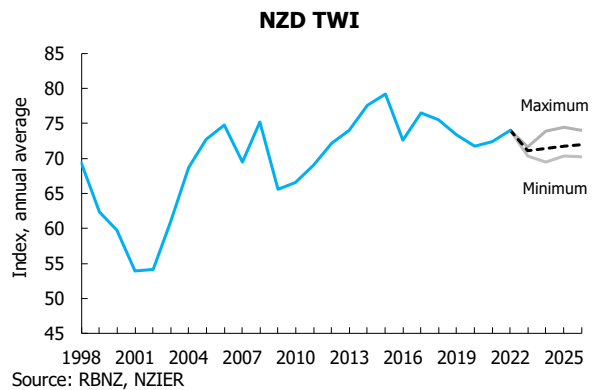
Forecasts for import growth have been revised lower, reflecting weaker domestic spending.



Upward revision in NZD through to 2026

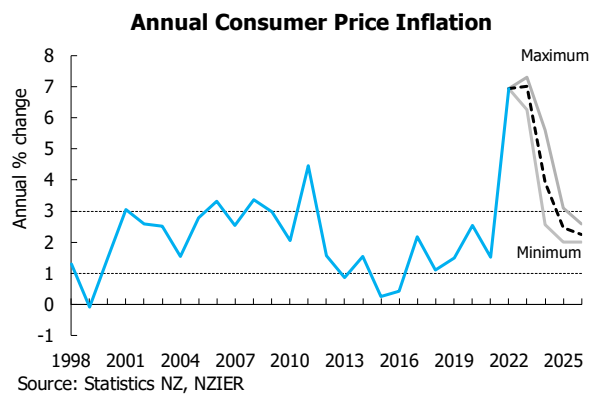
The NZD TWI has been revised higher through to 2026. Interest rate expectations in New Zealand have increased as the Reserve Bank kept its hawkish stance in the February *Monetary Policy Statement*, while other central banks are raising their interest rates less rapidly. This increases the yield attractiveness of NZD-denominated assets, which has increased demand for the NZD.

The NZD is expected to track around 71–72 on the TWI over the coming years through to 2026.



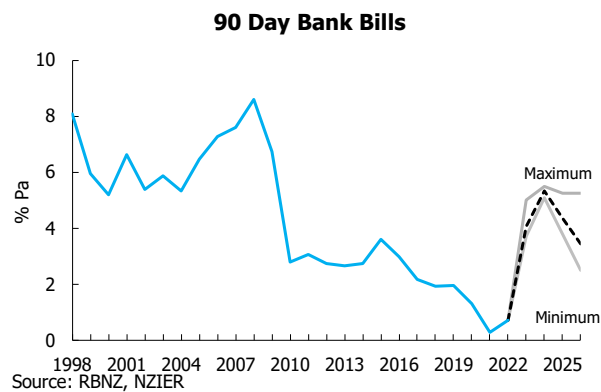
Inflation revised higher through to 2025

The inflation outlook has been revised up for the years through to 2025. Annual CPI inflation is forecast to reach 7 percent for the year March 2023 and ease to 3.9 in the following year before easing further to 2.5 percent in 2025. The loss of productive capacity due to the recent weather events and demand from the rebuild are expected to contribute to inflation pressures over the coming years.



Higher interest rate outlook for 2023 and 2024

Forecasts for interest rates have been revised higher for the years to March 2024. This reflects increased interest rate expectations, given the Reserve Bank indicated that it will increase the OCR to 5.5 percent by late 2023 to rein in inflation. The downward revisions for the years beyond 2024 reflect increased expectations for the OCR increases to achieve the full dampening effect on demand in the New Zealand economy from 2024.



Wage growth outlook softened

While near-term wage growth has been revised higher, forecasts for the coming years have been revised down. This largely corresponds to the downward revision of employment growth and upward revision in the unemployment rate for 2024 and 2025.

As many countries have relaxed COVID-19 restrictions, firms can now hire more workers from overseas. This will alleviate labour market tightness and wage inflation.

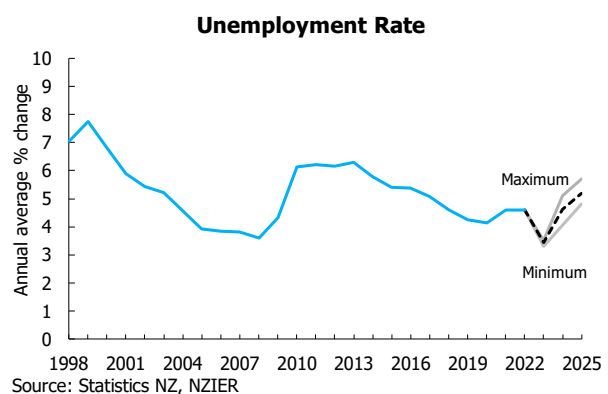


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Mar-2023 survey				Dec-2022 survey			
	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26
GDP	3.4 ↑	0.3 ↓	1.0 ↓	2.3 ↑	3.1	1.1	1.1	1.6
Private consumption	1.2 ↓	0.5 ↓	1.3 ↓	2.6 ↑	1.9	0.7	1.4	1.9
Public consumption	2.6 ↓	-1.7 ↓	-1.1 ↓	0.7 ↓	5.7	1.1	0.4	1.0
Fixed investment:								
Residential	5.0 ↑	-3.7 ↑	-6.5 ↑	-0.3 ↑	3.3	-4.7	-8.9	-6.8
Other	3.7 →	0.1 ↓	0.8 ↓	3.5 ↑	3.7	0.8	0.9	2.8
Total	4.0 ↑	-1.0 ↓	-0.9 ↑	2.7 ↑	3.5	-0.6	-1.4	0.8
Exports, goods & services	8.0 ↑	6.4 ↓	4.2 ↑	4.7 ↑	7.0	7.3	4.0	2.5
Imports, goods & services	1.6 ↓	1.5 ↓	1.5 ↓	3.3 ↑	4.7	2.7	1.6	2.0
Consumer price index (apc)	7.0 ↑	3.9 ↑	2.5 ↑	2.2 →	6.3	3.4	2.4	2.2
New Zealand TWI (avg yr to Mar)	71.1 ↑	71.4 ↑	71.8 ↑	71.9 ↑	70.9	70.7	70.6	71.3
90 day bank bill (avg yr to Mar)	4.1 ↑	5.3 ↑	4.4 ↓	3.4 ↓	3.7	5.0	4.7	4.3
10 year govt bond (avg yr to Mar)	4.2 ↑	4.4 ↑	4.2 ↓	4.1 ↑	3.8	4.3	4.3	4.0
Current account balance (NZ\$b; Mar yr)	-28.7 ↑	-26.6 ↑	-23.2 ↑	-21.8 ↓	-29.3	-28.0	-24.4	-19.9
Employment	1.5 ↓	-0.4 ↓	0.8 ↓	1.6 ↑	1.9	0.2	0.9	1.1
Unemployment (% of labour force)	3.4 ↓	4.6 ↑	5.2 ↑	5.1 →	3.5	4.4	5.0	5.1
Wages (private sector avg hourly earnings)	7.9 ↑	6.5 ↓	5.0 ↓	3.8 ↓	7.4	6.6	5.5	4.1
Government operating balance (NZ\$b, September yr)	-5.0 ↑	-4.5 ↑	0.8 ↑	5.1 ↑	-7.9	-7.2	-4.9	-3.3

Source: NZIER

Table 2 Breakdown of the forecasts

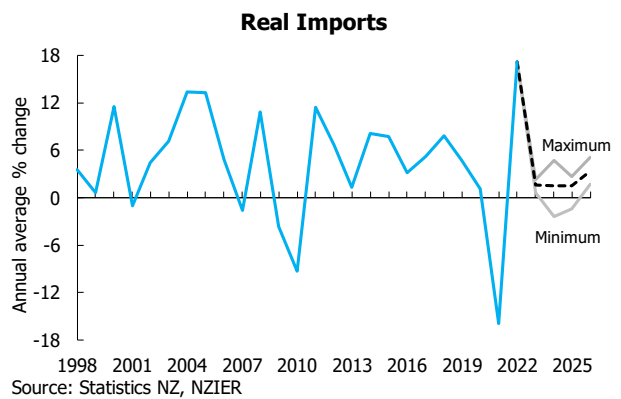
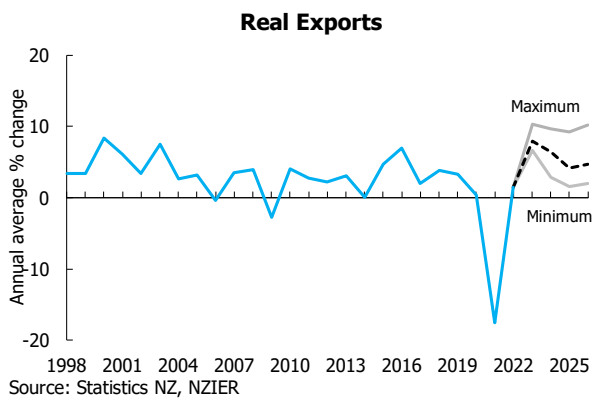
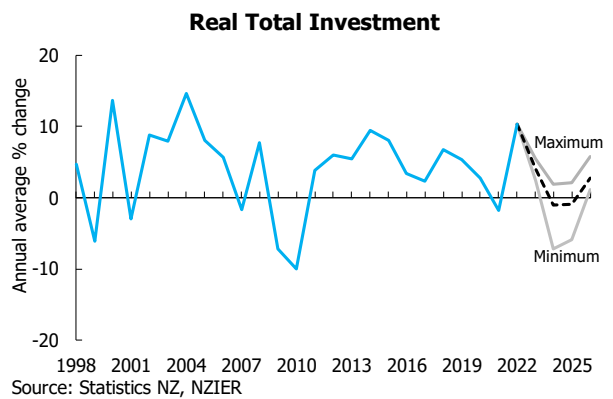
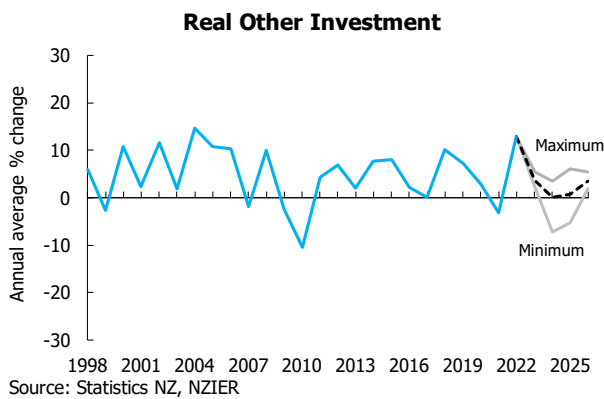
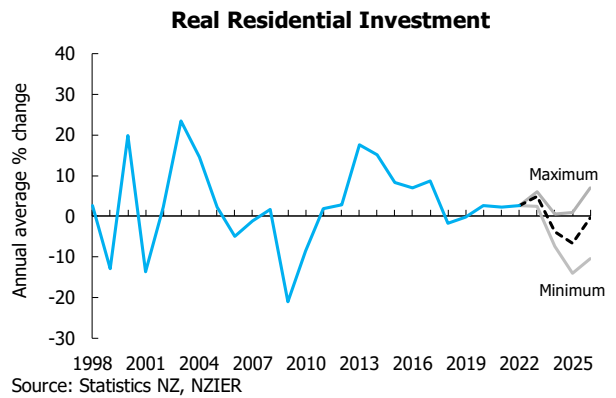
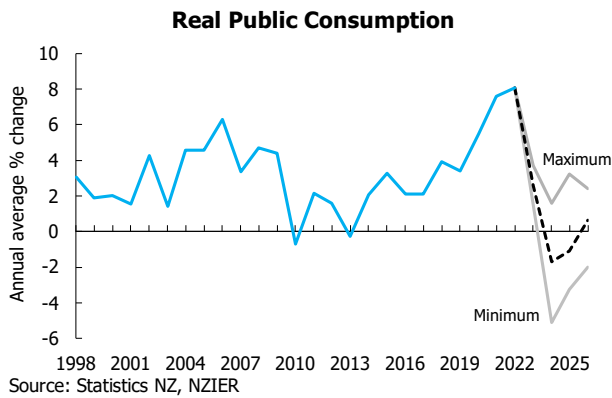
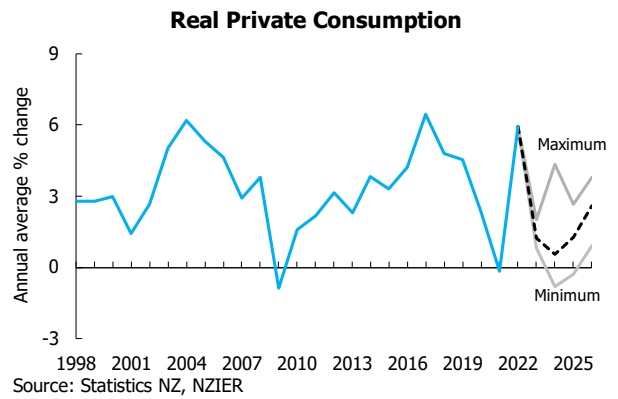
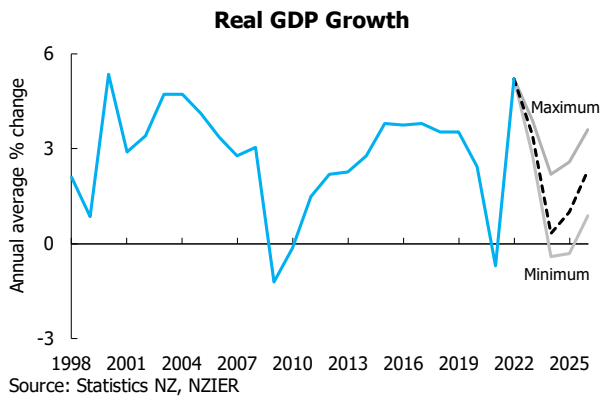
qpc, quarters	Dec-22 f			Mar-23 f			Jun-23 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.1	0.4	0.7	-0.4	0.0	0.2	-0.5	-0.1	0.5			
	Mar-23 f			Jun-23 f			Sep-23 f					
CPI (qpc)	0.9	1.5	1.9	0.5	1.1	1.7	0.8	1.5	2.0			
aapc, March years	2021/2022 f			2022/2023 f			2023/2024 f			2024/2025 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	2.8	3.4	3.9	-0.4	0.3	2.2	-0.3	1.0	2.6	0.9	2.3	3.6
Private consumption	0.8	1.2	2.0	-0.8	0.5	4.3	-0.3	1.3	2.7	0.9	2.6	3.8
Public consumption	1.5	2.6	3.7	-5.1	-1.7	1.6	-3.3	-1.1	3.2	-2.0	0.7	2.4
Fixed investment												
- Residential	2.5	5.0	6.1	-7.3	-3.7	0.5	-14.0	-6.5	0.9	-10.3	-0.3	7.0
- Other	2.4	3.7	5.4	-7.2	0.1	3.5	-5.2	0.8	6.1	1.9	3.5	5.4
- Total	2.4	4.0	5.5	-7.2	-1.0	1.9	-5.9	-0.9	2.1	1.1	2.7	5.8
Exports, goods and services	6.7	8.0	10.3	2.9	6.4	9.7	1.6	4.2	9.2	2.0	4.7	10.2
Imports, goods and services	0.6	1.6	2.3	-2.4	1.5	4.7	-1.4	1.5	2.7	1.7	3.3	5.1
Consumer price index (apc)	6.2	7.0	7.3	2.6	3.9	5.6	2.0	2.5	3.1	2.0	2.2	2.6
New Zealand TWI (avg yr to Mar)	70.3	71.1	71.6	69.5	71.4	73.9	70.3	71.8	74.5	70.2	71.9	74.0
90 day bank bill (avg yr to Mar)	3.7	4.1	5.0	5.1	5.3	5.5	3.8	4.4	5.3	2.5	3.4	5.3
10 year government stock (avg yr to Mar)	4.0	4.2	4.3	3.8	4.4	4.9	3.6	4.2	5.2	3.3	4.1	5.2
Current account balance (NZ\$b; Mar yr)	-31.3	-28.7	-25.9	-33.4	-26.6	-20.7	-26.6	-23.2	-18.5	-25.9	-21.8	-18.9
Employment	1.1	1.5	1.9	-1.5	-0.4	1.2	0.1	0.8	1.7	1.0	1.6	2.1
Unemployment rate (% of labour force)	3.3	3.4	3.5	4.0	4.6	5.1	4.8	5.2	5.7	4.0	5.1	5.7
Wages (private sector avg hourly earnings)	7.7	7.9	8.0	5.5	6.5	8.0	4.3	5.0	6.8	2.8	3.8	5.7
Government operating balance (NZ\$m, December yr)	-6.7	-5.0	-3.6	-11.6	-4.5	-0.5	-0.7	0.8	1.7	4.4	5.1	6.2

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

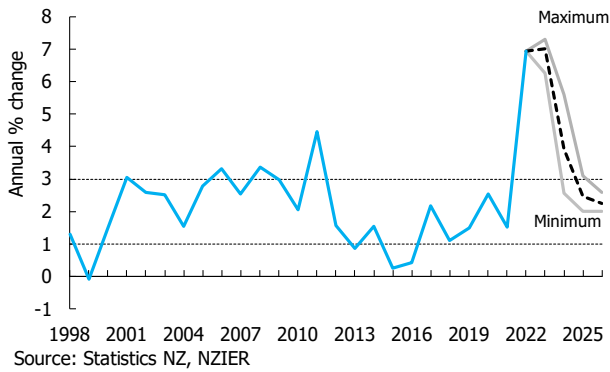
These results show only means; standard deviations are available on request

Source: NZIER

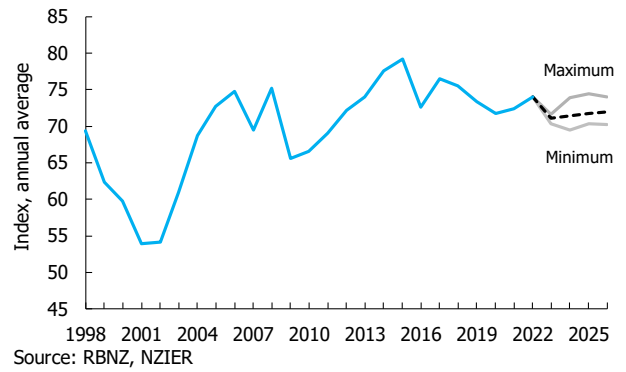
Summary charts



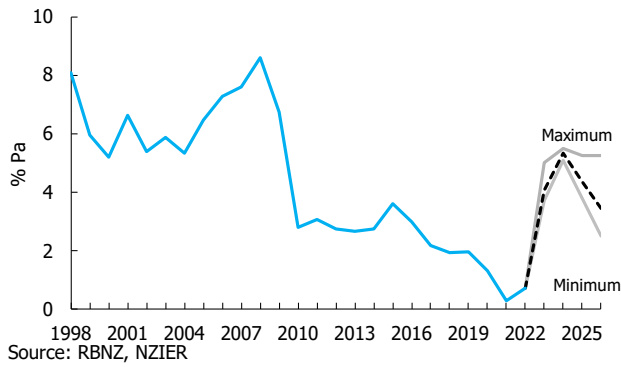
Annual Consumer Price Inflation



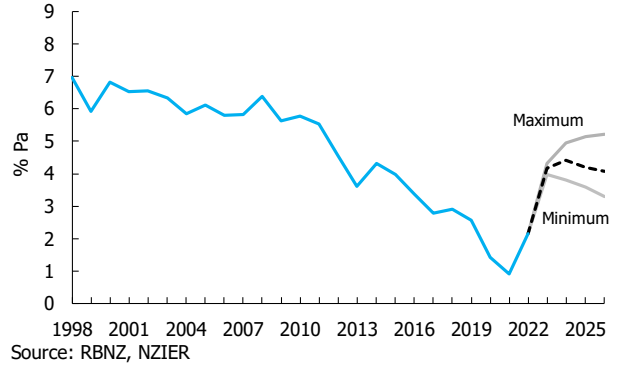
NZD TWI



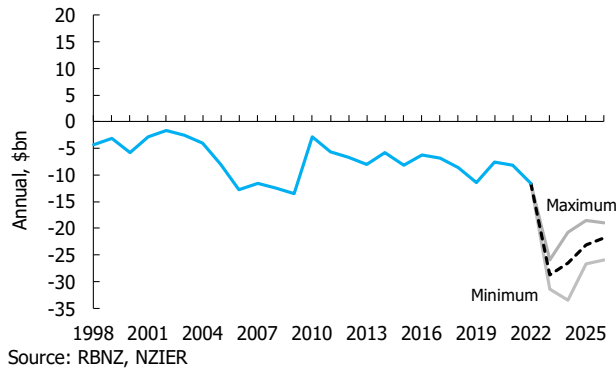
90 Day Bank Bills



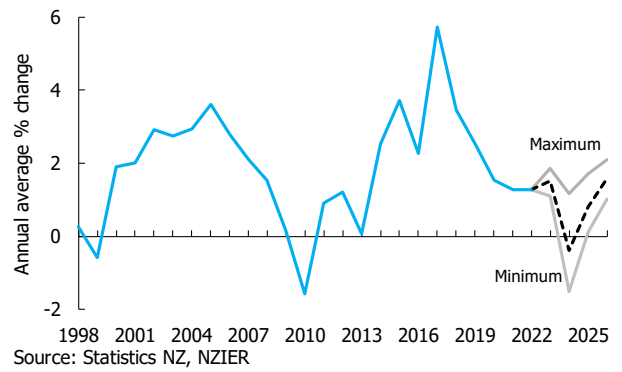
10 Year Government Bond Yield



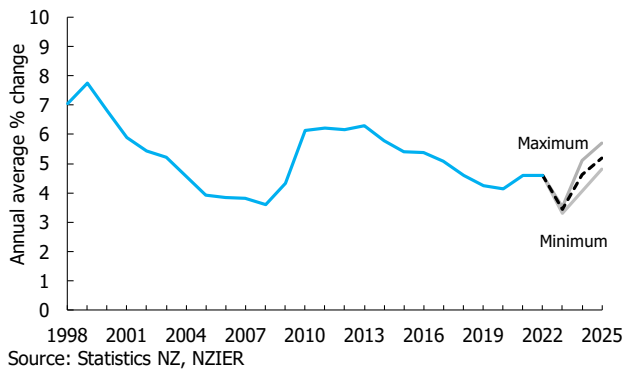
Current Account Balance



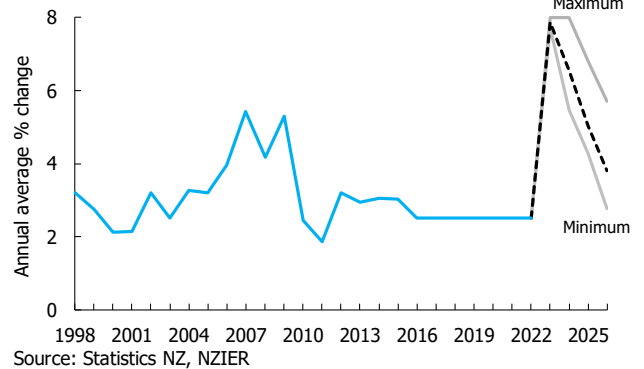
Employment Growth

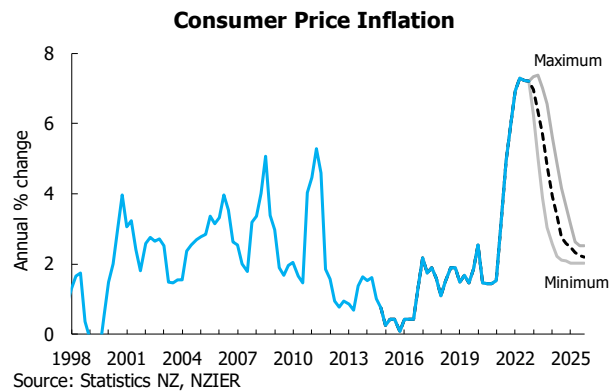
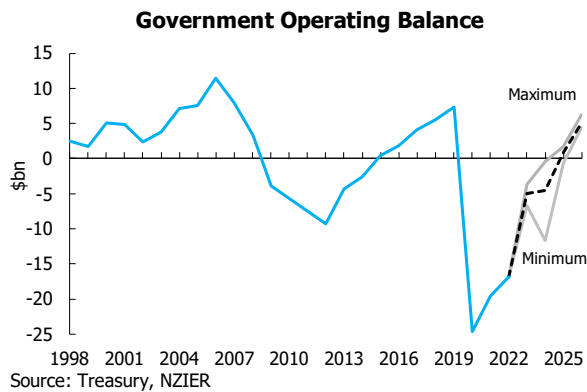


Unemployment Rate



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

For further information, please contact:

Ting Huang
Senior Economist
027 266 0969
ting.huang@nzier.org.nz