

NZ Institute of Economic Research (Inc)
Media release 12 September 2022

Consensus Forecasts

NZIER *Consensus Forecasts* show a weaker economic outlook as high inflation and interest rates continue

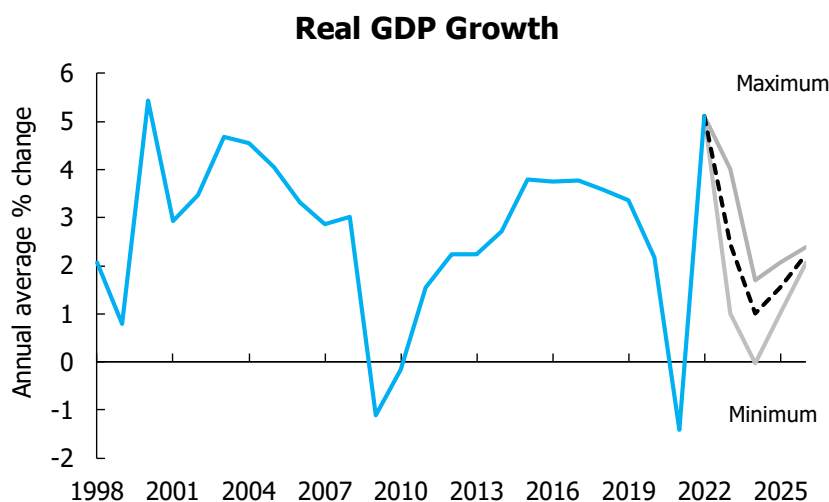
The latest NZIER *Consensus Forecasts* show a downward revision to the near-term outlook for the New Zealand economy and the subsequent years to 2025. These revisions reflect expectations of weaker activities across most sectors in 2023 and higher inflation and interest rates. Added to this are the continued global supply chain disruptions due to ongoing uncertainty about the COVID-19 pandemic, the Ukraine-Russia conflict and signs of slowing global growth.

Despite a stronger starting point for household spending, the downward revision through to 2025 reflects the expectation that the dampening effect of higher interest rates on spending will become more apparent as households roll into much higher fixed mortgage rates. The residential investment forecast has also been revised down, reflecting weaker housing market activity and dampened demand due to higher interest rates. Businesses are more pessimistic. In the face of rising cost pressures, higher interest rates and heightened uncertainty, their appetite to invest will reduce further over the coming years.

Recent short-term softening in global demand has resulted in a downward revision of the export growth forecast for the near term. While there are concerns about a weaker global outlook weighing on global demand, constraints in the worldwide supply of food commodities still underpin strong demand for New Zealand exports over the coming years.

Annual CPI inflation in the year to June 2022 hiked to 7.3 percent – a new record high since June 1990. This result reflects the strong growth in import prices and the persisting capacity pressures due to supply chain disruptions and labour shortages. In the latest NZIER *Consensus Forecasts*, while stronger wage growth is expected across the projection horizon, annual CPI inflation for the coming year has been revised higher before easing in 2024. Nonetheless, inflation is likely to stay above the Reserve Bank’s inflation target band mid-point of 2 percent over the medium term through to 2026.

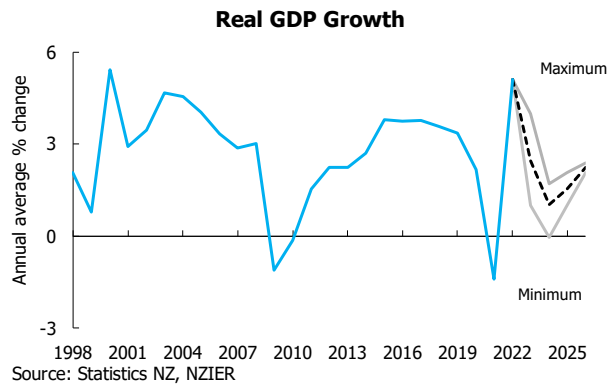
Figure 1 Lower expectations of economic growth over the medium term



Near-term growth outlook revised lower

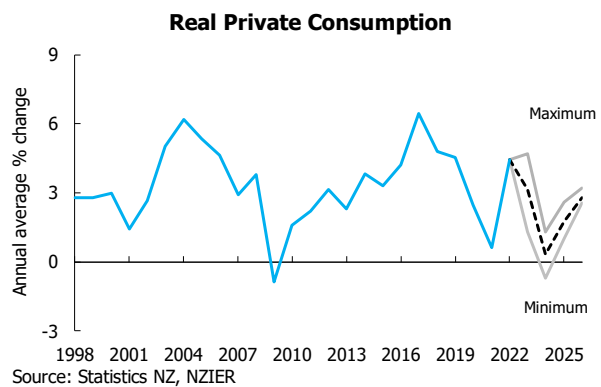
Consensus Forecasts for GDP have been revised lower through to 2025. This reflects the headwinds from higher inflation and interest rates slowing down economic activity.

Annual GDP growth is expected to ease to below 3 percent for the years ending March 2024 and March 2025 before increasing to just above 2 percent in the subsequent year.



Weaker household spending between 2024 and 2025

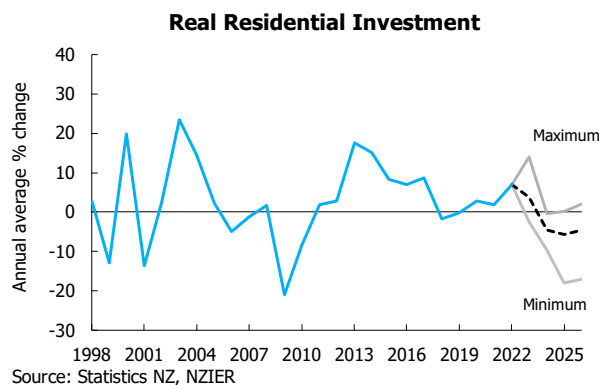
Despite a stronger starting point, the outlook for household spending has been revised down for the subsequent two years. Although the tight labour market drives wage growth, higher living costs and mortgage rates weigh on consumer confidence. The dampening effect on spending will become more apparent as more households face markedly higher mortgage repayments which crowd out discretionary spending.



Weaker investment outlook

Investment forecasts have been revised lower for the coming years. This is particularly for residential investment, albeit dwelling consent issuance points to a solid pipeline of residential construction over the near term. With weaker housing market activity and higher interest rates, demand is expected to dampen in the subsequent years.

The rising cost pressures and ongoing uncertainty continue to weigh on businesses' appetite for investment over the coming years.



Export outlook remains robust

Export growth for the year to March 2023 has been revised down due to the recent short-term softening in global demand. Although there are concerns about a weaker global growth outlook weighing on export demand, constraints in the global supply of food commodities (e.g. dairy) underpin strong demand for New Zealand exports over the coming years.

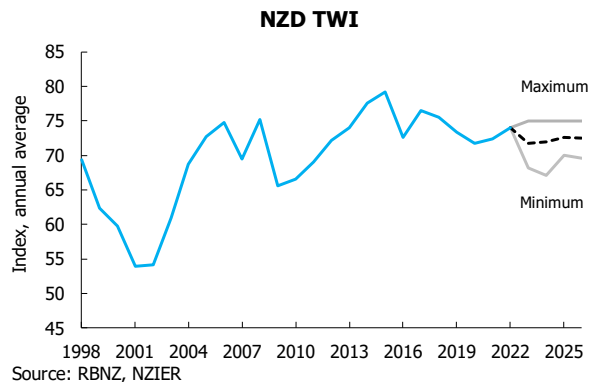
Meanwhile, forecasts for import growth have been revised down for the medium term, reflecting weaker domestic spending.



NZD revised lower through to 2025

The NZD TWI has revised lower through to 2025. Although interest rate expectations in New Zealand have increased as the Reserve Bank indicated further monetary tightening, most major central banks around the world have also increased their interest rates. This reduces the yield attractiveness of NZD-denominated assets and put downward pressure on the New Zealand dollar.

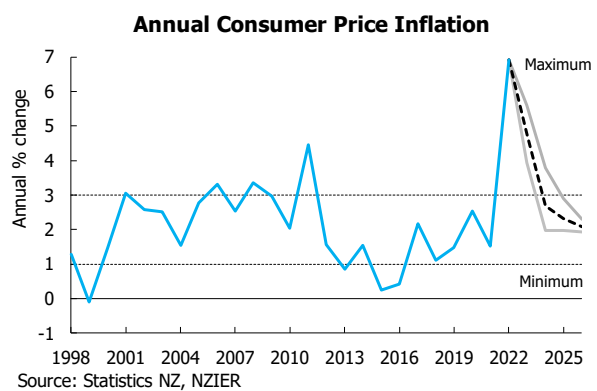
The NZD is expected to track around 72 on the TWI over the coming years.



Inflation revised up through to 2024

The inflation outlook for the near term and the subsequent year has been revised up. Annual CPI inflation is expected to be just above the Reserve Bank's inflation target mid-point of 2 percent across the horizon. The high inflation reflects the supply constraints of imported goods and domestic capacity pressures.

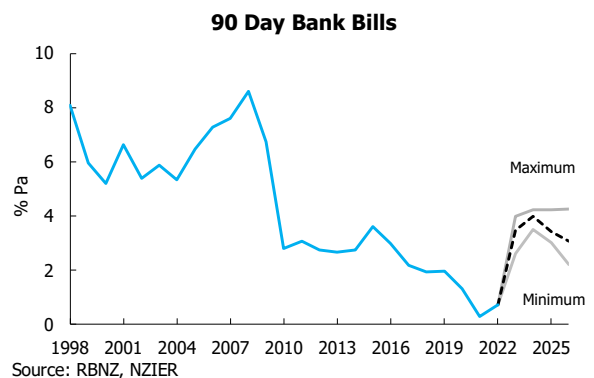
Annual CPI inflation hiked to 7.3 percent in the year to June 2022. It is expected to moderate to 4.8 percent in 2023 and ease to 2.1 percent in 2026.



Higher short-term interest rates

The outlook for interest rates has again been revised up as major central banks around the world are committing to monetary policy tightening to bring down inflation.

The upward revision to short-term interest rates reflects the Reserve Bank's August *Monetary Policy Statement*, which indicated further monetary tightening, and it would look to increase the Official Cash Rate to 4.1 percent by mid-2023.



Stronger wage growth outlook

Outlook for wage growth has revised up again throughout the projection period, with a downward revision in employment and upward revision in unemployment.

Although the tight labour market has been driving up wages in the past year, the reopening of New Zealand borders may weigh on wage growth as more firms can bring in workers from overseas. Meanwhile, the stronger wage growth is also underpinned by the high inflation environment.

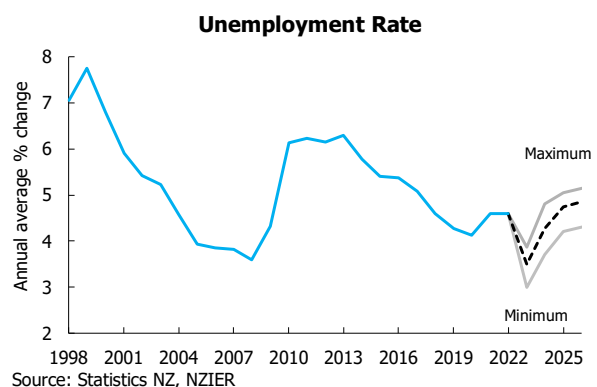


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Sep-2022 survey				Jun-2022 survey		
	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25
GDP	2.5 ↓	1.0 ↓	1.5 ↓	2.2	2.9	1.9	2.1
Private consumption	3.2 ↑	0.3 ↓	1.7 ↓	2.8	2.2	1.3	2.2
Public consumption	5.1 ↑	-1.3 ↓	-0.6 ↓	1.2	3.4	-0.5	0.3
Fixed investment:					0.0	0.0	0.0
Residential	3.9 ↓	-4.6 ↓	-5.6 ↓	-4.5	6.8	-2.6	-4.4
Other	7.5 ↑	1.0 ↓	1.2 ↓	2.8	7.1	2.3	2.2
Total	6.6 ↓	-0.4 ↓	-0.4 ↓	1.3	7.0	1.1	0.6
Exports, goods & services	2.6 ↓	9.1 ↑	4.7 ↓	3.1	4.6	8.9	5.1
Imports, goods & services	5.8 ↓	3.0 ↓	1.7 ↓	2.8	6.9	3.3	2.3
Consumer price index (apc)	4.8 ↑	2.7 ↑	2.3 ↓	2.1	4.1	2.6	2.4
New Zealand TWI (avg yr to Mar)	71.8 ↓	72.0 ↓	72.6 ↓	72.5	73.3	73.6	72.9
90 day bank bill (avg yr to Mar)	3.5 ↑	4.0 ↑	3.4 ↑	3.1	3.2	3.6	3.2
10 year govt bond (avg yr to Mar)	3.7 ↑	3.7 ↑	3.6 ↑	3.6	3.6	3.5	3.4
Current account balance (NZ\$b; Mar yr)	-27.7 ↓	-22.6 ↓	-20.5 ↑	-17.0	-23.5	-20.9	-20.8
Employment	0.5 ↓	0.2 ↓	1.0 ↓	1.3	1.2	1.0	1.2
Unemployment (% of labour force)	3.5 ↑	4.3 ↑	4.7 ↑	4.8	3.2	3.6	4.0
Wages (private sector avg hourly earnings)	6.4 ↑	5.4 ↑	4.2 ↑	3.3	5.5	4.7	3.6
Government operating balance (NZ\$b, September yr)	-9.7 ↓	-7.2 ↓	-2.4 ↓	1.6	-6.4	-3.0	2.5

Note: aapc = annual average percent change, apc = annual percent change, arrows refer to direction of change from last survey

Source: NZIER

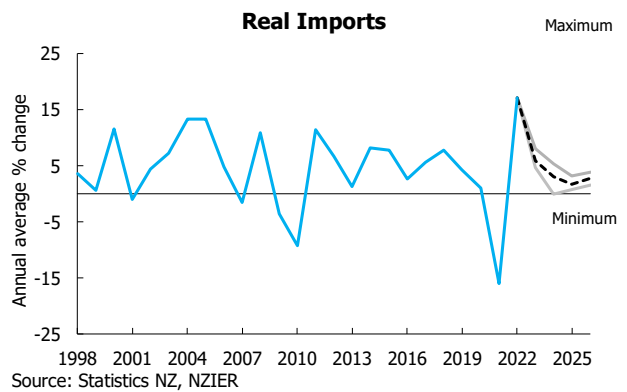
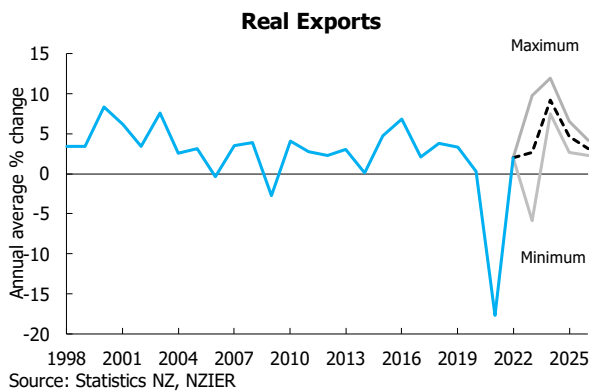
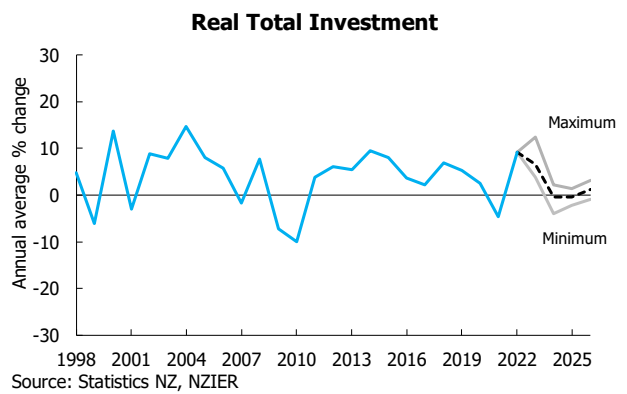
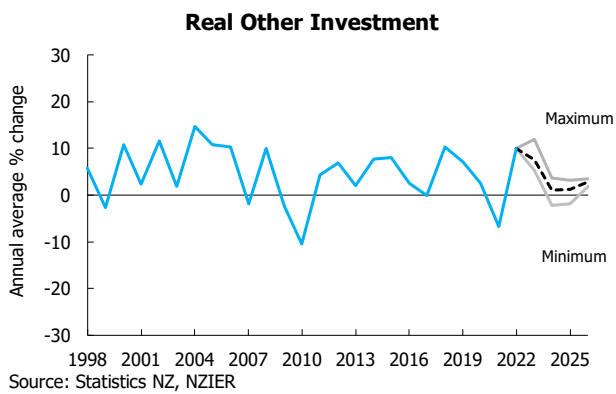
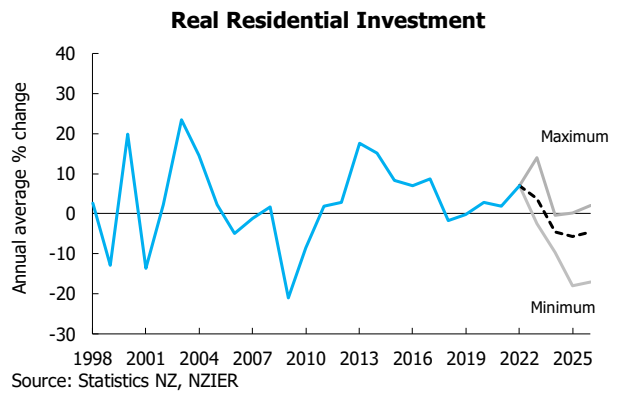
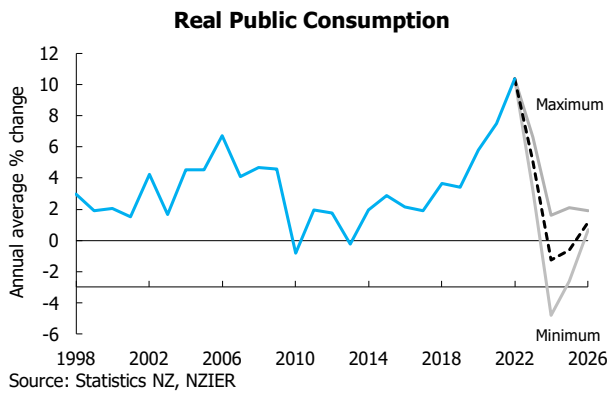
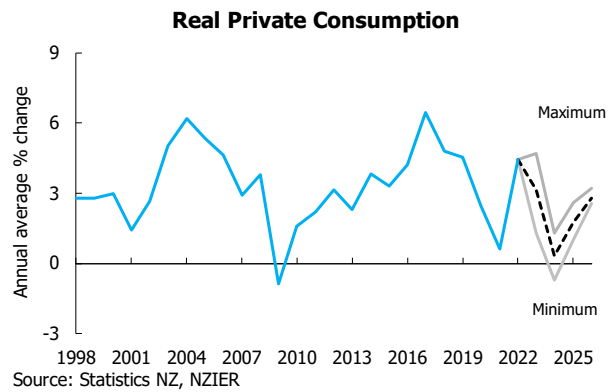
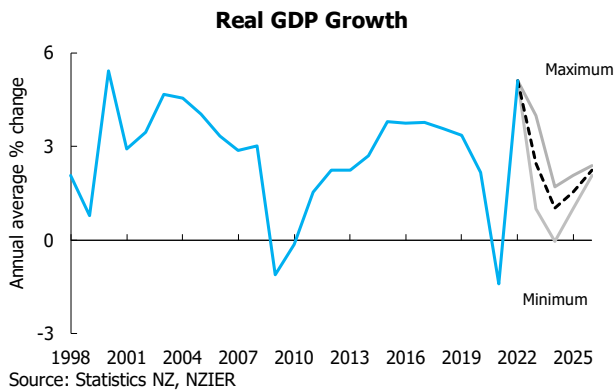
Table 2 Breakdown of the forecasts

qpc, quarters	Jun-22 f			Sep-22 f			Dec-22 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.4	1.2	1.9	0.3	0.7	1.4	0.0	0.4	0.8			
	Sep-22 f			Dec-22 f			Mar-23 f					
CPI (qpc)	1.2	1.5	2.0	0.2	0.7	1.4	0.6	0.9	1.2			
aapc, March years	2022/2023 f			2023/2024 f			2024/2025 f			2025/2026 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	1.0	2.5	4.0	0.0	1.0	1.7	1.0	1.5	2.1	2.1	2.2	2.4
Private consumption	1.3	3.2	4.7	-0.7	0.3	1.3	1.0	1.7	2.6	2.6	2.8	3.2
Public consumption	3.2	5.1	6.6	-4.8	-1.3	1.6	-2.6	-0.6	2.1	0.7	1.2	1.9
Fixed investment												
- Residential	-2.5	3.9	13.9	-9.6	-4.6	-0.4	-17.9	-5.6	0.1	-16.9	-4.5	2.0
- Other	5.2	7.5	11.9	-2.1	1.0	3.6	-1.8	1.2	3.1	1.8	2.8	3.5
- Total	3.8	6.6	12.4	-3.9	-0.4	2.2	-2.2	-0.4	1.4	-0.9	1.3	3.1
Exports, goods and services	-5.9	2.6	9.7	7.5	9.1	11.9	2.7	4.7	6.5	2.3	3.1	4.2
Imports, goods and services	4.6	5.8	8.0	-0.1	3.0	5.4	0.7	1.7	3.2	1.5	2.8	3.8
Consumer price index (apc)	3.9	4.8	5.6	2.0	2.7	3.8	2.0	2.3	2.9	1.9	2.1	2.3
New Zealand TWI (avg yr to Mar)	68.2	71.8	75.0	67.1	72.0	75.0	70.0	72.6	75.0	69.6	72.5	75.0
90 day bank bill (avg yr to Mar)	2.6	3.5	4.0	3.5	4.0	4.2	3.0	3.4	4.2	2.2	3.1	4.2
10 year government stock (avg yr to Mar)	3.3	3.7	4.1	3.1	3.7	4.5	2.8	3.6	4.6	2.8	3.6	4.6
Current account balance (NZ\$b; Mar yr)	-31.9	-27.7	-23.7	-31.3	-22.6	-16.2	-30.0	-20.5	-11.4	-21.9	-17.0	-9.9
Employment	-0.1	0.5	1.9	-1.0	0.2	1.9	0.6	1.0	1.8	1.0	1.3	1.5
Unemployment rate (% of labour force)	3.0	3.5	3.9	3.7	4.3	4.8	4.2	4.7	5.0	4.3	4.8	5.1
Wages (private sector avg hourly earnings)	3.8	6.4	8.0	3.4	5.4	7.0	2.1	4.2	6.0	2.8	3.3	3.8
Government operating balance (NZ\$m, December yr)	-16.5	-9.7	-5.8	-14.6	-7.2	-2.6	-10.6	-2.4	2.6	-6.5	1.6	7.0

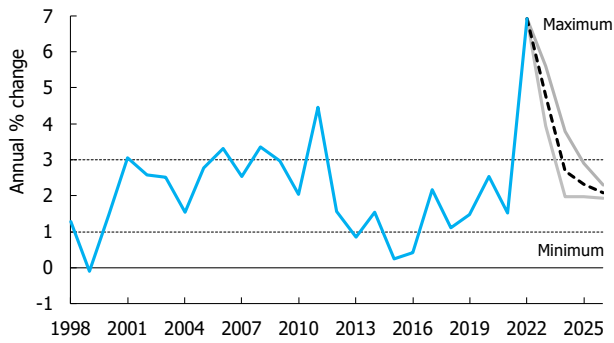
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

Summary charts

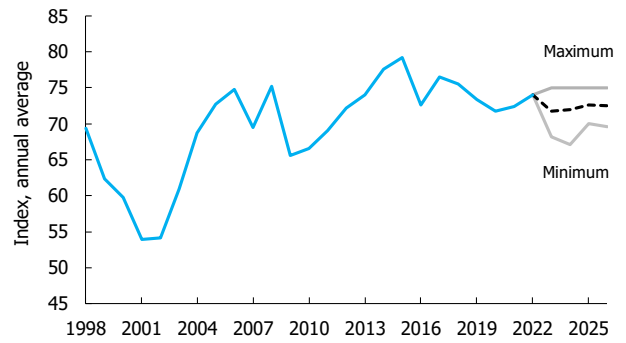


Annual Consumer Price Inflation



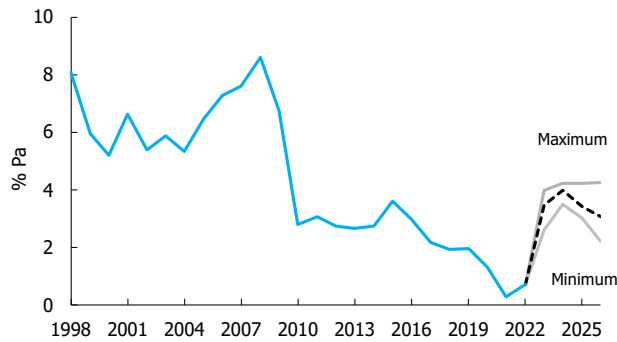
Source: Statistics NZ, NZIER

NZD TWI



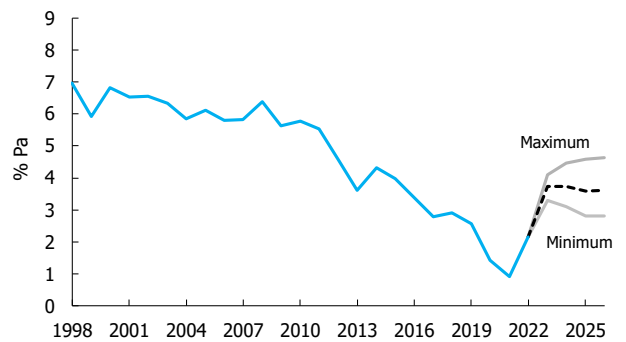
Source: RBNZ, NZIER

90 Day Bank Bills



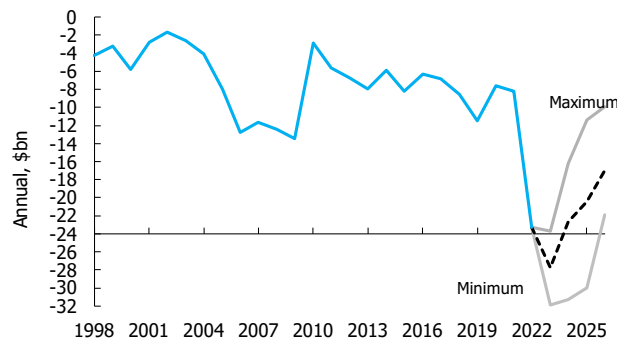
Source: RBNZ, NZIER

10 Year Government Bond Yield



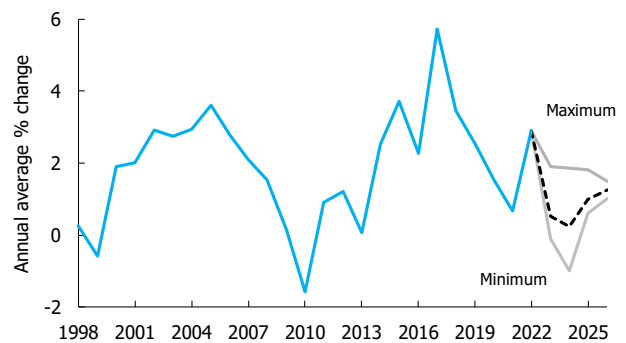
Source: RBNZ, NZIER

Current Account Balance



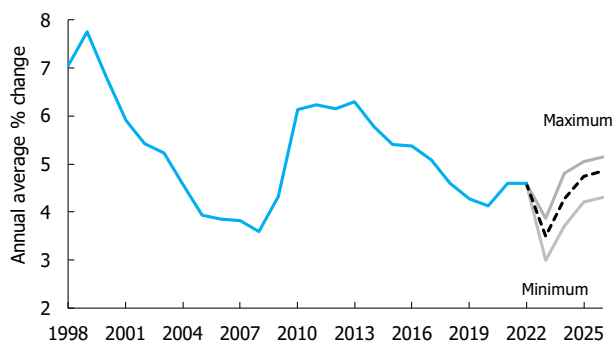
Source: RBNZ, NZIER

Employment Growth



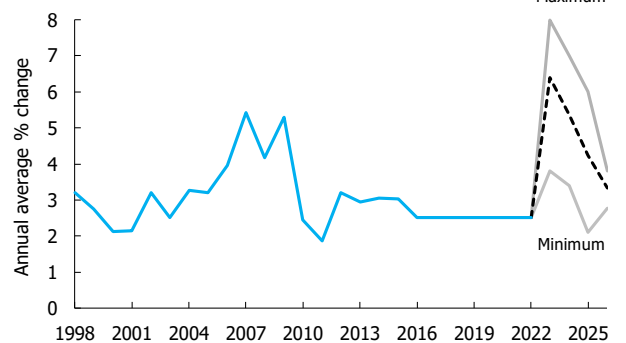
Source: Statistics NZ, NZIER

Unemployment Rate

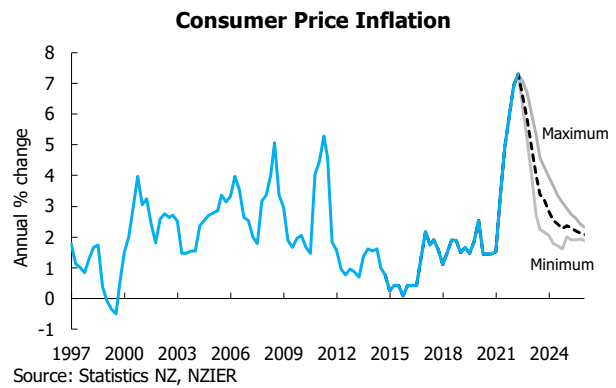
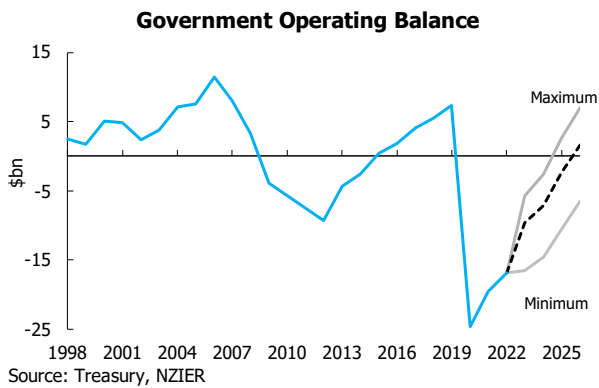


Source: Statistics NZ, NZIER

Private Sector Wage Inflation



Source: Statistics NZ, NZIER



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