

NZ Institute of Economic Research (Inc)
Media release 18 September 2023

Consensus Forecasts

NZIER *Consensus Forecasts* point to subdued growth for the two years ahead

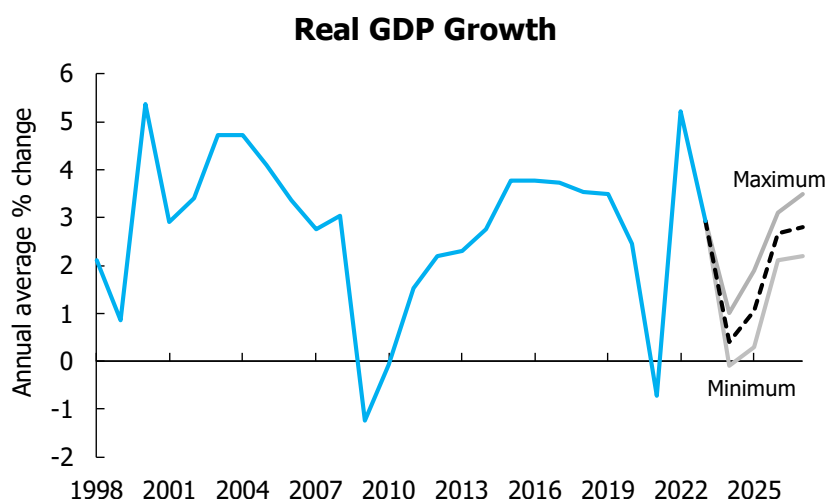
The latest NZIER *Consensus Forecasts* show subdued economic growth over the next two years. Annual average GDP growth is forecast to slow to 0.4 percent in the year to March 2024 before recovering to just 1.1 percent in 2025. Higher interest rates are starting to dampen demand as the impact of previous increases in the Reserve Bank's Official Cash rate (OCR) is transmitting through to the broader economy. This will continue to drive a slowing in activity over the coming years. Added to this is the downside risk from weaker demand for New Zealand exports, primarily due to the weaker growth outlook in China. Offsetting these are the upside risks from the strong recovery in net migration, which will likely support demand over the coming years.

Forecasts of household spending have been revised higher through to 2026. With over half of mortgages due for repricing over the coming year, a further slowing in household discretionary spending is expected. However, some of this will be offset by the additional demand for goods and services from increased net inflows of migrants. Similarly, offsetting the broad easing in residential construction demand beyond 2023 is the potential increase in housing demand from strong net migration, which has driven up the longer-term outlook for residential investment.

Export growth forecasts have been revised lower for years through to 2026. Over the recent months, the slowing Chinese economy is weighing on their demand for New Zealand exports, especially dairy and logs. This has pressed down New Zealand's export commodity prices and returns from exports. The uncertainty over how soon the Chinese economy recovers will influence New Zealand's export growth outlook over the coming years.

The inflation outlook for the year ending March 2024 has been revised higher. Annual CPI inflation is forecast to ease to 4.3 percent before decreasing to 2.4 percent in 2025. The persisting stickiness of domestic inflation pressures has increased inflation expectations for the coming year. There is also an upside risk from the strong net migration.

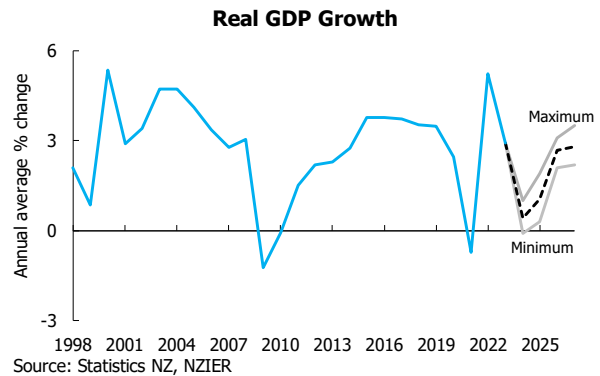
Figure 1 Subdued GDP growth expected for 2024 and 2025



Subdued GDP growth in 2024 and 2025

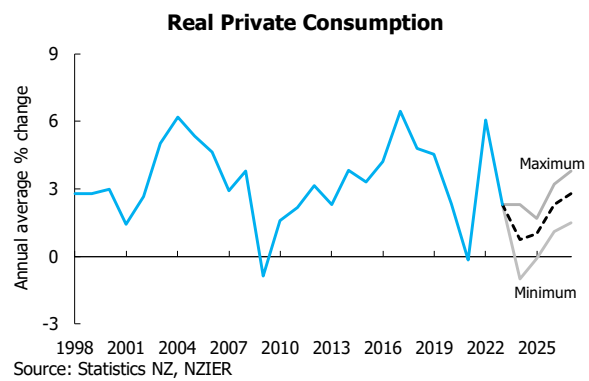
Consensus Forecasts for GDP growth have been revised lower for the years to March 2024 and March 2025 – 0.4 percent and 1.1 percent, respectively. These point to a period of subdued growth before rising to 2.7 percent in 2026.

The weaker starting point reflects the weaker demand environment in New Zealand and the downside risk from a softer export demand. However, the strong recovery in net migration should offset some of the slowing in activity over the coming years.



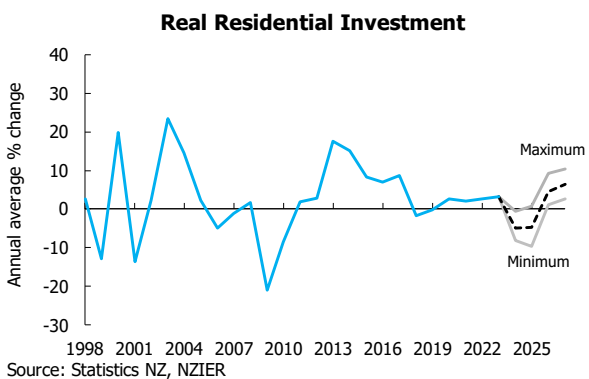
Growth in household spending revised up

Forecasts of household spending have been revised higher through to 2026. With over half of mortgages in New Zealand due for repricing over the coming year, household discretionary spending will be further restrained. However, some of this slowing in spending will be offset by the additional demand for goods and services from increased net inflows of migrants over the coming years.



Weaker residential investment outlook for the coming year

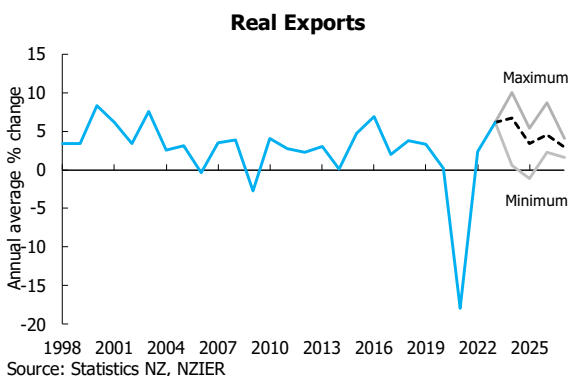
The overall investment outlook points to zero growth in 2024 and a decline in 2025. For residential investment, forecasts point to a weaker outlook for 2024 and outlook for 2025 and 2026 has been revised higher. While dwelling consent issuance points to an easing in the pipeline of residential construction beyond 2023, the strong net migration inflows will support demand for housing, contributing to residential construction activity over the coming years.



Weaker export growth outlook

The export growth outlook has been revised lower for years through to 2026. The slowing Chinese economy is weighing on demand for our exports. This has pressed down New Zealand commodity prices and returns from exports. The timing of China's economic and demand recovery presents a key uncertainty to New Zealand's export growth.

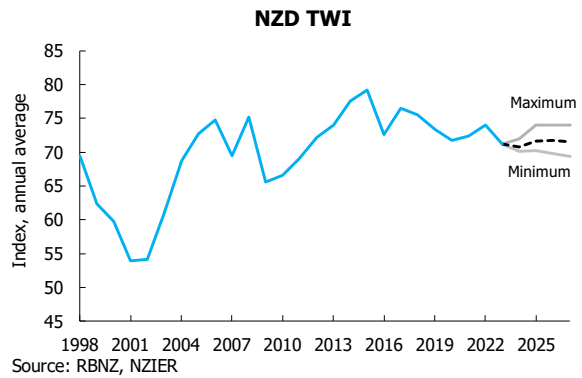
Forecasts for import growth have been revised lower, reflecting weaker domestic spending.



Slightly weaker NZD for the coming year

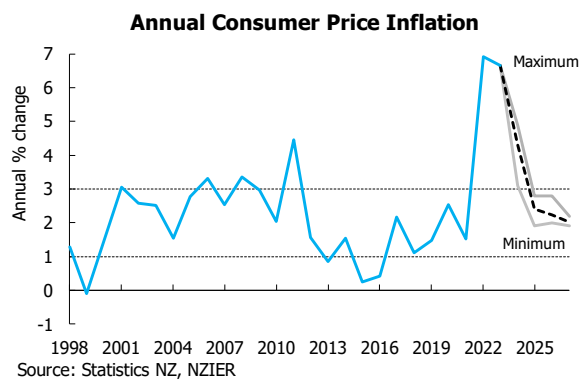
Forecasts of NZD TWI have been revised lower for the coming year and higher for 2025. There has been little change in the yield attractiveness of the NZD against other currencies over the recent months, given the Reserve Bank has been keeping the OCR at 5.50 percent. However, the weaker export demand from China weighs on short-term expectations of demand for NZD.

The NZD is expected to track between 70.8 and 71.6 on the TWI from 2024 to 2027.



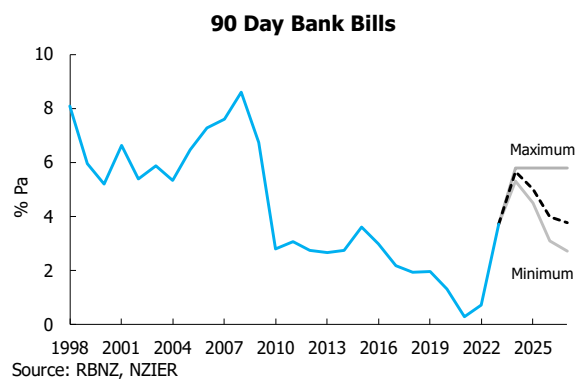
Uplift in forecast inflation for 2024

Forecasts for annual CPI inflation point to a continued easing in inflation pressures over the coming years. However, the forecast for annual inflation has been revised higher to 4.3 percent for the year ending March 2024. The stickiness of non-tradeable inflation has increased expectations for inflation not returning to below 3 percent until late 2024. The significant increase in net migration inflows also poses an upside risk to inflation.



Slightly higher interest rate for 2026

Forecasts for interest rates have been revised slightly higher for 2026 while broadly unchanged for 2024 and 2025. In recent months, the Reserve Bank has reiterated its expectation of a 5.5 percent peak OCR, and it will remain at this level as required for annual CPI inflation returning within the 1 to 3 percent target range. However, the potential upside risk to inflation from increased net migration inflows has increased expectations for interest rates to stay higher for longer.



Softening in wage growth outlook

Wage growth forecasts have been revised lower for the years 2024 to 2026. Meanwhile, the short-term outlook for unemployment and employment has been revised lower and revised higher, respectively given the labour market remains strong.

Although annual wage inflation is still at record-high levels, the increased inflows of migrant workers have contributed to a marked easing in labour shortages. This will help to moderate wage inflation over the coming years.

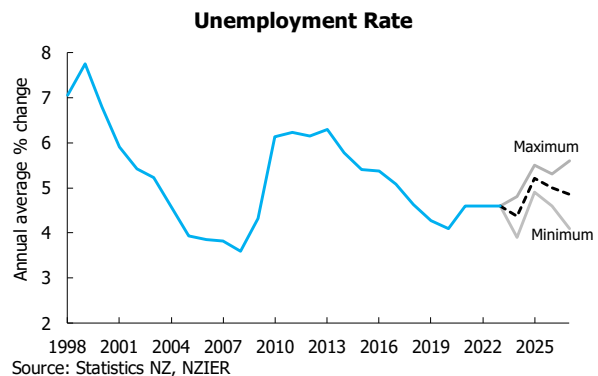


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Sep-2023 survey				Jun-2023 survey		
	2023/24	2024/25	2025/26	2026/27	2023/24	2024/25	2025/26
GDP	0.4 ↓	1.1 ↓	2.7 ↑	2.8	0.6	1.4	2.4
Private consumption	0.8 ↑	1.0 ↑	2.3 ↑	2.8	0.0	0.9	2.1
Public consumption	-1.2 ↓	-0.6 ↓	0.8 ↓	1.5	-1.0	-0.3	1.0
Fixed investment:							
Residential	-5.0 ↓	-4.8 ↑	4.6 ↑	6.5	-4.3	-5.2	3.9
Other	1.6 ↑	-0.1 ↓	2.8 ↓	4.2	-0.5	0.1	3.2
Total	0.0 ↑	-1.1 →	3.2 ↓	4.6	-1.4	-1.1	3.3
Exports, goods & services	6.7 ↓	3.4 ↓	4.5 ↓	2.9	7.3	5.8	4.9
Imports, goods & services	1.1 ↓	0.7 ↓	2.6 ↓	3.2	1.9	0.8	3.0
Consumer price index (apc)	4.3 ↑	2.4 →	2.2 →	2.0	3.9	2.4	2.2
New Zealand TWI (avg yr to Mar)	70.8 ↓	71.6 ↑	71.8 →	71.6	71.1	71.2	71.8
90 day bank bill (avg yr to Mar)	5.6 →	5.0 ↑	4.0 ↑	3.8	5.6	4.9	3.8
10 year govt bond (avg yr to Mar)	4.7 ↑	4.5 ↑	4.4 ↑	4.3	4.4	4.3	4.2
Current account balance (NZ\$b; Mar yr)	-29.3 ↓	-25.2 ↓	-21.0 ↓	-20.1	-28.6	-21.6	-18.5
Employment	1.1 ↑	0.7 ↓	1.6 →	1.5	0.4	0.9	1.6
Unemployment (% of labour force)	4.4 ↓	5.2 →	5.0 →	4.9	4.6	5.2	5.0
Wages (private sector avg hourly earnings)	6.7 ↓	4.7 ↓	3.5 ↓	2.7	6.9	5.0	3.8
Government operating balance (NZ\$b, September yr)	-10.2 ↓	-6.3 ↓	-1.3 ↓	1.4	-7.6	-4.8	-1.2

Source: NZIER

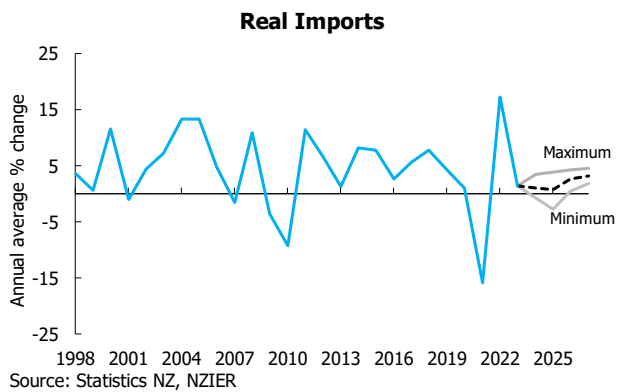
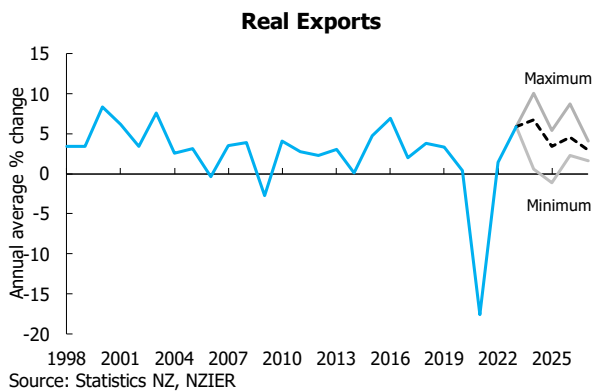
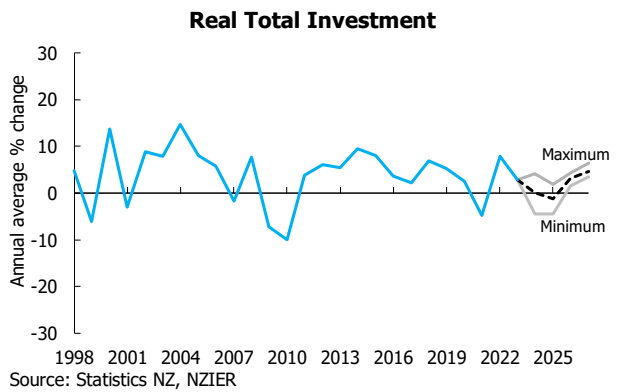
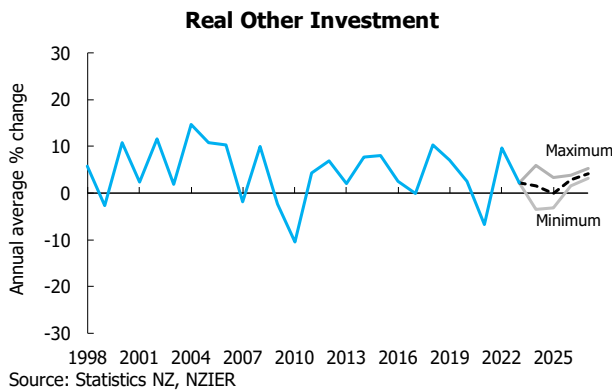
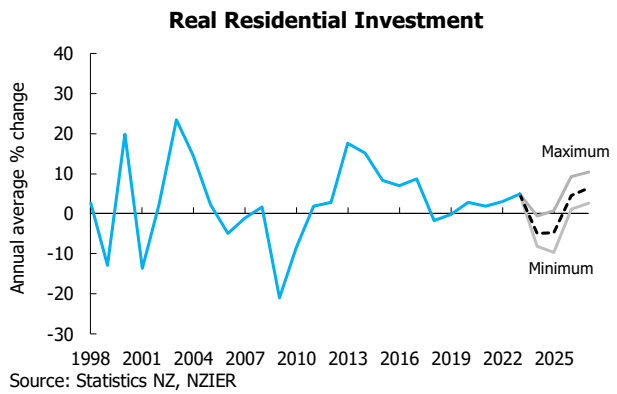
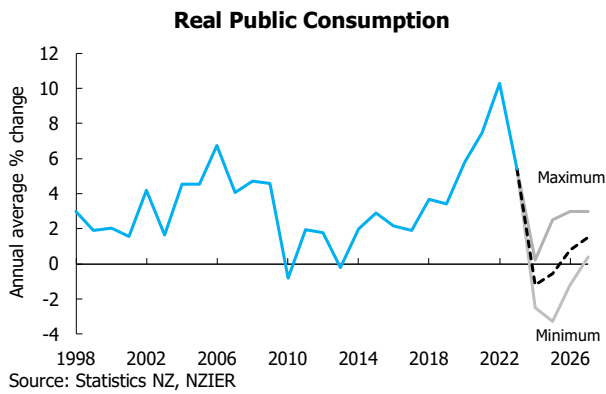
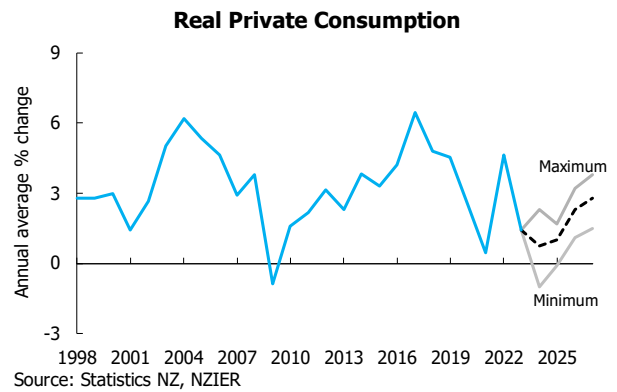
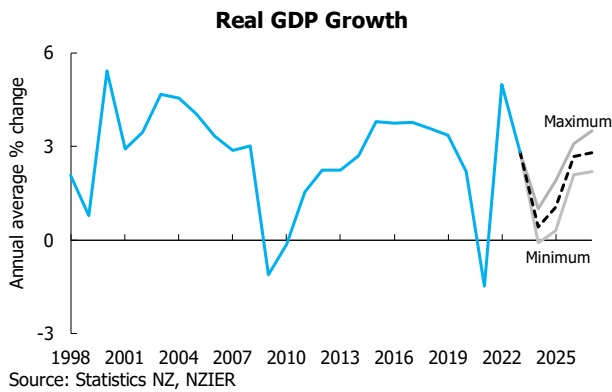
Table 2 Breakdown of the forecasts

qpc, quarters	Jun-23 f			Sep-23 f			Dec-23 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	-0.2	0.3	0.8	-0.3	0.0	0.5	-0.6	-0.1	0.3			
CPI (qpc)	Sep-23			Dec-23 f			Mar-24 f					
	1.3	2.0	2.4	0.2	0.6	0.9	0.3	0.6	0.8			
aapc, March years	2023/2024 f			2024/2025 f			2025/2026 f			2026/2027 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	-0.1	0.4	1.0	0.3	1.1	1.9	2.1	2.7	3.1	2.2	2.8	3.5
Private consumption	-1.0	0.8	2.3	-0.1	1.0	1.7	1.1	2.3	3.2	1.5	2.8	3.8
Public consumption	-2.5	-1.2	0.2	-3.3	-0.6	2.5	-1.2	0.8	3.0	0.4	1.5	3.0
Fixed investment												
- Residential	-8.2	-5.0	-0.6	-9.7	-4.8	0.7	1.2	4.6	9.2	2.6	6.5	10.4
- Other	-3.4	1.6	6.0	-3.2	-0.1	3.3	1.5	2.8	3.8	3.2	4.2	5.3
- Total	-4.4	0.0	4.2	-4.4	-1.1	1.8	1.5	3.2	4.3	3.5	4.6	6.4
Exports, goods and services	0.6	6.7	10.0	-1.1	3.4	5.4	2.3	4.5	8.7	1.6	2.9	4.1
Imports, goods and services	-0.8	1.1	3.5	-2.7	0.7	3.8	0.5	2.6	4.3	1.8	3.2	4.5
Consumer price index (apc)	3.1	4.3	4.9	1.9	2.4	2.8	2.0	2.2	2.8	1.9	2.0	2.2
New Zealand TWI (avg yr to Mar)	70.1	70.8	72.0	70.2	71.6	74.0	69.8	71.8	74.0	69.4	71.6	74.0
90 day bank bill (avg yr to Mar)	5.3	5.6	5.8	4.5	5.0	5.8	3.1	4.0	5.8	2.7	3.8	5.8
10 year government stock (avg yr to Mar)	4.3	4.7	5.2	3.9	4.5	5.6	3.7	4.4	5.8	3.7	4.3	5.8
Current account balance (NZ\$b; Mar yr)	-32.6	-29.3	-26.2	-29.2	-25.2	-21.2	-24.5	-21.0	-18.0	-24.2	-20.1	-18.0
Employment	-0.2	1.1	1.9	0.1	0.7	1.6	1.2	1.6	2.0	0.9	1.5	2.0
Unemployment rate (% of labour force)	3.9	4.4	4.8	4.9	5.2	5.5	4.6	5.0	5.3	4.1	4.9	5.6
Wages (private sector avg hourly earnings)	4.2	6.7	8.4	4.0	4.7	5.2	3.0	3.5	4.6	2.4	2.7	3.2
Government operating balance (NZ\$m, December yr)	-12.6	-10.2	-7.6	-8.6	-6.3	-3.6	-3.4	-1.3	0.6	-0.6	1.4	3.2

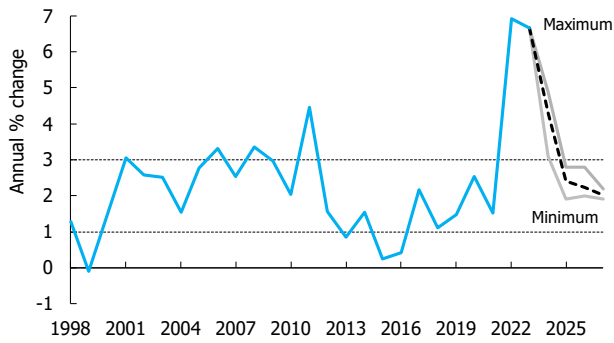
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

Summary charts

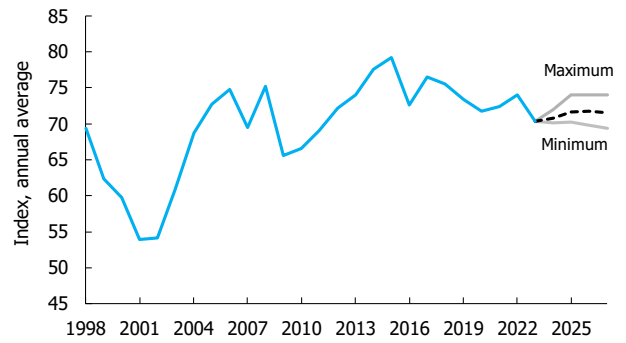


Annual Consumer Price Inflation



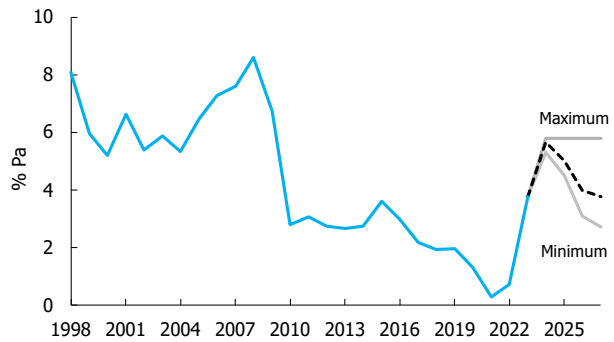
Source: Statistics NZ, NZIER

NZD TWI



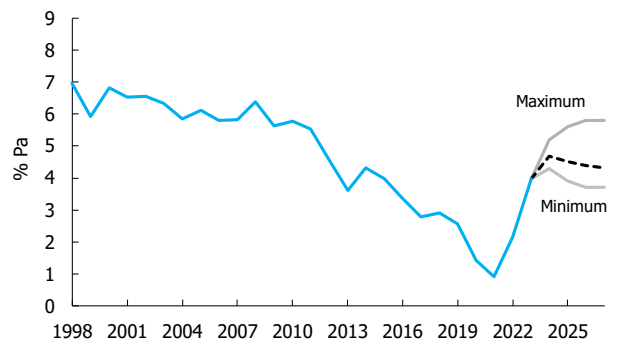
Source: RBNZ, NZIER

90 Day Bank Bills



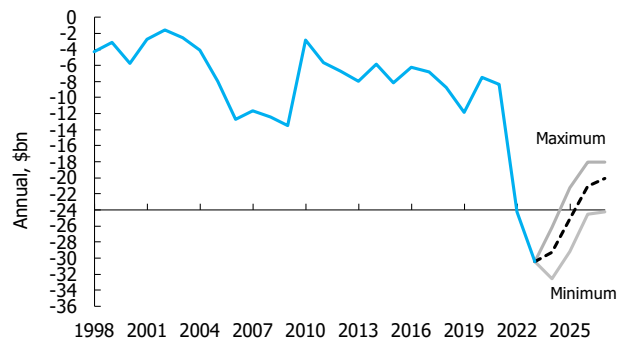
Source: RBNZ, NZIER

10 Year Government Bond Yield



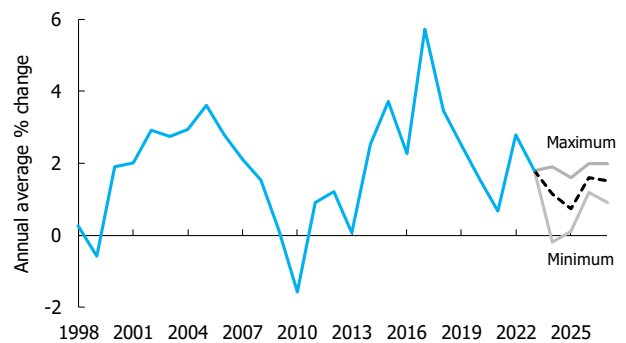
Source: RBNZ, NZIER

Current Account Balance



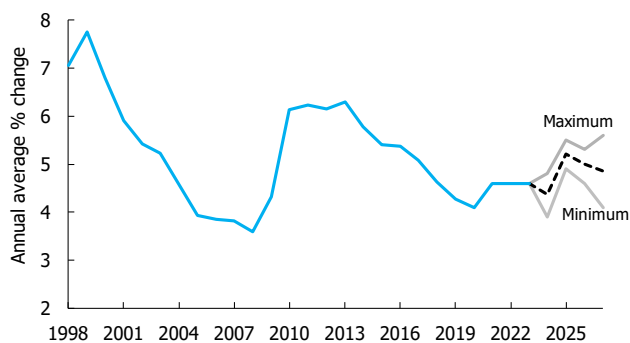
Source: RBNZ, NZIER

Employment Growth



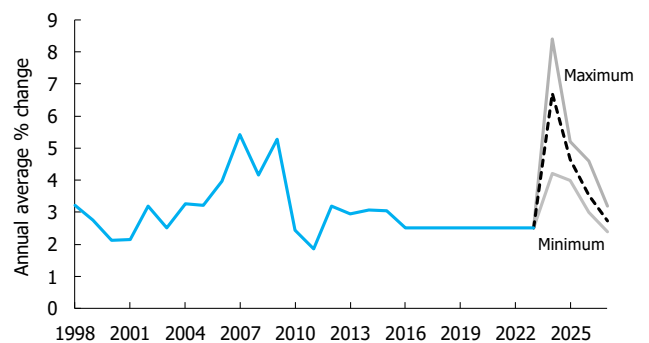
Source: Statistics NZ, NZIER

Unemployment Rate

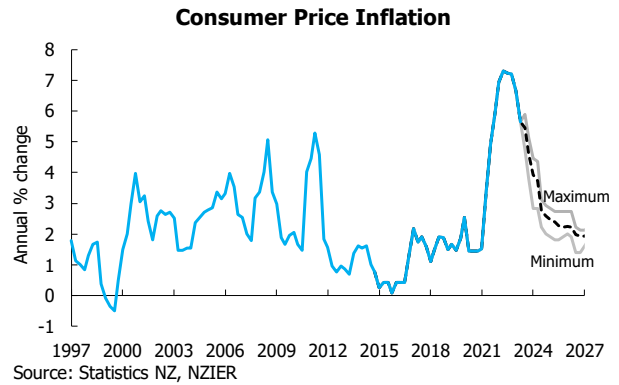
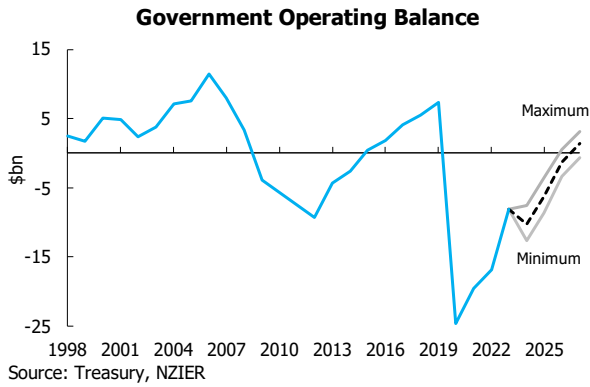


Source: Statistics NZ, NZIER

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. 2024 refers to the year ended March 2024.

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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