

NZ Institute of Economic Research (Inc)  
Media release 11 December 2017

# Consensus Forecasts

## NZIER *Consensus Forecasts* shows softer growth outlook

The latest NZIER *Consensus Forecasts* expects a modestly softer growth outlook for the next few years. Overall, the growth outlook remains positive.

Downward revisions to forecasts for household spending and business investment have pushed down the near-term growth outlook. Consumer and business confidence have eased, as uncertainty about the effects of new Government policies see households and businesses hold off committing to major spending.

Despite near-term weakness in housing construction, growth forecasts for the next two years have been revised up. Strong population growth has supported increased housing demand. However, capacity pressures and financing constraints in the construction sector are limiting the extent to which activity can ramp up. The Government's ambitious plan to address financing constraints and kick-start residential construction should bring forward growth in housing construction.

The labour market outlook remains strong. Forecasts for unemployment have been revised down, leading to expectations of modestly stronger wage growth.

The expected fiscal surplus has been revised lower in the wake of the new Government announcing a raft of new spending initiatives.

**Figure 1 Economic growth expected to moderate from 2019**

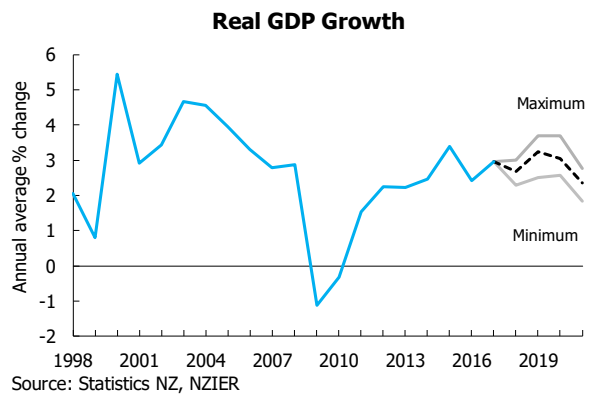


Source: Statistics NZ, NZIER

### Softer near-term growth outlook

Relative to the previous quarter, *Consensus Forecasts* expects softer growth through to 2019 with growth now expected to peak at 3.2 percent for the year to March 2019.

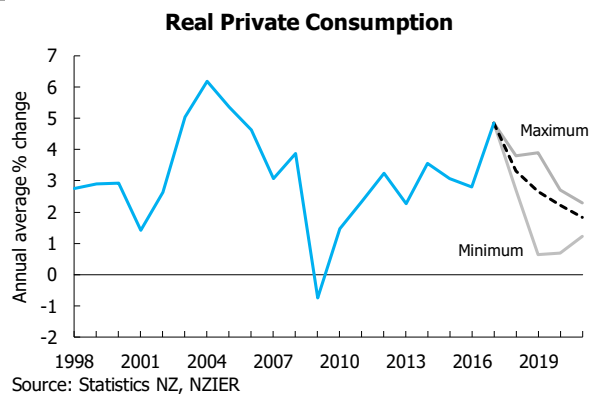
Beyond that, forecasters continue to expect a moderation in growth, with growth easing to 2.4 percent by 2021.



### Household spending expected to ease

Household spending forecasts have been revised lower. Net migration looks to have turned, and population growth is likely to slow as a result.

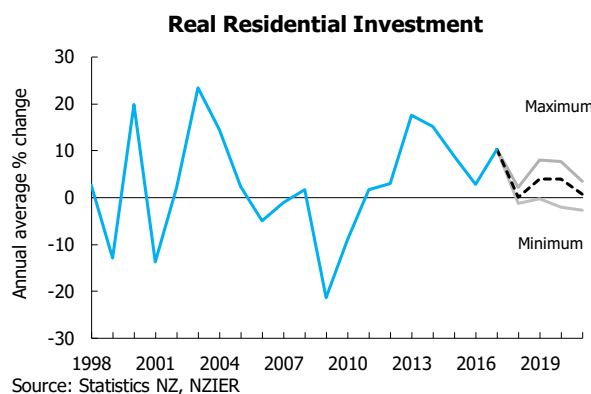
While household spending is still expected to remain robust through to 2019, beyond that growth is expected to ease to reach 1.8 percent by 2021.



### Residential construction expected to rebound

Residential construction was soft over the first half of 2017. However, there has been a rebound more recently, and expectations are for a further lift in activity over the next two years.

Strong population growth is underpinning demand for residential construction. The Government has also announced plans to ease financial constraints which should bring forward some residential construction developments.



### Mixed export outlook

Export growth forecasts have been revised up for most of the projection period, but there is a downward revision for the year to March 2019.

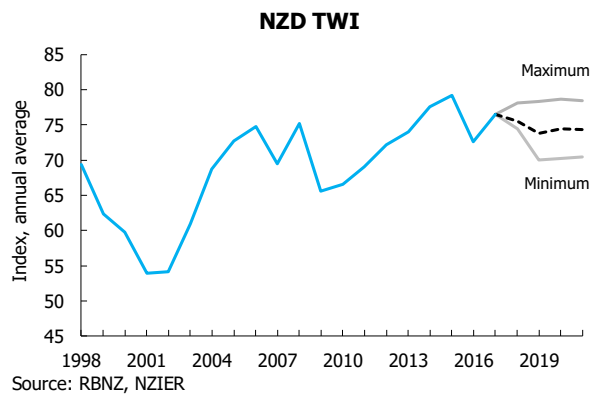
Demand in the major economies is picking up, but heightened geo-political uncertainty is casting a dark cloud over the global growth outlook. Here in NZ, increasingly dry weather conditions are raising the risk of drought. This would have a negative impact on dairy and meat production and exports for the coming year.



## NZD expectations revised lower

A firmer USD and uncertainty related to the formation of the new Government here have put downward pressure on the NZD in recent months.

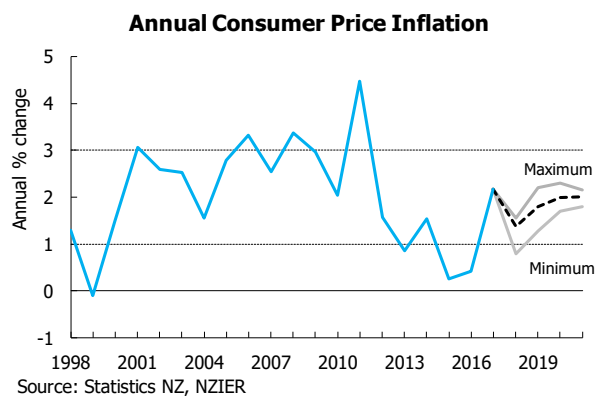
Expectations for the NZD are lower over the projection period. There remains uncertainty over the effects of policies planned by the new Government, and the recent softness in global dairy prices and increasing risk of drought is also weighing on the currency.



## Inflation outlook higher in the near term

Annual inflation picked up to 1.9 percent for the year to September 2017. Capacity pressures in sectors such as construction are pushing up inflation.

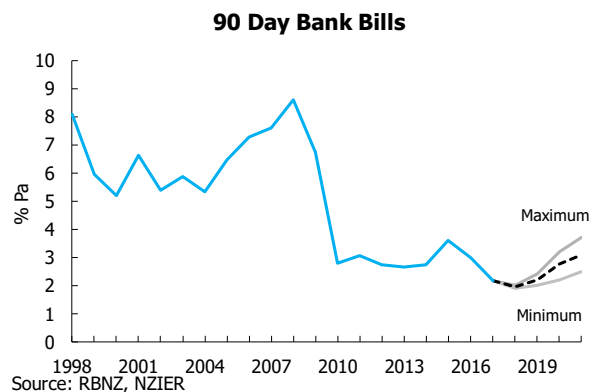
While there has been a pick-up in inflation expectations, forecasters continue to expect inflation to be contained around 2 percent in the years to March 2020 and 2021.



## Interest rates slightly higher from 2019

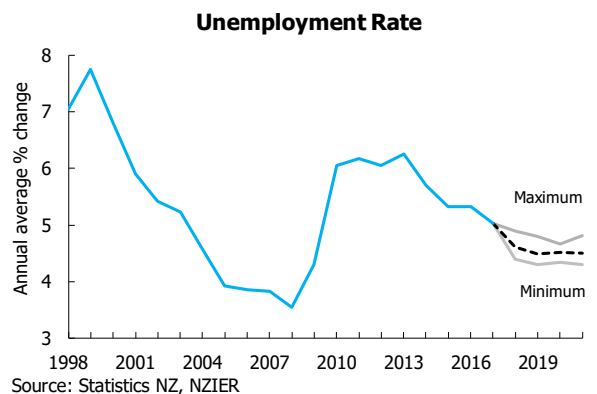
The Reserve Bank kept the OCR on hold at 1.75 percent at its November *Monetary Policy Statement*, and continued to indicate it did not expect to move interest rates until 2019.

*Consensus Forecasts* for interest rates have been revised slightly higher from 2019. Inflation pressures are picking up, but the easing in the housing market and downside risks to the global outlook means there is no urgency for the Reserve Bank to lift interest rates.



## Unemployment rate revised slightly lower

The labour market remains very tight, with the unemployment rate revised slightly lower over the projection period. This further tightening in the labour market is expected to underpin a modestly stronger lift in wage growth over the next year.



**Table 1 Previous and latest *Consensus Forecasts***

aapc, March years	Dec-2017 survey				Sep-2017 survey			
	2017/18	2018/19	2019/20	2020/21	2017/18	2018/19	2019/20	2020/21
GDP	2.7 ↓	3.2 ↓	3.0 ↑	2.4 →	2.9	3.4	2.9	2.4
Private consumption	3.3 ↓	2.7 ↓	2.2 ↓	1.8 ↓	3.4	3.3	2.6	2.1
Public consumption	3.4 ↑	3.1 ↑	2.6 ↑	2.9 ↑	2.6	1.9	2.0	2.2
Fixed investment:	→	→	→	→				
Residential	0.1 ↓	4.0 ↑	3.9 ↑	0.8 ↓	1.9	3.8	2.2	0.9
Other	4.1 ↓	4.7 ↓	4.1 ↓	3.9 ↑	6.5	4.9	4.3	3.8
Total	3.0 ↓	4.5 ↓	4.0 ↑	3.1 ↑	5.1	4.6	3.7	3.0
Exports, goods & services	3.3 ↑	2.5 ↓	3.3 ↑	2.8 ↑	2.9	3.1	2.8	2.7
Imports, goods & services	4.2 ↓	3.4 ↓	3.3 ↑	2.9 ↑	5.1	3.8	3.1	2.8
Consumer price index (apc)	1.4 ↑	1.8 ↓	2.0 →	2.0 →	1.1	1.9	2.0	2.0
New Zealand TWI (ave yr to Mar)	75.6 ↓	73.8 ↓	74.5 ↓	74.3 ↓	76.2	74.8	75.4	74.7
90 day bank bill (ave yr to Mar)	2.0 →	2.2 →	2.8 ↑	3.1 ↑	2.0	2.2	2.7	3.0
10 year govt bond (ave yr to Mar)	3.1 →	3.5 →	3.9 →	4.0 ↓	3.1	3.5	3.9	4.1
Current account balance (NZ\$b; Mar yr)	-5.7 ↑	-7.7 ↑	-8.2 ↑	-9.1 ↑	-6.6	-8.4	-9.6	-10.6
Employment	2.7 ↑	1.9 ↓	1.5 →	1.3 ↓	2.2	2.0	1.5	1.4
Unemployment (% of labour force)	4.6 ↓	4.5 ↓	4.5 ↓	4.5 ↓	4.7	4.6	4.6	4.6
Wages (private sector avg hourly earnings)	2.2 →	3.1 ↑	3.2 →	3.1 →	2.2	2.9	3.2	3.1
Government operating balance (NZ\$b, September yr)	2.9 ↓	2.8 ↓	4.6 ↓	5.2 ↓	3.2	3.9	6.0	6.8

**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**

<b>qpc, quarters</b>	<b>Sep-17 f</b>			<b>Dec-17 f</b>			<b>Mar-18 f</b>					
	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>			
GDP (seasonally adjusted, qpc)	0.3	0.6	0.9	0.5	0.7	0.9	0.4	0.7	1.2			
CPI (qpc)	0.2	0.4	0.6	0.3	0.5	0.7	0.0	0.4	0.6			
<b>aapc, March years</b>	<b>2017/2018 f</b>			<b>2018/2019 f</b>			<b>2019/2020 f</b>			<b>2020/2021 f</b>		
	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>
GDP	2.3	2.7	3.0	2.5	3.2	3.7	2.6	3.0	3.7	1.8	2.4	2.8
Private consumption	2.7	3.3	3.8	0.6	2.7	3.9	0.7	2.2	2.7	1.2	1.8	2.3
Public consumption	2.2	3.4	4.2	1.4	3.1	4.1	0.6	2.6	4.1	1.2	2.9	4.1
Fixed investment												
- Residential	-1.2	0.1	2.2	-0.3	4.0	8.1	-1.9	3.9	7.7	-2.7	0.8	3.5
- Other	2.5	4.1	8.5	1.4	4.7	9.4	2.4	4.1	6.2	3.0	3.9	5.5
- Total	1.6	3.0	6.0	1.6	4.5	8.5	2.3	4.0	6.0	1.8	3.1	5.0
Exports, goods and services	2.0	3.3	4.7	1.3	2.5	3.1	2.3	3.3	4.5	1.9	2.8	4.4
Imports, goods and services	2.7	4.2	5.5	1.9	3.4	5.2	1.9	3.3	4.4	1.6	2.9	3.9
Consumer price index (apc)	0.8	1.4	1.5	1.3	1.8	2.2	1.7	2.0	2.3	1.8	2.0	2.1
New Zealand TWI (ave yr to Mar)	74.5	75.6	78.1	70.0	73.8	78.3	70.2	74.5	78.7	70.5	74.3	78.5
90 day bank bill (ave yr to Mar)	1.9	2.0	2.0	2.0	2.2	2.4	2.2	2.8	3.2	2.5	3.1	3.7
10 year government stock (ave yr to Mar)	2.9	3.1	3.4	3.1	3.5	4.0	3.5	3.9	4.4	3.6	4.0	4.6
Current account balance (NZ\$b; Mar yr)	-7.5	-5.7	-2.4	-9.2	-7.7	-4.7	-9.8	-8.2	-5.1	-12.1	-9.1	-6.3
Employment	2.1	2.7	3.7	1.2	1.9	2.6	1.3	1.5	1.8	0.9	1.3	1.9
Unemployment rate (% of labour force)	4.4	4.6	4.9	4.3	4.5	4.8	4.3	4.5	4.7	4.3	4.5	4.8
Wages (private sector avg hourly earnings)	1.9	2.2	2.5	2.5	3.1	3.7	2.6	3.2	4.1	2.5	3.1	4.2
Government operating balance (NZ\$m, December yr)	2.4	2.9	3.3	1.4	2.8	3.5	2.7	4.6	5.7	2.7	5.2	6.4

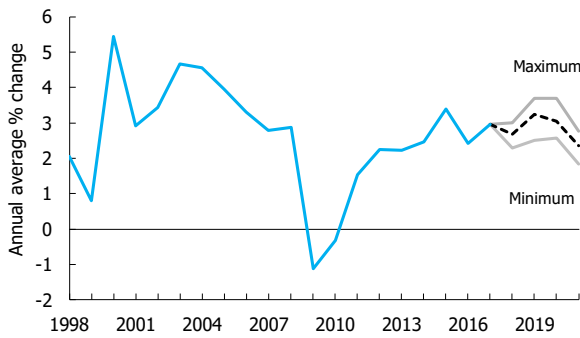
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change  
 These results show only means; standard deviations are available on request

Source: NZIER

Note: qpc = quarterly percent change.

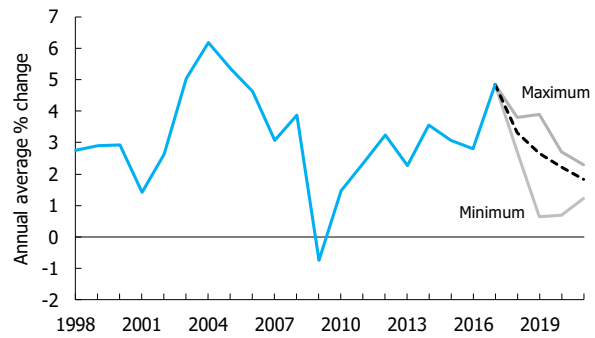
## Summary charts

**Real GDP Growth**



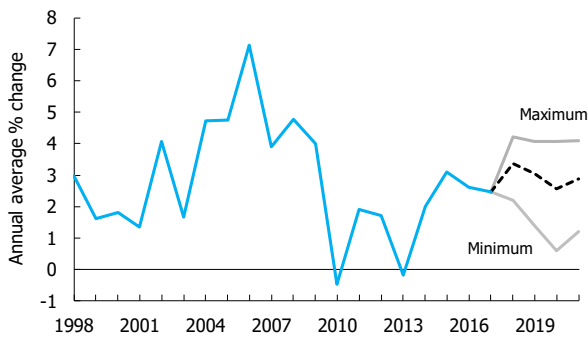
Source: Statistics NZ, NZIER

**Real Private Consumption**



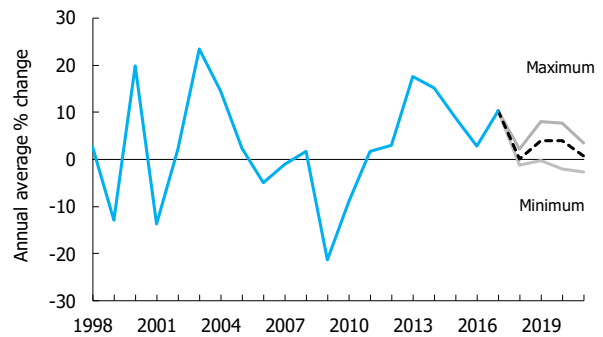
Source: Statistics NZ, NZIER

**Real Public Consumption**



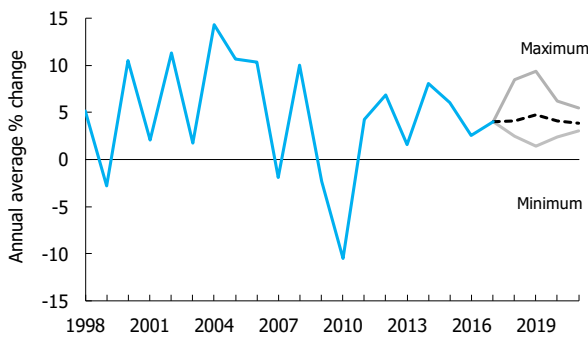
Source: Statistics NZ, NZIER

**Real Residential Investment**



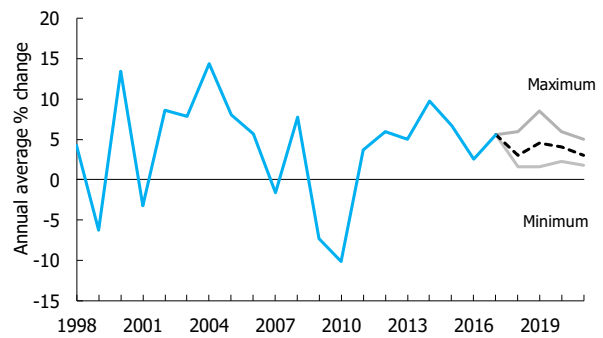
Source: Statistics NZ, NZIER

**Real Other Investment**



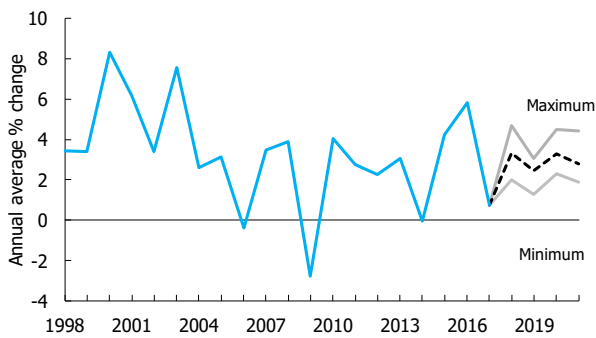
Source: Statistics NZ, NZIER

**Real Total Investment**



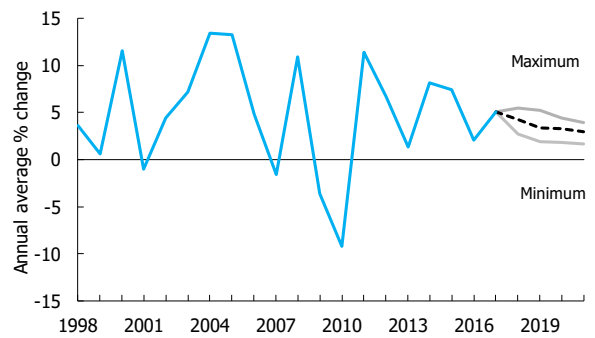
Source: Statistics NZ, NZIER

**Real Exports**



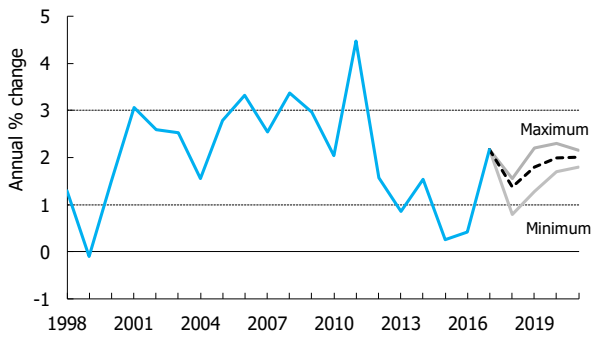
Source: Statistics NZ, NZIER

**Real Imports**

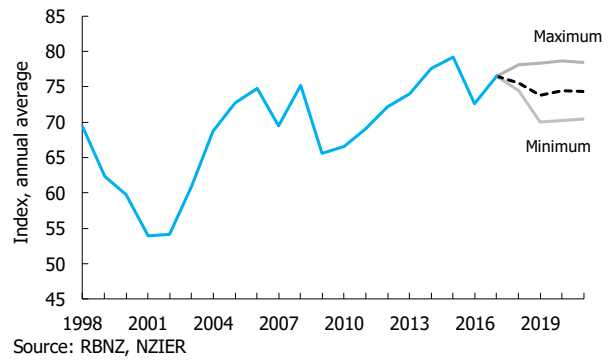


Source: Statistics NZ, NZIER

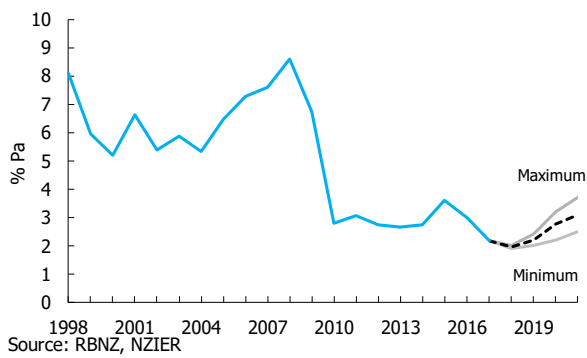
**Annual Consumer Price Inflation**



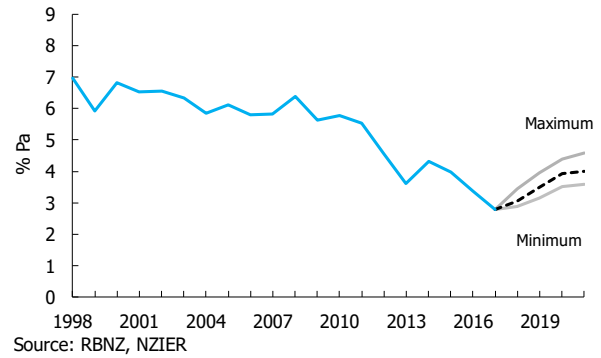
**NZD TWI**



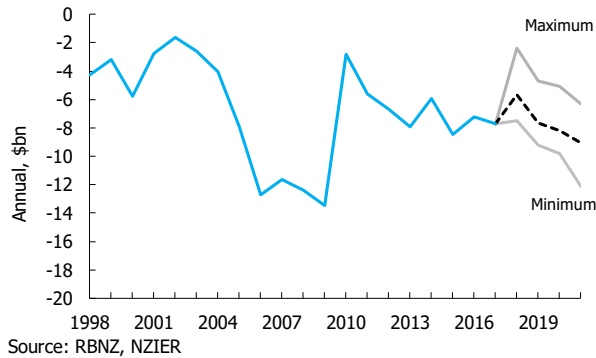
**90 Day Bank Bills**



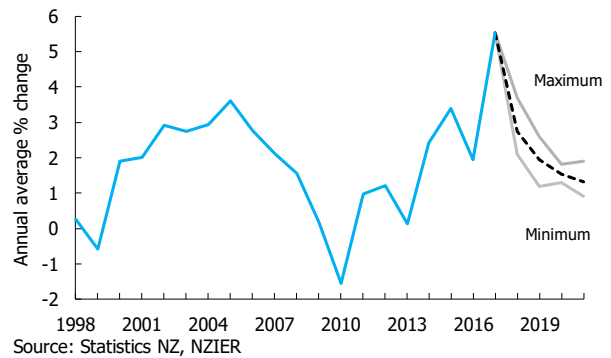
**10 Year Government Bond Yield**



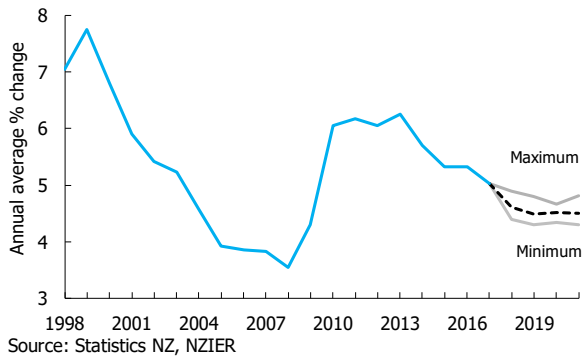
**Current Account Balance**



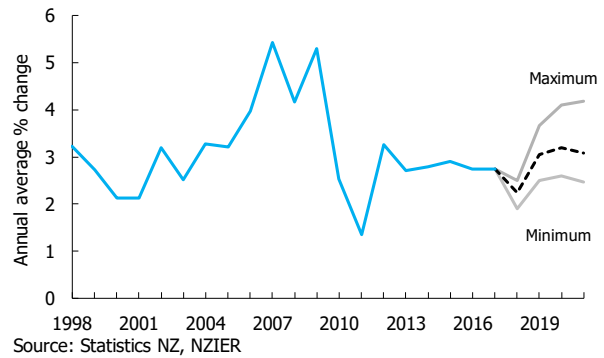
**Employment Growth**

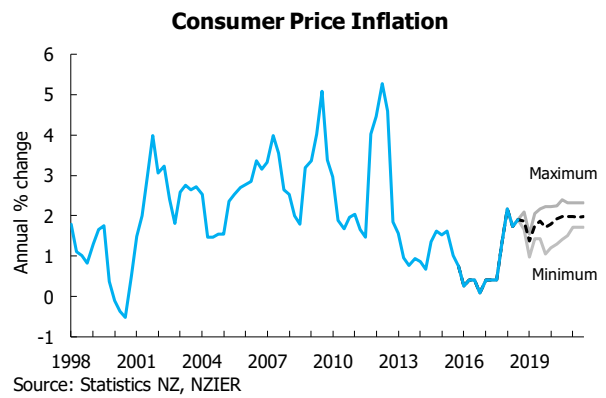
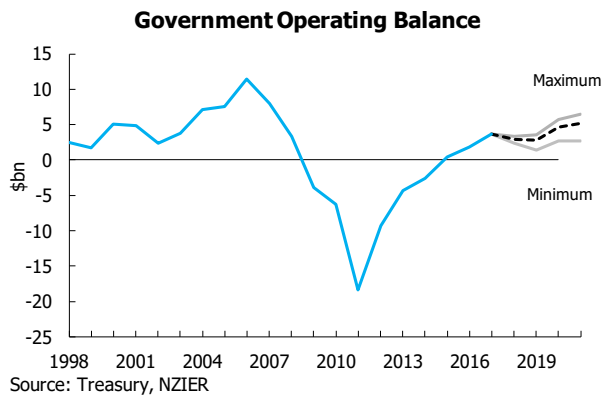


**Unemployment Rate**



**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. 2018 refers to the year ended March 2018.*

## Respondents

ANZ-National 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:

Christina Leung  
Principal Economist & Head of Membership Services  
021 992 985  
[christina.leung@nzier.org.nz](mailto:christina.leung@nzier.org.nz)