

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* shows growth outlook broadly unchanged

The latest NZIER *Consensus Forecasts* expects a growth outlook which is broadly unchanged from the previous quarter.

Over the coming year, a softer outlook for investment is offset by expectations of stronger export growth. Business confidence has fallen sharply over the past year, and with profitability continuing to deteriorate there are signs it is impacting negatively on investment intentions. However, with hiring still solid and wage growth picking up, increased household income is supporting spending.

Beyond 2019, expectations for investment remains robust. However, capacity constraints in the construction sector remain a key uncertainty determining the peak and duration of the construction cycle over the coming years.

The labour market is expected to remain even tighter, with the unemployment rate forecast revised lower out to 2021. This is expected to flow through to stronger wage growth over much of the projection period.

Inflation is expected to remain contained, with continued expectations for annual CPI to oscillate around 2 percent over the next few years.

Figure 1 Economic growth outlook broadly unchanged

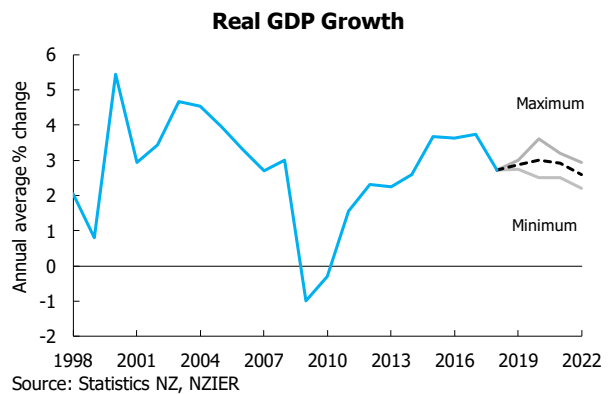


Mixed growth outlook

The latest *Consensus Forecasts* shows a broadly unchanged growth outlook.

Although June quarter GDP was stronger than expected, more recent activity indicators suggest some softness in demand over the coming year.

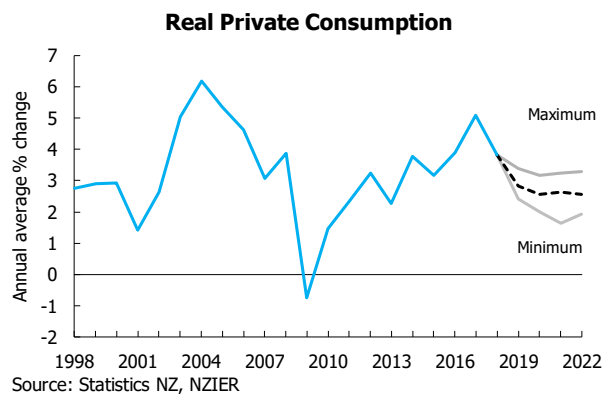
Annual GDP growth is expected to peak at 3.0 percent for the year to March 2020 before moderating to 2.6 percent by 2022.



Household spending softer over the coming year

Forecasts for household spending have been revised lower in the near term, beyond 2020 expectations are broadly unchanged.

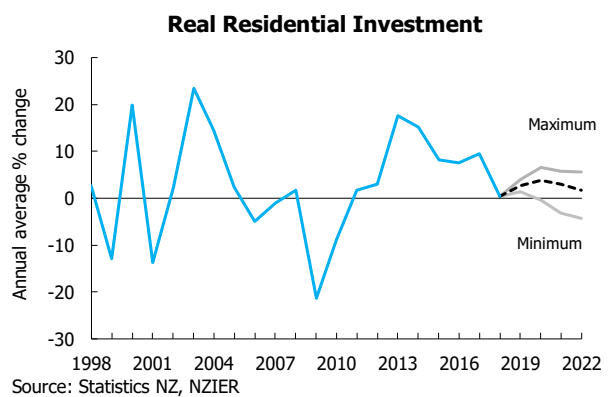
Consumer confidence has eased, but households remain optimistic about making big-ticket purchases. A strong labour market is supporting household incomes, and in turn household spending. Nonetheless, expectations are for growth to moderate over the coming years.



Residential construction growth outlook weaker in the near term

Forecasts for residential construction has been revised down for much of the projection period. Capacity constraints are limiting the extent to which residential construction can ramp up.

Although demand remains strong and the Government has indicated intentions to underwrite developments as a way to increase housing supply, the construction cycle is likely to be protracted given capacity constraints.



Export outlook stronger in the near term

Export growth forecasts have again been revised up for the coming year but are broadly unchanged beyond 2019. Annual export growth is expected to peak at 4 percent in March 2019 before moderating to 2.7 percent in 2022.

Export growth has been stronger than expected so far in 2018. However, the trade war between the US and China, as well as uncertainty over how Brexit will play out, present downside risks to the export outlook.

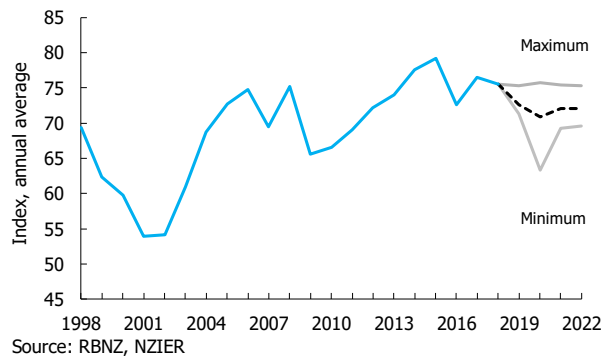


NZD expectations revised up

The NZD has rebounded in recent weeks, largely reflecting USD weakness as markets fret about US economic growth.

The Reserve Bank of New Zealand (RBNZ) has softened its language around the potential for cutting interest rates. In contrast, the US Federal Reserve has indicated it may pare back the pace and extent of interest rate increases over the coming years. This has boosted the yield appeal of NZD-denominated investments.

NZD TWI

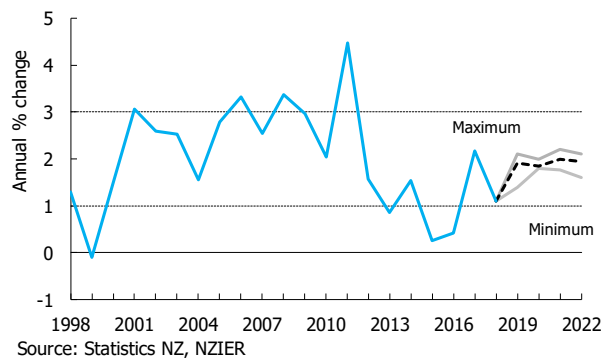


Inflation outlook remains around 2 percent

Annual inflation picked up to 1.9 percent for the year to September 2018, largely reflecting the increase in petrol prices. Construction cost inflation also remained strong.

The easing in petrol prices in more recent weeks should weigh on inflation in the last quarter of 2018. Beyond that, inflation is expected to hover around the RBNZ's inflation target mid-point of 2 percent over the medium term.

Annual Consumer Price Inflation

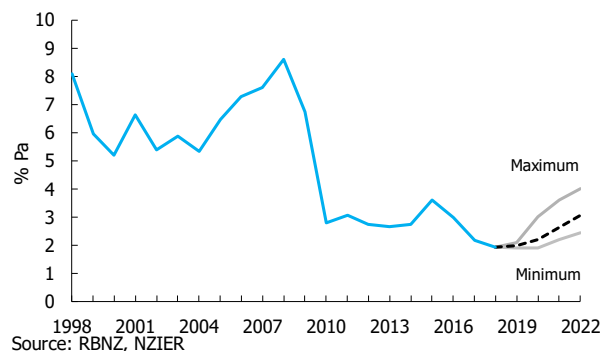


Interest rates revised lower beyond 2020

The RBNZ has softened the language around the potential for an interest rate cut, and raised the hurdle for such a move in its November *Monetary Policy Statement*.

Nonetheless, the central bank continues to indicate it intends to leave the OCR on hold until well into 2020. Although *Consensus* expectations remain for a lift in the OCR around March 2020, the pace of tightening has been pared back.

90 Day Bank Bills



Labour market expected to tighten further

The unemployment rate fell to a decade-low of 3.9 percent in September, reflecting strong labour demand. Businesses continue to report acute shortages for both skilled and unskilled labour. *Consensus* expectations is for the unemployment rate to drift just above 4 percent over the next few years.

This tightening in the labour market is expected to support a pick-up in wage growth.

Unemployment Rate

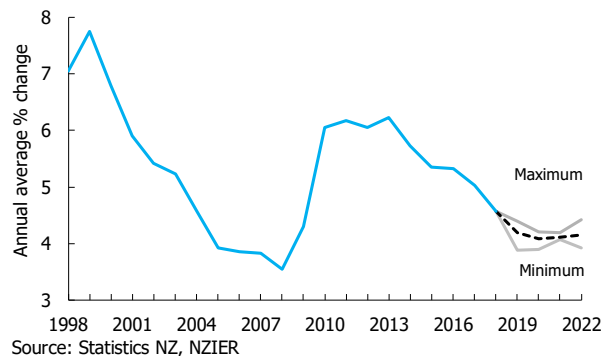


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Dec-2018 survey				Sep-2018 survey			
	2018/19	2019/20	2020/21	2021/22	2018/19	2019/20	2020/21	2021/22
GDP	2.9 ↑	3.0 ↓	2.9 →	2.6 ↓	2.8	3.1	2.9	2.7
Private consumption	2.8 →	2.6 ↓	2.6 →	2.6 ↑	2.8	2.8	2.6	2.5
Public consumption	3.9 ↑	2.6 ↓	2.7 →	3.2 →	2.5	2.7	2.7	3.2
Fixed investment:			→					
Residential	2.7 ↓	3.8 ↑	3.0 ↓	1.8 ↓	4.6	3.6	3.3	2.3
Other	3.1 ↓	3.4 ↓	4.3 ↑	3.4 →	4.2	3.7	3.7	3.4
Total	3.0 ↓	3.5 ↓	4.0 ↑	3.0 ↓	4.3	3.7	3.6	3.1
Exports, goods & services	4.0 ↑	3.3 ↓	2.9 →	2.7 ↑	2.5	3.5	2.9	2.6
Imports, goods & services	5.0 ↑	2.5 ↓	3.1 ↑	3.2 ↑	4.5	3.0	2.9	3.1
Consumer price index (apc)	1.9 →	1.9 ↑	2.0 →	2.0 ↑	1.9	1.8	2.0	1.9
New Zealand TWI (avg yr to Mar)	72.6 ↑	70.9 ↑	72.1 ↑	72.0 ↑	71.8	70.6	71.5	71.5
90 day bank bill (avg yr to Mar)	2.0 →	2.2 →	2.6 ↓	3.1 ↓	2.0	2.2	2.8	3.2
10 year govt bond (avg yr to Mar)	2.9 →	3.2 ↓	3.5 ↓	3.6 ↓	2.9	3.3	3.7	3.9
Current account balance (NZ\$b; Mar yr)	-9.7 ↑	-10.1 ↑	-10.4 ↑	-12.0 ↑	-10.2	-11.1	-11.6	-13.5
Employment	2.3 ↑	1.7 →	1.7 ↑	1.5 →	2.0	1.7	1.6	1.5
Unemployment (% of labour force)	4.2 ↓	4.1 ↓	4.1 ↓	4.2 ↑	4.4	4.3	4.2	4.1
Wages (private sector avg hourly earnings)	3.0 ↑	3.3 ↑	3.4 ↓	3.1 ↑	2.7	3.0	3.5	2.9
Government operating balance (NZ\$b, September yr)	3.8 ↑	5.5 ↑	6.0 ↑	8.3 ↑	2.7	4.7	5.3	6.9

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	Sep-18 f			Dec-18 f			Mar-19 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.6	0.7	0.8	0.5	0.7	1.0	0.5	0.7	1.0			
	Dec-18 f			Mar-19 f			Jun-19 f					
CPI (qpc)	-0.1	0.1	0.4	0.3	0.5	0.7	0.3	0.4	0.5			
aapc, March years	2018/2019 f			2019/2020 f			2020/2021 f			2021/2022 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	2.7	2.9	3.0	2.5	3.0	3.6	2.5	2.9	3.2	2.2	2.6	2.9
Private consumption	2.4	2.8	3.4	2.0	2.6	3.2	1.6	2.6	3.2	1.9	2.6	3.3
Public consumption	1.9	3.9	5.0	1.0	2.6	4.1	1.5	2.7	5.0	1.8	3.2	5.7
Fixed investment												
- Residential	1.4	2.7	4.0	-0.4	3.8	6.5	-3.1	3.0	5.7	-4.3	1.8	5.6
- Other	1.2	3.1	4.8	0.1	3.4	7.1	2.8	4.3	7.2	2.5	3.4	5.1
- Total	1.8	3.0	4.0	0.0	3.5	6.4	2.9	4.0	4.9	1.9	3.0	3.8
Exports, goods and services	1.4	4.0	5.2	2.5	3.3	4.2	2.2	2.9	3.8	2.0	2.7	3.6
Imports, goods and services	3.6	5.0	5.8	1.3	2.5	4.1	2.3	3.1	4.2	2.7	3.2	3.6
Consumer price index (apc)	1.4	1.9	2.1	1.8	1.9	2.0	1.8	2.0	2.2	1.6	2.0	2.1
New Zealand TWI (avg yr to Mar)	71.3	72.6	75.3	63.4	70.9	75.8	69.3	72.1	75.4	69.6	72.0	75.3
90 day bank bill (avg yr to Mar)	1.9	2.0	2.1	1.9	2.2	3.0	2.2	2.6	3.6	2.5	3.1	4.0
10 year government stock (avg yr to Mar)	2.7	2.9	3.1	2.9	3.2	3.6	3.0	3.5	4.1	3.1	3.6	4.3
Current account balance (NZ\$b; Mar yr)	-10.6	-9.7	-8.5	-12.1	-10.1	-7.6	-13.6	-10.4	-7.8	-15.8	-12.0	-8.9
Employment	2.0	2.3	2.9	1.5	1.7	1.8	1.5	1.7	2.2	1.2	1.5	2.0
Unemployment rate (% of labour force)	3.9	4.2	4.4	3.9	4.1	4.2	4.1	4.1	4.2	3.9	4.2	4.4
Wages (private sector avg hourly earnings)	2.0	3.0	3.5	3.0	3.3	3.8	2.8	3.4	3.7	2.8	3.1	3.6
Government operating balance (NZ\$m, December yr)	1.9	3.8	6.8	3.5	5.5	8.8	3.7	6.0	9.6	6.0	8.3	11.7

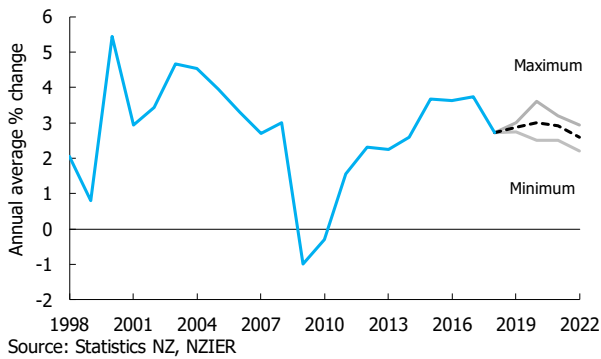
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

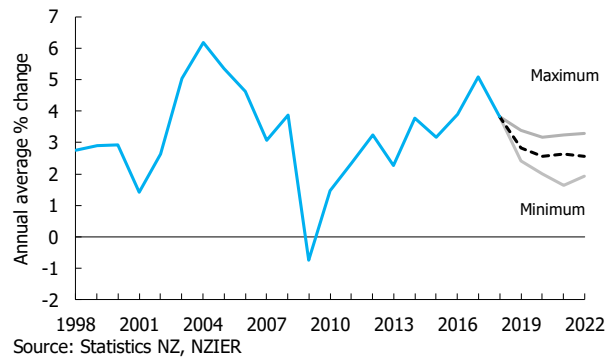
Note: qpc = quarterly percent change.

Summary charts

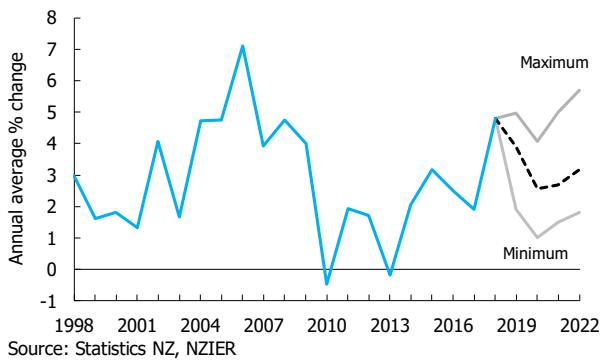
Real GDP Growth



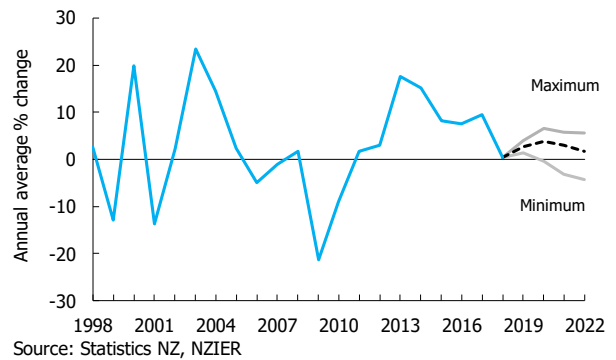
Real Private Consumption



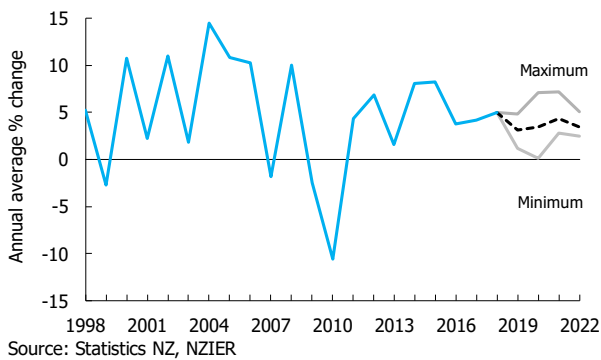
Real Public Consumption



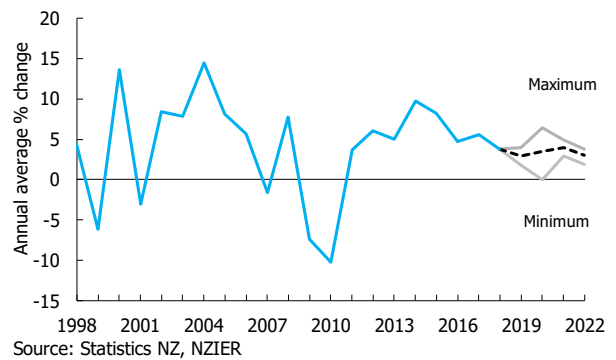
Real Residential Investment



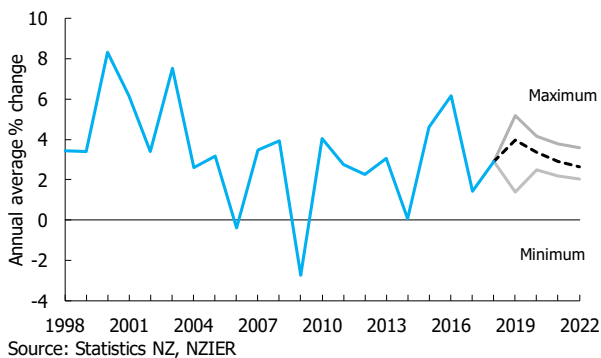
Real Other Investment



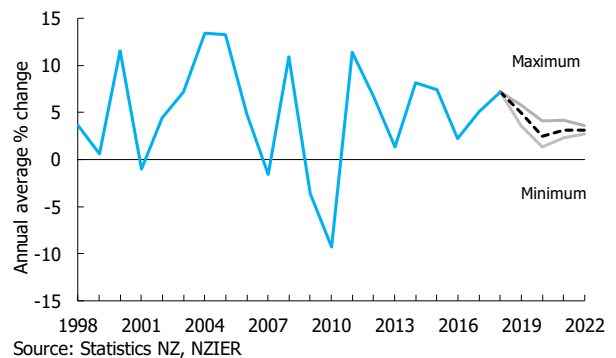
Real Total Investment



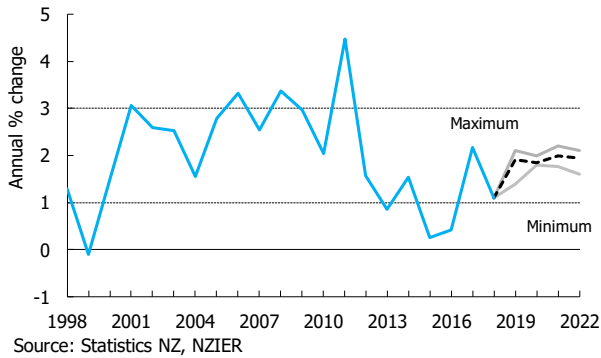
Real Exports



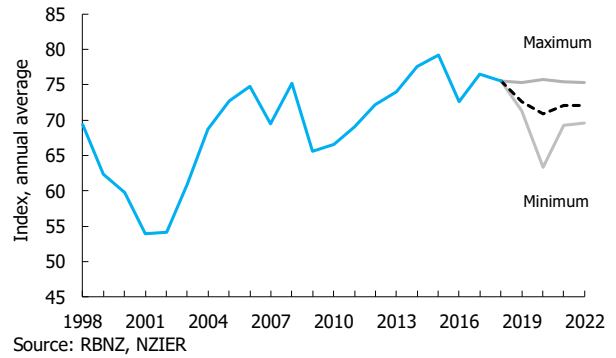
Real Imports



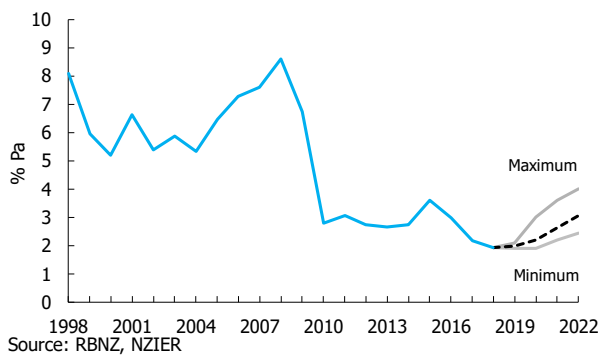
Annual Consumer Price Inflation



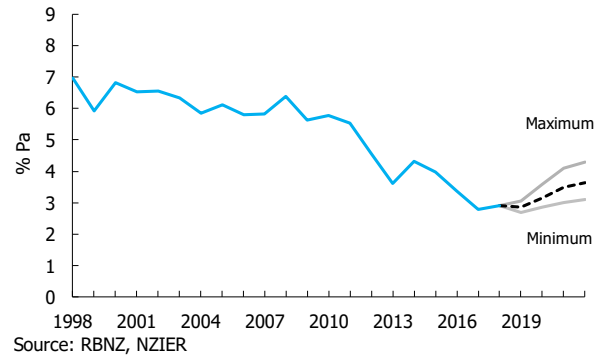
NZD TWI



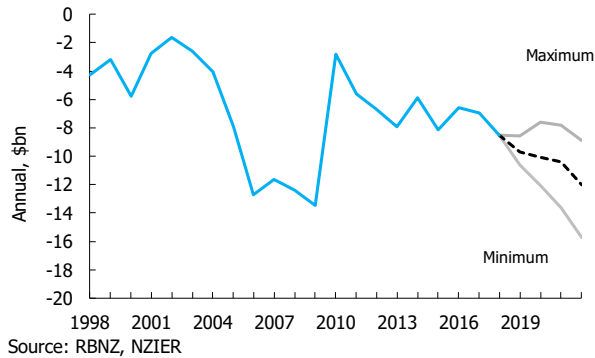
90 Day Bank Bills



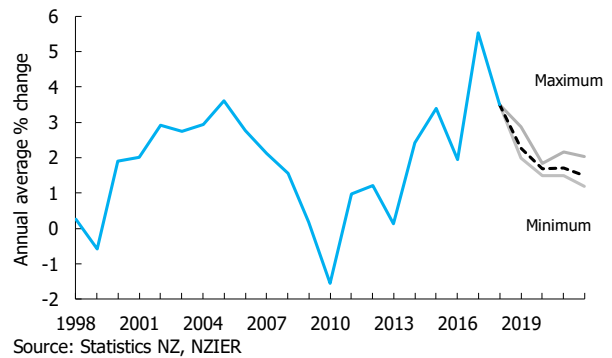
10 Year Government Bond Yield



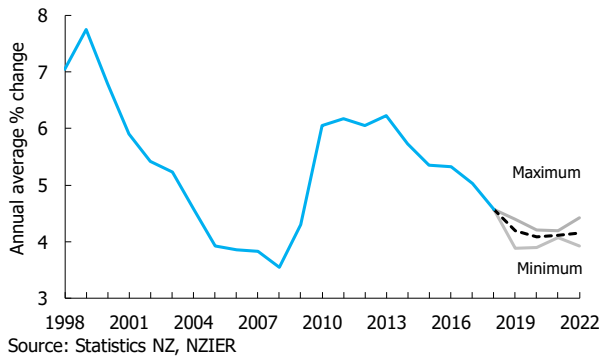
Current Account Balance



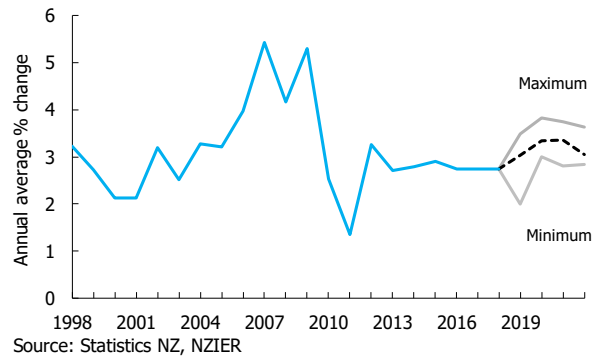
Employment Growth

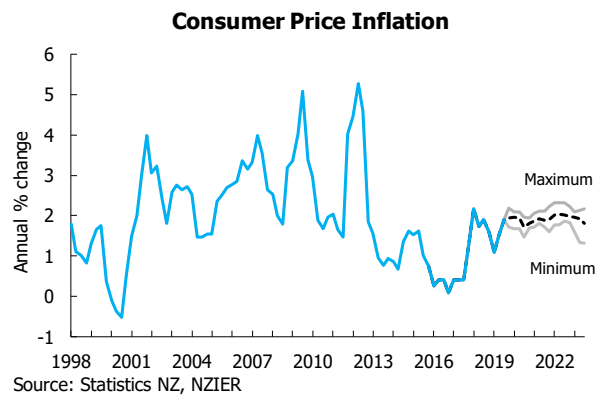
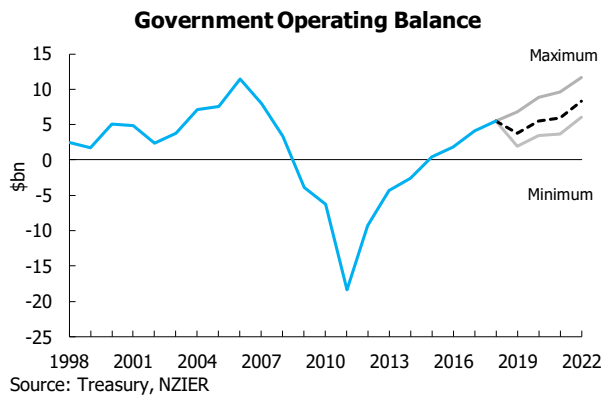


Unemployment Rate



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. 2019 refers to the year ended March 2019.

Respondents

ANZ-National Bank
ASB Bank
Bank of New Zealand
New Zealand Institute of Economic Research
Reserve Bank of New Zealand
The Treasury
Westpac

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