

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

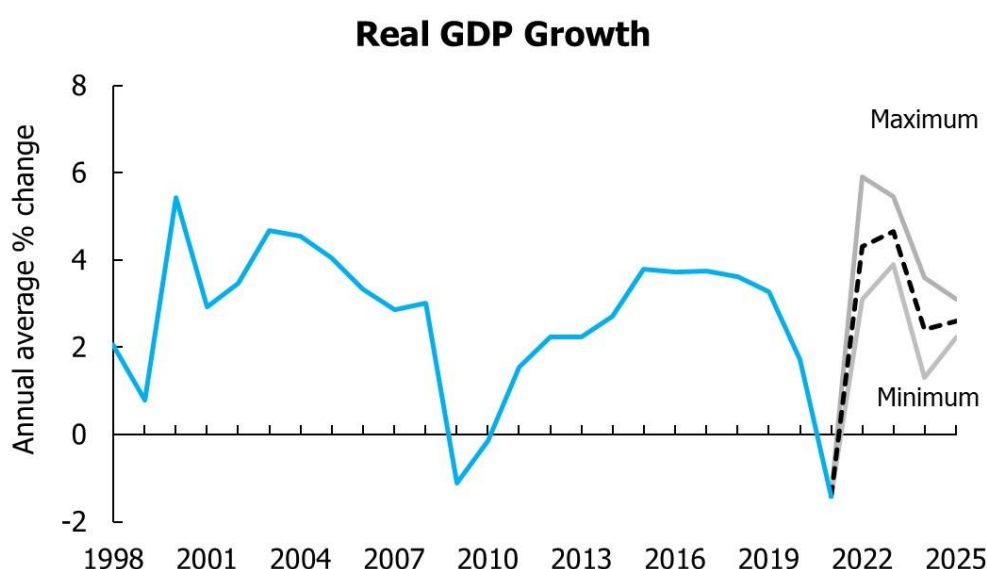
NZIER *Consensus Forecasts* show weaker near-term outlook

The latest NZIER *Consensus Forecasts* (CF) show a downward revision to the near-term outlook for the New Zealand economy. This largely reflects the expected impact of restrictions to contain the latest COVID-19 community outbreak, which turned out to persist for longer than initially expected. As a result, forecasts for private domestic demand for the coming year were revised lower. However, beyond March 2022, forecasts were shifted higher, suggesting that the New Zealand economy is still expected to remain resilient.

Forecasts of household spending, residential construction and business investment have been revised lower for the year to March 2022. This reflects a degree of uncertainty about the new strain of COVID-19 plus the effects of the physical constraints from the New Zealand economy operating at Alert Level 4, and subsequently Auckland and some neighbouring regions at Alert Level 3 (with the social distancing restrictions of Alert Level 2 for the rest of the country also having an impact). Beyond March 2022, growth has been revised slightly higher, indicating that households and businesses are expected to stay resilient. While the latest lockdown has dented consumer confidence, stronger wage growth resulting from acute labour shortages is supporting household spending. Nonetheless, higher labour costs are sharpening businesses' focus on investment in labour saving technology.

Growing capacity pressures in the New Zealand economy are contributing to a sharp rise in inflation, followed by a fall. Despite this, beyond near-term expectations of annual CPI inflation rising above 5 percent in 2022, price rises are expected to remain elevated above the Reserve Bank's inflation target mid-point of 2 percent through to 2025.

Figure 1 Continued expectations for a robust recovery



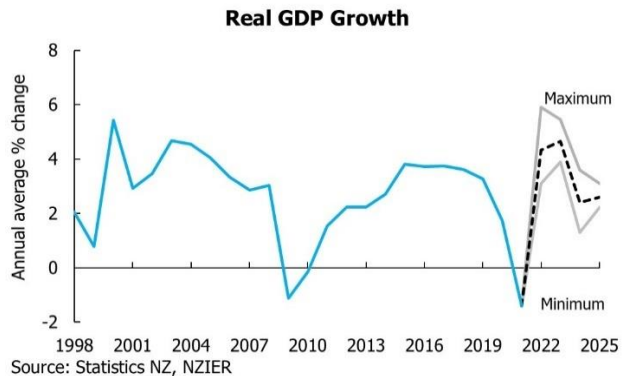
Source: Statistics NZ, NZIER

*Forecasts were finalised on 8th December, with possible revisions since then likely due to the release of partial GDP indicators after that date.

Near-term growth outlook revised lower

Consensus Forecasts for GDP have again been revised lower in the near term, reflecting supply constraints and the effects of the lockdown restrictions persisting in New Zealand for much longer than initially expected.

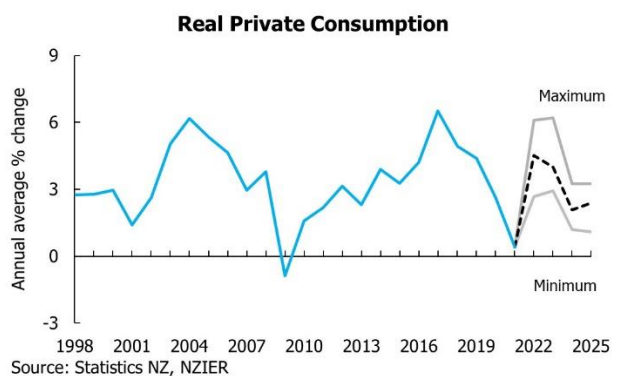
Annual average growth in GDP for the year to March 2022 has been revised down to 4.3 percent. However, the upward revision to growth forecasts for the subsequent years suggests a continued positive growth outlook.



Weaker household spending growth in the near term

The physical containment of Alert Levels 4 and 3 reduced household spending. This led to a downward revision in near-term forecasts of household spending, although growth in the subsequent year has been revised slightly higher.

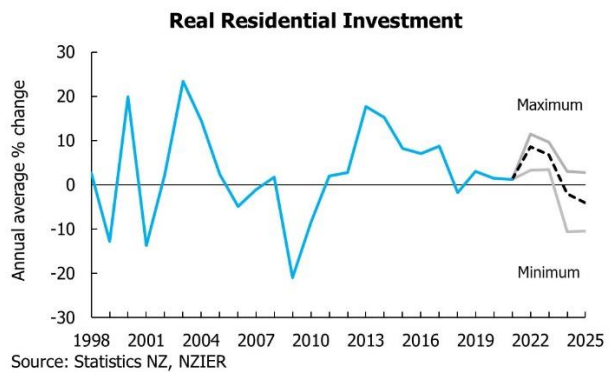
Overall, the household sector is expected to remain resilient over the coming years.



Investment forecast revised higher beyond the near-term impact of lockdown

Despite the downward revision in business investment forecasts for the year to March 2022, expectations are for a strong rebound in investment in the subsequent year.

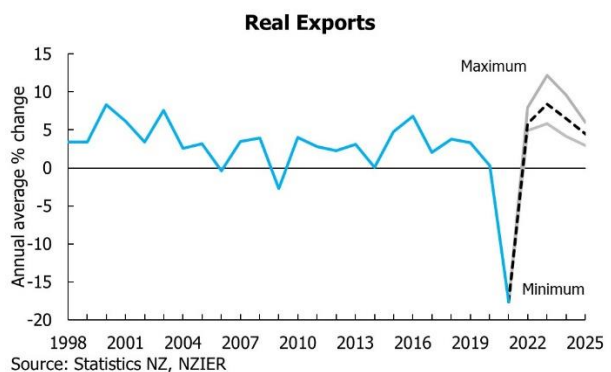
Although businesses are more cautious given the uncertainty of how the COVID-19 outbreak will evolve, the pipeline of construction remains solid. Meanwhile, acute labour shortages are encouraging businesses to invest in technology.



Export outlook more positive

Forecasts for export growth have been revised higher over much of the projection, reflecting strong global demand. Although new variants of COVID-19 introduce additional uncertainty to the global growth outlook, demand for New Zealand exports is expected to remain strong over the coming years.

Meanwhile, the import growth outlook remains solid despite the disruptions from the COVID-19 community outbreak.

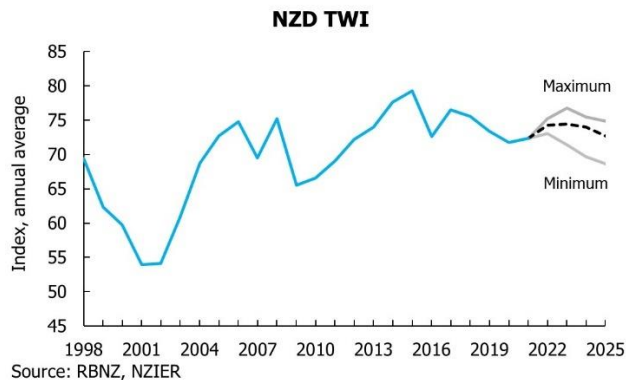


NZD outlook lower in the near term

The NZD TWI forecast has again been revised lower in the near term, partly reflecting market disappointment at the smaller than expected interest rate increase from the Reserve Bank in its November meeting.

Beyond 2022, expectations are for the currency to remain elevated, reflecting the continued yield attractiveness of the New Zealand dollar.

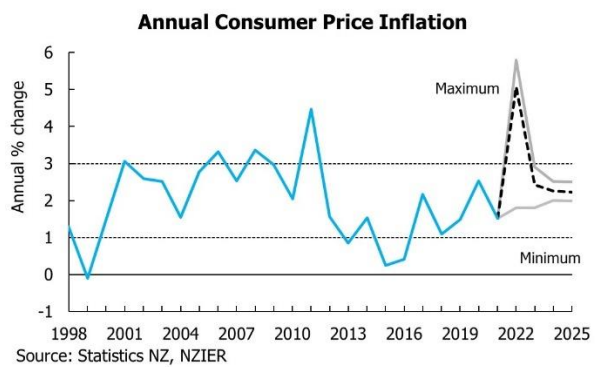
The NZD TWI is expected to peak at 74.5 for the year to March 2023 before easing to 72.7 in 2025.



Inflation outlook revised sharply higher

CPI inflation increased sharply in the September quarter, and forecasts are for inflation to settle back while remaining elevated through to 2025.

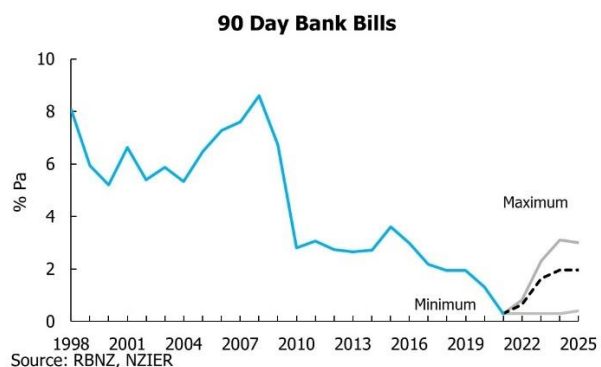
Annual CPI inflation is forecast to surge to above 5 percent for the year to March 2022 before edging back within the Reserve Bank's inflation target of 1 to 3 percent in the following year. Nonetheless, inflation is expected to remain above the inflation target mid-point over the coming years.



Short-term interest rate outlook higher

With high inflation pressures expected to persist in the New Zealand economy, forecasts for short-term interest rates have also been revised higher. This reflects expectations that the Reserve Bank will continue to raise the Official Cash Rate (OCR) over the coming years to rein in inflation.

Forecasts for long-term interest rates have also been revised higher, reflecting expectations in New Zealand and globally that central banks will raise interest rates given the higher inflation outlook.



Labour shortages underpin wage growth

Forecasts for annual wage growth have been revised higher through to 2024, as the labour market is expected to remain very tight over the coming years.

The average forecast for the unemployment rate is for it to track 3.6 percent through to 2023 before lifting in the subsequent years.

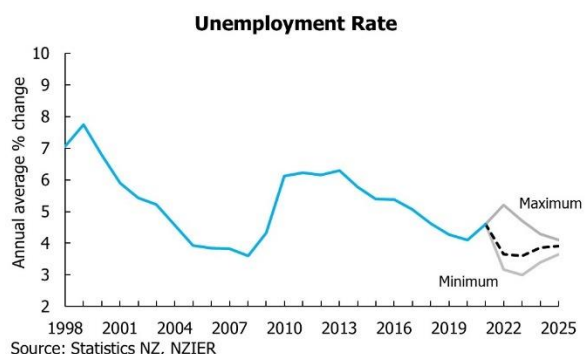


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Dec-2021 survey				Sep-2021 survey			
	2021/22	2022/23	2023/24	2024/25	2021/22	2022/23	2023/24	2024/25
GDP	4.3 ↓	4.6 ↑	2.4 ↑	2.6 ↓	4.5	4.5	2.3	2.7
Private consumption	4.5 ↓	4.0 ↑	2.1 ↓	2.4 ↓	6.5	3.8	2.3	2.7
Public consumption	6.5 ↑	1.9 ↑	1.1 ↓	2.5 ↑	4.3	1.7	1.2	2.2
Fixed investment:					0.0	0.0	0.0	0.0
Residential	8.7 ↓	6.8 ↑	-2.0 ↑	-4.1 ↓	11.5	5.4	-2.9	-2.9
Other	5.2 ↓	8.3 ↑	4.3 ↑	3.3 ↑	7.9	7.1	4.1	3.1
Total	6.1 ↓	7.9 ↑	2.6 ↑	1.5 →	8.9	6.6	2.2	1.5
Exports, goods & services	5.9 ↑	8.4 ↑	6.5 ↑	4.5 ↓	2.9	8.1	6.0	4.6
Imports, goods & services	16.3 ↑	7.7 ↑	4.6 →	2.8 ↓	14.7	7.4	4.6	3.0
Consumer price index (apc)	5.1 ↑	2.4 ↑	2.3 ↑	2.2 →	3.5	2.0	2.2	2.2
New Zealand TWI (avg yr to Mar)	74.3 ↓	74.5 ↓	74.0 ↑	72.7 ↑	74.5	74.8	73.7	72.5
90 day bank bill (avg yr to Mar)	0.6 →	1.6 ↑	2.0 ↑	2.0 ↑	0.6	1.4	1.6	1.7
10 year govt bond (avg yr to Mar)	2.1 ↑	2.7 ↑	2.9 ↑	2.9 ↑	1.8	2.3	2.5	2.7
Current account balance (NZ\$b; Mar yr)	-15.7 ↓	-17.3 ↓	-17.1 ↓	-14.0 ↑	-14.4	-16.6	-16.8	-15.1
Employment	3.2 ↑	1.4 ↓	1.5 ↓	1.4 ↓	2.1	2.0	1.7	1.7
Unemployment (% of labour force)	3.6 ↓	3.6 ↓	3.9 ↓	3.9 ↓	4.2	3.9	4.1	4.2
Wages (private sector avg hourly earnings)	3.7 →	4.1 ↑	3.9 ↑	3.7 ↓	3.7	3.8	3.6	3.9
Government operating balance (NZ\$b, September yr)	-18.3 ↓	-8.2 ↑	-4.6 ↑	-0.6 ↑	-18.2	-10.3	-6.1	-1.8

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

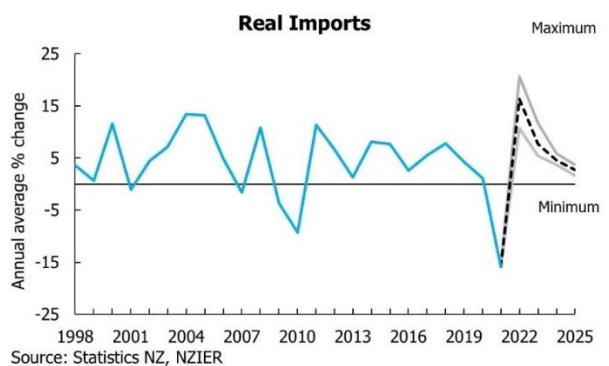
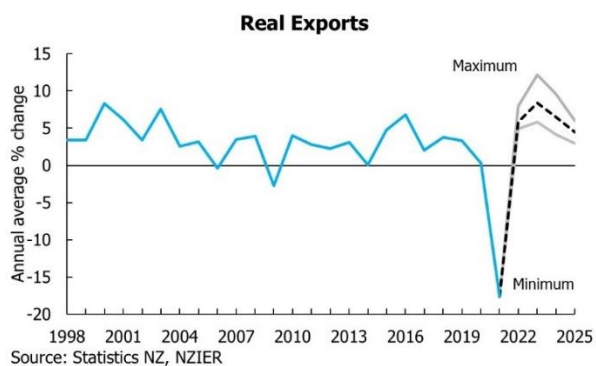
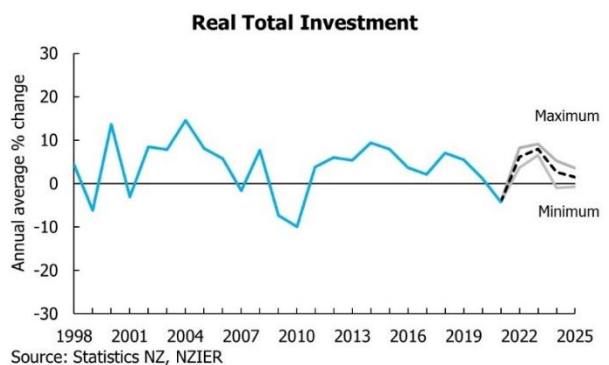
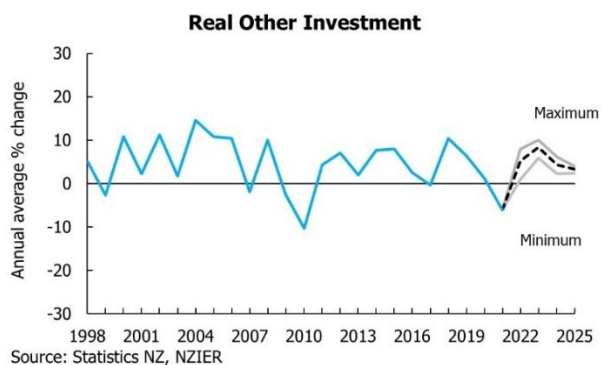
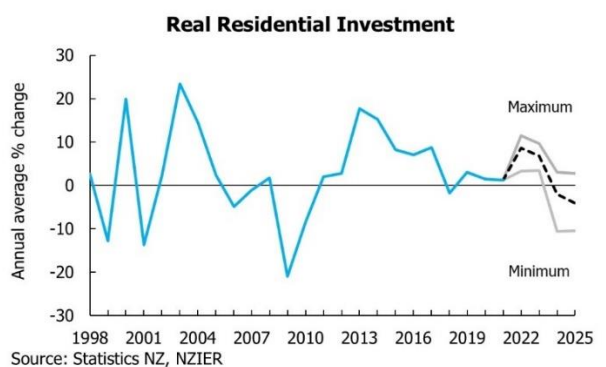
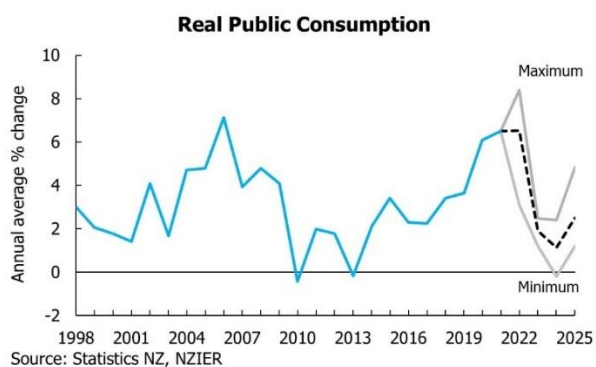
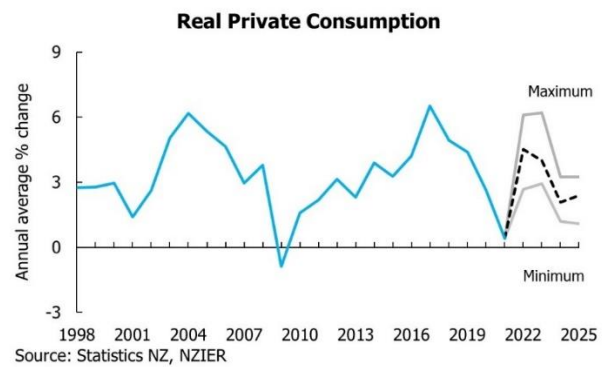
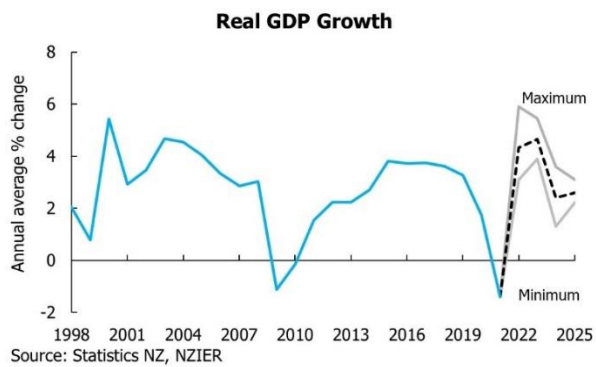
qpc, quarters	Sep-21 f			Dec-21 f			Mar-22 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	-7.0	-5.0	1.1	1.1	3.3	5.8	1.3	2.3	4.9
CPI (qpc)	Dec-21 f			Mar-22 f			Jun-22 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
CPI (qpc)	0.3	1.0	1.6	0.4	0.7	1.2	0.3	0.6	0.8

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	3.1	4.3	5.9	3.9	4.6	5.4	1.3	2.4	3.6	2.2	2.6	3.1
Private consumption	2.7	4.5	6.1	2.9	4.0	6.2	1.2	2.1	3.2	1.1	2.4	3.2
Public consumption	3.1	6.5	8.4	1.2	1.9	2.5	-0.2	1.1	2.4	1.2	2.5	4.8
Fixed investment												
- Residential	3.4	8.7	11.4	3.5	6.8	9.7	-10.6	-2.0	3.0	-10.4	-4.1	2.8
- Other	1.0	5.2	8.0	5.9	8.3	10.0	2.3	4.3	6.1	2.4	3.3	3.9
- Total	3.6	6.1	8.2	6.5	7.9	9.1	-1.0	2.6	5.3	-0.7	1.5	3.6
Exports, goods and services	4.9	5.9	7.9	5.8	8.4	12.2	4.2	6.5	9.6	3.0	4.5	6.0
Imports, goods and services	10.7	16.3	20.6	5.5	7.7	11.6	3.7	4.6	5.8	1.6	2.8	3.7
Consumer price index (apc)	1.8	5.1	5.8	1.8	2.4	2.9	2.0	2.3	2.5	2.0	2.2	2.5
New Zealand TWI (avg yr to Mar)	73.0	74.3	75.2	71.4	74.5	76.8	69.7	74.0	75.5	68.6	72.7	74.9
90 day bank bill (avg yr to Mar)	0.3	0.6	0.8	0.3	1.6	2.3	0.3	2.0	3.1	0.4	2.0	3.0
10 year government stock (avg yr to Mar)	1.5	2.1	2.3	1.9	2.7	3.1	2.2	2.9	3.2	2.6	2.9	3.4
Current account balance (NZ\$b; Mar yr)	-20.2	-15.7	-10.7	-21.6	-17.3	-12.8	-22.5	-17.1	-13.1	-16.5	-14.0	-11.1
Employment	1.5	3.2	4.5	0.6	1.4	2.5	0.9	1.5	2.7	1.0	1.4	2.0
Unemployment rate (% of labour force)	3.2	3.6	5.2	3.0	3.6	4.7	3.4	3.9	4.3	3.7	3.9	4.1
Wages (private sector avg hourly earnings)	2.7	3.7	4.0	2.6	4.1	4.9	2.7	3.9	5.1	3.0	3.7	4.8
Government operating balance (NZ\$m, December yr)	-19.3	-18.3	-16.5	-9.5	-8.2	-6.7	-7.1	-4.6	-0.8	-2.3	-0.6	2.0

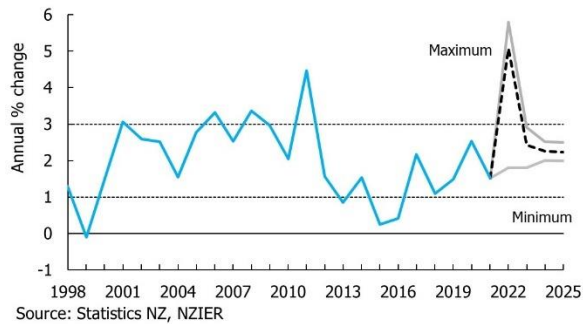
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

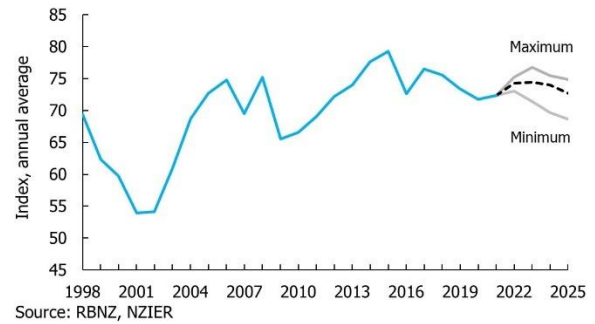
Summary charts



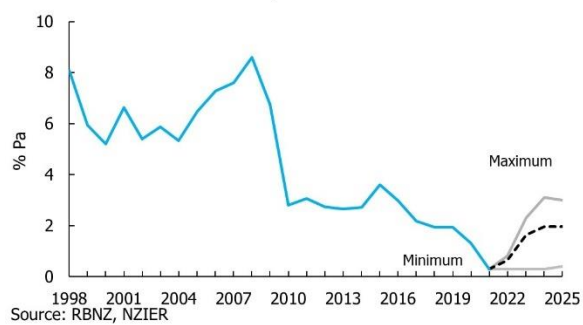
Annual Consumer Price Inflation



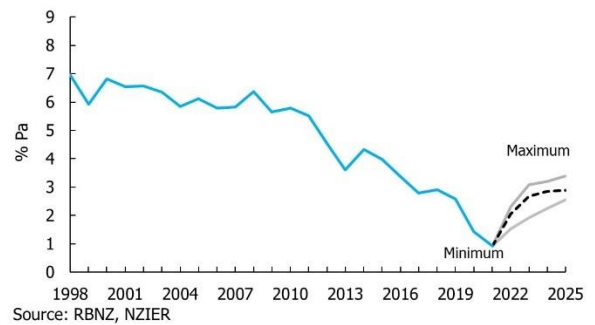
NZD TWI



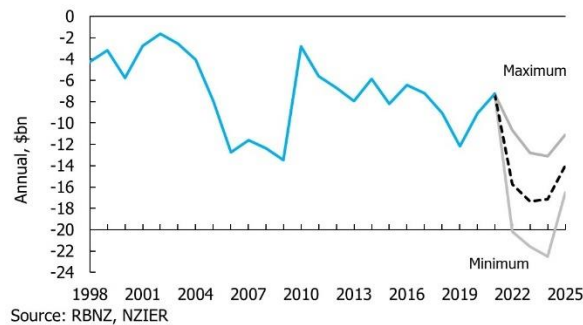
90 Day Bank Bills



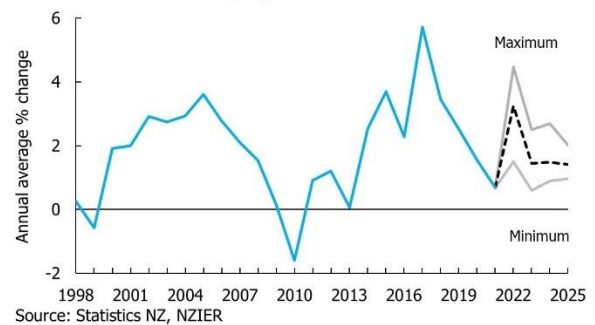
10 Year Government Bond Yield



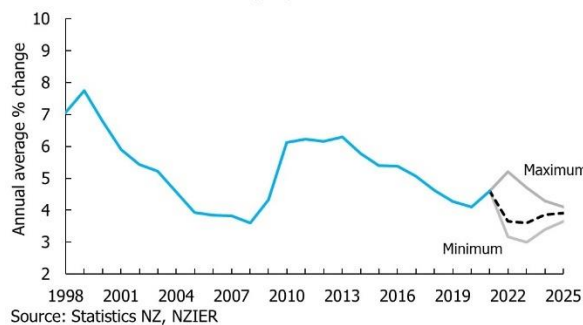
Current Account Balance



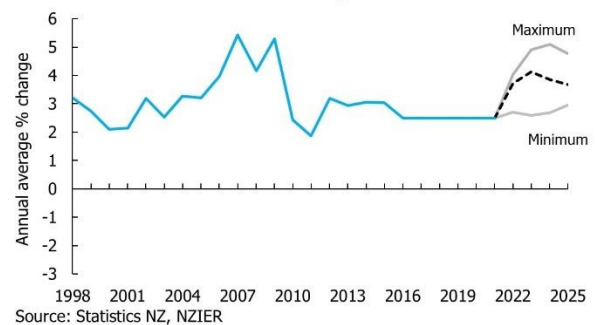
Employment Growth

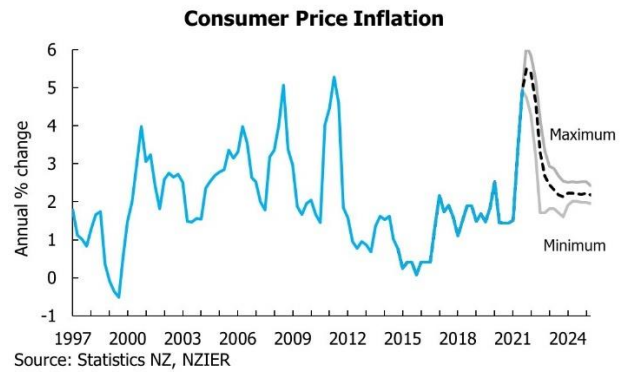
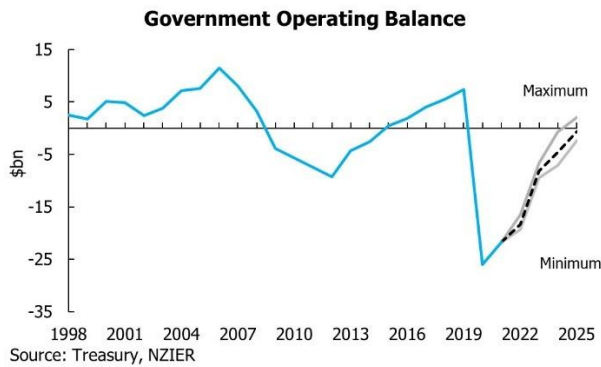


Unemployment Rate



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. 2022 refers to the year ended March 2022.

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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