

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* shows a slightly softer growth outlook

The latest NZIER *Consensus Forecasts* expects a slight downward revision to the growth outlook for the next few years.

Weaker forecasts for exports drive much of this downward revision in the near term. From 2019, expectations of weaker growth in investment explain the softer growth outlook.

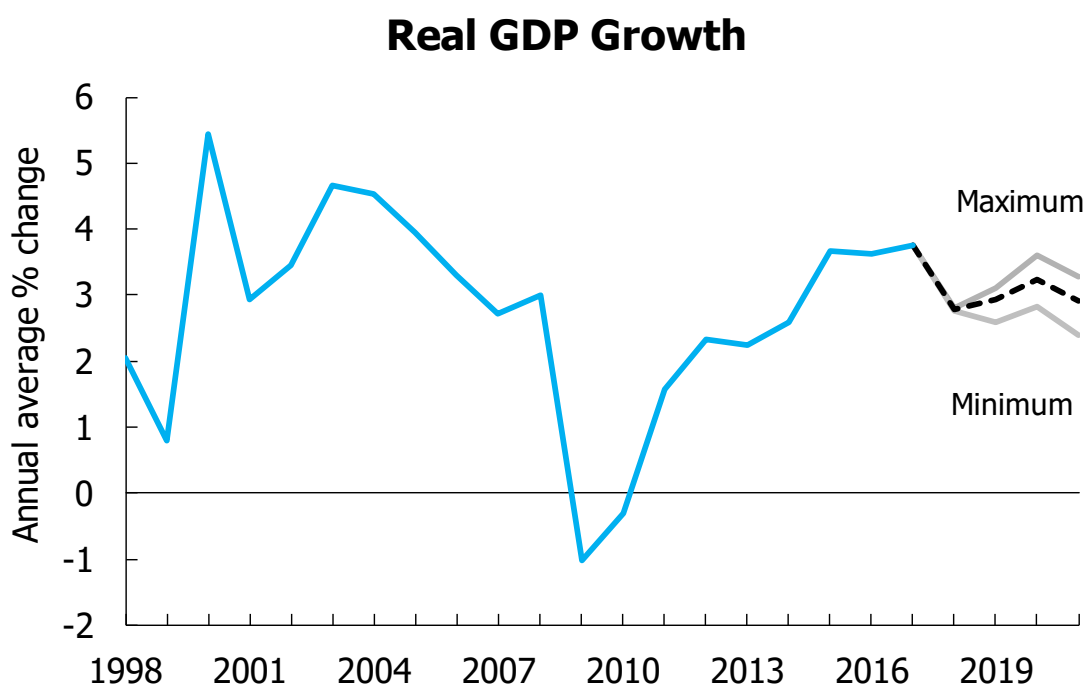
Nonetheless, expectations for growth remain reasonably healthy through to 2021. Despite a moderation in household spending due to slower population growth, economic growth is still expected to be around 3 percent in 2021.

Housing construction forecasts have been revised higher over the coming year, but from 2019 growth is expected to be softer. A large degree of uncertainty remains about how much construction can ramp up given capacity constraints.

Meanwhile, the labour market is expected to remain tight. With slowing population growth limiting the extent to which employment can grow further, labour shortages are expected to generate higher wage growth through to 2021.

Despite some signs of capacity pressures, inflation is expected to remain contained. Rising oil prices have pushed up the cost of petrol, but there remains little sign of a broadening in inflation pressures.

Figure 1 Economic growth outlook still solid despite slight downward revision

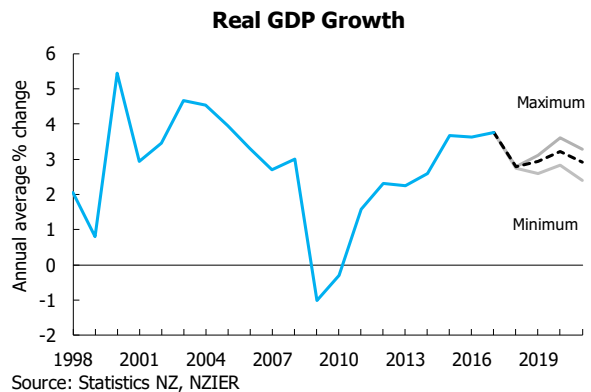


Source: Statistics NZ, NZIER

Slightly lower growth outlook

Consensus Forecasts expects a slightly softer growth outlook through most of the projection period, relative to the previous quarter.

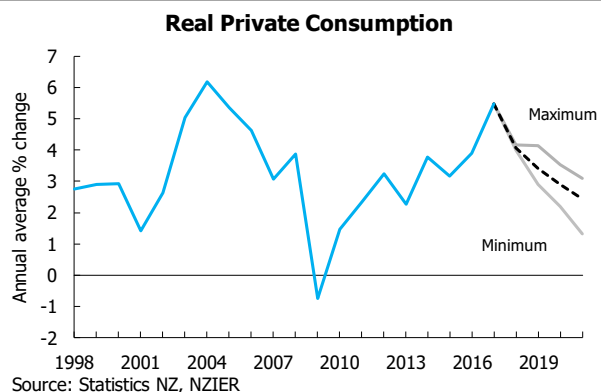
Recent activity indicators point to softer growth in the near term. Beyond 2018, annual growth is expected to peak at 3.2 percent for the year to March 2020, before moderating to 2.9 percent by 2021.



Household spending revised up

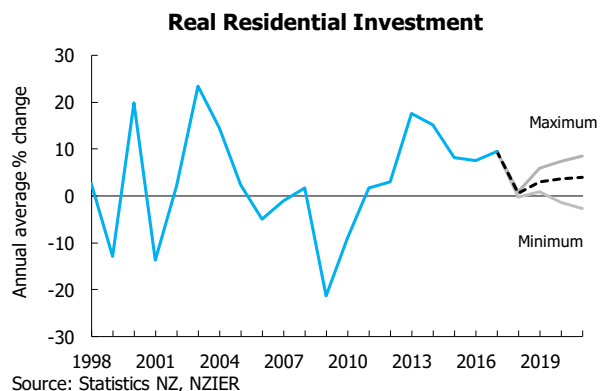
Household spending forecasts have again been revised up, although expectations are still for a moderation in growth through to 2021.

Spending has been very strong in recent years, reflecting support from population growth and improving consumer confidence. Slowing population growth is expected to weigh on household spending.



Residential construction revised lower from 2019

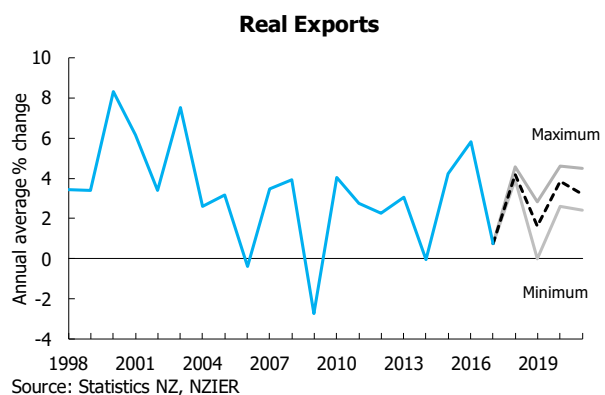
The residential construction outlook is uncertain. The new Government has announced its ambitious plan to build 100,000 affordable dwellings over the coming decade, but there are doubts over the extent to which residential construction can ramp up given capacity constraints in the construction sector.



Export outlook mixed

Export growth forecasts have been revised lower in the near term, but higher later in the projection.

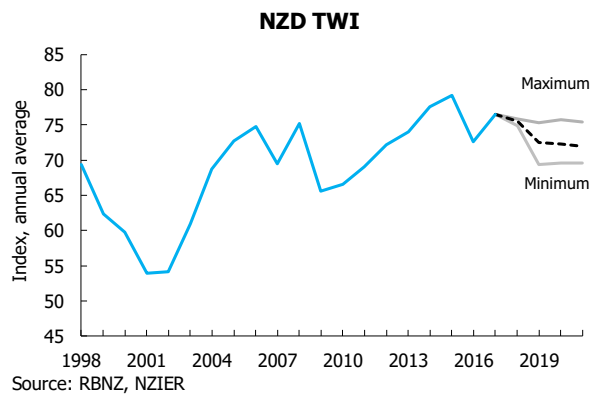
Although global demand is recovering, the recent outbreak of *Mycoplasma bovis* will weaken agriculture production over the coming year. The pre-emptive culling of affected herds is expected to reduce dairy production. Beyond 2019, export growth is expected to rebound.



NZD expectations revised lower

Although the NZD has surprised on the upside, expectations remain for a depreciation through to 2021.

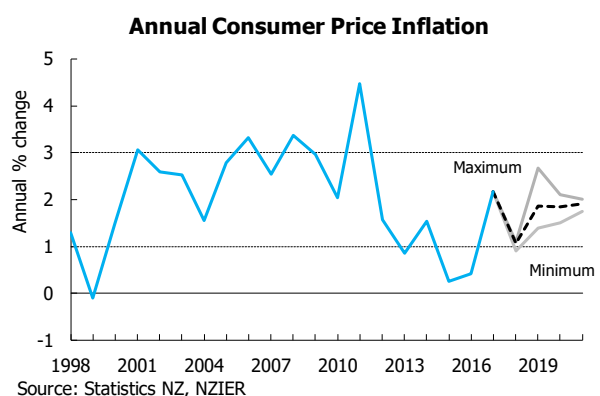
The US Federal Reserve is expected to continue lifting interest rates over the coming year. In contrast, the RBNZ is expected to keep the OCR on hold until at least the middle of next year. This should reduce the yield attractiveness of the NZD, and hence weigh on the currency.



Inflation outlook broadly unchanged

Annual inflation fell to 1.1 percent for the year to March 2018. Although petrol prices have rebounded on the back of higher global oil prices, other areas of inflation remain contained. Retailers continue to face margin compression as they struggle to pass on higher costs in the form of price increases.

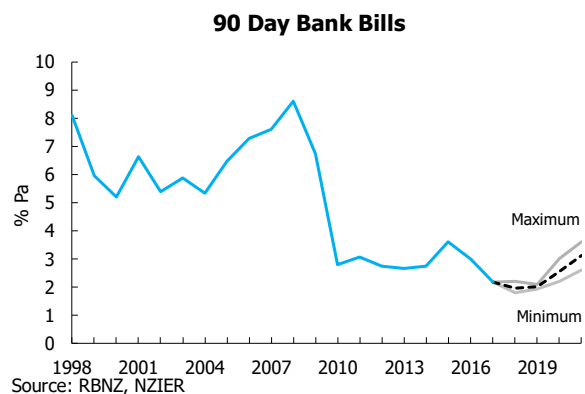
Forecasters continue to expect annual inflation to track close to 2 percent over the next few years.



Interest rate outlook also broadly unchanged

The RBNZ kept the OCR on hold at 1.75 percent at the release of its May *Monetary Policy Statement* and indicated interest rates were just as likely to go down as up.

Nonetheless, the central bank's forecasts indicate the OCR is likely to increase, although not till later in 2019. *Consensus Forecasts* for interest rates have been revised slightly lower from 2019.



Labour market expected to remain tight

Slowing population growth will limit the extent to which employment can grow. As a result, the scope for further easing in the unemployment rate is limited.

This tightening in the labour market is expected to lead to stronger wage growth through to 2021.

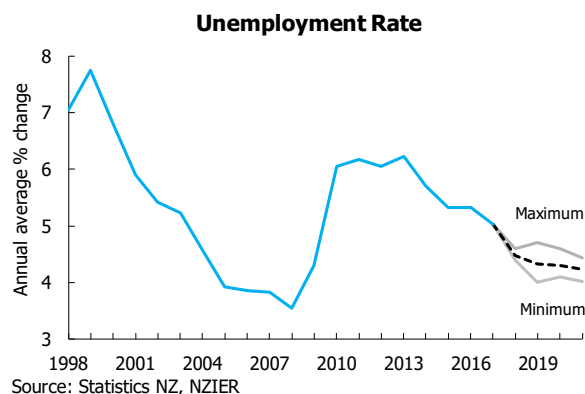


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Jun-2018 survey				Mar-2018 survey			
	2017/18	2018/19	2019/20	2020/21	2017/18	2018/19	2019/20	2020/21
GDP	2.8 ↓	2.9 ↓	3.2 ↓	2.9 →	2.9	3.1	3.3	2.9
Private consumption	4.1 ↑	3.4 ↑	2.9 ↑	2.4 ↑	3.7	3.2	2.8	2.3
Public consumption	5.0 ↑	3.3 →	2.8 →	2.6 →	4.8	3.3	2.8	2.6
Fixed investment:								
Residential	0.6 →	2.9 ↑	3.7 ↓	3.9 ↓	0.6	2.3	4.2	4.3
Other	4.8 ↑	3.8 ↑	4.1 ↓	3.8 ↓	4.5	3.6	4.3	3.9
Total	3.6 ↑	3.5 ↑	4.0 ↓	3.9 ↓	3.4	3.3	4.3	4.0
Exports, goods & services	4.2 ↓	1.6 ↓	3.8 ↑	3.2 ↑	4.8	2.4	3.4	3.0
Imports, goods & services	6.4 ↑	3.5 ↓	3.7 ↓	3.2 ↓	5.6	3.7	3.9	3.4
Consumer price index (apc)	1.1 ↓	1.9 ↑	1.8 ↓	1.9 ↓	1.2	1.8	1.9	2.0
New Zealand TWI (avg yr to Mar)	75.5 ↑	72.6 ↓	72.3 ↓	72.0 ↓	75.3	73.1	73.1	72.8
90 day bank bill (avg yr to Mar)	1.9 →	2.0 →	2.5 ↓	3.1 ↓	1.9	2.0	2.6	3.2
10 year govt bond (avg yr to Mar)	2.9 ↓	3.1 ↓	3.5 ↓	3.9 ↓	3.0	3.3	3.8	4.0
Current account balance (NZ\$b; Mar yr)	-7.5 ↓	-9.2 ↓	-9.6 ↓	-9.7 ↓	-6.3	-7.7	-8.1	-9.0
Employment	3.1 ↓	2.0 →	1.6 →	1.5 ↑	3.2	2.0	1.6	1.4
Unemployment (% of labour force)	4.5 →	4.3 →	4.3 →	4.2 ↓	4.5	4.3	4.3	4.3
Wages (private sector avg hourly earnings)	2.9 ↑	3.6 ↑	3.2 ↑	3.1 ↑	2.3	3.0	3.0	2.9
Government operating balance (NZ\$b, September yr)	4.4 ↑	4.2 ↑	6.0 ↑	6.3 ↑	2.7	2.6	4.5	5.7

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	Mar-18 f			Jun-18 f			Sep-18 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	0.4	0.5	0.7	0.7	0.8	1.0	0.7	0.9	1.1
	Jun-18 f			Sep-18 f			Dec-18 f		
CPI (qpc)	0.3	0.5	0.7	0.4	0.6	0.8	0.0	0.2	0.4

aapc, March years	2017/2018 f			2018/2019 f			2019/2020 f			2020/2021 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	2.8	2.8	2.8	2.6	2.9	3.1	2.8	3.2	3.6	2.4	2.9	3.3
Private consumption	4.0	4.1	4.2	2.9	3.4	4.1	2.2	2.9	3.5	1.3	2.4	3.1
Public consumption	4.8	5.0	5.2	1.9	3.3	4.8	1.4	2.8	4.9	0.4	2.6	5.0
Fixed investment												
- Residential	-0.2	0.6	0.9	0.9	2.9	6.0	-1.4	3.7	7.3	-2.6	3.9	8.5
- Other	4.2	4.8	5.3	1.2	3.8	4.8	2.7	4.1	7.1	3.1	3.8	4.7
- Total	3.3	3.6	4.0	1.5	3.5	5.0	2.0	4.0	6.4	2.1	3.9	5.7
Exports, goods and services	3.9	4.2	4.6	0.0	1.6	2.8	2.6	3.8	4.6	2.4	3.2	4.5
Imports, goods and services	5.8	6.4	6.9	0.9	3.5	5.4	3.4	3.7	4.1	2.4	3.2	3.9
Consumer price index (apc)	0.9	1.1	1.1	1.4	1.9	2.7	1.5	1.8	2.1	1.8	1.9	2.0
New Zealand TWI (avg yr to Mar)	74.9	75.5	75.8	69.4	72.6	75.3	69.6	72.3	75.8	69.6	72.0	75.4
90 day bank bill (avg yr to Mar)	1.8	1.9	2.2	1.9	2.0	2.1	2.2	2.5	3.0	2.6	3.1	3.6
10 year government stock (avg yr to Mar)	2.8	2.9	2.9	2.9	3.1	3.5	3.2	3.5	3.9	3.4	3.9	4.3
Current account balance (NZ\$b; Mar yr)	-8.2	-7.5	-6.8	-10.9	-9.2	-7.0	-11.2	-9.6	-7.6	-11.7	-9.7	-8.0
Employment	3.1	3.1	3.3	1.2	2.0	2.3	1.4	1.6	1.8	1.2	1.5	1.9
Unemployment rate (% of labour force)	4.4	4.5	4.6	4.0	4.3	4.7	4.1	4.3	4.6	4.0	4.2	4.4
Wages (private sector avg hourly earnings)	2.6	2.9	4.0	3.2	3.6	3.8	2.9	3.2	3.6	2.6	3.1	3.5
Government operating balance (NZ\$m, December yr)	3.1	4.4	8.0	2.0	4.2	8.2	3.7	6.0	10.1	3.9	6.3	8.9

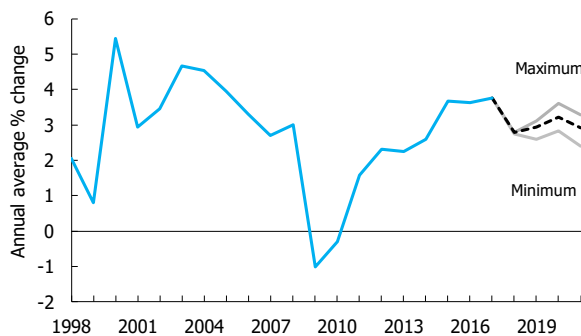
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
These results show only means; standard deviations are available on request

Source: NZIER

Note: qpc = quarterly percent change.

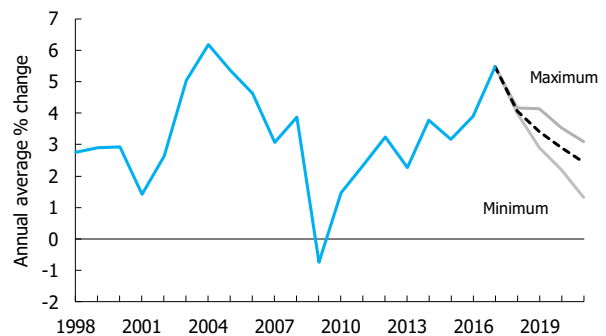
Summary charts

Real GDP Growth



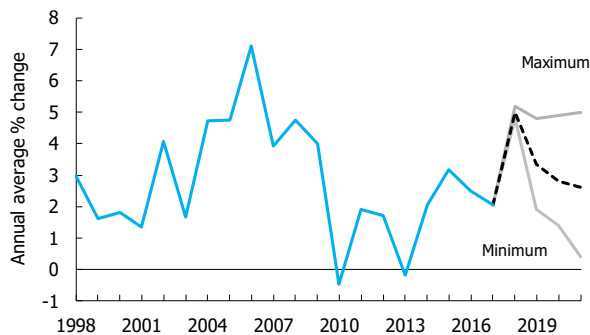
Source: Statistics NZ, NZIER

Real Private Consumption



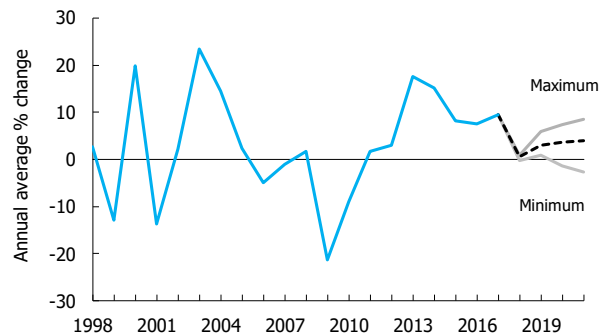
Source: Statistics NZ, NZIER

Real Public Consumption



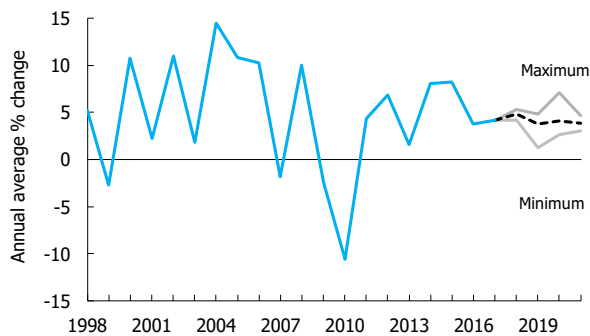
Source: Statistics NZ, NZIER

Real Residential Investment



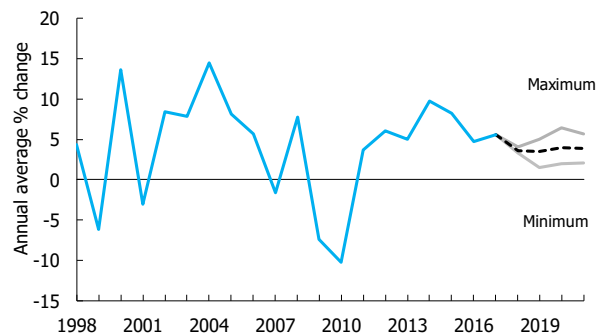
Source: Statistics NZ, NZIER

Real Other Investment



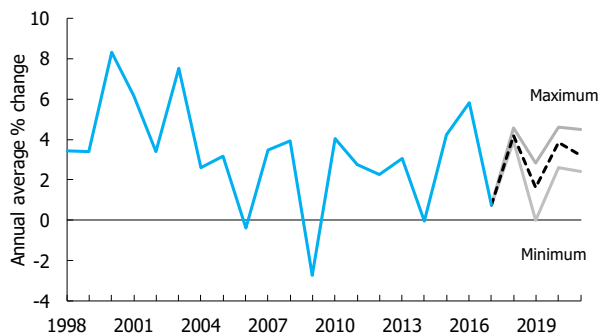
Source: Statistics NZ, NZIER

Real Total Investment



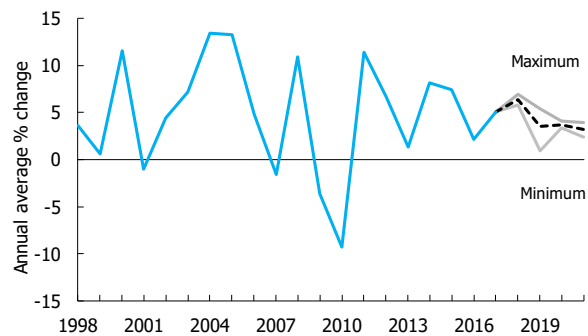
Source: Statistics NZ, NZIER

Real Exports



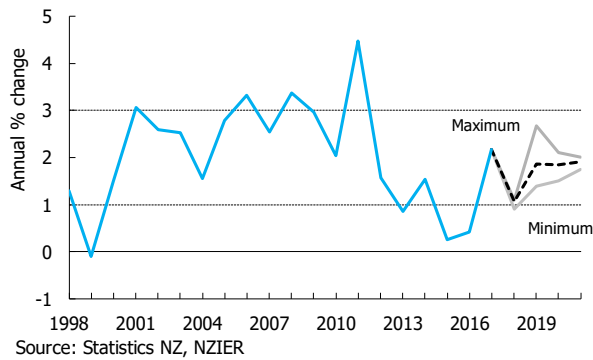
Source: Statistics NZ, NZIER

Real Imports

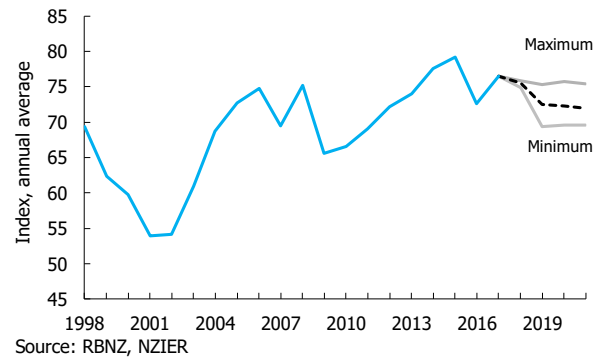


Source: Statistics NZ, NZIER

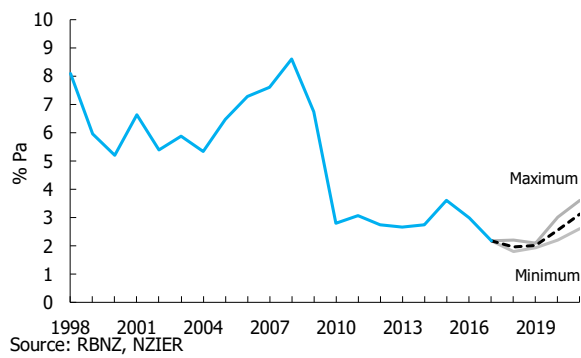
Annual Consumer Price Inflation



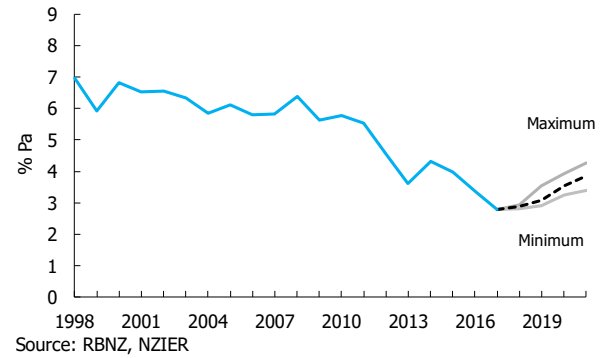
NZD TWI



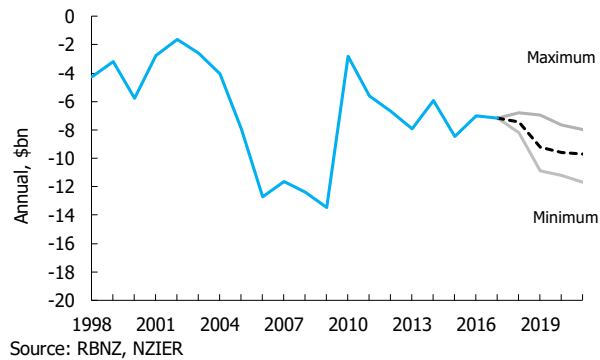
90 Day Bank Bills



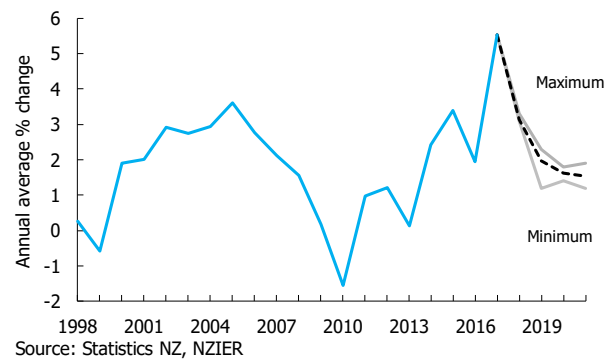
10 Year Government Bond Yield



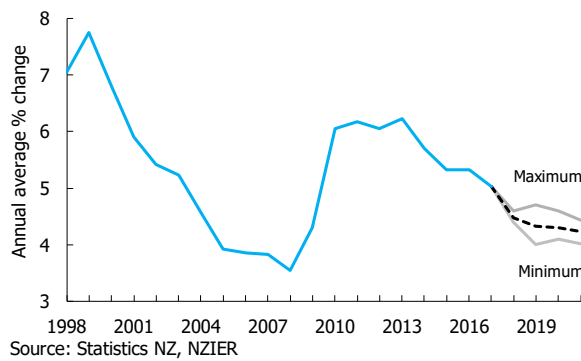
Current Account Balance



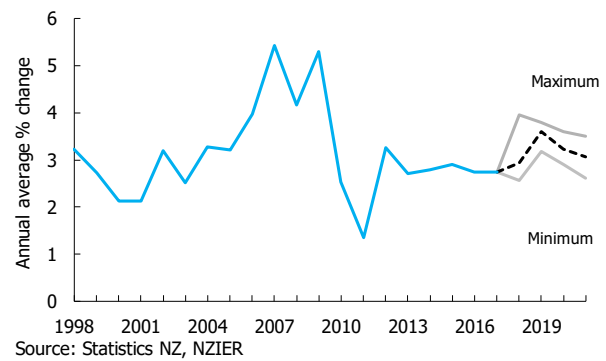
Employment Growth

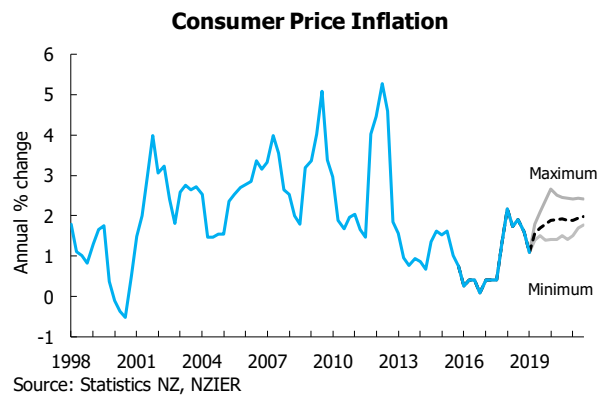
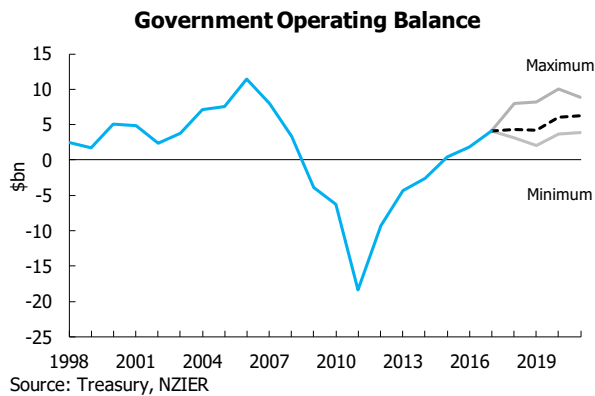


Unemployment Rate



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
New Zealand Institute of Economic Research
Reserve Bank of New Zealand
The Treasury
Westpac

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