

NZ Institute of Economic Research (Inc)  
Media release 17 June 2019

# Consensus Forecasts

## NZIER *Consensus Forecasts* shows lower growth outlook

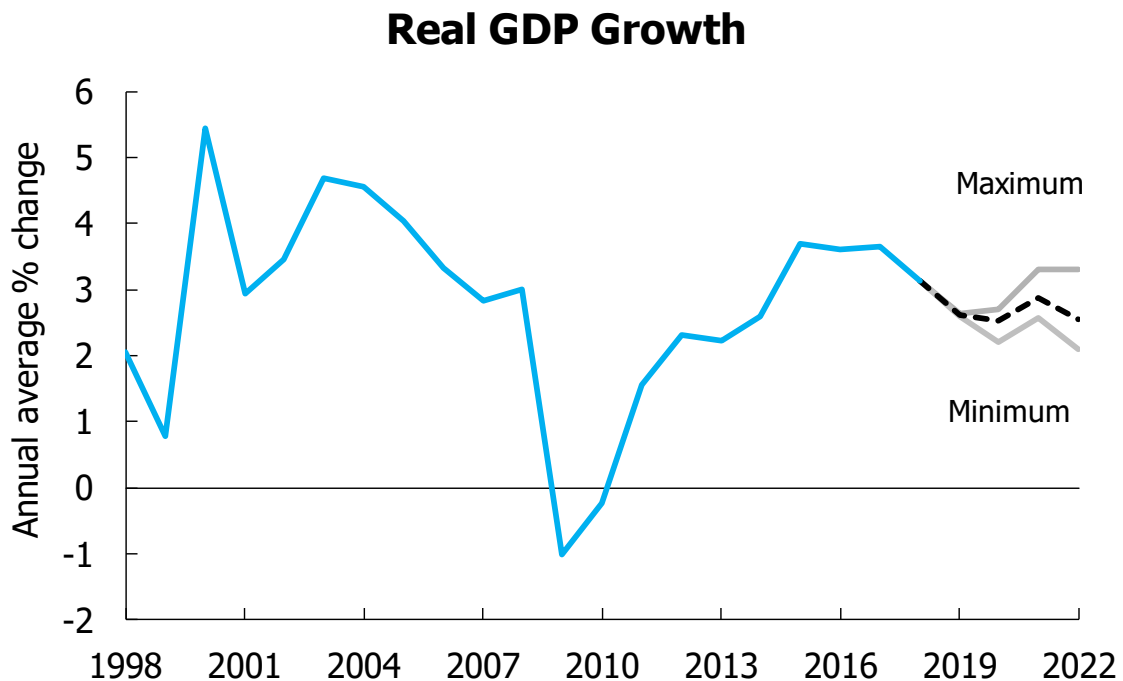
The latest NZIER *Consensus Forecasts* shows a softer near-term growth outlook, relative to the previous quarter.

The downward revision partly reflects a lower starting point in light of the softer than expected data on economic activity. The export growth outlook has also been revised lower, likely reflecting increasing uncertainty over the effects of the trade war between the US and China. Slowing growth in China has the potential to weigh on demand for New Zealand exports, both directly from China and indirectly from Australia.

However, the domestic growth outlook remains positive, with upward revisions to forecasts for household spending and residential investment. Although there is uncertainty over the extent of population growth given the new approach taken by Statistics NZ in regard to its net migration data, the already strong net inflows into the country in recent years and robust labour market is expected to support household spending over the coming years.

In contrast, the outlook for business investment has been revised lower. Business confidence has softened, and continued weak profitability is likely to make businesses more cautious about expansion plans. Overall, the growth outlook for the New Zealand economy remains solid.

**Figure 1 Economic growth outlook revised slightly lower**

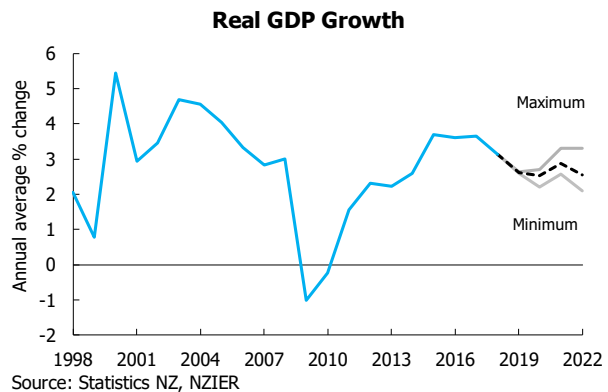


Source: Statistics NZ, NZIER

## Softer near-term growth outlook

Consensus Forecasts for GDP has been revised down for the next year, with annual growth now expected to be 2.5 percent for the year to March 2020. Beyond that, growth is expected to pick up to 2.9 percent for the subsequent year before moderating.

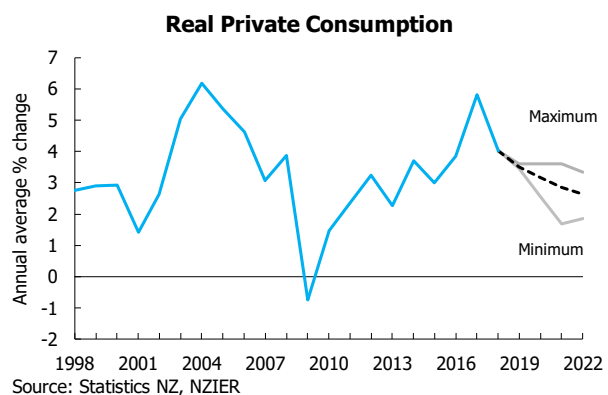
December quarter GDP was modest, with growth of 0.6 percent for the quarter. Recent activity indicators point to the potential for soft demand over the remainder of 2019.



## Stronger household spending

The outlook for household spending has been revised up over the projection period. Strong population growth in recent years, a robust labour market and lower mortgage rates should support spending. Consumers are feeling reasonably confident, particularly when it comes to making big-ticket purchases.

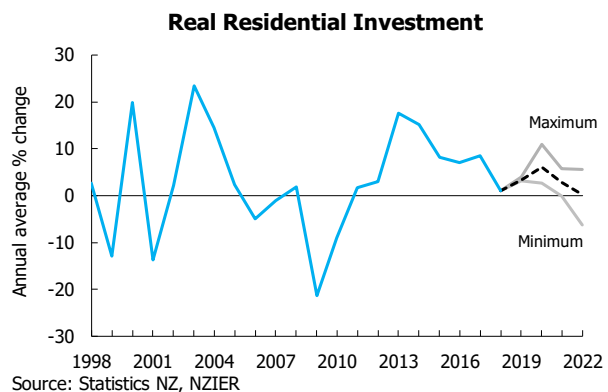
Annual growth in household spending is forecast to moderate from 3.5 percent for the year to March 2019 to 2.6 percent for the year to March 2022.



## Residential investment outlook revised up

Forecasts for residential investment have been revised up through to March 2021. Although house-building demand remains strong given strong population growth in recent years, capacity pressures in the construction sector have limited the degree to which growth has picked up. This has led to a more protracted construction cycle.

Annual growth is expected to peak at 6.2 percent for the year to March 2020 before easing.



## Weaker export outlook for the coming year

Export growth forecasts have been revised down for the coming year. Annual growth is expected to ease to 2.5 percent in the year to March 2020.

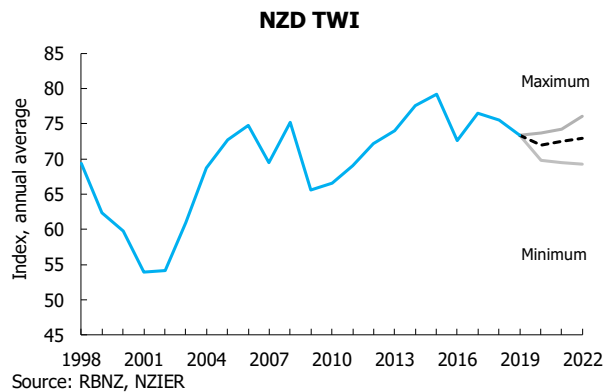
There is greater than usual uncertainty over the export outlook, as reflected in the wider range in forecasts over the projection period. This likely reflects uncertainty over the effects of the trade war between the US and China on export demand.



## NZD near-term forecasts revised higher

The New Zealand dollar (NZD) TWI has been revised higher through to March 2020, but slightly lower beyond that. That said, the consensus is for the NZD TWI to pick up from 2020.

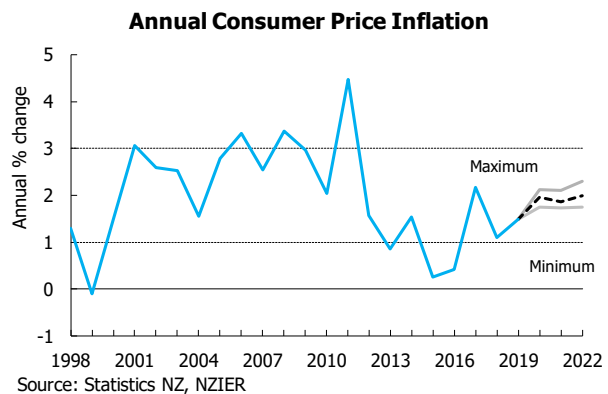
The Reserve Bank's surprise signal in March that it was looking to cut the Official Cash Rate (OCR), before following through with the move at its May *Monetary Policy Statement* (MPS), put downward pressure on the NZD. However, with the New Zealand growth outlook still reasonably robust the NZD is expected to remain high.



## Inflation anchored over the medium term

Annual inflation eased to 1.5 percent for the year to March 2019. The result largely reflected the fall in fuel prices, while the competitive retail environment weighed on the price of imported household goods.

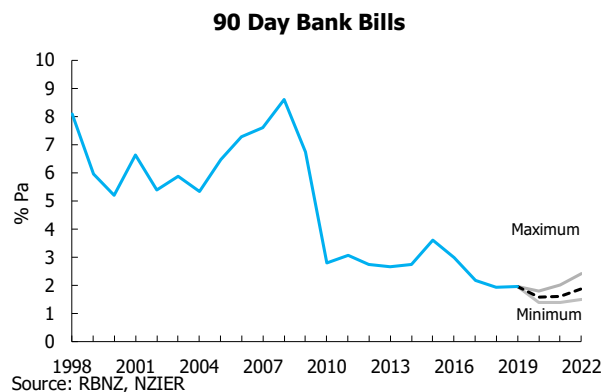
Despite that easing, the expectation is for inflation to pick up back towards the mid-point of the Reserve Bank's 1 to 3 percent target band by 2020 and remain close to there over the next few years.



## Lower interest rate outlook

The Reserve Bank surprised markets in March by signalling it was looking to cut the OCR, before following through in its May MPS. The central bank also left the door open to further easing.

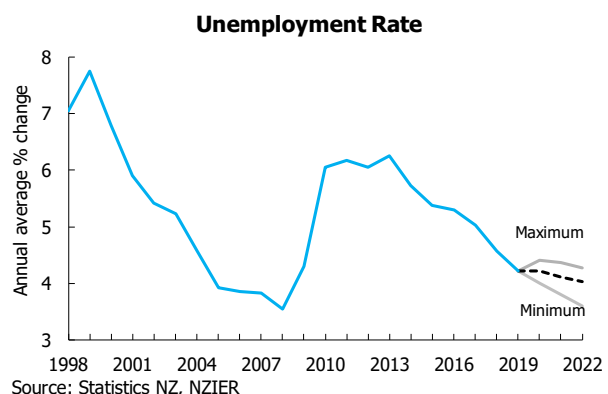
Markets have revised down its forecasts for both short-term and long-term interest rates over the projection period. This reflects both expectations of further easing in monetary policy, and expectations of a softer global growth outlook.



## Labour market expected to remain tight

Although forecasts for the unemployment rate have been revised up slightly, the general expectation is for the labour market to remain tight as hiring demand remains robust. The unemployment rate is expected to remain just above 4 percent over the next year.

Tightness in the labour market is expected to flow through to solid wage growth.



**Table 1 Latest Consensus Forecasts compared to previous**

aapc, March years	Jun-2019 survey				Mar-2019 survey			
	2018/19	2019/20	2020/21	2021/22	2018/19	2019/20	2020/21	2021/22
GDP	2.6 ↓	2.5 ↓	2.9 →	2.6 ↑	2.7	2.8	2.9	2.5
Private consumption	3.5 ↑	3.2 ↑	2.8 ↑	2.6 ↑	3.2	2.8	2.5	2.5
Public consumption	2.2 ↓	2.8 ↑	2.6 ↑	2.2 ↓	2.3	2.5	2.2	2.4
Fixed investment:								
Residential	3.4 ↑	6.2 ↑	2.9 ↑	0.2 ↓	2.7	3.2	2.5	1.6
Other	2.2 →	2.9 ↓	3.7 ↓	3.1 ↓	2.2	3.0	4.3	3.3
Total	2.5 ↑	3.8 ↑	3.5 ↓	2.3 ↓	2.3	3.1	3.9	2.9
Exports, goods & services	3.1 ↓	2.5 ↓	2.7 ↑	2.6 ↑	3.7	2.9	2.6	2.5
Imports, goods & services	3.9 ↓	2.4 ↓	3.4 ↑	2.9 ↑	4.8	2.5	3.0	2.8
Consumer price index (apc)	1.5 ↓	2.0 ↑	1.9 ↓	2.0 →	1.7	1.9	2.0	2.0
New Zealand TWI (avg yr to Mar)	73.9 ↑	71.9 ↑	72.5 ↓	73.0 ↓	73.0	71.7	72.6	73.2
90 day bank bill (avg yr to Mar)	1.9 →	1.6 ↓	1.6 ↓	1.9 ↓	1.9	1.9	2.2	2.6
10 year govt bond (avg yr to Mar)	2.2 ↓	1.9 ↓	2.3 ↓	2.7 ↓	2.6	2.6	3.1	3.3
Current account balance (NZ\$b; Mar yr)	-10.1 ↑	-10.0 ↑	-11.0 ↑	-11.7 ↑	-10.5	-10.8	-11.2	-12.0
Employment	1.5 ↓	1.7 ↑	1.6 →	1.5 ↑	2.5	1.6	1.6	1.4
Unemployment (% of labour force)	4.2 →	4.2 ↑	4.1 ↑	4.0 ↓	4.2	4.1	4.0	4.1
Wages (private sector avg hourly earnings)	3.6 ↑	3.4 ↑	3.2 ↓	3.2 →	3.2	3.3	3.3	3.2
Government operating balance (NZ\$b, September yr)	2.1 ↓	4.5 ↓	5.3 ↓	7.5 ↓	2.2	4.7	5.5	8.0

**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**

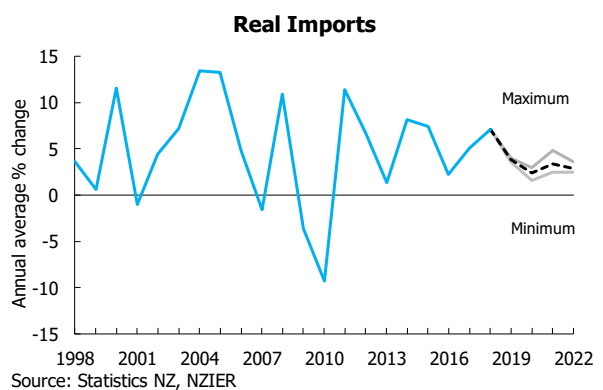
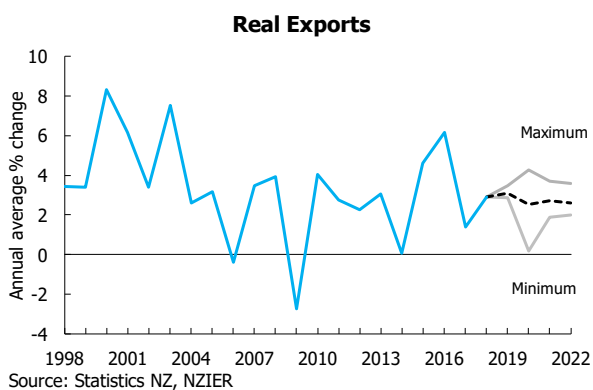
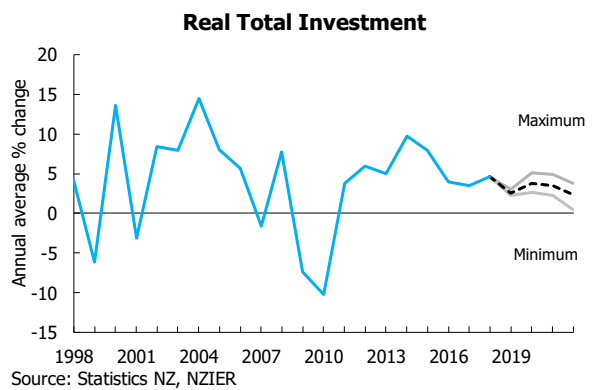
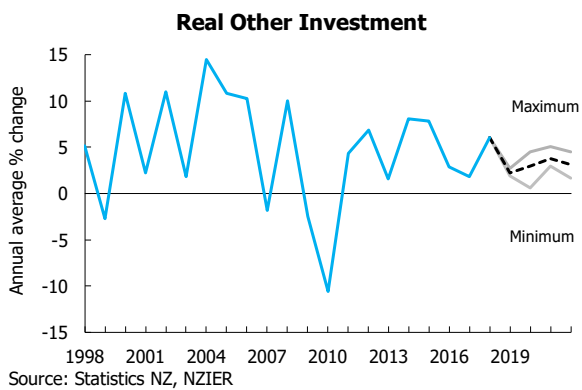
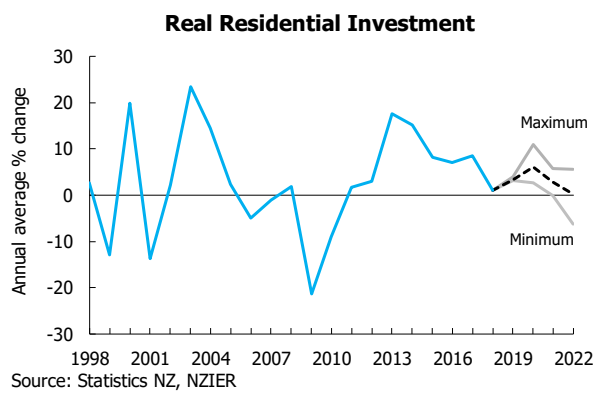
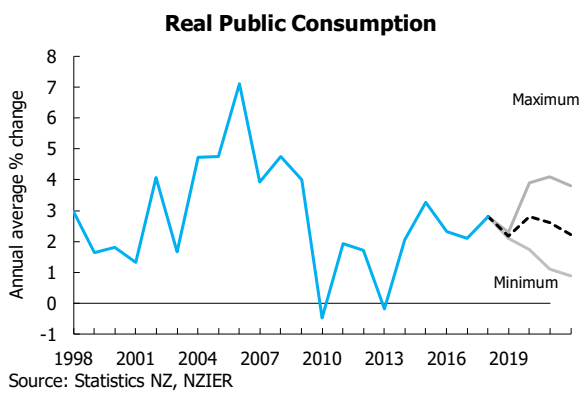
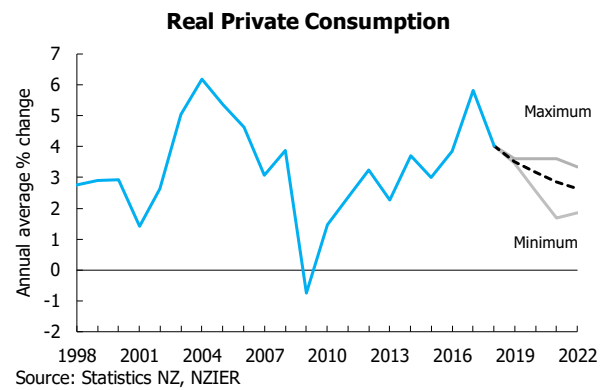
<b>qpc, quarters</b>	<b>Mar-19 f</b>			<b>Jun-19 f</b>			<b>Sep-19 f</b>					
	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>			
GDP (seasonally adjusted, qpc)	0.4	0.6	0.6	0.5	0.6	0.8	0.6	0.8	0.9			
CPI (qpc)	0.6	0.7	0.8	0.5	0.6	0.7	0.1	0.2	0.4			
<b>aapc, March years</b>	<b>2018/2019 f</b>			<b>2019/2020 f</b>			<b>2020/2021 f</b>			<b>2021/2022 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	2.6	2.6	2.6	2.2	2.5	2.7	2.6	2.9	3.3	2.1	2.6	3.3
Private consumption	3.5	3.5	3.6	2.6	3.2	3.6	1.7	2.8	3.6	1.9	2.6	3.3
Public consumption	2.1	2.2	2.3	1.7	2.8	3.9	1.1	2.6	4.1	0.9	2.2	3.8
Fixed investment												
- Residential	3.1	3.4	4.0	2.7	6.2	11.0	-0.1	2.9	5.7	-6.2	0.2	5.6
- Other	1.9	2.2	2.7	0.6	2.9	4.5	3.0	3.7	5.1	1.7	3.1	4.5
- Total	2.3	2.5	3.0	2.6	3.8	5.1	2.3	3.5	4.9	0.5	2.3	3.8
Exports, goods and services	2.9	3.1	3.5	0.2	2.5	4.3	1.9	2.7	3.7	2.0	2.6	3.6
Imports, goods and services	3.6	3.9	4.0	1.6	2.4	3.0	2.5	3.4	4.8	2.5	2.9	3.6
Consumer price index (apc)	1.5	1.5	1.5	1.8	2.0	2.1	1.7	1.9	2.1	1.7	2.0	2.3
New Zealand TWI (avg yr to Mar)	73.0	73.9	74.0	69.9	71.9	73.7	69.5	72.5	74.2	69.3	73.0	76.1
90 day bank bill (avg yr to Mar)	1.9	1.9	1.9	1.4	1.6	1.8	1.4	1.6	2.0	1.5	1.9	2.4
10 year government stock (avg yr to Mar)	2.2	2.2	2.4	1.7	1.9	2.6	1.9	2.3	3.1	2.2	2.7	3.4
Current account balance (NZ\$b; Mar yr)	-11.0	-10.1	-9.5	-11.2	-10.0	-7.5	-14.8	-11.0	-8.2	-15.3	-11.7	-8.1
Employment	1.5	1.5	1.5	1.2	1.7	2.1	1.2	1.6	2.0	1.3	1.5	1.8
Unemployment rate (% of labour force)	4.2	4.2	4.2	4.0	4.2	4.4	3.8	4.1	4.4	3.6	4.0	4.3
Wages (private sector avg hourly earnings)	3.6	3.6	3.6	2.1	3.4	4.2	2.1	3.2	3.9	2.3	3.2	3.7
Government operating balance (NZ\$m, December yr)	1.6	2.1	3.8	1.6	4.5	8.7	2.4	5.3	8.9	5.7	7.5	9.4

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

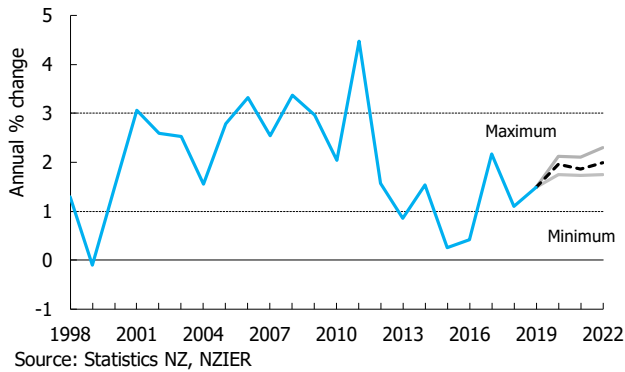
Source: NZIER

Note: qpc = quarterly percent change.

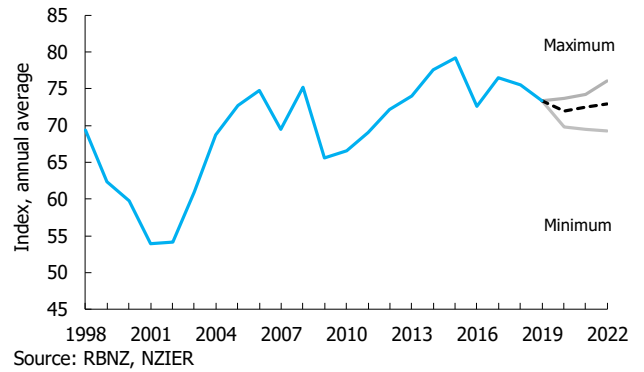
## Summary charts



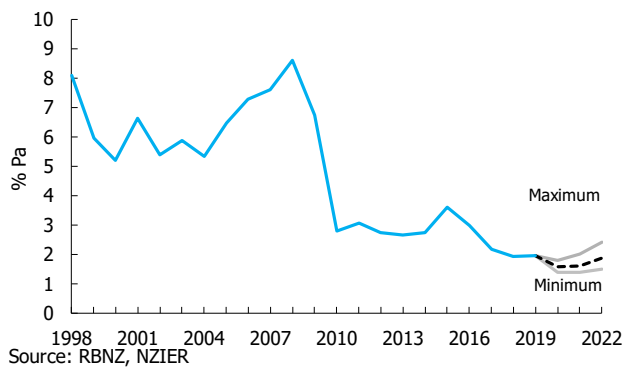
**Annual Consumer Price Inflation**



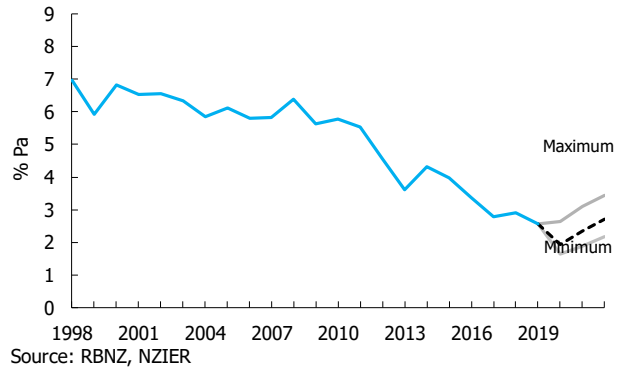
**NZD TWI**



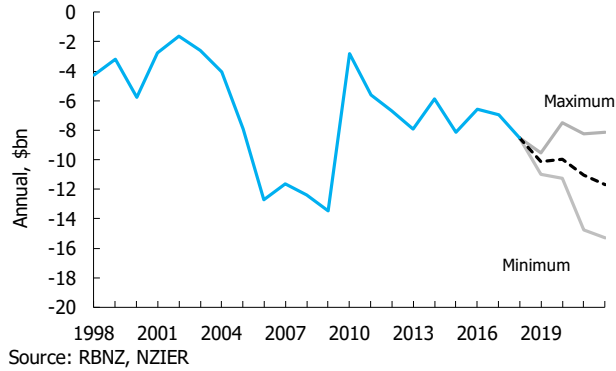
**90 Day Bank Bills**



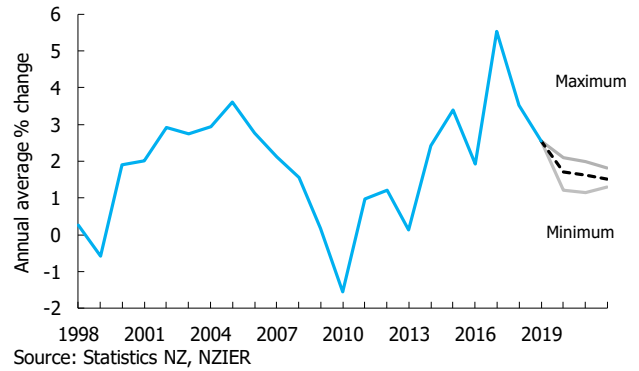
**10 Year Government Bond Yield**



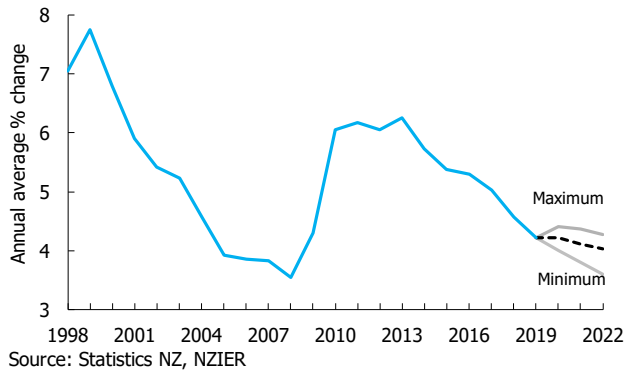
**Current Account Balance**



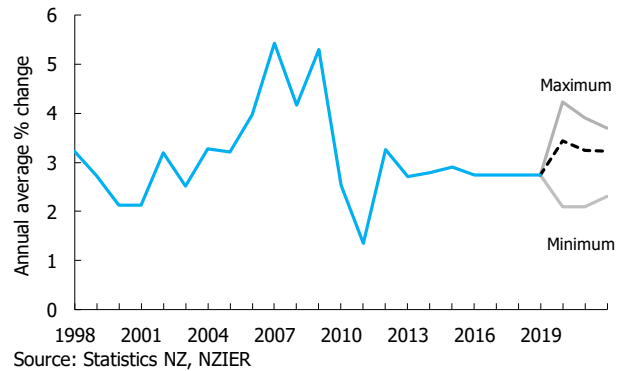
**Employment Growth**

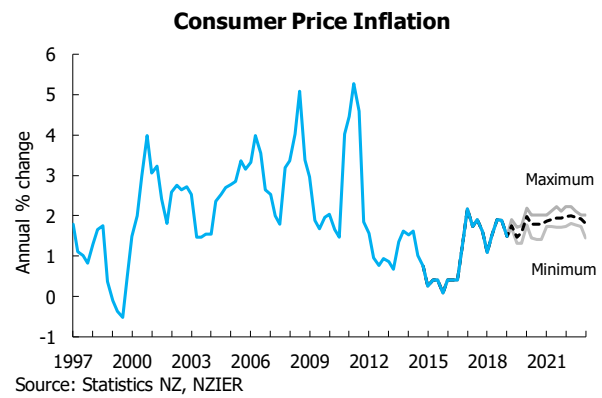
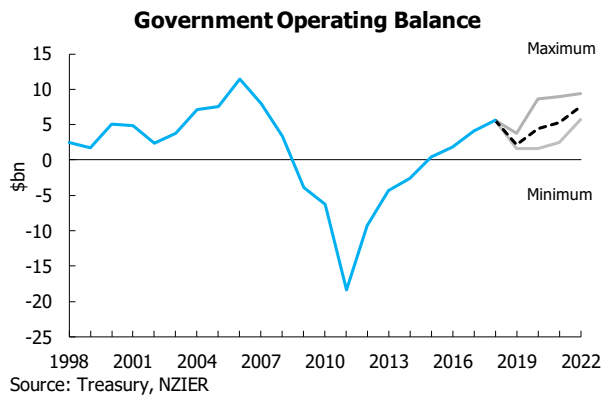


**Unemployment Rate**



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

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