

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* points to continued momentum in the economy

The latest NZIER *Consensus Forecasts* shows a modestly softer growth outlook in the near term compared to the last quarter's release, but an upward revision from 2019. Overall, the forecasts point to continued momentum in the New Zealand economy.

Although household spending forecasts are softer over most of the projection period, the outlook remains robust with expectations that annual growth will hold up above 3 percent in 2019. Meanwhile, investment forecasts have been revised up from 2019, largely reflecting stronger housing construction forecasts.

Employment has been stronger than expected over the past year, but the outlook remains for an easing in employment growth over the next few years. Despite this, forecasts for the unemployment rate have been revised slightly lower over the projection period, suggesting expectations of further tightening in the labour market.

The downward revision to wage growth forecasts suggest these expectations of a tighter labour market will not flow through to wage pressures.

Despite stronger than expected inflation more recently, the medium-term outlook for inflation is broadly unchanged, with expectations that annual CPI will track around the inflation target mid-point of 2 percent from 2019 onwards.

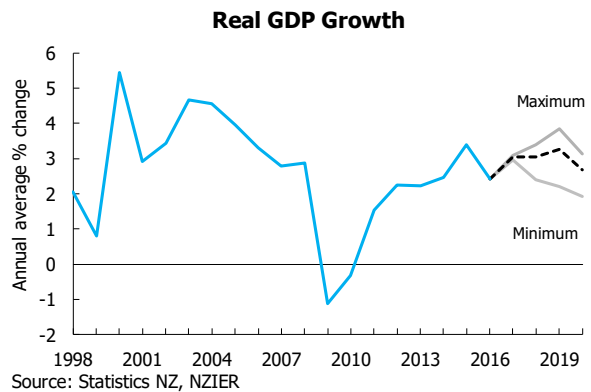
Figure 1 Economic growth expected to remain solid over the next two years



Longer-term growth outlook again revised higher

Consensus Forecasts expects modestly stronger economic growth from 2019. Annual average growth is now expected to lift to 3.3 percent for the year to March 2019, before moderating to 2.7 percent by March 2020.

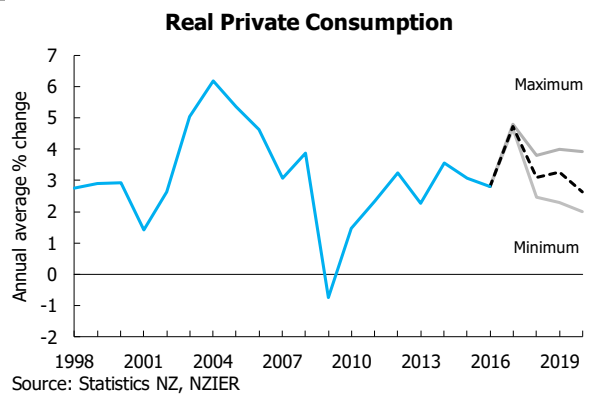
The wide range of forecasts for the year to March 2020 suggests a high degree of uncertainty over the longer-term growth outlook.



Household spending outlook still robust

Household spending forecasts have been revised lower for much of the projection period.

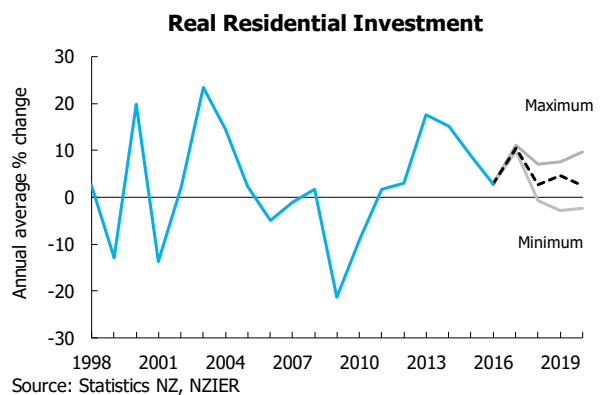
That said, the outlook remains robust, reflecting the effects of strong population growth and buoyant consumer confidence which should continue to underpin household spending growth through to 2020.



Residential construction cycle expected to extend for longer

Residential construction forecasts have been revised lower in the near term, but revised up from 2019, indicating forecasters now expect an even more protracted construction cycle.

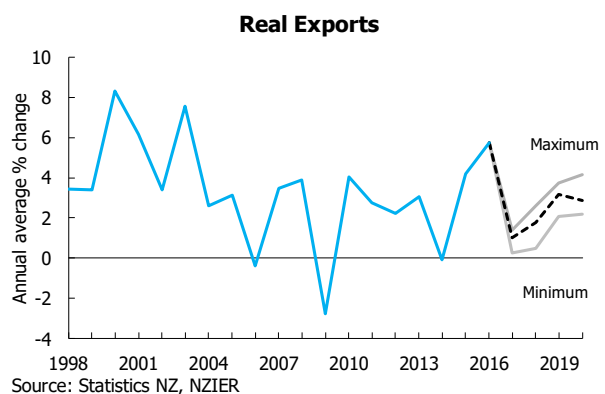
Strong population growth points to increased demand for dwellings, but the ramp-up in residential construction has been hindered by higher construction and funding costs and tighter access to credit.



Export outlook revised up

Export growth has been weaker than expected over the past year, but expectations are for a solid recovery in export growth over the next few years.

Annual average growth in exports is expected to lift above 3 percent by March 2019, before moderating to 2.9 percent in the next year. Although heightened geo-political tensions offshore present a downside risk to the export outlook, the expected improvement in growth in the major economies is positive for export demand.

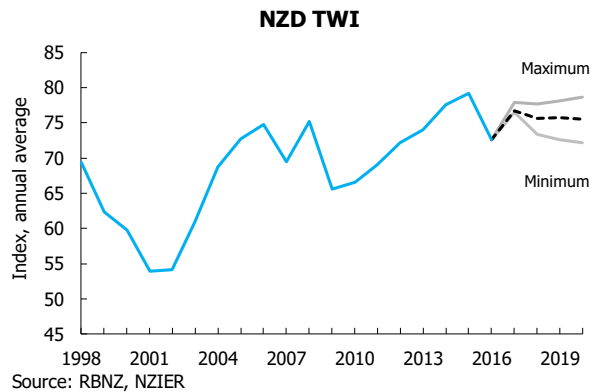


NZD expected to remain high

Forecasters have revised up expectations for the NZD from 2019.

The continued out-performance of the New Zealand economy relative to that of most major economies in the next few years is expected to support the NZD.

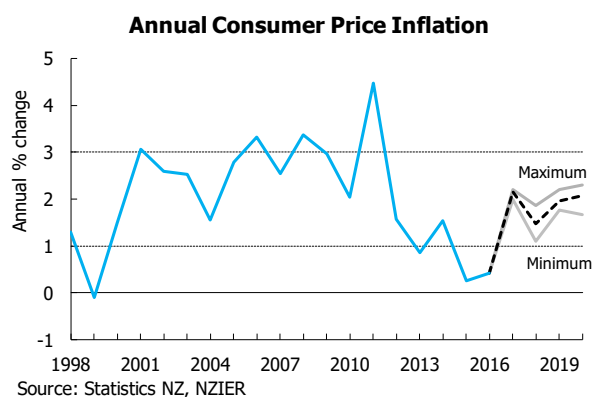
The NZD TWI is now expected to remain at 75.6 at March 2020. However, there is more uncertainty over the NZD outlook this far out, with forecasts for the NZD TWI ranging from 72.2 to 78.7.



Inflation outlook broadly unchanged

Annual inflation rose to 2.2 percent for the year to March 2017, largely reflecting the effects of higher food and petrol prices. Given the volatility of food and petrol prices, these recent developments are considered transitory.

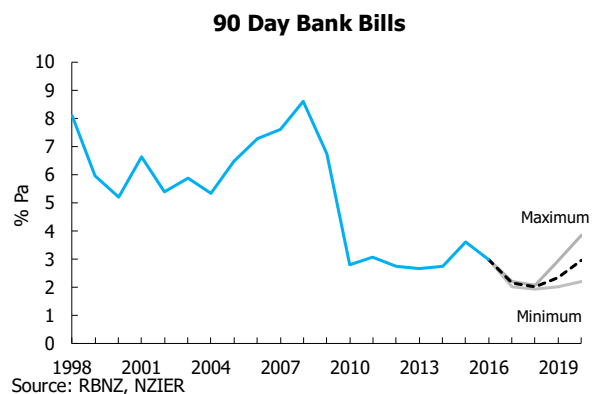
Beyond March 2017, inflation forecasts are broadly unchanged. Forecasters continue to expect annual inflation will track around 2 percent from 2019.



Interest rate expectations slightly higher

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

Consensus Forecasts are for an earlier lift in the OCR, with forecasters expecting an increase from 2018. Interest rate forecasts suggest expectations for at least three OCR increases by March 2020.



Employment growth expected to moderate

Employment growth forecasts are broadly unchanged, with expectations that annual employment growth will moderate to 1.7 percent by March 2020.

Unemployment rate forecasts have been revised slightly lower for the next few years, although there is a high degree of uncertainty over the unemployment rate later in the projection. The unemployment rate forecasts for March 2020 range from 4.2 to 5.5 percent.

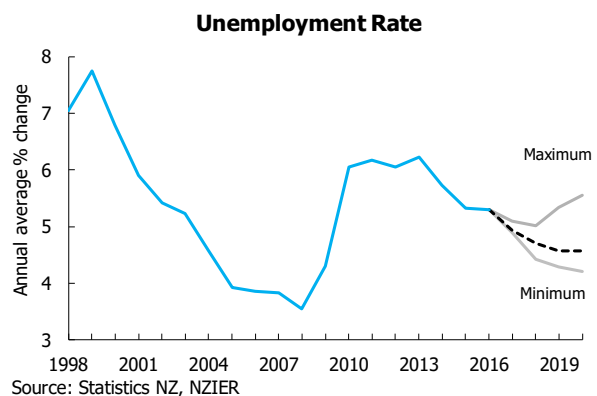


Table 1 Previous and latest *Consensus Forecasts*

aapc, March years	Jun-2017 survey				Mar-2017 survey			
	2016/17	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
GDP	3.0 ↓	3.1 ↓	3.3 ↑	2.7 ↑	3.4	3.3	3.1	2.5
Private consumption	4.7 ↓	3.1 ↓	3.3 ↑	2.6 ↓	4.9	3.5	3.1	2.8
Public consumption	2.4 ↓	2.4 ↑	1.8 ↑	1.9 ↑	2.5	2.1	1.6	1.7
Fixed investment:								
Residential	10.5 ↓	2.6 ↓	4.6 ↑	2.5 ↑	13.9	5.4	2.7	0.4
Other	4.2 ↑	6.3 ↑	4.3 ↓	3.7 ↑	3.8	5.5	4.4	3.2
Total	5.8 ↓	5.3 ↓	4.4 ↑	3.4 ↑	6.4	5.5	3.9	2.4
Exports, goods & services	1.0 ↓	1.8 ↑	3.2 ↑	2.9 ↑	2.8	1.2	2.8	2.7
Imports, goods & services	5.7 ↑	4.0 ↓	3.3 ↓	3.0 ↑	4.7	4.5	3.7	2.8
Consumer price index (apc)	2.2 ↑	1.5 ↓	2.0 →	2.1 ↑	1.7	1.7	2.0	2.0
New Zealand TWI (ave yr to Mar)	76.8 ↑	75.6 ↓	75.7 ↑	75.6 ↑	76.6	76.4	75.2	74.9
90 day bank bill (ave yr to Mar)	2.1 →	2.0 →	2.3 ↑	2.9 ↑	2.1	2.0	2.2	2.8
10 year govt bond (ave yr to Mar)	2.8 →	3.4 →	3.8 ↑	4.1 ↑	2.8	3.4	3.7	3.9
Current account balance (NZ\$b; Mar yr)	-7.2 ↑	-7.1 ↑	-8.5 ↑	-9.4 ↑	-7.5	-9.6	-11.5	-12.4
Employment	5.0 ↑	2.3 ↓	2.1 →	1.7 ↑	4.8	2.4	2.1	1.6
Unemployment (% of labour force)	4.9 ↓	4.7 →	4.6 ↓	4.6 ↓	5.0	4.7	4.7	4.8
Wages (private sector avg hourly earnings)	1.5 ↓	2.1 ↓	3.0 →	3.0 ↓	1.6	2.3	3.0	3.2
Government operating balance (NZ\$b, Septeml)	1.6 ↓	3.2 ↓	4.5 ↓	6.2 ↓	1.7	4.0	6.2	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

qpc, quarters	Mar-17 f			Jun-17 f			Sep-17 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.5	0.8	1.1	0.7	0.8	1.0	0.6	0.8	1.0			
CPI (qpc)	0.1	0.2	0.3	0.3	0.5	0.6	0.1	0.2	0.4			
aapc, March years	2016/2017 f			2017/2018 f			2018/2019 f			2019/2020 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	3.0	3.0	3.1	2.4	3.1	3.4	2.2	3.3	3.8	1.9	2.7	3.1
Private consumption	4.6	4.7	4.8	2.5	3.1	3.8	2.3	3.3	4.0	2.0	2.6	3.9
Public consumption	2.3	2.4	2.6	1.8	2.4	3.1	0.9	1.8	2.8	1.0	1.9	3.0
Fixed investment												
- Residential	9.7	10.5	11.1	-0.7	2.6	7.0	-2.8	4.6	7.6	-2.4	2.5	9.7
- Other	3.5	4.2	5.0	5.3	6.3	7.8	2.3	4.3	6.0	1.9	3.7	6.0
- Total	5.2	5.8	6.4	4.3	5.3	6.7	2.7	4.4	5.9	1.5	3.4	6.9
Exports, goods and services	0.2	1.0	1.4	0.5	1.8	2.6	2.1	3.2	3.8	2.2	2.9	4.1
Imports, goods and services	4.6	5.7	6.0	3.4	4.0	5.3	2.1	3.3	4.4	2.0	3.0	4.4
Consumer price index (apc)	2.0	2.2	2.2	1.1	1.5	1.9	1.8	2.0	2.2	1.7	2.1	2.3
New Zealand TWI (ave yr to Mar)	76.5	76.8	78.0	73.4	75.6	77.7	72.6	75.7	78.1	72.2	75.6	78.7
90 day bank bill (ave yr to Mar)	2.0	2.1	2.2	1.9	2.0	2.1	2.0	2.3	2.9	2.2	2.9	3.9
10 year government stock (ave yr to Mar)	2.8	2.8	3.0	3.1	3.4	3.5	3.6	3.8	4.0	3.8	4.1	4.6
Current account balance (NZ\$b; Mar yr)	-7.6	-7.2	-6.7	-9.1	-7.1	-4.8	-9.3	-8.5	-6.8	-11.2	-9.4	-8.2
Employment	1.1	5.0	5.7	1.8	2.3	3.0	1.3	2.1	3.9	0.3	1.7	4.3
Unemployment rate (% of labour force)	4.9	4.9	5.1	4.4	4.7	5.0	4.3	4.6	5.3	4.2	4.6	5.5
Wages (private sector avg hourly earnings)	1.5	1.5	1.6	1.6	2.1	2.5	2.3	3.0	3.9	2.3	3.0	4.1
Government operating balance (NZ\$m, December yr)	0.8	1.6	2.5	2.9	3.2	3.6	4.1	4.5	4.9	6.1	6.2	6.6

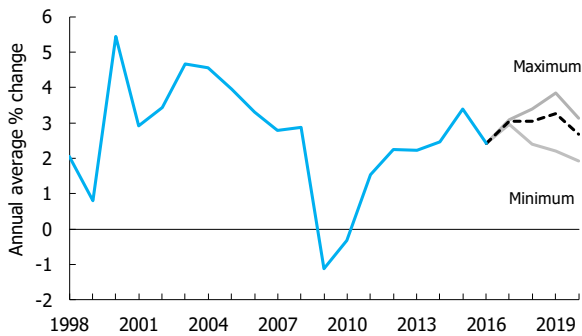
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

Note: qpc = quarterly percent change.

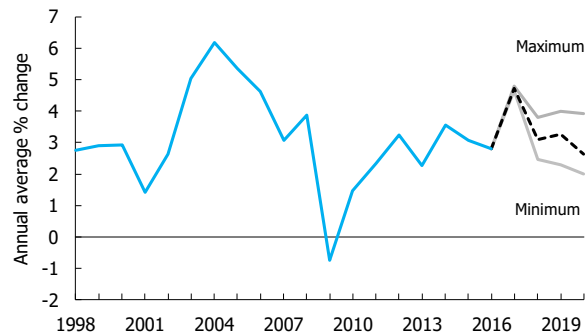
Summary charts

Real GDP Growth



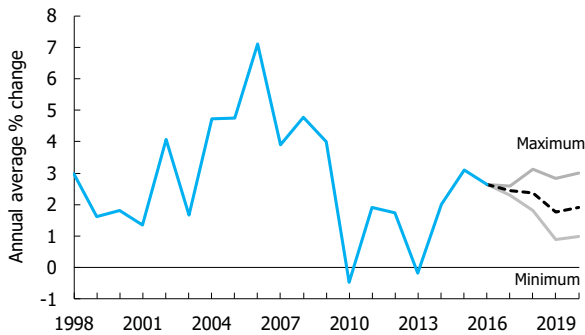
Source: Statistics NZ, NZIER

Real Private Consumption



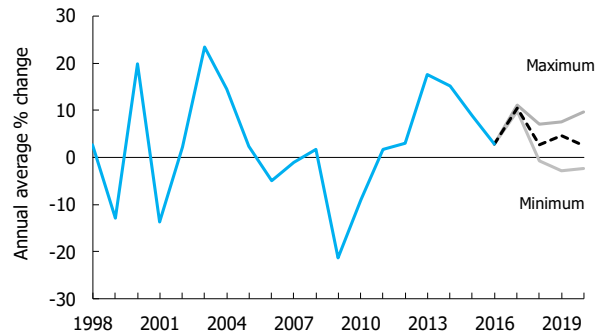
Source: Statistics NZ, NZIER

Real Public Consumption



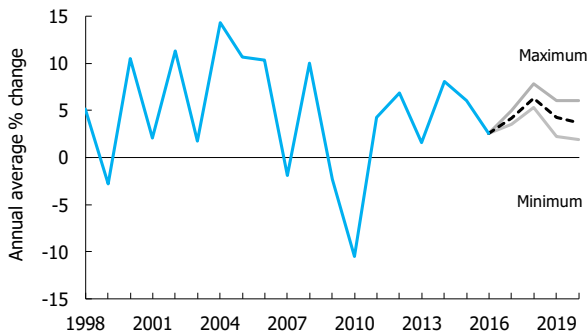
Source: Statistics NZ, NZIER

Real Residential Investment



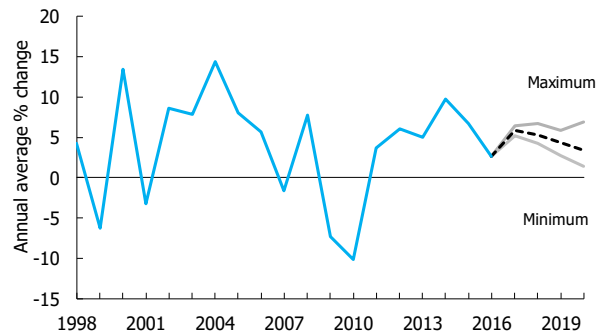
Source: Statistics NZ, NZIER

Real Other Investment



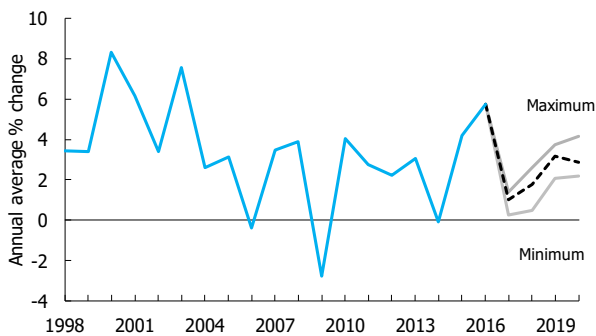
Source: Statistics NZ, NZIER

Real Total Investment



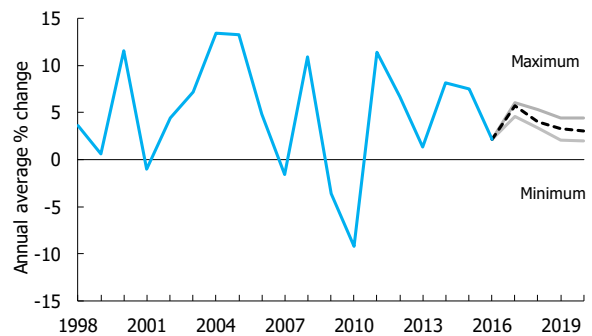
Source: Statistics NZ, NZIER

Real Exports



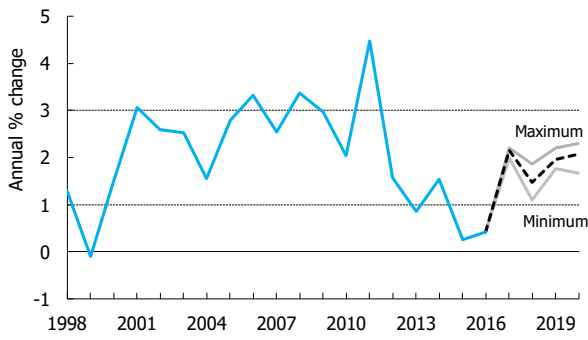
Source: Statistics NZ, NZIER

Real Imports

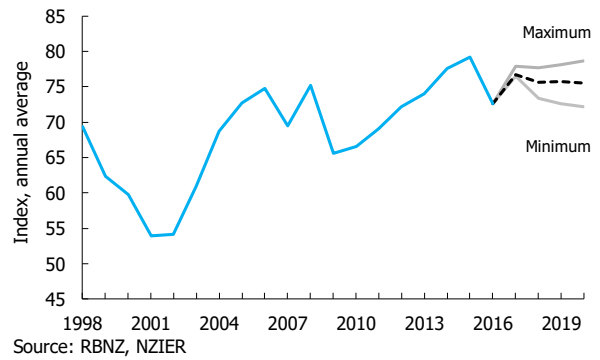


Source: Statistics NZ, NZIER

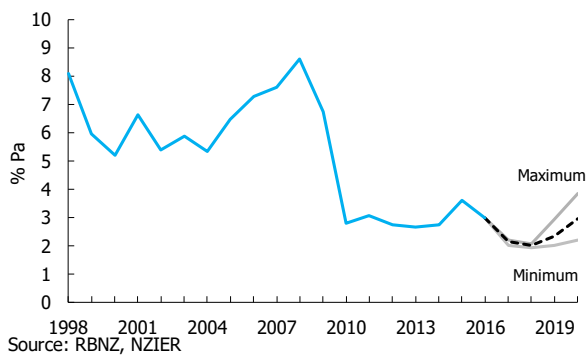
Annual Consumer Price Inflation



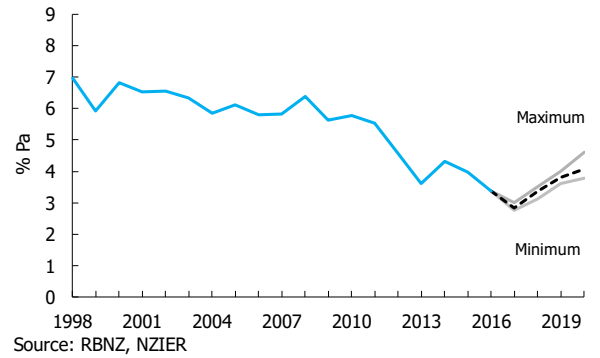
NZD TWI



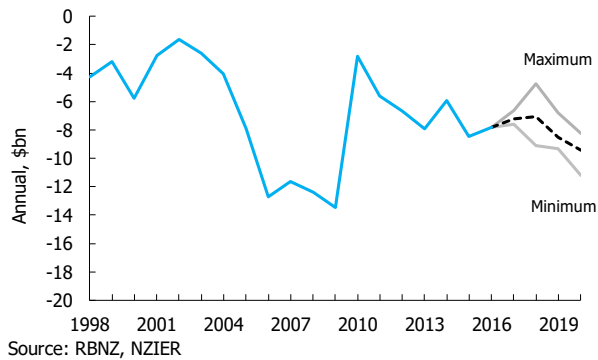
90 Day Bank Bills



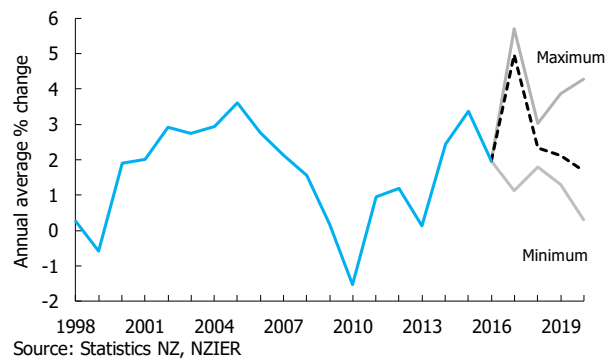
10 Year Government Bond Yield



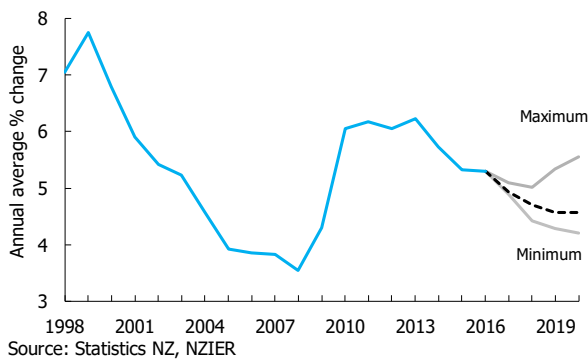
Current Account Balance



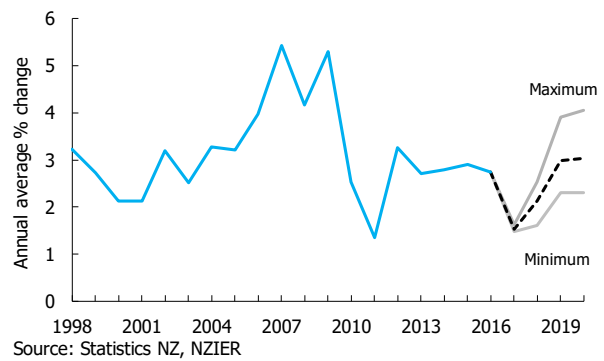
Employment Growth

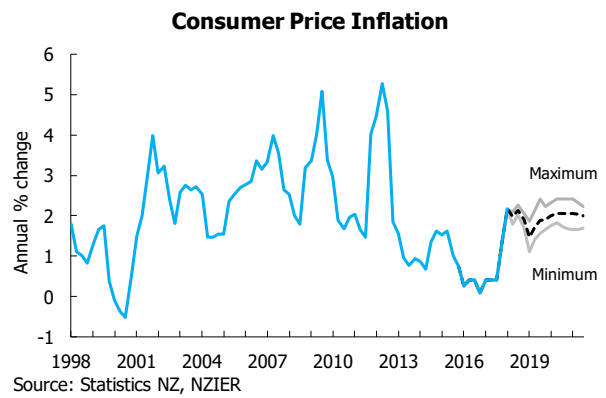
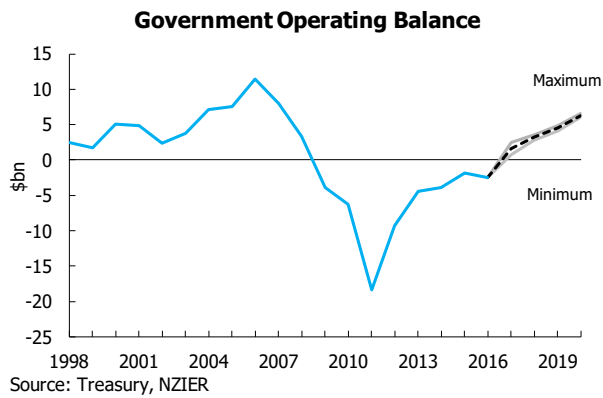


Unemployment Rate



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

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