

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* show weaker starting point for growth is not expected to persist

The latest NZIER *Consensus Forecasts* (CF) show that beyond the weaker starting point for GDP growth, the near-term growth outlook has been revised up. On average, annual average growth in GDP is expected to reach 5 percent in March 2022.

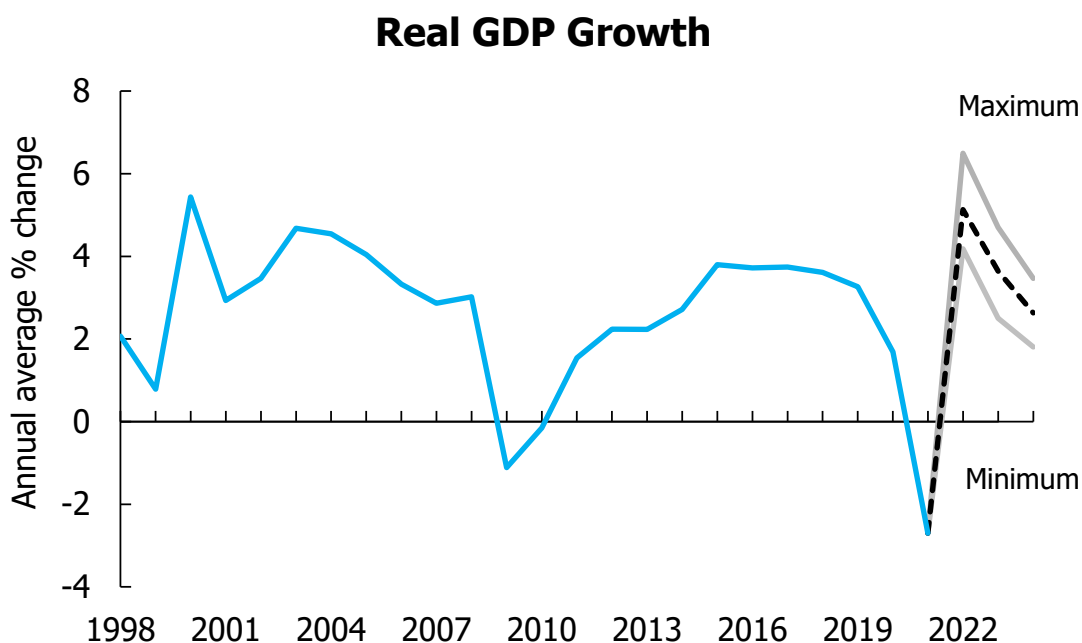
Across the sectors, the revisions were mixed, with a downward revision to household spending but an upward revision to investment. Despite the downward revisions, the outlook for household spending remains robust reflecting the effects of higher household income as the labour market improves.

Construction is expected to remain the main driver of the recovery in the New Zealand economy over the coming years. In particular, residential construction is expected to grow strongly over the coming years, with annual average growth expected to reach 11.5 percent in March 2022.

Although the longer-term employment growth outlook has been revised lower, the unemployment rate has also been revised lower over the projection reflecting the tighter labour market.

Inflation forecasts have been revised higher across the projection. Supply constraints in the economy arising from labour shortages and supply chain disruptions are pushing up costs. These upward revisions suggest that the effects of these increased cost pressures are expected to be persistent through the next few years.

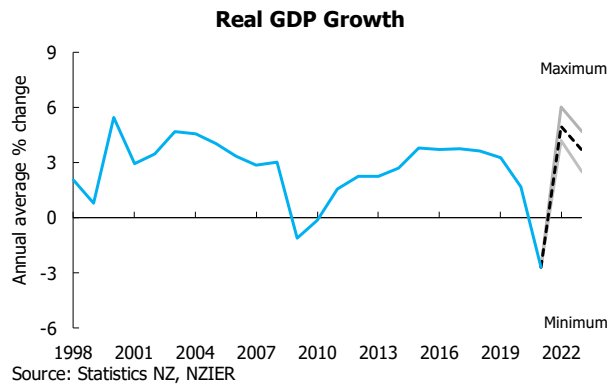
Figure 1 Lower starting point for growth, but forecasts revised up for the next two years



Near-term growth outlook revised up...

Consensus Forecasts for GDP have been revised lower in the near-term, reflecting the weaker starting point from the decline in GDP in the December 2020 quarter.

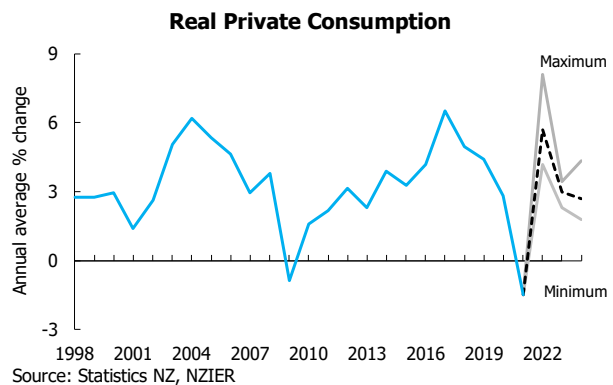
Beyond that, growth forecasts have been revised up for the next two years before moderating. On average, annual growth is expected reach 2.6 percent by March 2024.



...despite downward revision to household spending forecasts

Beyond the current year, forecasts for household spending have been revised lower. Although household income is improving on the back of a stronger labour market, supply chain disruptions are likely weighing on expectations of retail spending growth.

Despite the downward revisions, the forecast is still for robust spending, with annual average growth expected to peak at 5.7 percent in March 2022.

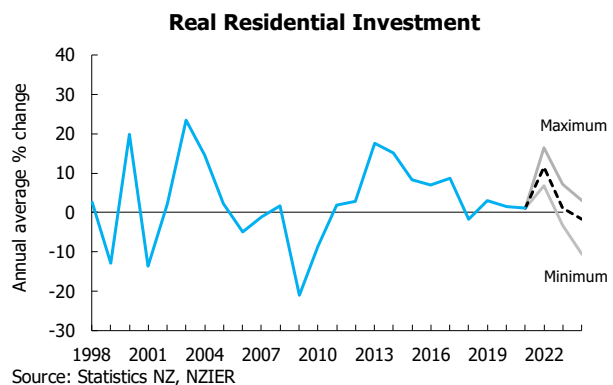


Another upward revision to investment forecasts

The investment outlook has been revised up for the next two years on the back of expectations of stronger residential construction activity.

Annual average growth in residential investment is now forecast to peak at 11.5 percent in March 2022, before easing to a 1.7 decline in the year to March 2024.

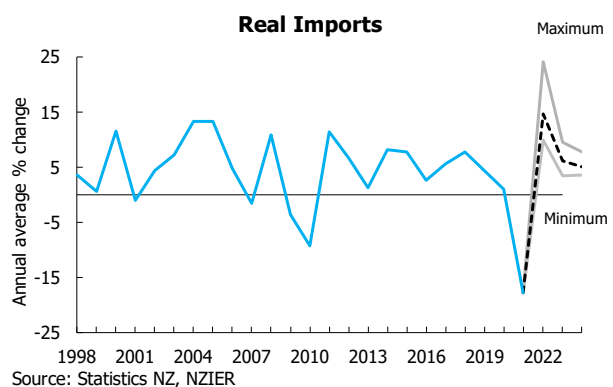
Improved business confidence is supporting stronger investment in the other sectors.



Upward revision to near-term import forecasts

Stronger domestic demand is supporting expectations of stronger import growth over the coming year. On average, annual average growth in imports is expected to peak at 14.6 percent for the year to March 2022, before moderating to 5 percent in 2024.

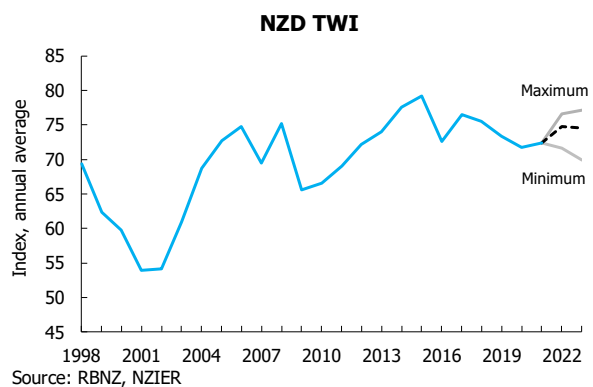
The export growth outlook is expected to remain robust, despite some downward revisions later in the projection.



NZD revised up for the coming years

The NZD TWI has again been revised higher across the projection horizon. Higher commodity prices in recent months have increased the appeal of commodity currencies such as the New Zealand dollar, and expectations are for the strength in the NZD to continue over the coming years.

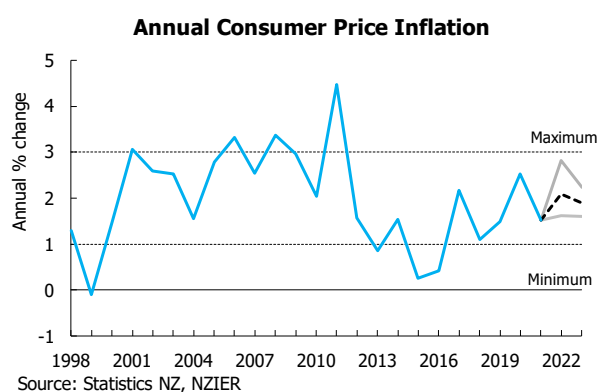
The NZD TWI is expected to peak at 74.8 for the year to March 2022, before easing to 73.7 in 2024.



Inflation outlook also revised up

Capacity pressures are building up across the New Zealand economy, with labour shortages and COVID-related supply chain disruptions pushing up costs.

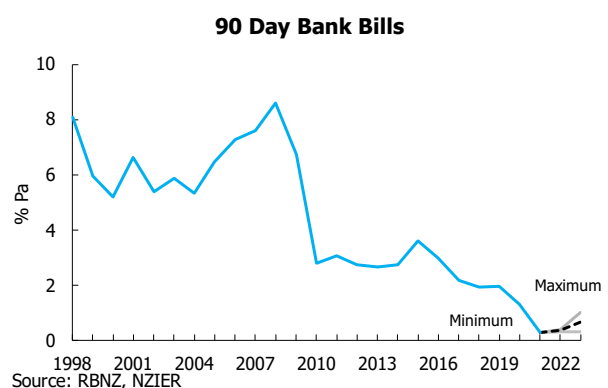
There is uncertainty over whether these supply-driven cost increases are transitory. The upward revision to the inflation outlook over the projection horizon suggests that the effects of these cost increases are expected to persist over the coming years.



Driving up the interest rate outlook

The stronger inflation outlook is supporting the upward revision to interest rate forecasts. At the May *Monetary Policy Statement*, the Reserve Bank indicated it would likely start raising the OCR in the second half of 2022. This is in line with the forecasts for the 90-day bank bill rate, which shows an increase from 2022.

Expectations of higher inflation globally have driven up long-term interest rates. The outlook for long-term bond yields has also been revised up.



Tighter labour market drives unemployment rate lower

Firms have reported in the recent NZIER *Quarterly Survey of Business Opinion* of the increased difficulty in finding labour. Hiring demand is continuing to pick up, but with border restrictions still in place the labour market is becoming tighter.

The downward revision to the unemployment rate forecasts reflect expectations of a further tightening in the labour market.

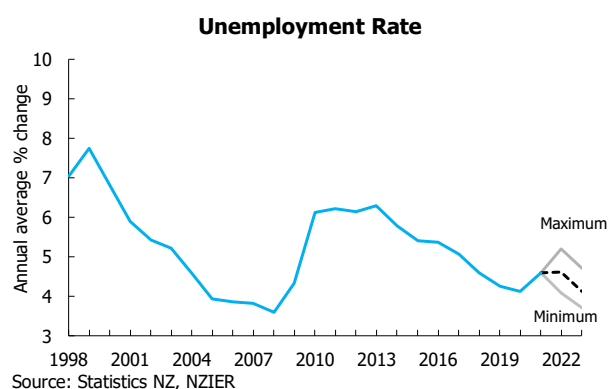


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Jun-2021 survey				Mar-2021 survey			
	2020/21	2021/22	2022/23	2023/24	2020/21	2021/22	2022/23	2023/24
GDP	-2.9 ↓	5.0 ↑	3.7 ↑	2.6 ↓	-2.6	4.8	3.3	2.9
Private consumption	-1.5 ↑	5.7 ↓	3.0 ↓	2.7 ↓	-2.1	5.8	3.1	3.3
Public consumption	5.0 ↑	3.2 ↑	1.9 ↓	1.4 ↓	4.8	2.3	2.0	2.0
Fixed investment:								
Residential	1.2 ↑	11.5 ↑	1.2 ↑	-1.7 ↓	-0.1	10.3	-1.3	-0.7
Other	-8.2 ↑	8.4 ↑	6.3 ↑	4.7 ↓	-8.5	7.8	5.8	5.6
Total	-5.7 ↑	9.3 ↑	4.9 ↑	3.0 ↓	-6.3	8.5	3.9	4.0
Exports, goods & services	-15.2 ↓	4.7 ↑	9.6 ↓	6.2 ↓	-15.0	3.6	10.3	6.3
Imports, goods & services	-16.7 ↑	14.6 ↑	6.2 ↓	5.0 ↓	-19.2	11.5	8.4	6.2
Consumer price index (apc)	1.5 ↑	2.1 ↑	1.9 ↑	2.2 ↑	1.4	1.5	1.7	2.1
New Zealand TWI (avg yr to Mar)	72.9 ↑	74.8 ↑	74.5 ↑	73.7 ↑	72.2	74.0	73.7	73.2
90 day bank bill (avg yr to Mar)	0.3 →	0.4 ↑	0.7 ↑	1.0 ↑	0.3	0.3	0.5	0.9
10 year govt bond (avg yr to Mar)	1.0 ↑	2.0 ↑	2.3 ↑	2.6 ↑	0.9	1.6	1.9	2.2
Current account balance (NZ\$b; Mar yr)	-6.2 ↓	-11.9 ↓	-12.1 ↓	-12.4 ↓	-3.8	-9.4	-10.1	-10.4
Employment	0.2 ↑	1.5 ↑	2.3 ↓	1.9 ↓	-0.5	1.4	2.5	2.2
Unemployment (% of labour force)	4.7 ↓	4.6 ↓	4.1 ↓	4.0 ↓	5.1	5.1	4.7	4.5
Wages (private sector avg hourly earnings)	3.2 ↓	3.1 ↓	3.1 ↑	3.1 ↓	3.5	3.2	2.8	3.3
Government operating balance (NZ\$b, September yr)	-16.7 ↓	-18.8 ↓	-11.7 ↓	-8.3 ↓	-16.4	-10.7	-4.5	-6.9

Note: aapc = annual average percent change, apc = annual percent change, arrows refer to direction of change from last survey

Source: NZIER

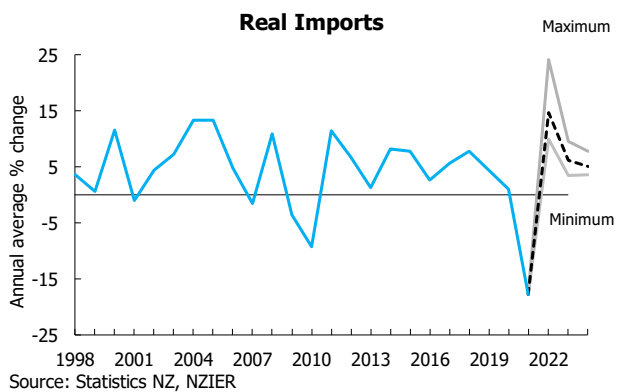
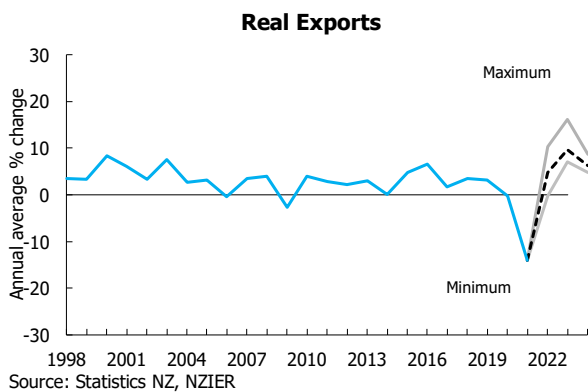
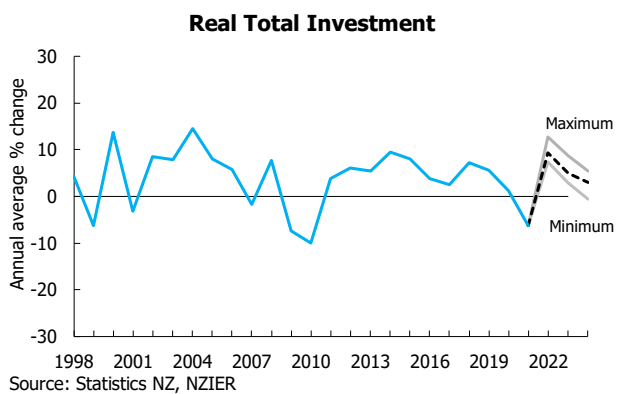
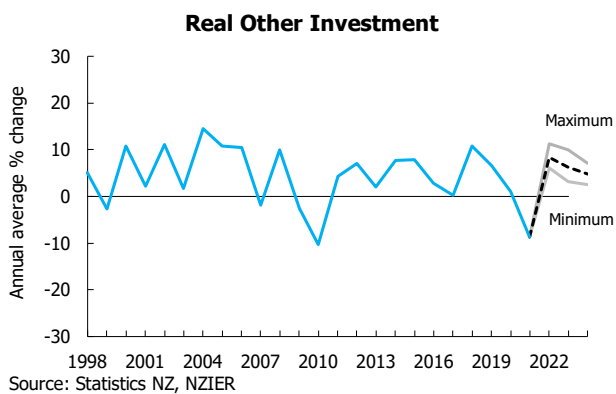
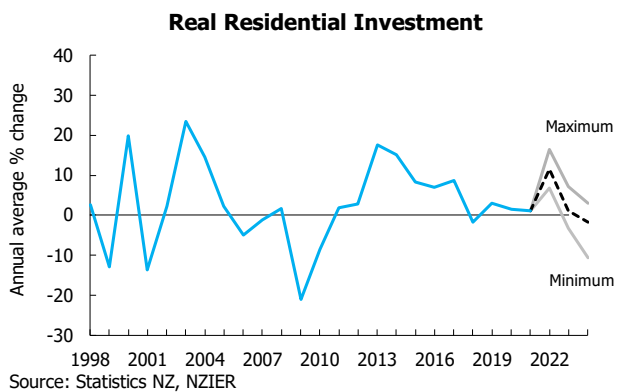
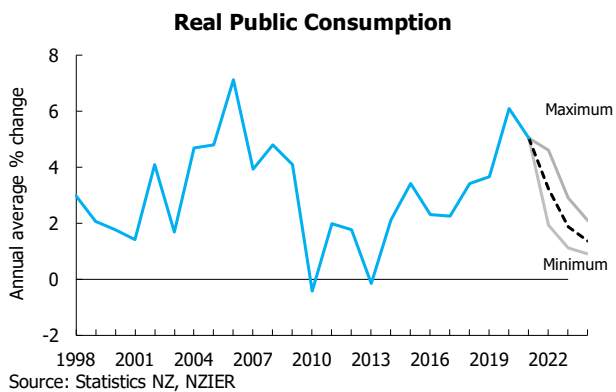
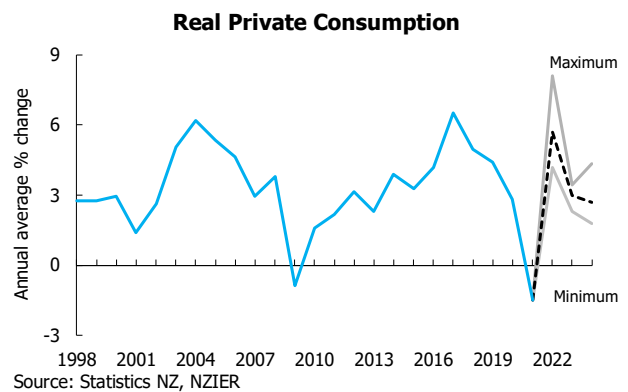
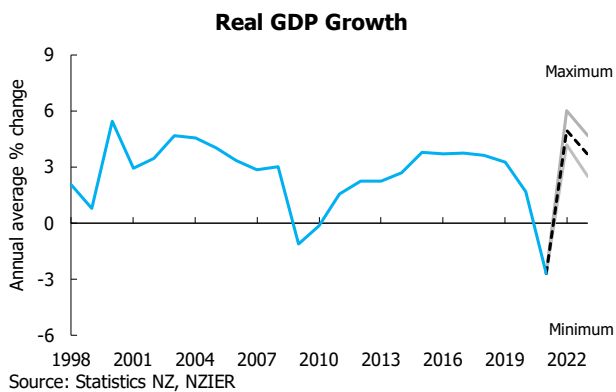
Table 2 Breakdown of the forecasts

aapc, March years	2020/ 2021 f			2021/ 2022 f			2022/ 2023 f			2023/ 2024 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	-3.1	-2.9	-2.7	4.2	5.0	6.0	2.5	3.7	4.7	1.8	2.6	3.6
Private consumption	-1.9	-1.5	-1.2	4.2	5.7	8.1	2.3	3.0	3.4	1.8	2.7	4.3
Public consumption	4.9	5.0	5.2	1.9	3.2	4.6	1.1	1.9	2.9	0.9	1.4	2.1
Fixed investment												
- Residential	0.7	1.2	1.8	6.8	11.5	16.4	-3.2	1.2	7.2	-10.6	-1.7	3.0
- Other	-8.6	-8.2	-7.3	6.1	8.4	11.3	3.1	6.3	10.0	2.6	4.7	7.1
- Total	-6.3	-5.7	-5.1	7.4	9.3	12.7	2.9	4.9	8.7	-0.6	3.0	5.4
Exports, goods and services	-16.5	-15.2	-14.1	-0.2	4.7	10.3	7.1	9.6	16.2	4.8	6.2	8.7
Imports, goods and services	-17.8	-16.7	-15.9	10.0	14.6	24.1	3.4	6.2	9.5	3.6	5.0	7.8
Consumer price index (apc)	1.5	1.5	1.5	1.6	2.1	2.8	1.6	1.9	2.2	2.0	2.2	2.7
New Zealand TWI (avg yr to Mar)	72.4	72.9	74.9	71.6	74.8	76.6	70.0	74.5	77.2	69.3	73.7	75.5
90 day bank bill (avg yr to Mar)	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.7	1.0	0.3	1.0	1.9
10 year government stock (avg yr to Mar)	0.9	1.0	1.4	1.5	2.0	2.5	1.9	2.3	3.0	2.1	2.6	3.5
Current account balance (NZ\$b; Mar yr)	-7.3	-6.2	-5.3	-14.7	-11.9	-9.8	-14.1	-12.1	-9.8	-14.1	-12.4	-10.5
Employment	-0.3	0.2	0.3	0.9	1.5	3.0	1.2	2.3	3.1	1.4	1.9	3.1
Unemployment rate (% of labour force)	4.7	4.7	4.8	4.1	4.6	5.2	3.7	4.1	4.7	3.7	4.0	4.4
Wages (private sector avg hourly earnings)	1.6	3.2	3.6	2.3	3.1	3.7	2.4	3.1	3.9	2.4	3.1	3.8
Government operating balance (NZ\$m, December yr)	-20.5	-16.7	-15.0	-19.8	-18.8	-17.6	-13.8	-11.7	-9.5	-10.5	-8.3	-5.7

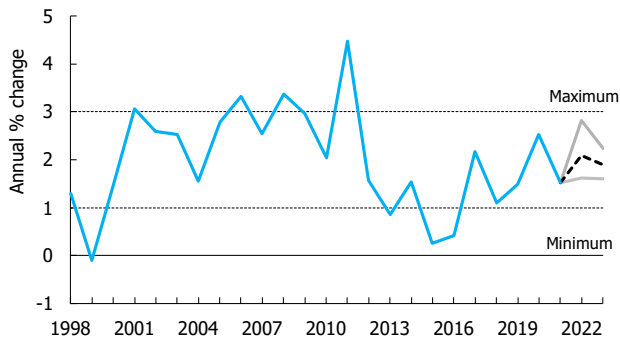
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
These results show only means; standard deviations are available on request

Source: NZIER

Summary charts

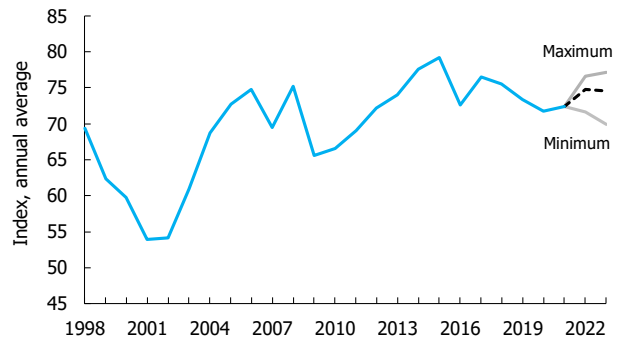


Annual Consumer Price Inflation



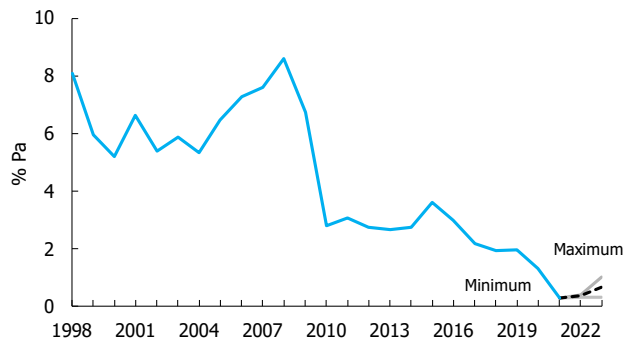
Source: Statistics NZ, NZIER

NZD TWI



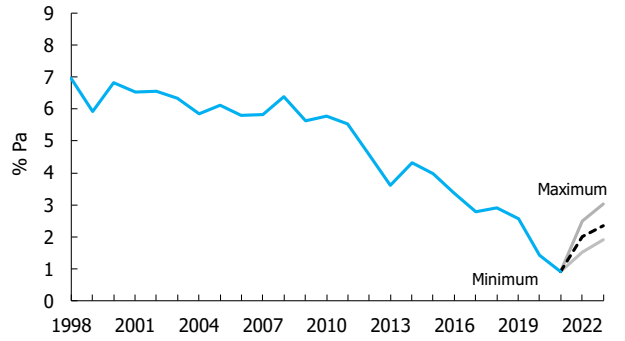
Source: RBNZ, NZIER

90 Day Bank Bills



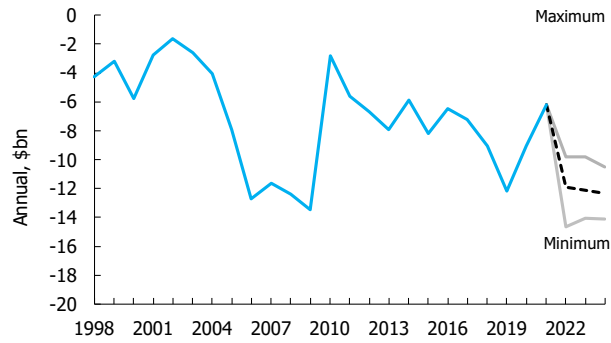
Source: RBNZ, NZIER

10 Year Government Bond Yield



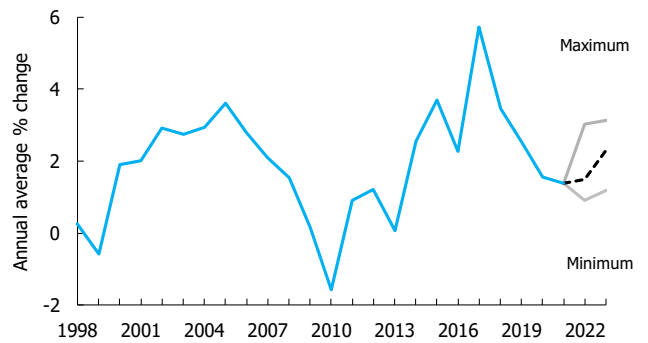
Source: RBNZ, NZIER

Current Account Balance



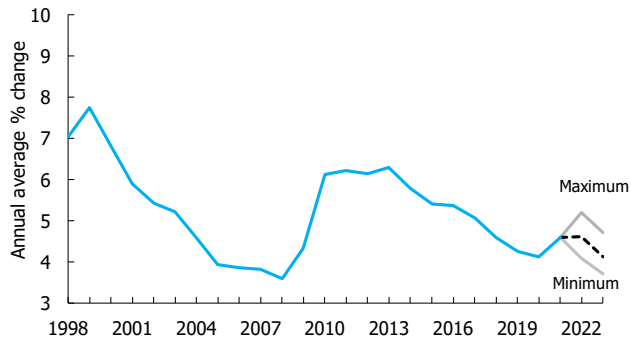
Source: RBNZ, NZIER

Employment Growth



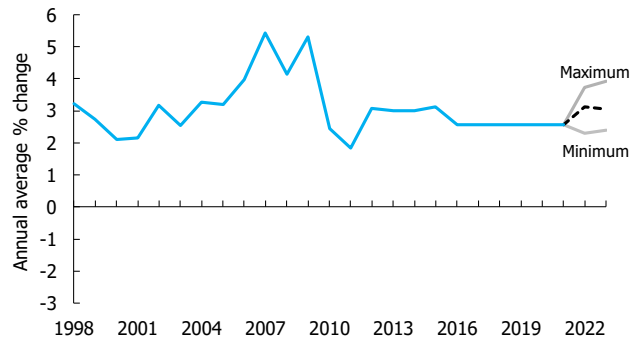
Source: Statistics NZ, NZIER

Unemployment Rate

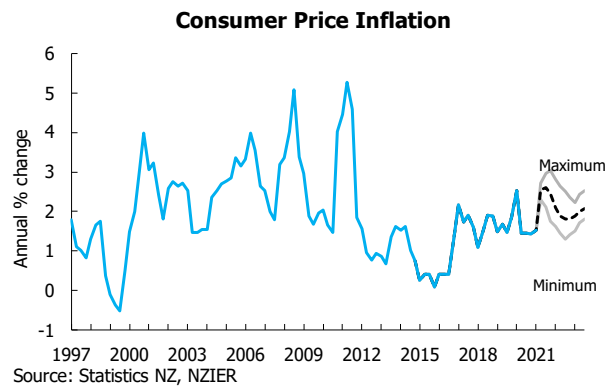
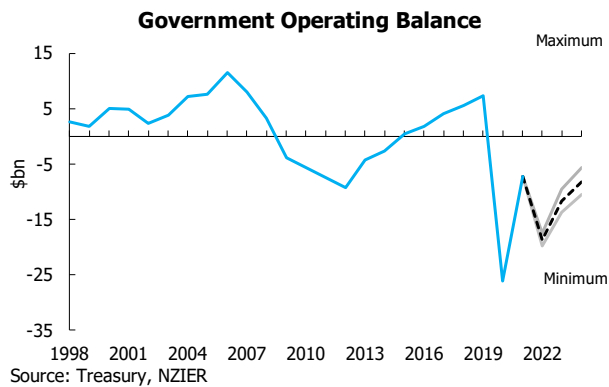


Source: Statistics NZ, NZIER

Private Sector Wage Inflation



Source: Statistics NZ, NZIER



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. 2021 refers to the year ended March 2021.

Respondents

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

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