

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* revises up growth outlook

The latest NZIER *Consensus Forecasts* expects a stronger growth outlook for the next few years.

Forecasts for household and Government spending have been revised up. Consumer confidence has rebounded in recent months, and this is expected to flow through to solid growth in household spending. Meanwhile, the Government has indicated more expansionary fiscal policy over its term as it undertakes new areas of spending.

The outlook for business investment is more mixed, with some downward revisions for the coming year but a stronger outlook in the subsequent years.

With the labour market showing continued strength, employment growth forecasts have been revised up, while forecasts for the unemployment rate have been revised down. Despite expectations of further tightening in the labour market, expectations of wage growth have been revised slightly lower beyond 2018.

Inflation is still expected to remain contained through to 2021, with some slight downward revisions over the projection period.

Figure 1 Economic growth expected to moderate from 2019, but remain healthy



Source: Statistics NZ, NZIER

More robust growth outlook

Relative to the previous quarter, *Consensus Forecasts* expects modestly stronger growth through most of the projection period.

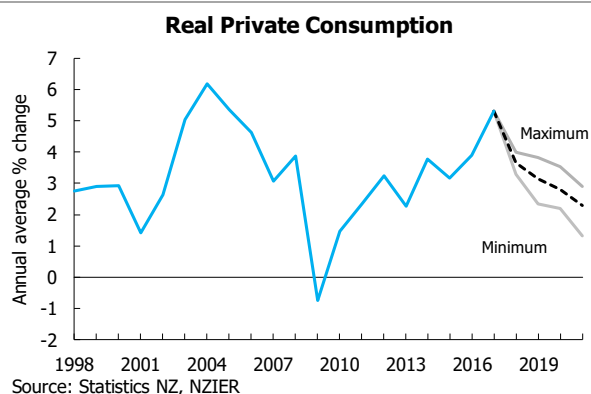
Although growth for the year to March 2019 has been revised slightly lower, beyond that growth is expected to peak at 3.3 percent in the following year before moderating to 2.9 percent by 2021.



Household spending revised up

Household spending forecasts have been revised up. Spending has remained strong, with consumer confidence bouncing back in recent months and households considering now to be a good time to make big-ticket purchases.

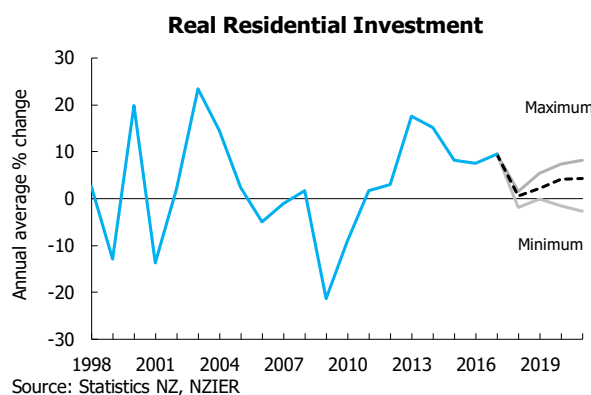
This should underpin further robust spending growth, although expectations are still for a moderation over the next few years.



Residential construction growth stronger from 2019

Although revisions to residential construction forecasts were mixed, the outlook remains robust. Forecasts for the year to March 2019 have been revised lower, but beyond that expectations are for growth to pick up.

Underlying demand remains strong, reflecting the catch-up from the surge in population in recent years. However, capacity pressures in the construction sector hamper the extent to which activity can ramp up in the near term.



Export outlook positive

Export growth forecasts have been revised up over much of the projection period. The stronger outlook reflects improving demand in the major economies, although downside risks remain from heightened geo-political volatility.

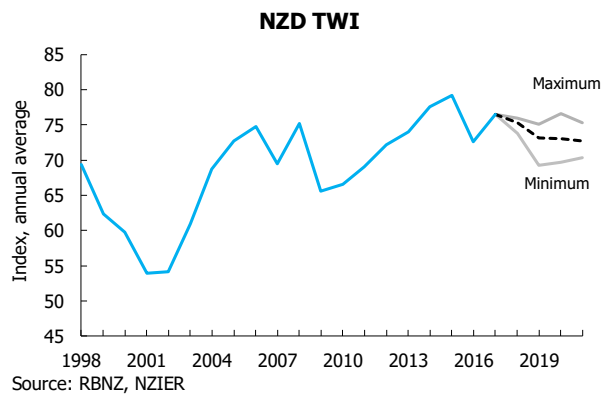
Meanwhile, heavy rainfall in early 2018 has reduced the risk of a substantial decline in dairy and meat production in the near term.



NZD expectations again revised lower

Expectations of a strengthening USD as the US Federal Reserve continues to tighten monetary policy over the coming years should reduce the yield attractiveness of the NZD.

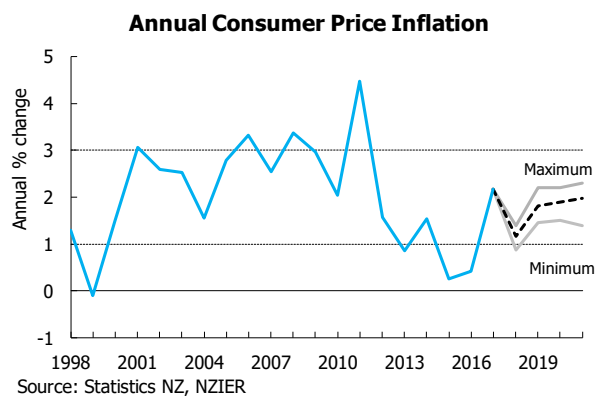
This expectation of a narrowing in the interest rate differential between the NZ and the US largely underpins forecasts for an easing in the NZD over the projection period.



Inflation outlook broadly unchanged

Annual inflation eased to 1.6 percent for the year to December 2017. Inflation remains contained, although the risk of persistently low inflation has dissipated.

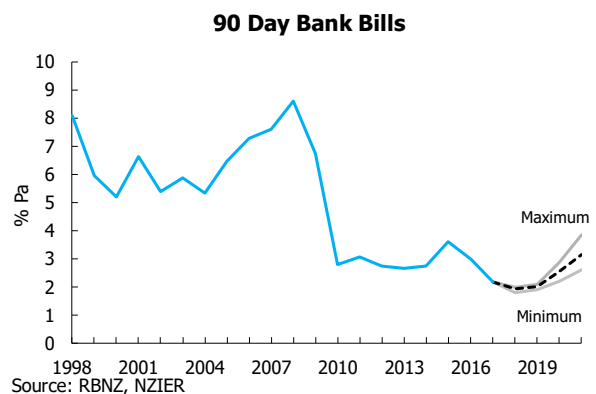
With core inflation measures and inflation expectations steady, forecasters see inflation tracking around 2 percent over the next few years.



Interest rate outlook to 2020 revised lower

The Reserve Bank kept the OCR on hold at 1.75 percent at the release of its February *Monetary Policy Statement*, and continued to indicate it did not expect to move interest rates until 2019.

Consensus Forecasts for interest rates have been revised slightly lower out to 2020, reflecting expectations of the next lift in interest rates being pushed back. With inflation contained there is little urgency for the Reserve Bank to tighten monetary policy.



Further downward revisions to unemployment

Expectations are for further tightening in the labour market, with the unemployment rate expected to edge down to 4.3 percent by 2019.

Despite this tightening, forecasts for wage growth have been revised marginally lower. Annual wage growth is expected to track around 3 percent beyond 2018.

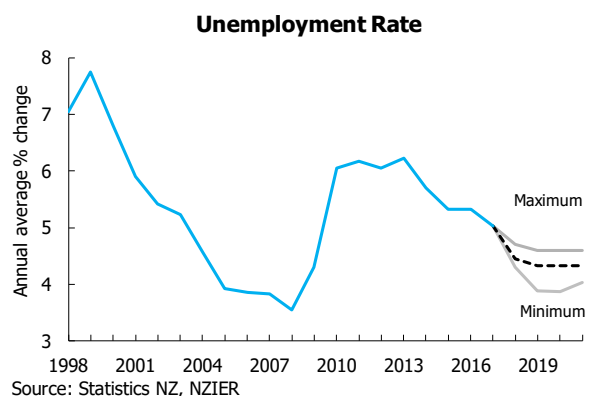


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Mar-2018 survey				Dec-2017 survey			
	2017/18	2018/19	2019/20	2020/21	2017/18	2018/19	2019/20	2020/21
GDP	2.9 ↑	3.1 ↓	3.3 ↑	2.9 ↑	2.7	3.2	3.0	2.4
Private consumption	3.7 ↑	3.2 ↑	2.8 ↑	2.3 ↑	3.3	2.7	2.2	1.8
Public consumption	4.8 ↑	3.3 ↑	2.8 ↑	2.6 ↓	3.4	3.1	2.6	2.9
Fixed investment:								
Residential	0.6 ↑	2.3 ↓	4.2 ↑	4.3 ↑	0.1	4.0	3.9	0.8
Other	4.5 ↑	3.6 ↓	4.3 ↑	3.9 →	4.1	4.7	4.1	3.9
Total	3.4 ↑	3.3 ↓	4.3 ↑	4.0 ↑	3.0	4.5	4.0	3.1
Exports, goods & services	4.8 ↑	2.4 ↓	3.4 ↑	3.0 ↑	3.3	2.5	3.3	2.8
Imports, goods & services	5.6 ↑	3.7 ↑	3.9 ↑	3.4 ↑	4.2	3.4	3.3	2.9
Consumer price index (apc)	1.2 ↓	1.8 →	1.9 ↓	2.0 →	1.4	1.8	2.0	2.0
New Zealand TWI (avg yr to Mar)	75.3 ↓	73.1 ↓	73.1 ↓	72.8 ↓	75.6	73.8	74.5	74.3
90 day bank bill (avg yr to Mar)	1.9 ↓	2.0 ↓	2.6 ↓	3.2 ↑	2.0	2.2	2.8	3.1
10 year govt bond (avg yr to Mar)	3.0 ↓	3.3 ↓	3.8 ↓	4.0 →	3.1	3.5	3.9	4.0
Current account balance (NZ\$b; Mar yr)	-6.3 ↓	-7.7 →	-8.1 ↑	-9.0 ↑	-5.7	-7.7	-8.2	-9.1
Employment	3.2 ↑	2.0 ↑	1.6 ↑	1.4 ↑	2.7	1.9	1.5	1.3
Unemployment (% of labour force)	4.5 ↓	4.3 ↓	4.3 ↓	4.3 ↓	4.6	4.5	4.5	4.5
Wages (private sector avg hourly earnings)	2.3 ↑	3.0 ↓	3.0 ↓	2.9 ↓	2.2	3.1	3.2	3.1
Government operating balance (NZ\$b, September yr)	2.7 ↓	2.6 ↓	4.5 ↓	5.7 ↑	2.9	2.8	4.6	5.2

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	Dec-17 f			Mar-18 f			Jun-18 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.6	0.7	0.8	0.5	0.7	0.9	0.6	0.8	1.1			
CPI (qpc)	Mar-18 f			Jun-18 f			Sep-18 f					
	0.1	0.4	0.7	0.2	0.5	0.7	0.5	0.6	0.7			
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	2.9	2.9	2.6	3.1	3.6	2.8	3.3	3.6	2.3	2.9	3.2
Private consumption	3.3	3.7	4.0	2.3	3.2	3.8	2.2	2.8	3.5	1.3	2.3	2.9
Public consumption	3.4	4.8	5.6	2.0	3.3	5.2	1.3	2.8	4.9	0.4	2.6	5.0
Fixed investment												
- Residential	-1.9	0.6	1.6	-0.1	2.3	5.4	-1.6	4.2	7.3	-2.6	4.3	8.2
- Other	2.3	4.5	5.9	1.1	3.6	5.7	2.6	4.3	6.1	3.0	3.9	5.3
- Total	1.7	3.4	4.8	1.4	3.3	4.8	2.4	4.3	5.9	2.2	4.0	6.0
Exports, goods and services	3.6	4.8	5.6	1.6	2.4	3.6	2.6	3.4	4.2	2.3	3.0	4.4
Imports, goods and services	3.6	5.6	6.9	2.1	3.7	5.3	3.4	3.9	5.0	2.8	3.4	4.6
Consumer price index (apc)	0.9	1.2	1.4	1.5	1.8	2.2	1.5	1.9	2.2	1.4	2.0	2.3
New Zealand TWI (avg yr to Mar)	73.8	75.3	75.9	69.3	73.1	75.2	69.7	73.1	76.6	70.4	72.8	75.4
90 day bank bill (avg yr to Mar)	1.8	1.9	2.0	1.9	2.0	2.1	2.2	2.6	2.9	2.6	3.2	3.8
10 year government stock (avg yr to Mar)	2.9	3.0	3.3	3.1	3.3	3.8	3.5	3.8	4.3	3.5	4.0	4.6
Current account balance (NZ\$b; Mar yr)	-7.1	-6.3	-5.2	-10.0	-7.7	-5.0	-10.3	-8.1	-6.0	-12.5	-9.0	-6.3
Employment	2.6	3.2	3.8	1.4	2.0	2.5	1.3	1.6	1.8	1.0	1.4	1.8
Unemployment rate (% of labour force)	4.3	4.5	4.7	3.9	4.3	4.6	3.9	4.3	4.6	4.0	4.3	4.6
Wages (private sector avg hourly earnings)	1.9	2.3	2.7	2.1	3.0	3.8	2.4	3.0	4.1	2.5	2.9	4.2
Government operating balance (NZ\$m, December yr)	2.5	2.7	3.1	1.4	2.6	3.2	2.3	4.5	5.6	2.7	5.7	7.2

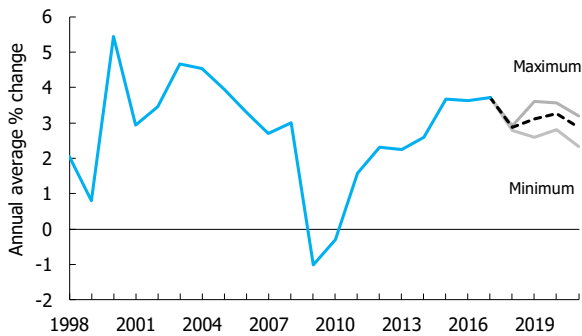
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

Note: qpc = quarterly percent change.

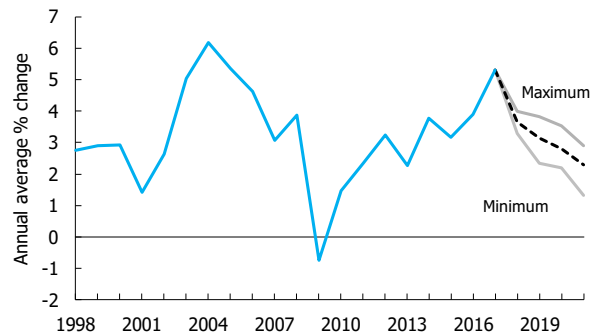
Summary charts

Real GDP Growth



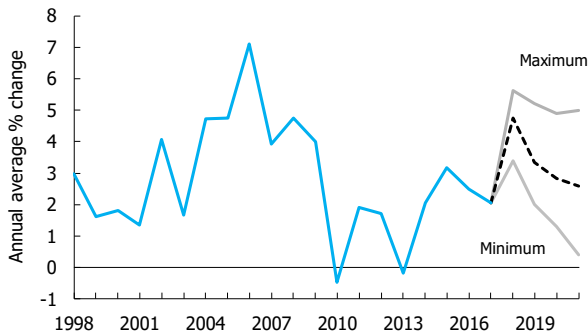
Source: Statistics NZ, NZIER

Real Private Consumption



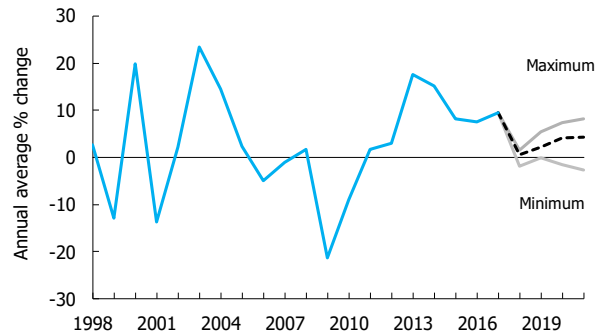
Source: Statistics NZ, NZIER

Real Public Consumption



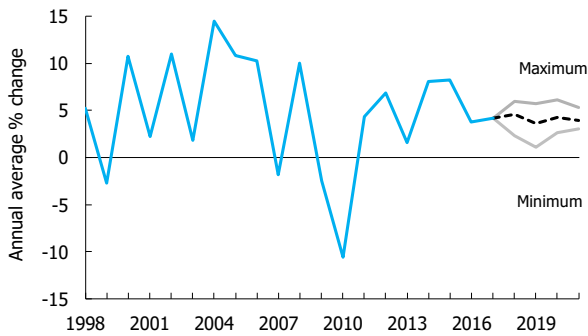
Source: Statistics NZ, NZIER

Real Residential Investment



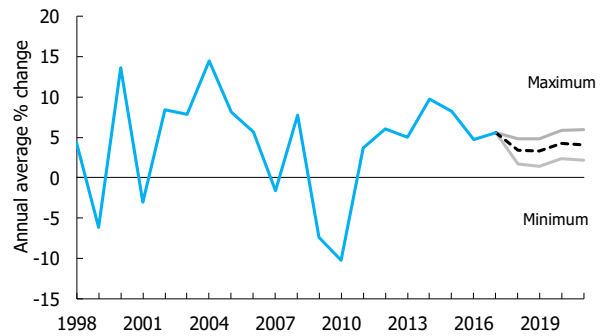
Source: Statistics NZ, NZIER

Real Other Investment



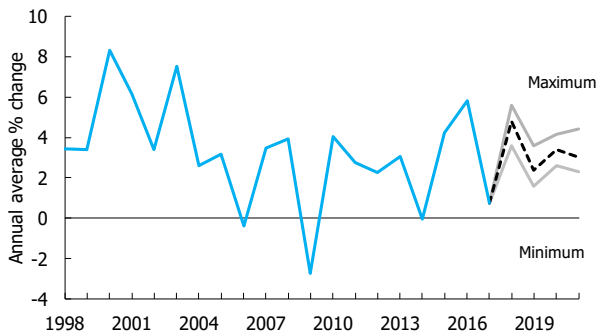
Source: Statistics NZ, NZIER

Real Total Investment



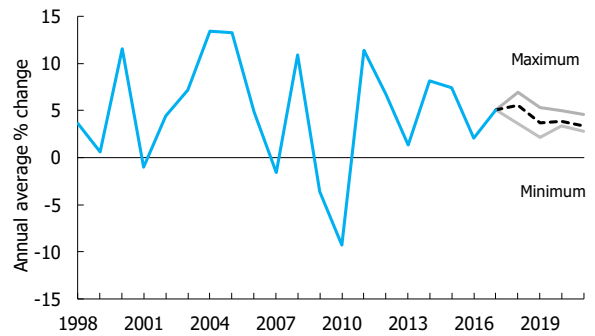
Source: Statistics NZ, NZIER

Real Exports



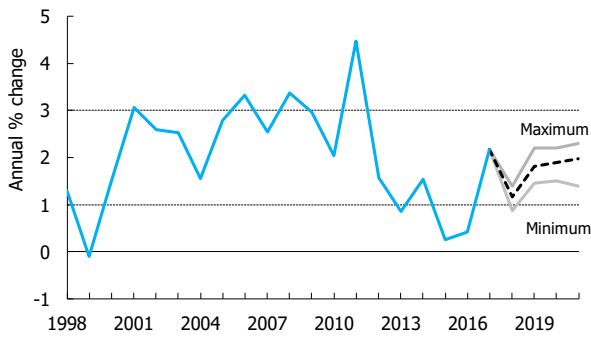
Source: Statistics NZ, NZIER

Real Imports

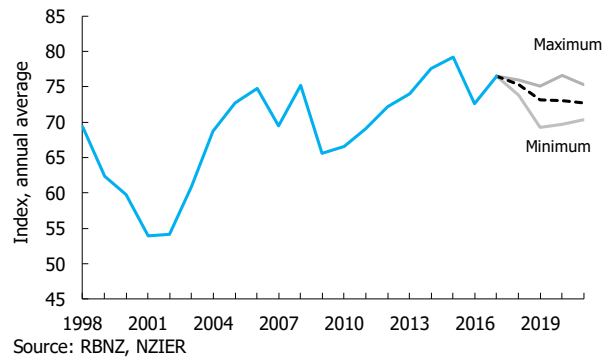


Source: Statistics NZ, NZIER

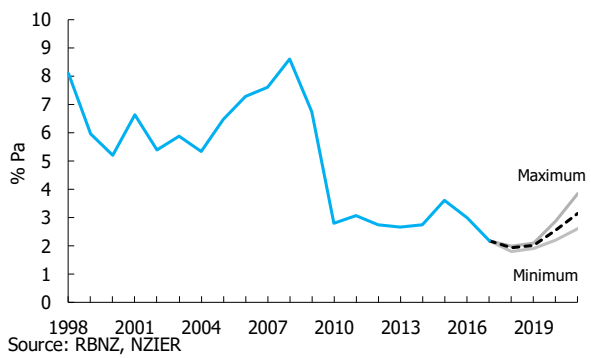
Annual Consumer Price Inflation



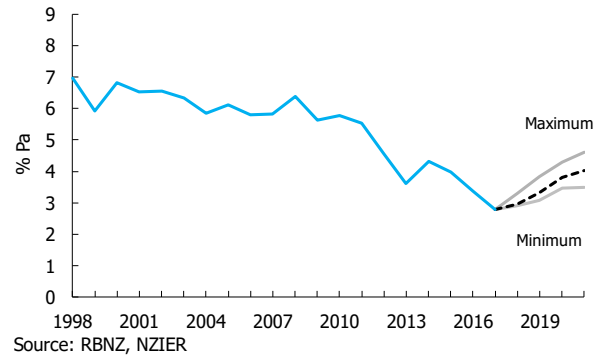
NZD TWI



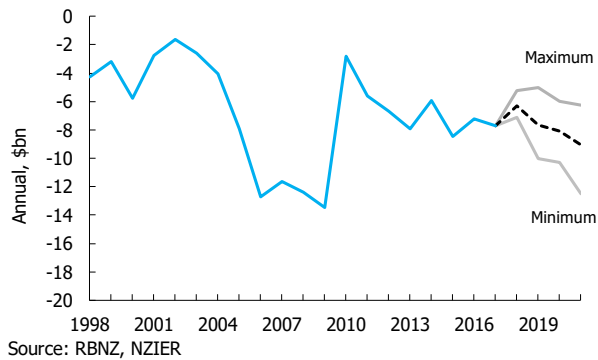
90 Day Bank Bills



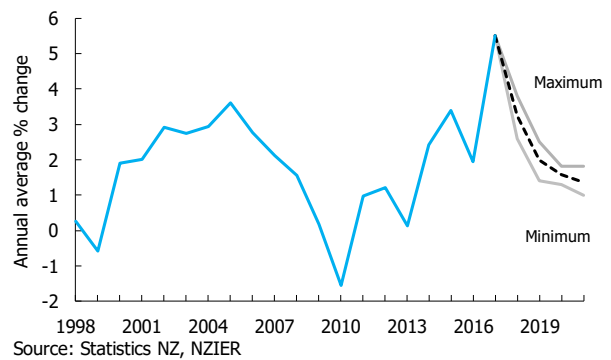
10 Year Government Bond Yield



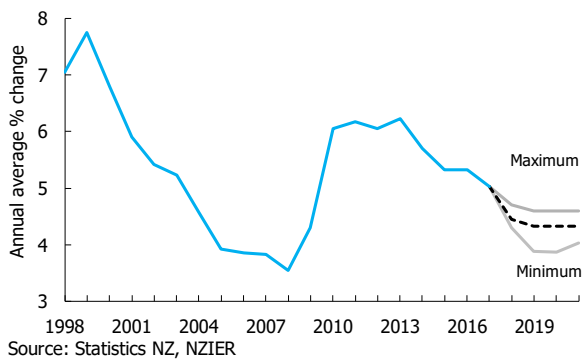
Current Account Balance



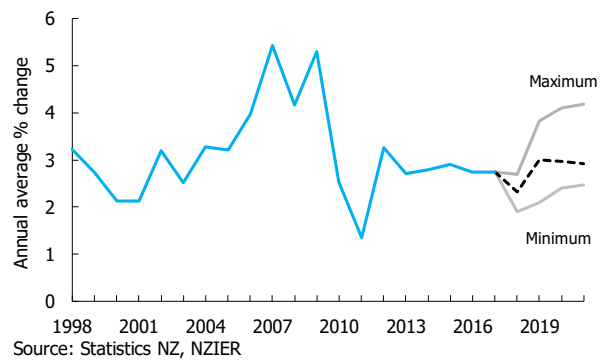
Employment Growth

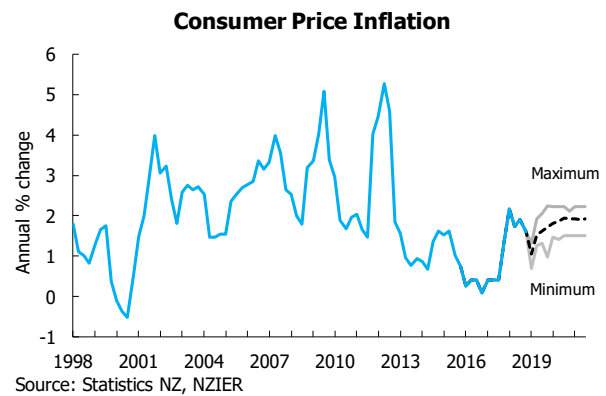
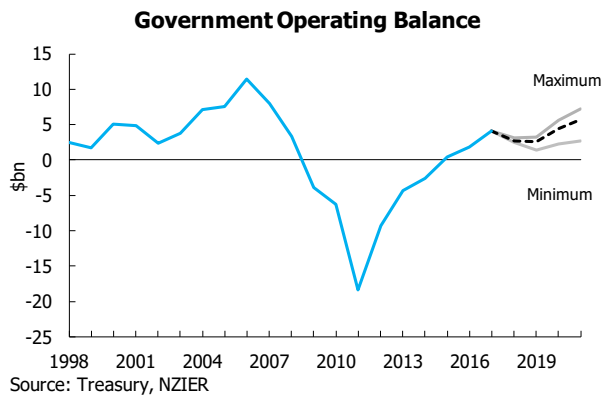


Unemployment Rate



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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