

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* shows lower growth outlook

The latest NZIER *Consensus Forecasts* shows a slightly lower growth outlook, relative to the previous quarter.

Although near-term expectations for household spending growth have been revised up, this is offset by downward revisions to investment and export forecasts. Population growth is slowing, but the surge in population in recent years is continuing to support demand for residential investment. However, capacity constraints in the construction sector means the construction cycle is likely to be more protracted.

Despite the downward revisions, the investment outlook remains reasonably robust. Although there is some caution about investment amongst firms in the face of continued weak profitability, as wage growth picks up this should incentivise firms to invest in labour-saving technology over the coming years.

Employment growth forecasts have been revised lower, but the labour market is expected to remain very tight. Nonetheless, wage growth and inflation is expected to remain contained over the next few years.

Figure 1 Economic growth outlook revised slightly lower



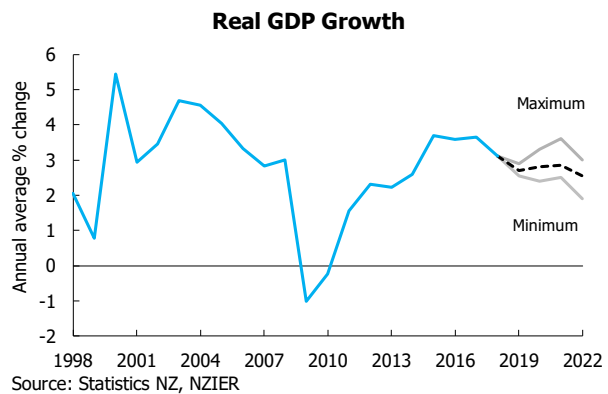
Source: Statistics NZ, NZIER

Slightly softer growth outlook

The latest *Consensus Forecasts* shows a slightly weaker growth outlook.

September quarter GDP was weaker than expected, with economic activity increasing by only 0.3 percent over the quarter. However, more recent activity indicators point to a pick-up in demand.

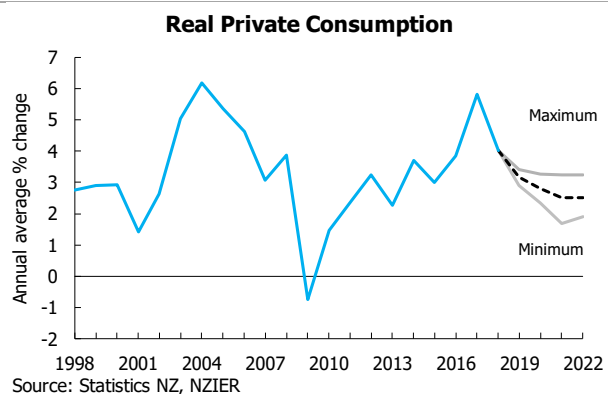
Annual GDP growth is expected to peak at 2.9 percent for the year to March 2021 before moderating to 2.5 percent in the subsequent year.



Household spending robust

Forecasts for household spending have been revised higher for the years through to March 2020, before expectations for an easing in spending growth in the subsequent years.

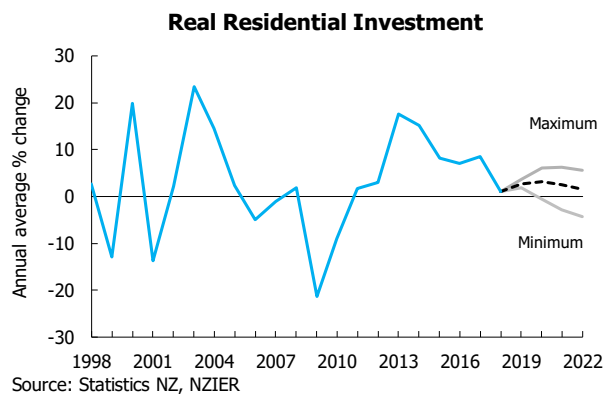
A strong labour market continues to support spending. Consumers are also feeling more confident about making big ticket purchases.



Residential construction growth outlook revised lower

Forecasts for residential construction have been revised down further beyond 2019. Demand for residential construction remains strong given the surge in population in recent years.

However, capacity constraints in the construction sector is limiting growth, with the construction cycle likely to be more protracted as a result.



Export outlook weaker on global uncertainty

Export growth forecasts have been revised down throughout the projection period. Annual growth is forecast to peak at 3.7 percent for the year to March 2019 before moderating to 2.5 percent by 2022.

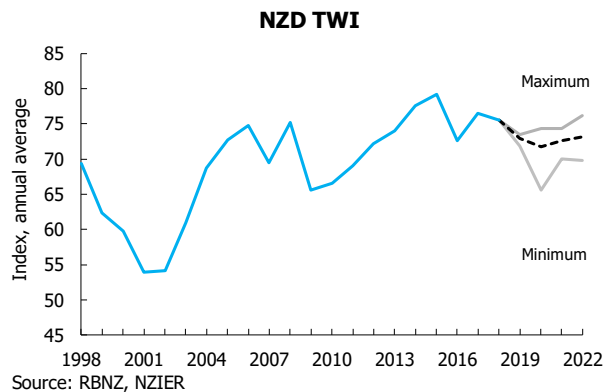
The ongoing trade war between the US and China, signs of slowing growth in China, and continued uncertainty over whether an agreement over Brexit will be reached, are likely to dampen export demand over the coming years.



NZD expectations again revised higher

The New Zealand dollar TWI has been revised higher throughout the projection period, reflecting the increased yield appeal of the NZD.

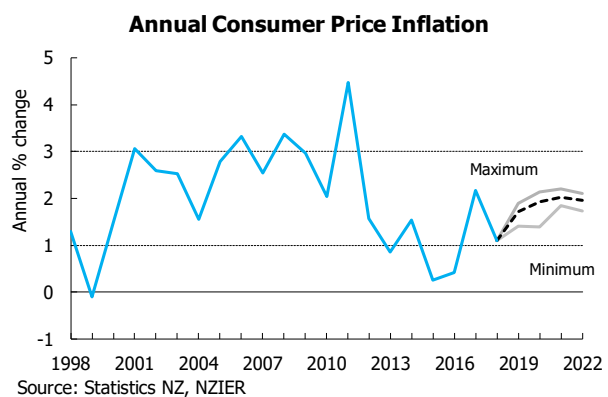
The NZD lifted after markets were surprised the Reserve Bank did not give a stronger indication of an Official Cash Rate (OCR) cut at its recent Monetary Policy Statement (MPS) release. In contrast, the US Federal Reserve has signalled a pause in its tightening cycle was appropriate given increased caution about the US growth outlook.



Inflation outlook remains anchored

Annual inflation remained steady at 1.9 percent for the year to December 2018. The rebound in the NZD put downward pressure on the price of imported goods. Meanwhile, non-tradable inflation picked up, reflecting strong growth in housing-related costs and the price for rental cars.

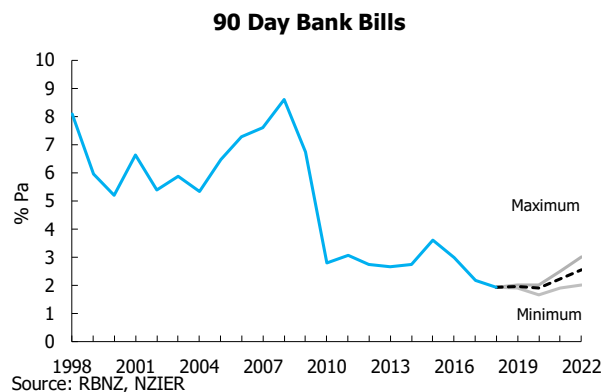
The longer-term expectations for annual inflation remain around 2 percent. Measures of core inflation point to underlying inflation pressures remaining contained.



Interest rates revised lower

Interest rate forecasts have been revised down throughout the projection period. Although the Reserve Bank surprised markets by not indicating a stronger potential for an OCR cut, the central bank indicated it would likely keep the OCR on hold for longer.

Consensus expectations are for an OCR increase in the March 2021 year – later than the previous forecast of an increase in the March 2020 year.



Labour market expected to tighten further

The unemployment rate lifted to 4.3 percent in December 2018, as soft employment growth eased some of the tightness in the labour market. Although business confidence surveys show hiring intentions remain positive, expectations are for a moderation in employment growth.

Nonetheless, the labour market is expected to remain tight, with annual wage growth expected to remain around 3.3 percent.

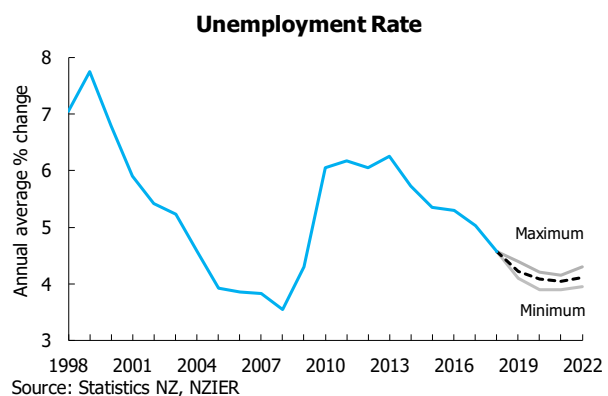


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Mar-2019 survey				Dec-2018 survey			
	2018/19	2019/20	2020/21	2021/22	2018/19	2019/20	2020/21	2021/22
GDP	2.7 ↓	2.8 ↓	2.9 →	2.5 ↓	2.9	3.0	2.9	2.6
Private consumption	3.2 ↑	2.8 ↑	2.5 ↓	2.5 ↓	2.8	2.6	2.6	2.6
Public consumption	2.3 ↓	2.5 ↓	2.2 ↓	2.4 ↓	3.9	2.6	2.7	3.2
Fixed investment:			→					
Residential	2.7 →	3.2 ↓	2.5 ↓	1.6 ↓	2.7	3.8	3.0	1.8
Other	2.2 ↓	3.0 ↓	4.3 →	3.3 ↓	3.1	3.4	4.3	3.4
Total	2.3 ↓	3.1 ↓	3.9 ↓	2.9 ↓	3.0	3.5	4.0	3.0
Exports, goods & services	3.7 ↓	2.9 ↓	2.6 ↓	2.5 ↓	4.0	3.3	2.9	2.7
Imports, goods & services	4.8 ↓	2.5 →	3.0 ↓	2.8 ↓	5.0	2.5	3.1	3.2
Consumer price index (apc)	1.7 ↓	1.9 →	2.0 →	2.0 →	1.9	1.9	2.0	2.0
New Zealand TWI (avg yr to Mar)	73.0 ↑	71.7 ↑	72.6 ↑	73.2 ↑	72.6	70.9	72.1	72.0
90 day bank bill (avg yr to Mar)	1.9 ↓	1.9 ↓	2.2 ↓	2.6 ↓	2.0	2.2	2.6	3.1
10 year govt bond (avg yr to Mar)	2.6 ↓	2.6 ↓	3.1 ↓	3.3 ↓	2.9	3.2	3.5	3.6
Current account balance (NZ\$b; Mar yr)	-10.5 ↓	-10.8 ↓	-11.2 ↓	-12.0 →	-9.7	-10.1	-10.4	-12.0
Employment	2.5 ↑	1.6 ↓	1.6 ↓	1.4 ↓	2.3	1.7	1.7	1.5
Unemployment (% of labour force)	4.2 →	4.1 →	4.0 ↓	4.1 ↓	4.2	4.1	4.1	4.2
Wages (private sector avg hourly earnings)	3.2 ↑	3.3 →	3.3 ↓	3.2 ↑	3.0	3.3	3.4	3.1
Government operating balance (NZ\$b, September yr)	2.2 ↓	4.7 ↓	5.5 ↓	8.0 ↓	3.8	5.5	6.0	8.3

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-18 f			Mar-19 f			Jun-19 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.3	0.6	0.8	0.5	0.7	0.8	0.7	0.7	0.8			
CPI (qpc)	0.0	0.3	0.5	0.3	0.5	0.7	0.4	0.6	0.8			
aapc, March years	2018/2019 f			2019/2020 f			2020/2021 f			2021/2022 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	2.6	2.7	2.9	2.4	2.8	3.3	2.5	2.9	3.6	1.9	2.5	3.0
Private consumption	2.9	3.2	3.4	2.3	2.8	3.3	1.7	2.5	3.2	1.9	2.5	3.2
Public consumption	1.6	2.3	4.1	1.3	2.5	4.3	0.8	2.2	4.8	1.2	2.4	4.9
Fixed investment												
- Residential	1.9	2.7	3.7	-0.5	3.2	6.1	-2.9	2.5	6.2	-4.3	1.6	5.6
- Other	0.5	2.2	4.8	0.8	3.0	5.3	3.0	4.3	7.3	1.8	3.3	5.1
- Total	1.1	2.3	4.0	0.5	3.1	5.0	1.9	3.9	5.1	0.9	2.9	3.8
Exports, goods and services	3.2	3.7	4.2	1.9	2.9	3.8	1.9	2.6	3.7	2.0	2.5	3.6
Imports, goods and services	4.4	4.8	5.4	2.0	2.5	3.2	2.0	3.0	4.4	2.4	2.8	3.2
Consumer price index (apc)	1.4	1.7	1.9	1.4	1.9	2.1	1.8	2.0	2.2	1.7	2.0	2.1
New Zealand TWI (avg yr to Mar)	71.9	73.0	73.5	65.6	71.7	74.3	70.0	72.6	74.3	69.8	73.2	76.2
90 day bank bill (avg yr to Mar)	1.9	1.9	2.0	1.7	1.9	2.0	1.9	2.2	2.5	2.0	2.6	3.0
10 year government stock (avg yr to Mar)	2.5	2.6	3.0	2.3	2.6	3.2	2.5	3.1	3.7	2.6	3.3	4.1
Current account balance (NZ\$b; Mar yr)	-11.1	-10.5	-9.7	-11.7	-10.8	-9.5	-13.0	-11.2	-8.6	-16.8	-12.0	-8.1
Employment	2.0	2.5	3.4	1.4	1.6	2.0	1.3	1.6	2.2	1.1	1.4	2.0
Unemployment rate (% of labour force)	4.1	4.2	4.4	3.9	4.1	4.2	3.9	4.0	4.2	4.0	4.1	4.3
Wages (private sector avg hourly earnings)	2.0	3.2	3.6	2.4	3.3	3.9	2.6	3.3	3.7	2.9	3.2	3.6
Government operating balance (NZ\$m, December yr)	1.1	2.2	3.1	1.5	4.7	7.6	2.3	5.5	9.0	5.7	8.0	11.9

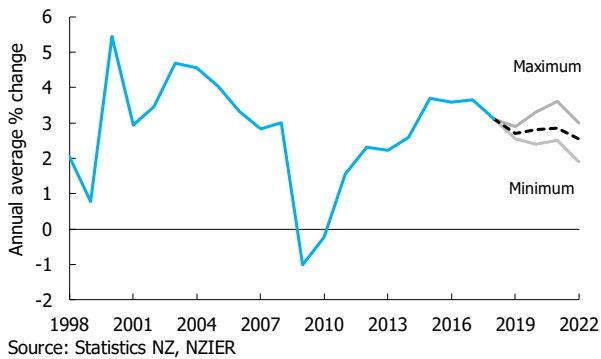
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

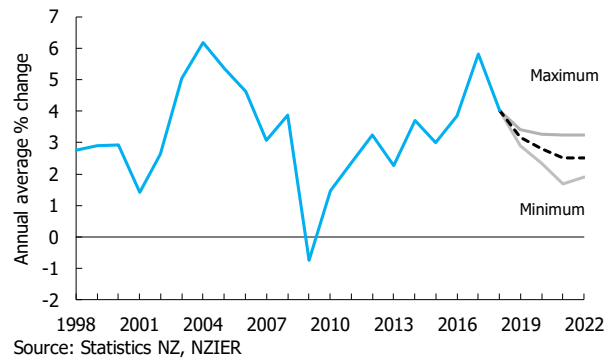
Note: qpc = quarterly percent change.

Summary charts

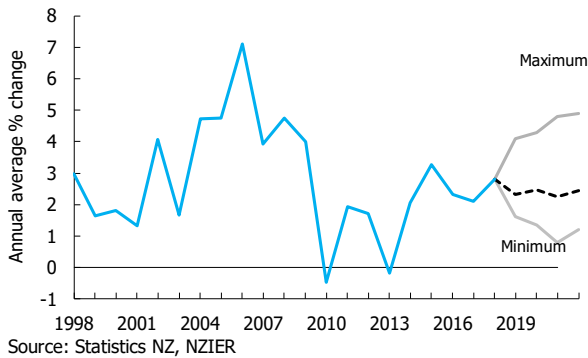
Real GDP Growth



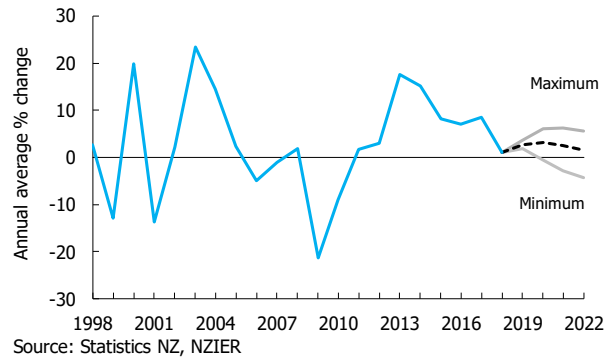
Real Private Consumption



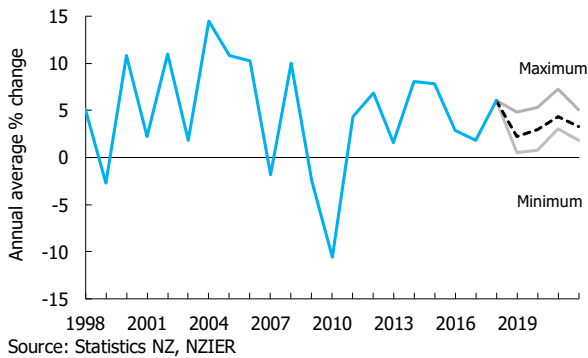
Real Public Consumption



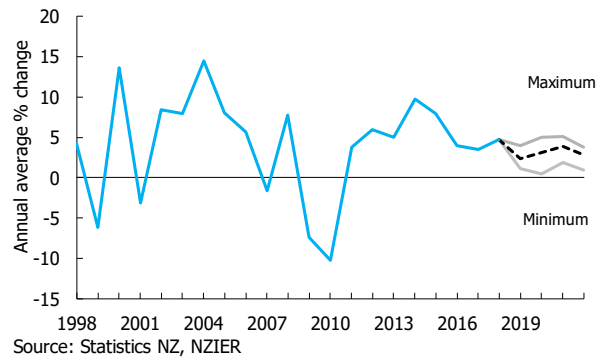
Real Residential Investment



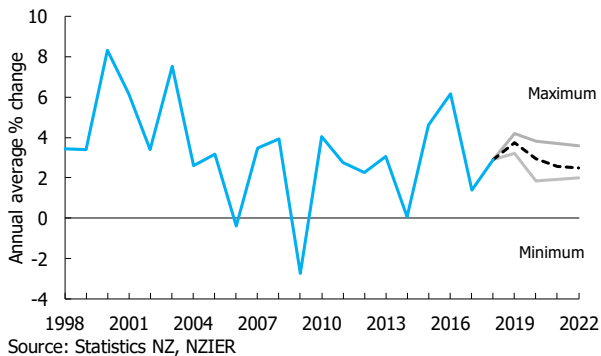
Real Other Investment



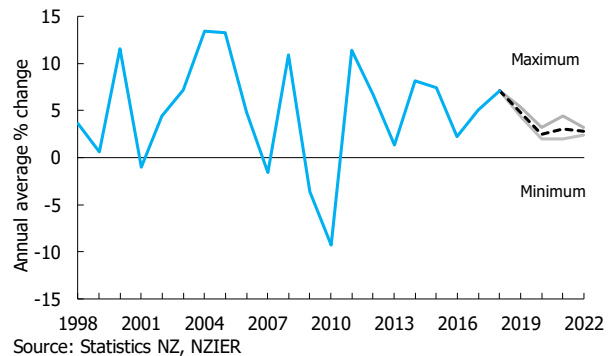
Real Total Investment



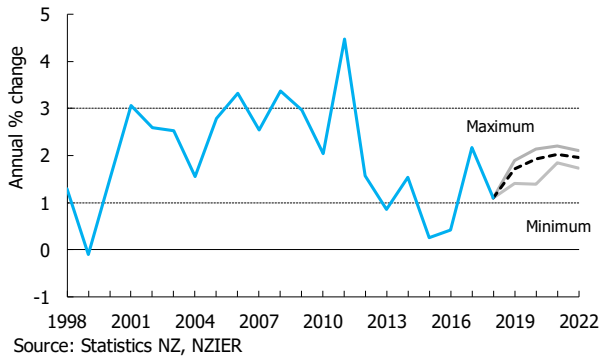
Real Exports



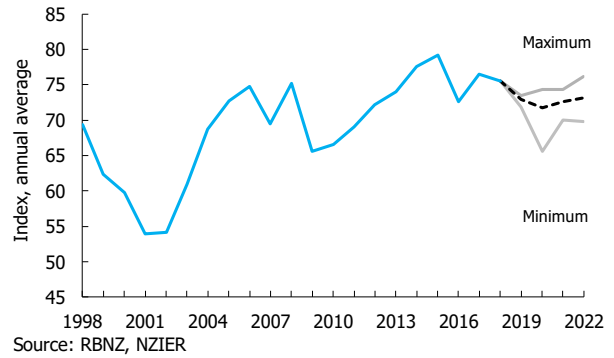
Real Imports



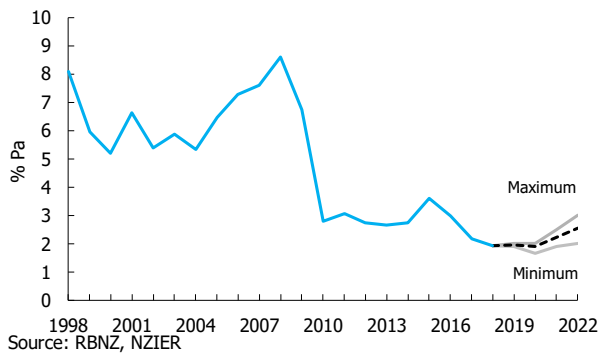
Annual Consumer Price Inflation



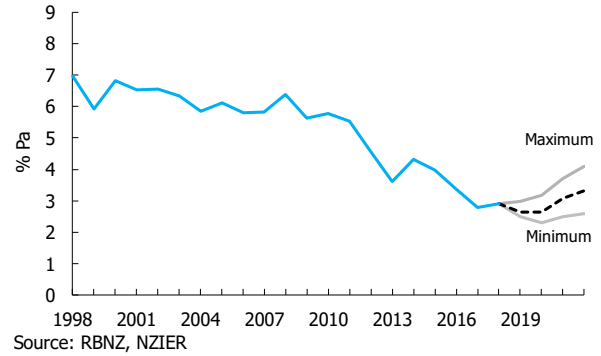
NZD TWI



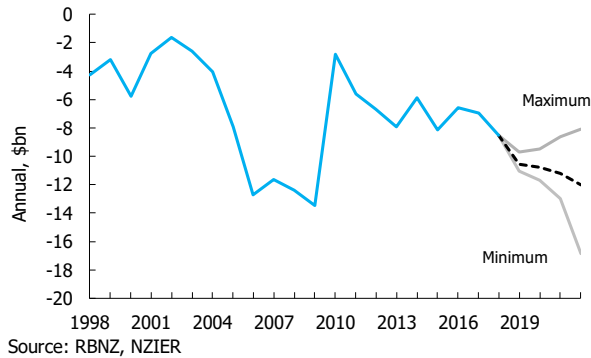
90 Day Bank Bills



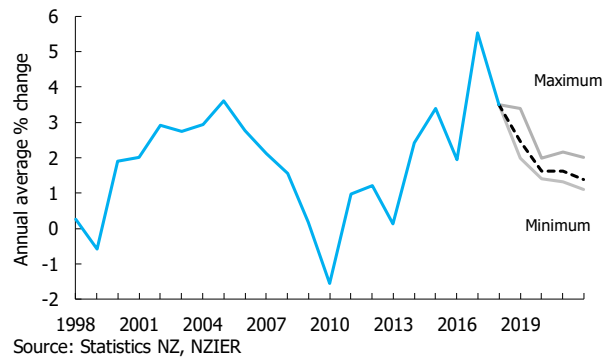
10 Year Government Bond Yield



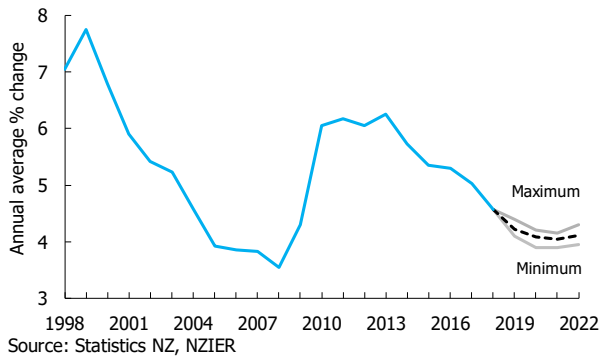
Current Account Balance



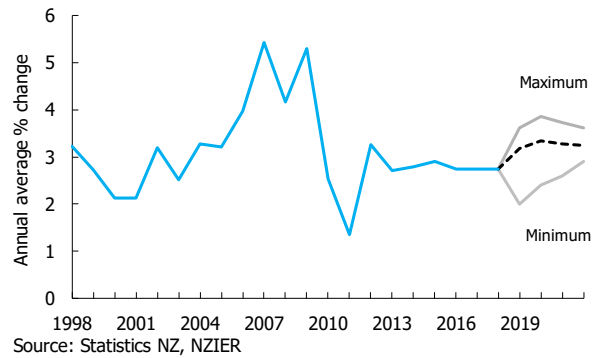
Employment Growth

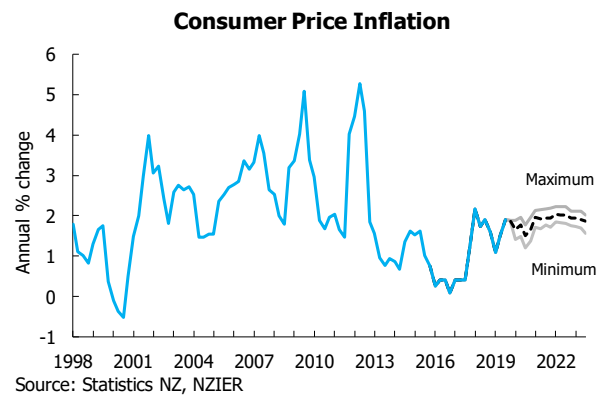
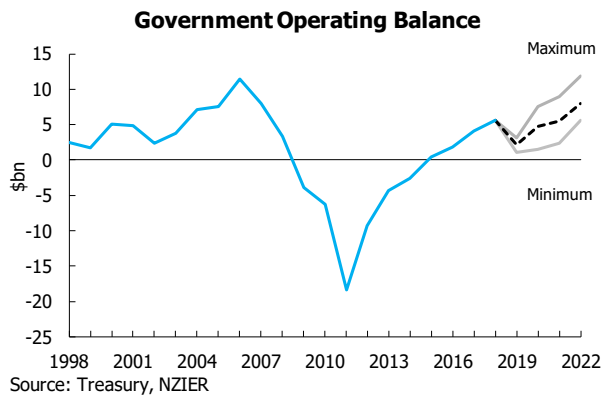


Unemployment Rate



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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