

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

Growth outlook still solid, says NZIER *Consensus Forecasts*

The latest NZIER *Consensus Forecasts* shows growth forecasts have been revised up from 2018, while inflation forecasts are broadly unchanged relative to the previous quarter.

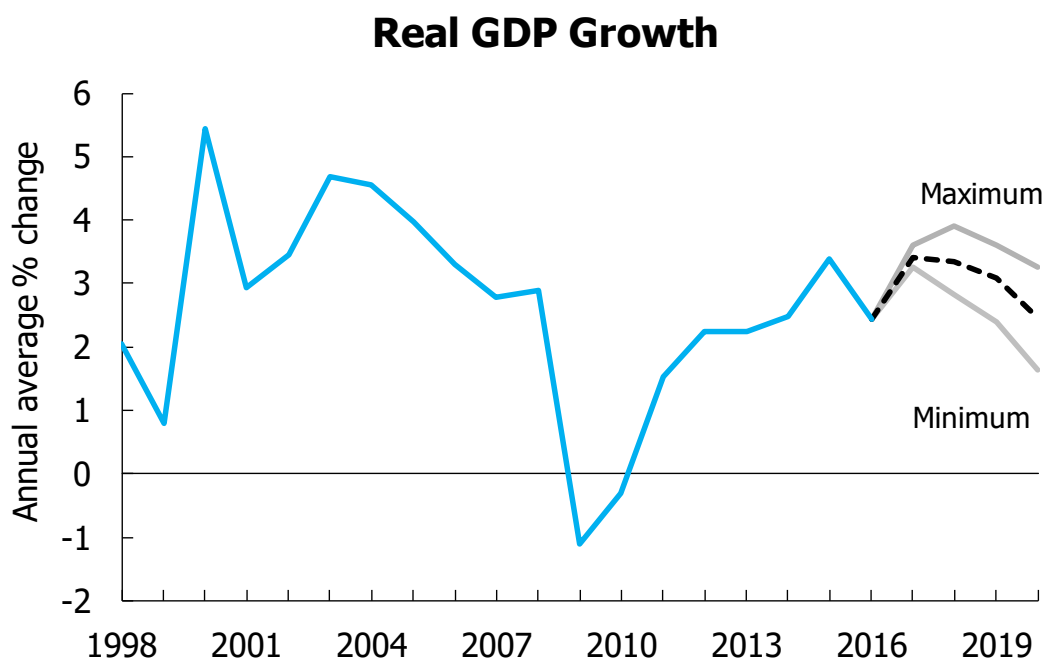
Although forecasts for household spending are slightly stronger over the next two years, this is largely offset by downward revisions to the outlook for investment and net exports.

Housing construction forecasts have been revised lower in the near term but higher from 2018. This reflects expectations of a more protracted construction cycle, given delays in some building work in the face of increased materials, labour and funding costs.

Employment forecasts have been revised higher. Labour demand has been strong, and with businesses feeling more confident hiring intentions remain high. Despite expectations of stronger employment, forecasts for the unemployment rate over the next few years have also been revised slightly higher. The expansion of the labour force from strong net migration has mitigated labour shortages, and seen the unemployment rate remain steady over the past year despite strong growth in employment. Wage growth is currently subdued, but forecasters expect a strong lift from 2018.

Inflation forecasts are broadly unchanged, with forecasters continuing to expect annual inflation to reach the RBNZ's 2 percent mid-point target by March 2019.

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

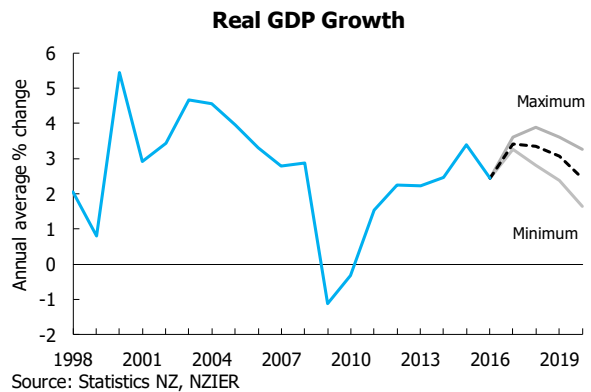


Source: Statistics NZ, NZIER

Longer-term growth outlook revised up slightly

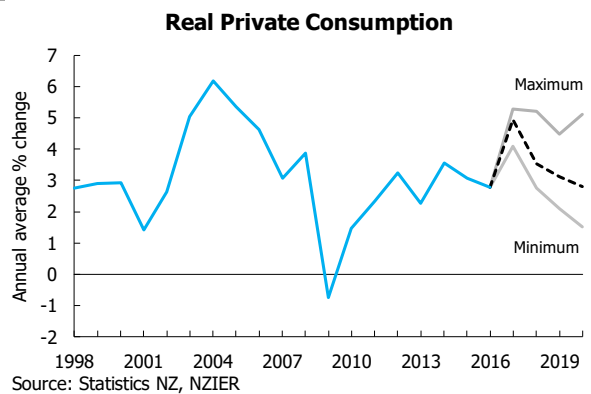
Consensus Forecasts expects slightly stronger economic growth from 2018. Annual average growth is now expected to remain above 3 percent for the year to March 2019, before moderating to 2.5 percent by March 2020.

The longer term outlook remains uncertain, with forecasts ranging from 1.6 to 3.3 percent for the year to March 2020.



Household spending higher

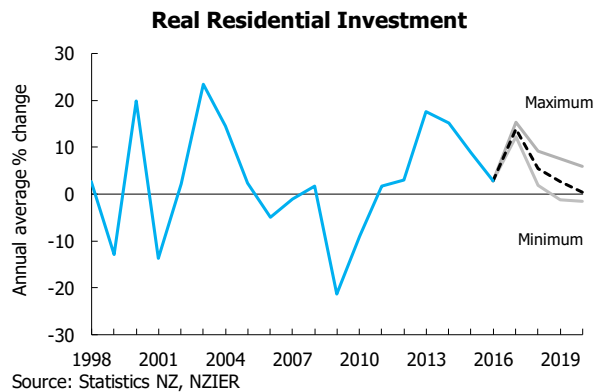
Household spending forecasts for the next few years have been revised up further. Net migration continues to edge up to record highs, and is boosting household demand. Continued strong population growth and high consumer confidence should underpin robust household spending growth through to 2020.



More protracted residential construction cycle expected

Forecasts for residential investment have been revised lower in the near term, but higher from 2018 – forecasters expect a more protracted construction cycle. Strong population growth has boosted demand for dwellings, but the acceleration in construction and funding costs have seen some developments put on hold.

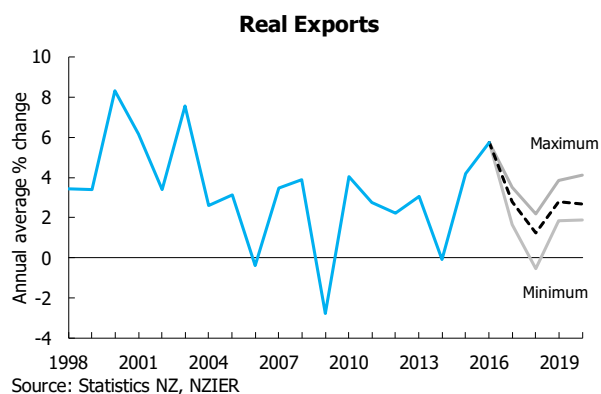
Annual growth in residential construction is now expected to peak at just below 14 percent in March 2017, before moderating to 0.4 percent in March 2020.



Near-term export outlook revised lower

Forecasts for export growth through to March 2018 have been revised lower, but beyond that are broadly unchanged.

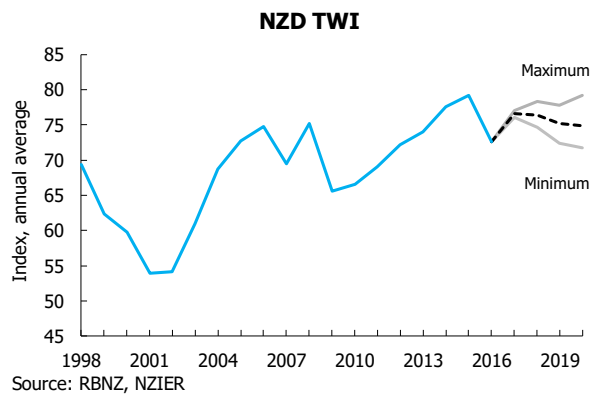
The global shift in sentiment towards protectionism poses downside risks to a small open economy such as New Zealand. The export outlook is highly uncertain, with some expecting a contraction in export volumes for the year to March 2018.



NZD expected to remain high for longer

Forecasters have revised up expectations for the NZD over the whole projection period. The more favourable New Zealand economic outlook relative to most major economies is expected to support the NZD to 2020.

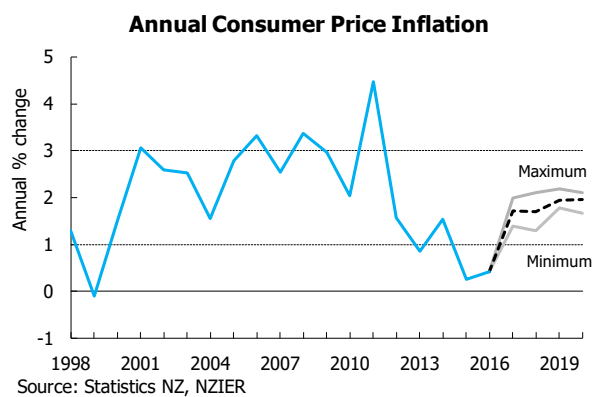
However, as the Federal Reserve lifts interest rates over 2017, New Zealand's reduced yield advantage will see a mild depreciation in the NZD, albeit still at a high level.



Higher inflation starting point

Annual inflation edged back into the Reserve Bank's 1 to 3 percent target band for the December 2016 year. The higher starting point explains much of the upward revision to near-term inflation forecasts.

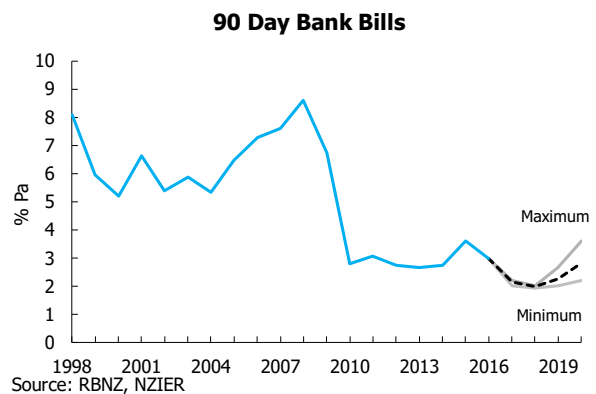
Beyond March 2017, inflation forecasts are broadly unchanged, with continued expectations annual inflation will reach the Reserve Bank's 2 percent mid-point target by March 2019.



Interest rate expectations broadly unchanged

Forecasters continue to expect interest rates to trough in 2017. The Reserve Bank kept the OCR on hold at 1.75 percent at its February *Monetary Policy Statement*, and indicated it did not expect to move interest rates for some time.

Forecasters expect three OCR increases by March 2020.



Stronger employment outlook

Employment growth forecasts have been revised higher, as business optimism supports hiring intentions. The unemployment rate is expected to fall gradually to around 4.8 percent by 2020.

The fall in the unemployment rate is now expected to be slightly shallower as the expansion of the labour force from strong net migration has helped ease labour shortages.

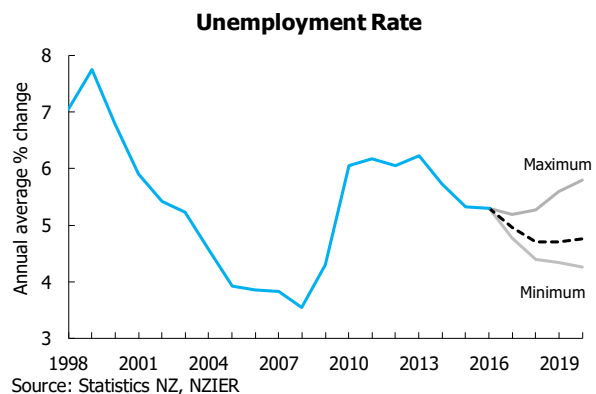


Table 1 Previous and latest *Consensus Forecasts*

aapc, March years	Mar-2017 survey				Dec-2016 survey			
	2016/17	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
GDP	3.4 ↓	3.3 →	3.1 ↑	2.5 ↑	3.5	3.3	2.9	2.4
Private consumption	4.9 ↑	3.5 ↑	3.1 ↑	2.8 →	4.0	3.3	3.0	2.8
Public consumption	2.5 ↑	2.1 ↑	1.6 ↓	1.7 ↓	2.2	2.0	1.7	1.9
Fixed investment:								
Residential	13.9 ↓	5.4 ↓	2.7 ↑	0.4 ↑	15.2	6.6	2.4	-1.2
Other	3.8 ↓	5.5 ↑	4.4 ↑	3.2 ↑	4.4	5.1	3.8	2.7
Total	6.4 ↓	5.5 →	3.9 ↑	2.4 ↑	7.2	5.5	3.5	1.7
Exports, goods & services	2.8 ↓	1.2 ↓	2.8 ↑	2.7 →	3.7	1.7	2.7	2.7
Imports, goods & services	4.7 ↓	4.5 ↑	3.7 ↑	2.8 ↑	4.8	3.8	3.3	2.6
Consumer price index (apc)	1.7 ↑	1.7 ↓	2.0 →	2.0 ↑	1.4	1.8	2.0	1.9
New Zealand TWI (ave yr to Mar)	76.6 ↑	76.4 ↑	75.2 ↑	74.9 ↑	76.0	74.9	74.2	73.5
90 day bank bill (ave yr to Mar)	2.1 ↓	2.0 →	2.2 →	2.8 ↑	2.2	2.0	2.2	2.7
10 year govt bond (ave yr to Mar)	2.8 →	3.4 ↓	3.7 ↓	3.9 →	2.8	3.5	3.8	3.9
Current account balance (NZ\$b; Mar yr)	-7.5 ↑	-9.6 ↓	-11.5 ↓	-12.4 ↓	-7.6	-8.5	-10.0	-11.3
Employment	4.8 →	2.4 ↑	2.1 ↑	1.6 ↑	4.8	2.3	1.8	1.4
Unemployment (% of labour force)	5.0 ↑	4.7 ↑	4.7 ↑	4.8 ↑	4.8	4.6	4.6	4.7
Wages (private sector avg hourly earnings)	1.6 ↓	2.3 ↓	3.0 ↑	3.2 ↑	2.0	2.5	2.9	2.9
Government operating balance (NZ\$b, Septeml	1.7 ↓	4.0 ↓	6.2 ↓	8.0 ↓	2.2	4.3	7.0	9.5

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-16 f			Mar-17 f			Jun-17 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.6	1.0	1.7	0.4	0.8	1.0	0.6	0.8	1.1			
CPI (qpc)	0.3	0.5	0.8	0.1	0.4	0.5	0.4	0.5	0.7			
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	3.3	3.4	3.6	2.8	3.3	3.9	2.4	3.1	3.6	1.6	2.5	3.3
Private consumption	4.1	4.9	5.3	2.8	3.5	5.2	2.1	3.1	4.5	1.5	2.8	5.1
Public consumption	2.3	2.5	2.7	1.8	2.1	3.1	0.9	1.6	3.2	1.0	1.7	3.3
Fixed investment												
- Residential	12.2	13.9	15.3	1.9	5.4	9.1	-1.2	2.7	7.6	-1.5	0.4	5.9
- Other	2.0	3.8	7.0	3.3	5.5	8.7	2.1	4.4	6.0	1.1	3.2	5.2
- Total	4.6	6.4	9.1	3.4	5.5	8.6	2.3	3.9	4.9	0.5	2.4	5.0
Exports, goods and services	1.6	2.8	3.5	-0.5	1.2	2.2	1.8	2.8	3.9	1.9	2.7	4.1
Imports, goods and services	4.4	4.7	4.9	3.4	4.5	7.0	2.2	3.7	6.2	1.0	2.8	5.4
Consumer price index (apc)	1.4	1.7	2.0	1.3	1.7	2.1	1.8	2.0	2.2	1.7	2.0	2.1
New Zealand TWI (ave yr to Mar)	76.0	76.6	77.0	74.6	76.4	78.4	72.4	75.2	77.8	71.8	74.9	79.2
90 day bank bill (ave yr to Mar)	2.0	2.1	2.2	1.9	2.0	2.0	2.0	2.2	2.7	2.2	2.8	3.6
10 year government stock (ave yr to Mar)	2.6	2.8	3.0	3.0	3.4	3.8	3.6	3.7	4.0	3.8	3.9	4.1
Current account balance (NZ\$b; Mar yr)	-8.1	-7.5	-6.8	-11.4	-9.6	-7.5	-15.1	-11.5	-9.7	-17.1	-12.4	-9.4
Employment	1.6	4.8	5.3	1.6	2.4	3.3	1.0	2.1	3.8	0.4	1.6	4.2
Unemployment rate (% of labour force)	4.8	5.0	5.2	4.4	4.7	5.3	4.3	4.7	5.6	4.3	4.8	5.8
Wages (private sector avg hourly earnings)	1.5	1.6	1.8	1.9	2.3	2.7	2.4	3.0	3.8	2.9	3.2	4.0
Government operating balance (NZ\$m, December yr)	0.5	1.7	4.8	3.3	4.0	5.9	5.4	6.2	8.5	6.7	8.0	11.8

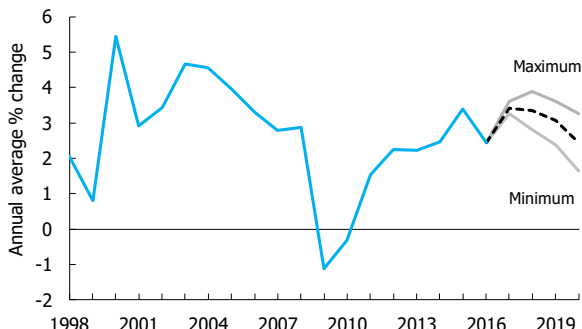
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

Note: qpc = quarterly percent change.

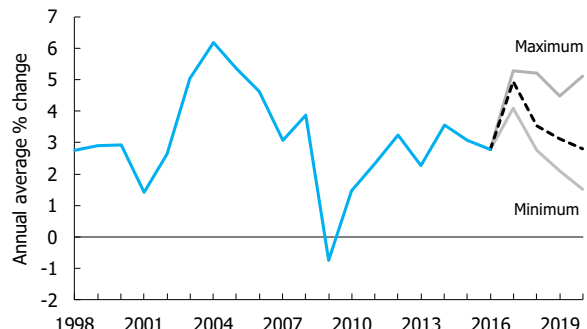
Summary charts

Real GDP Growth



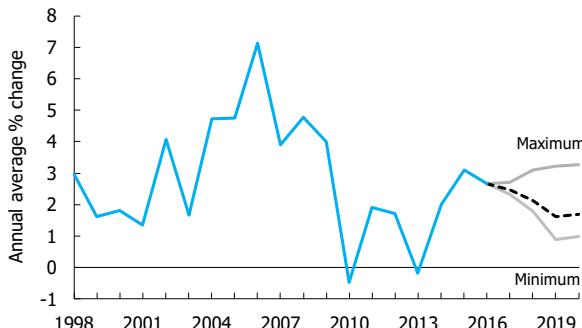
Source: Statistics NZ, NZIER

Real Private Consumption



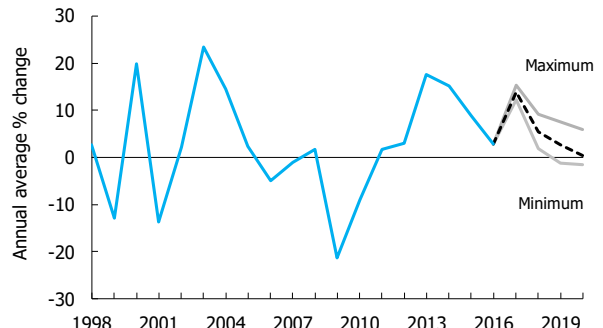
Source: Statistics NZ, NZIER

Real Public Consumption



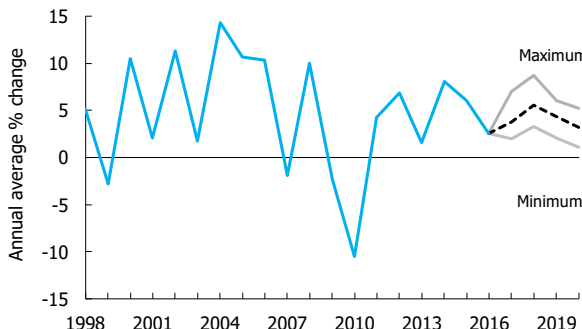
Source: Statistics NZ, NZIER

Real Residential Investment



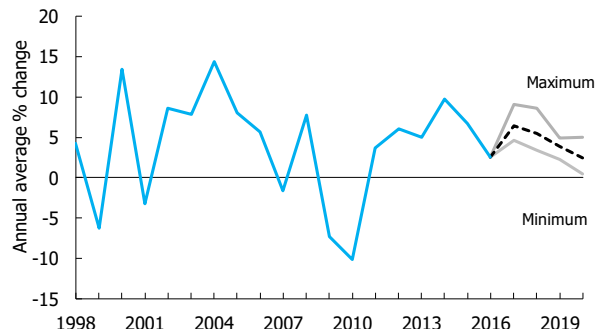
Source: Statistics NZ, NZIER

Real Other Investment



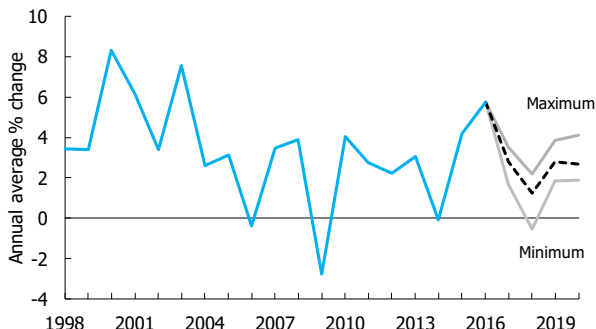
Source: Statistics NZ, NZIER

Real Total Investment



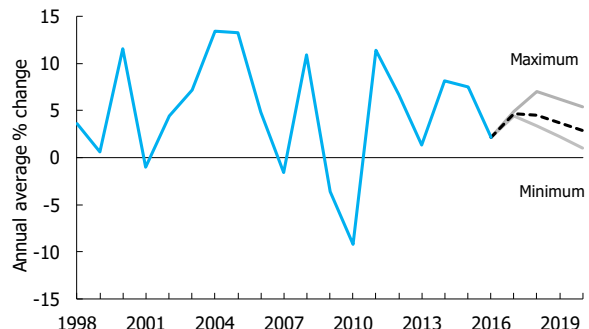
Source: Statistics NZ, NZIER

Real Exports



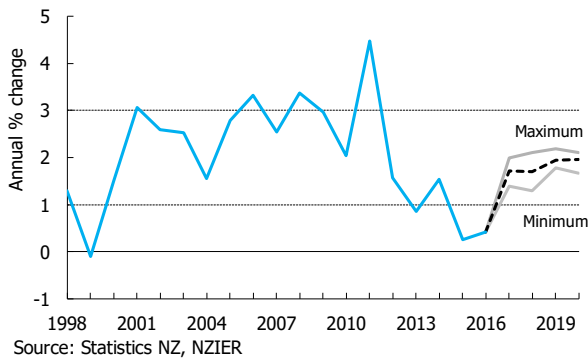
Source: Statistics NZ, NZIER

Real Imports

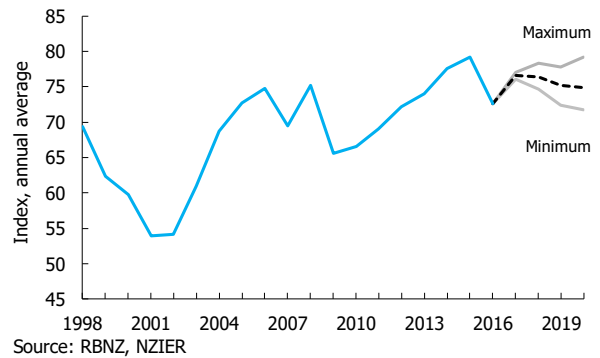


Source: Statistics NZ, NZIER

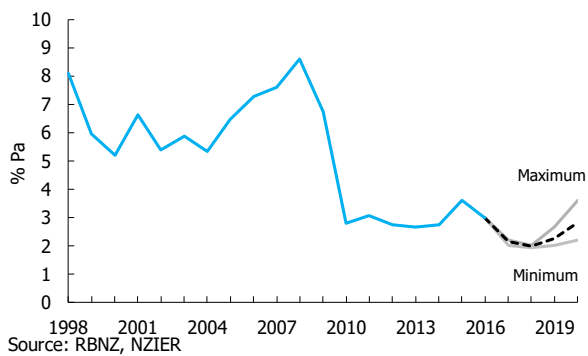
Annual Consumer Price Inflation



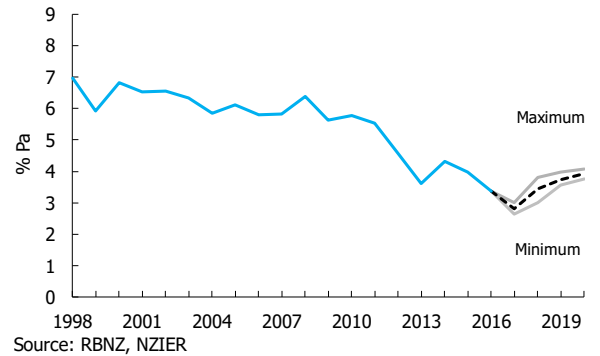
NZD TWI



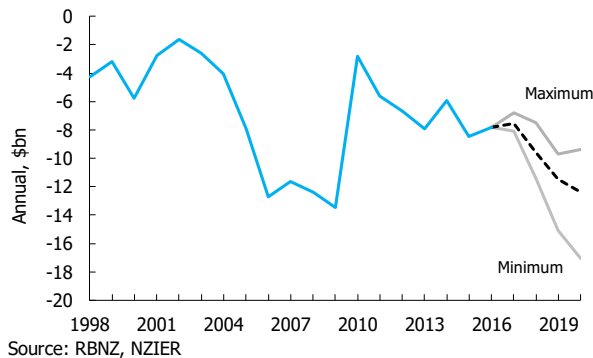
90 Day Bank Bills



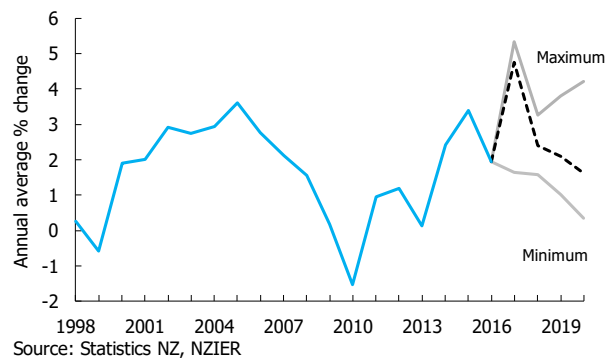
10 Year Government Bond Yield



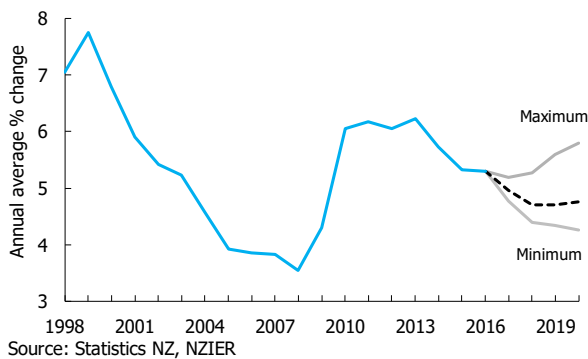
Current Account Balance



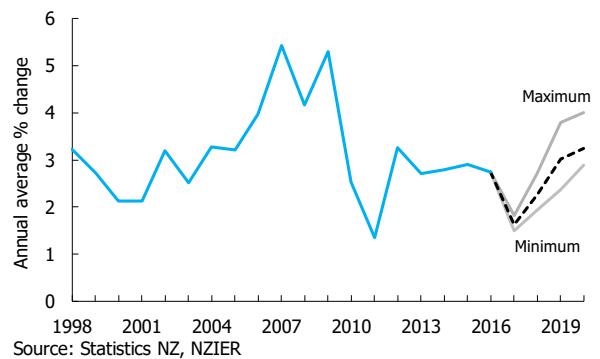
Employment Growth

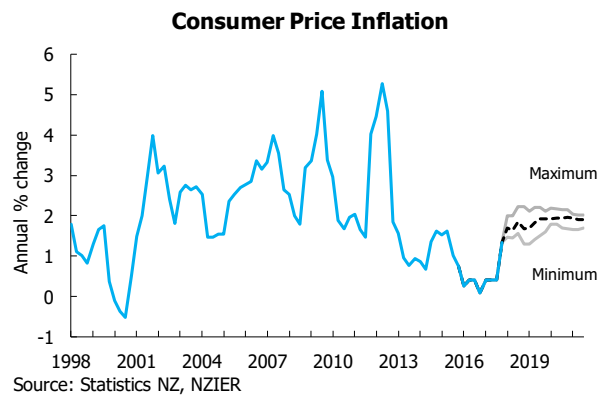
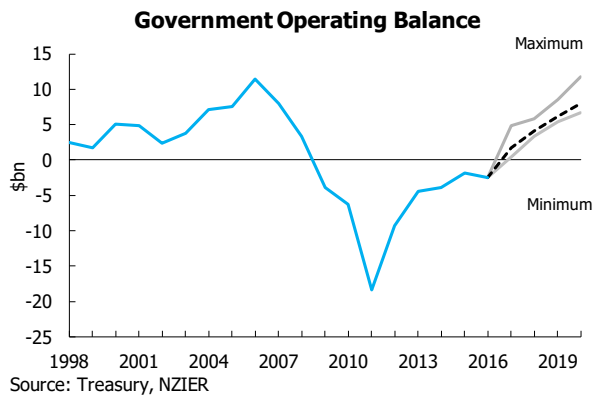


Unemployment Rate



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

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