

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* points to a positive growth outlook

The latest NZIER *Consensus Forecasts* shows expectations for slightly softer growth over the coming year, but upward revisions in the subsequent years. Despite some softness in activity earlier this year, the growth outlook remains positive.

Household spending forecasts have been revised up, as strong population growth continues to drive robust spending over the next few years.

Investment forecasts have been revised up from 2018, reflecting business confidence about investing to expand their operations. However, forecasts for residential investment have been revised down, as capacity pressures and higher construction and funding costs delay developments and lead to an even more protracted construction cycle.

Forecasts for employment growth have been revised down, with annual employment growth now expected to ease to under 1.5 percent by 2021. Despite expectations of softer employment growth, forecasters have not changed their unemployment rate expectations.

Labour shortages remain acute, particularly in sectors such as construction which are facing very strong demand as construction. This tightness in the labour market is expected to flow through to a pick-up in wage growth through to 2021.

Figure 1 Economic growth expected to remain solid



Source: Statistics NZ, NZIER

Growth stronger in the near term

Consensus Forecasts expects a stronger pick-up in growth over 2018, before easing from 2019. Annual average growth is now expected to lift to 3.4 percent for the year to March 2019, before moderating to 2.4 percent by March 2021.

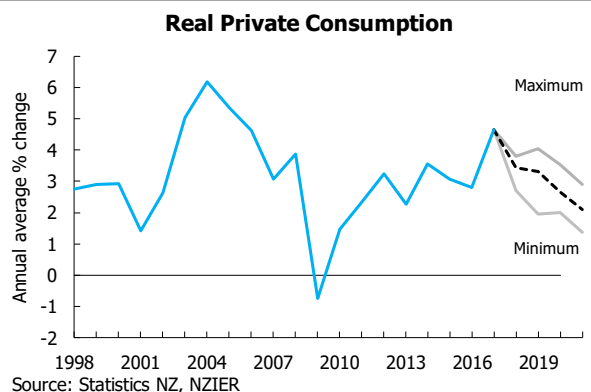
There is less than usual uncertainty over the longer-term growth outlook, with consensus that growth will moderate from 2019.



Household spending outlook still robust

Household spending forecasts have been revised up over most of the projection period. Strong population growth is expected to continue to drive robust household spending growth over the next year or two.

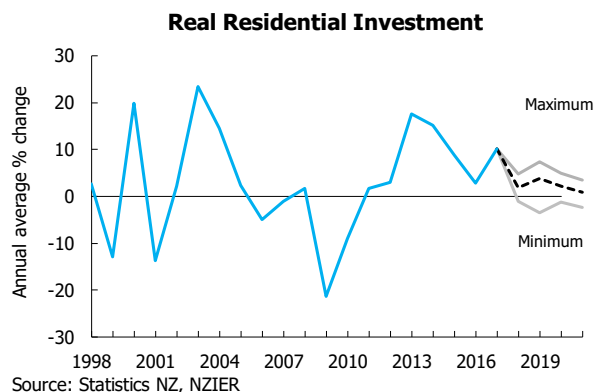
Beyond 2019, household spending is expected to moderate, with annual growth expected to reach 2.1 percent by 2021.



Even more protracted construction cycle

Residential construction forecasts have been revised lower over the projection period. Although strong migration-led population growth underpins a solid residential construction outlook, capacity pressures in the construction sector are leading to an even more protracted construction cycle.

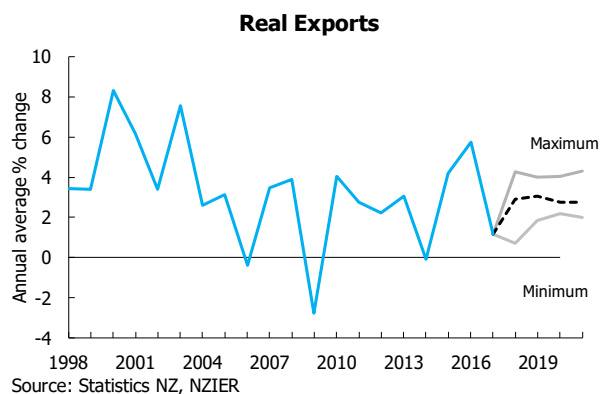
Underlying demand for construction remains strong, but capacity pressures will limit the extent to which activity can ramp up.



Export outlook revised up for coming year

Export growth forecasts have been revised up for the coming year, but there are slight downward revisions from 2018. Overall, forecasters expect export growth will be solid through to 2021.

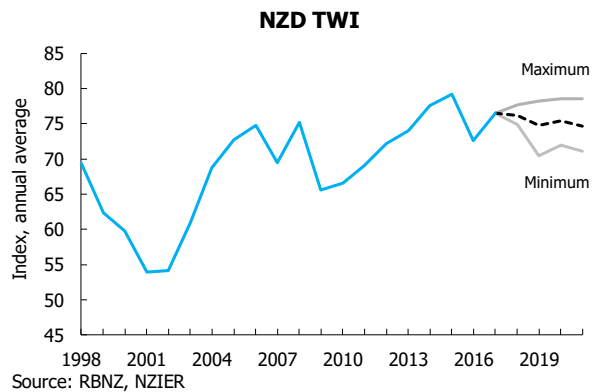
Global demand is picking up, reflecting an improvement in the major economies. Heightened geo-political tensions offshore continue to pose downside risks, however.



NZD expected to ease slightly

Although expectations for the NZD are higher for the coming year, beyond 2018 forecasts for the NZD have been revised lower.

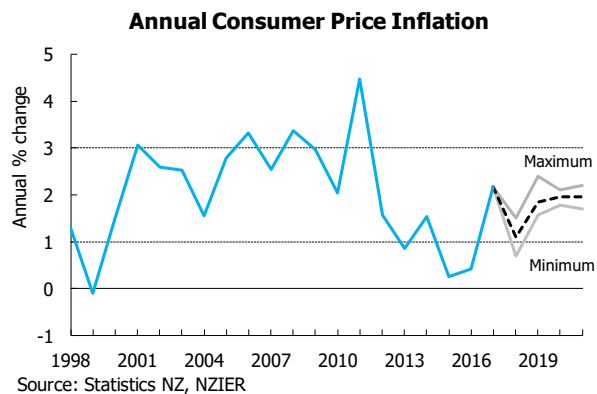
New Zealand's relatively high interest rates and positive growth outlook continue to support the currency at a high level. As interest rates rise in the major economies this should reduce New Zealand's yield advantage and drive a slight depreciation in the NZD. The NZD TWI is expected to ease to 74.7 in March 2021, although there is a large degree of uncertainty in the later part of the projection.



Inflation outlook lower

Annual inflation eased to 1.7 percent for the year to June 2017. The easing reflected lower prices for petrol and imported household goods in the face of a competitive retail environment and high NZD.

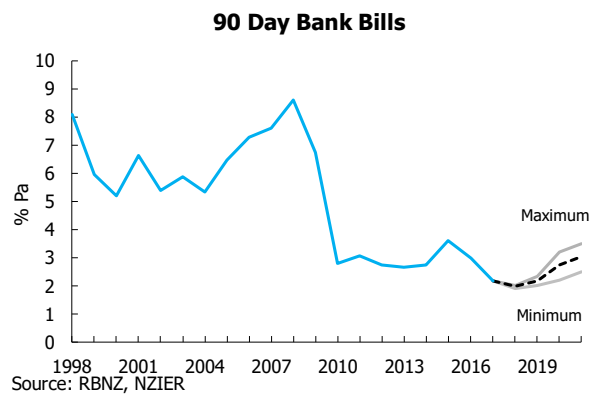
Forecasters expect a drop in annual CPI inflation to 1.1 percent in March 2018, before picking up to 2 percent by March 2020.



Interest rates expected to remain low for longer

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

Consensus Forecasts for interest rates have been revised lower. Softer than expected growth and inflation earlier this year indicate there is no urgency for the Reserve Bank to lift interest rates.



Employment growth revised lower

Employment growth forecasts have been revised lower, with annual employment growth now expected to ease to 1.4 percent by 2021. Despite this downward revision, unemployment rate forecasts were unchanged at around 4.6 percent through to 2021.

Wage growth is expected to lift, reflecting the tightness of the labour market.

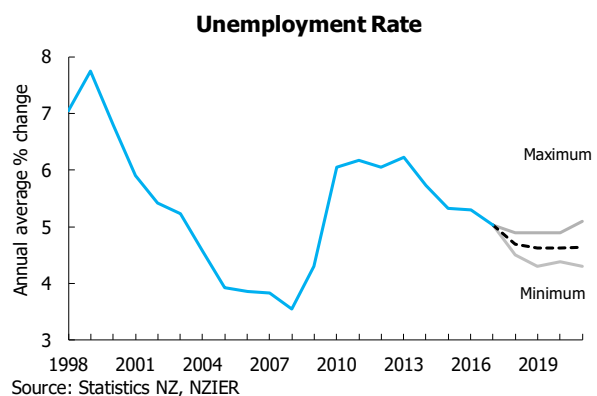


Table 1 Previous and latest *Consensus Forecasts*

aapc, March years	Sep-2017 survey				Jun-2017 survey			
	2017/18	2018/19	2019/20	2020/21	2016/17	2017/18	2018/19	2019/20
GDP	2.9 ↓	3.4 ↑	2.9 ↑	2.4	3.0	3.1	3.3	2.7
Private consumption	3.4 ↑	3.3 →	2.7 ↑	2.1	4.7	3.1	3.3	2.6
Public consumption	2.6 ↑	1.9 ↑	2.0 ↑	2.2	2.4	2.4	1.8	1.9
Fixed investment:								
Residential	1.9 ↓	3.8 ↓	2.2 ↓	0.9	10.5	2.6	4.6	2.5
Other	6.5 ↑	4.9 ↑	4.3 ↑	3.8	4.2	6.3	4.3	3.7
Total	5.1 ↓	4.6 ↑	3.7 ↑	3.0	5.8	5.3	4.4	3.4
Exports, goods & services	2.9 ↑	3.1 ↓	2.8 ↓	2.7	1.0	1.8	3.2	2.9
Imports, goods & services	5.1 ↑	3.8 ↑	3.1 ↑	2.8	5.7	4.0	3.3	3.0
Consumer price index (apc)	1.1 ↓	1.9 ↓	2.0 ↓	2.0	2.2	1.5	2.0	2.1
New Zealand TWI (ave yr to Mar)	76.2 ↑	74.8 ↓	75.4 ↓	74.7	76.8	75.6	75.7	75.6
90 day bank bill (ave yr to Mar)	2.0 →	2.2 ↓	2.7 ↓	3.0	2.1	2.0	2.3	2.9
10 year govt bond (ave yr to Mar)	3.1 ↓	3.5 ↓	3.9 ↓	4.1	2.8	3.4	3.8	4.1
Current account balance (NZ\$b; Mar yr)	-6.6 ↑	-8.4 ↑	-9.6 ↓	-10.6	-7.2	-7.1	-8.5	-9.4
Employment	2.2 ↓	2.0 ↓	1.5 ↓	1.4	5.0	2.3	2.1	1.7
Unemployment (% of labour force)	4.7 →	4.6 →	4.6 →	4.6	4.9	4.7	4.6	4.6
Wages (private sector avg hourly earnings)	2.2 ↑	2.9 ↓	3.2 ↑	3.1	1.5	2.1	3.0	3.0
Government operating balance (NZ\$b, Septeml)	3.2 →	3.9 ↓	6.0 ↓	6.8	1.6	3.2	4.5	6.2

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	Jun-17 f			Sep-17 f			Dec-17 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.6	0.8	1.0	0.6	0.8	0.9	0.6	0.8	1.0			
CPI (qpc)	Sep-17 f			Dec-17 f			Mar-18 f					
	0.2	0.3	0.5	0.2	0.3	0.4	0.3	0.6	0.8			
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	2.6	2.9	3.1	2.8	3.4	3.9	2.3	2.9	3.4	1.8	2.4	2.8
Private consumption	2.7	3.4	3.8	2.0	3.3	4.0	2.0	2.7	3.5	1.4	2.1	2.9
Public consumption	2.1	2.6	3.6	1.2	1.9	3.0	1.3	2.0	2.9	1.2	2.2	3.5
Fixed investment												
- Residential	-1.1	1.9	4.8	-3.5	3.8	7.3	-1.2	2.2	5.0	-2.4	0.9	3.5
- Other	4.3	6.5	8.5	2.8	4.9	6.4	2.4	4.3	6.2	2.0	3.8	5.5
- Total	2.3	5.1	6.3	2.5	4.6	6.4	2.1	3.7	5.6	1.8	3.0	5.0
Exports, goods and services	0.7	2.9	4.3	1.8	3.1	4.0	2.2	2.8	4.0	2.0	2.7	4.3
Imports, goods and services	4.1	5.1	6.4	2.6	3.8	5.2	2.4	3.1	4.4	2.0	2.8	3.9
Consumer price index (apc)	0.7	1.1	1.5	1.6	1.9	2.4	1.8	2.0	2.1	1.7	2.0	2.2
New Zealand TWI (ave yr to Mar)	74.9	76.2	77.7	70.5	74.8	78.2	72.0	75.4	78.6	71.1	74.7	78.6
90 day bank bill (ave yr to Mar)	1.9	2.0	2.0	2.0	2.2	2.3	2.2	2.7	3.2	2.5	3.0	3.5
10 year government stock (ave yr to Mar)	2.9	3.1	3.7	3.1	3.5	4.0	3.6	3.9	4.6	3.6	4.1	4.6
Current account balance (NZ\$b; Mar yr)	-8.4	-6.6	-4.6	-10.3	-8.4	-6.7	-10.1	-9.6	-8.7	-12.1	-10.6	-9.7
Employment	1.6	2.2	3.1	1.4	2.0	2.5	0.2	1.5	2.1	0.2	1.4	2.3
Unemployment rate (% of labour force)	4.5	4.7	4.9	4.3	4.6	4.9	4.4	4.6	4.9	4.3	4.6	5.1
Wages (private sector avg hourly earnings)	1.9	2.2	2.5	2.5	2.9	3.4	2.7	3.2	3.8	2.5	3.1	3.9
Government operating balance (NZ\$m, December yr)	2.9	3.2	3.6	3.5	3.9	4.3	5.7	6.0	6.7	6.4	6.8	7.7

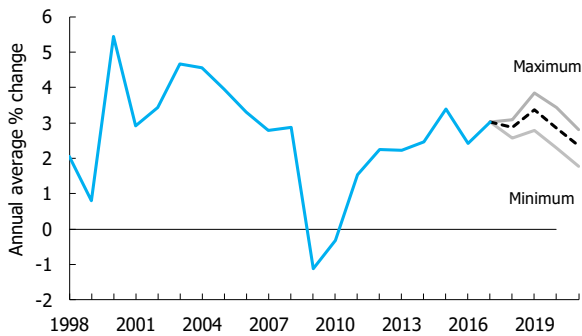
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

Note: qpc = quarterly percent change.

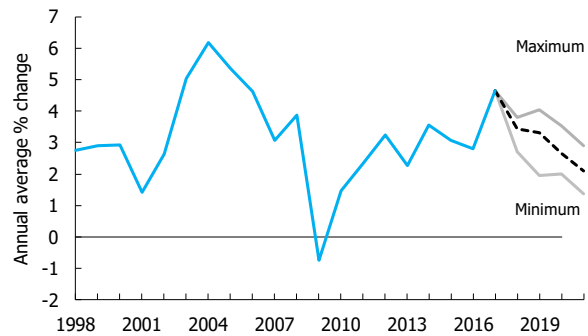
Summary charts

Real GDP Growth



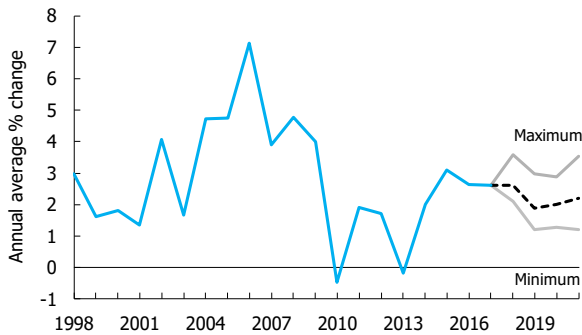
Source: Statistics NZ, NZIER

Real Private Consumption



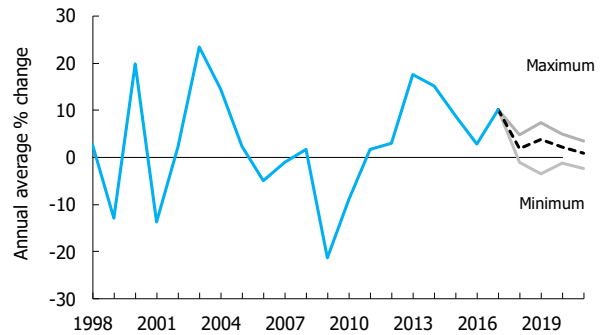
Source: Statistics NZ, NZIER

Real Public Consumption



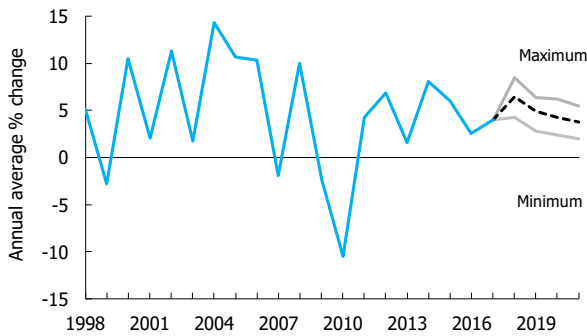
Source: Statistics NZ, NZIER

Real Residential Investment



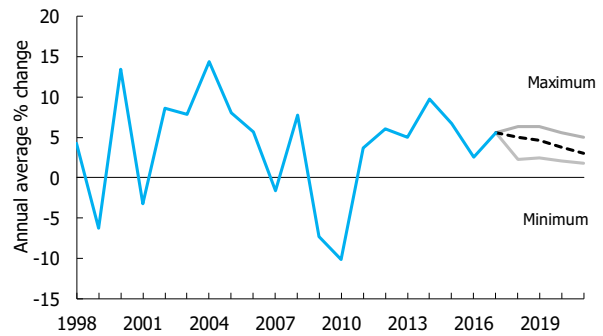
Source: Statistics NZ, NZIER

Real Other Investment



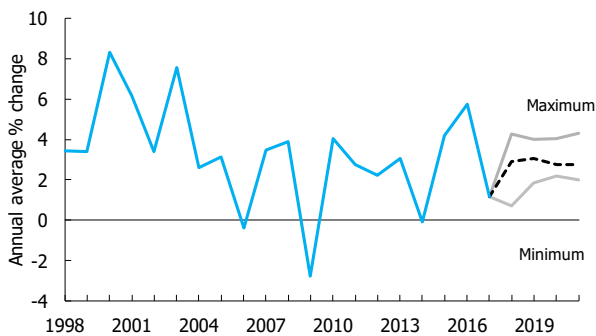
Source: Statistics NZ, NZIER

Real Total Investment



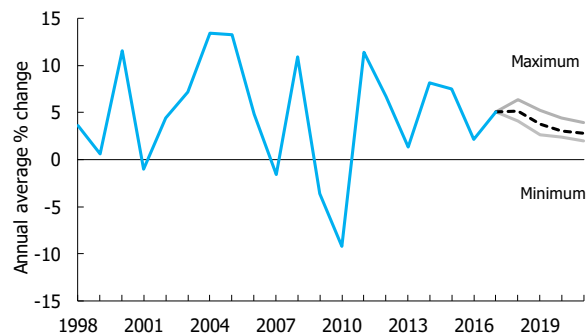
Source: Statistics NZ, NZIER

Real Exports



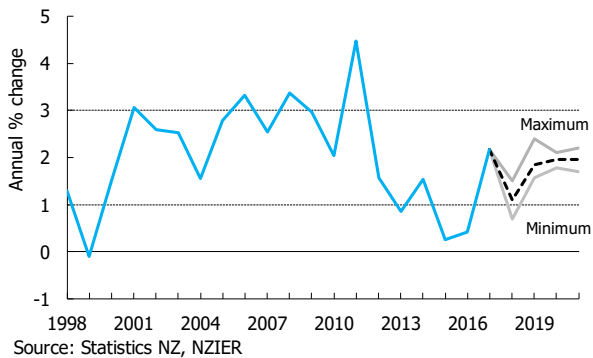
Source: Statistics NZ, NZIER

Real Imports

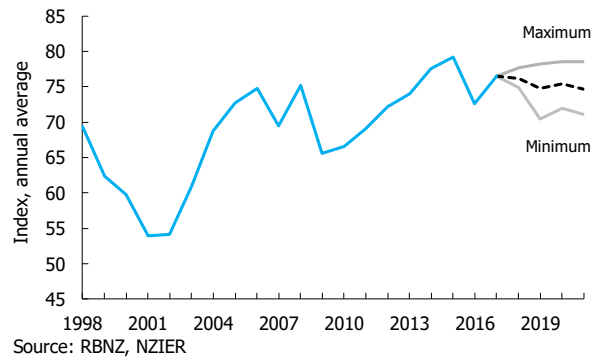


Source: Statistics NZ, NZIER

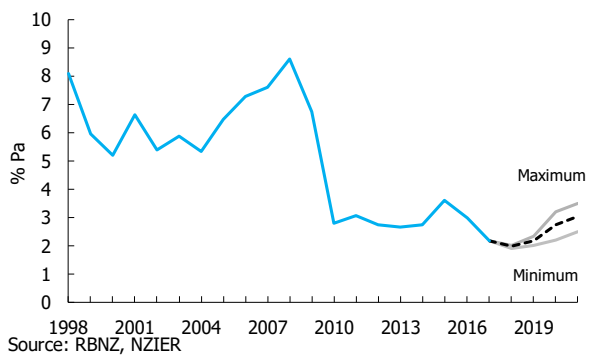
Annual Consumer Price Inflation



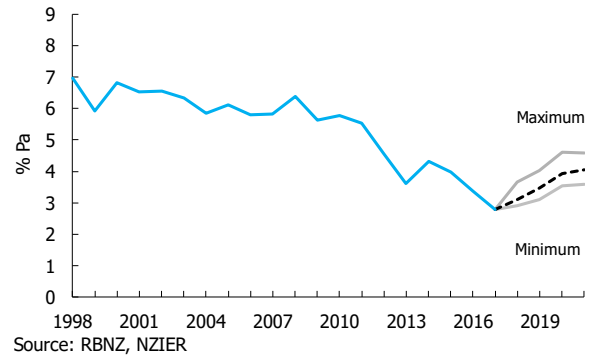
NZD TWI



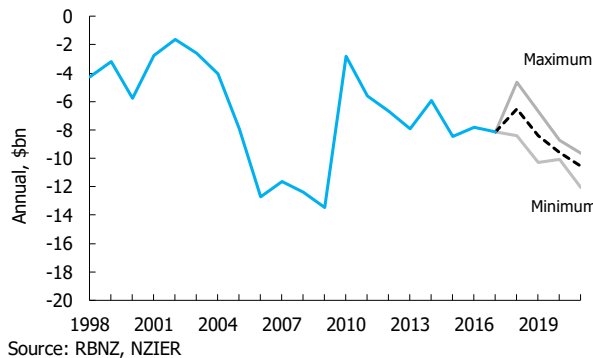
90 Day Bank Bills



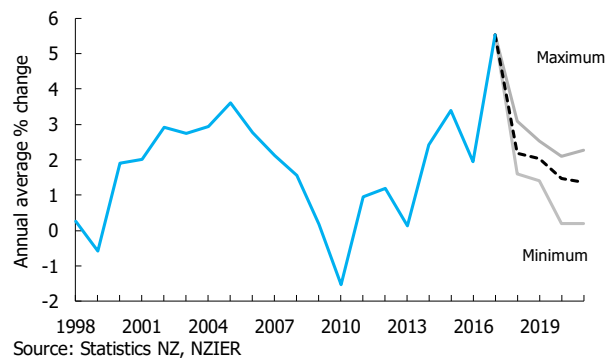
10 Year Government Bond Yield



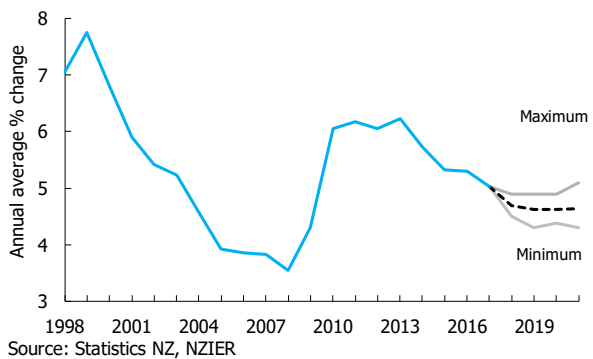
Current Account Balance



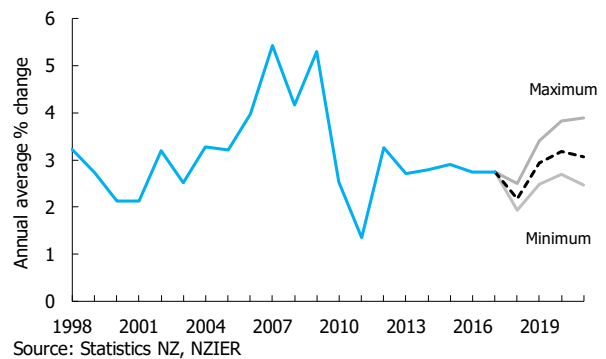
Employment Growth

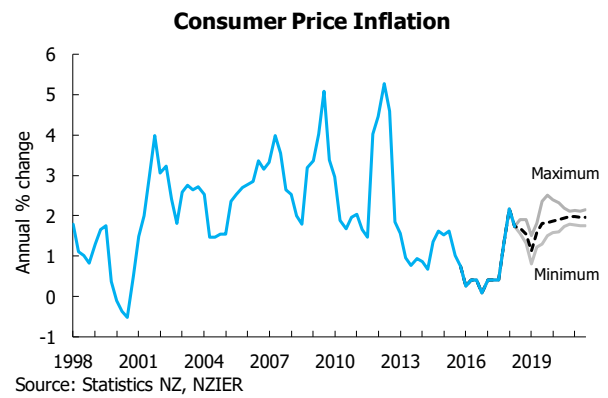
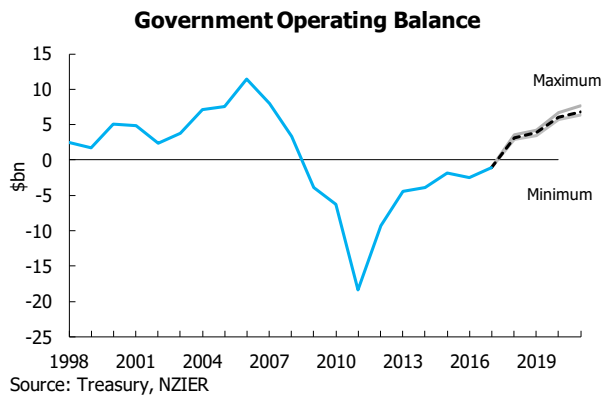


Unemployment Rate



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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