

NZ Institute of Economic Research (Inc)
Media release 13 September 2021

Consensus Forecasts

NZIER *Consensus Forecasts* show mixed outlook as uncertainty over the impact of latest COVID-19 community outbreak looms

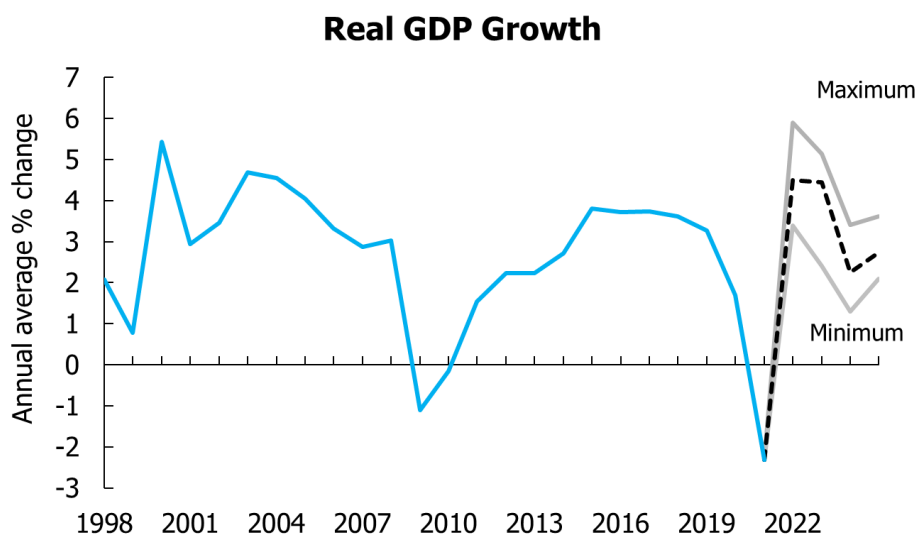
The latest NZIER *Consensus Forecasts* (CF) show a downward revision to the near-term outlook for the New Zealand economy but an upward revision for the subsequent year. The latest community outbreak of COVID-19 is likely to have driven these revisions, as the recent lockdown reduces economic activity for the coming year. However, the expectation is for a rebound in demand from 2022. There is a wider than usual range of forecasts for the growth outlook, partly reflecting the difference in timing when forecasts were finalised.

Despite the latest community outbreak of COVID-19 and the containment measures and restrictions, forecasts of household spending have been revised higher. Over the past year, the strengthening labour market has improved household incomes, which has encouraged spending. These upward revisions suggest expectations are for the momentum in the household sector to remain robust.

The outlook for business investment has been revised lower for the coming year, likely reflecting the expected impact of the containment measures. The upward revision to the business investment outlook in the subsequent year points to expectations of a solid recovery in the subsequent year.

The inflation outlook has been revised higher for the coming years. Annual CPI inflation had edged up above the Reserve Bank's inflation target band of 1 to 3 percent in June 2021, reflecting capacity pressures becoming more acute in the New Zealand economy. The latest NZIER *Consensus Forecasts* point to expectations of these inflation pressures persisting for the coming year before moderating towards the inflation target mid-point of 2 percent in the following year.

Figure 1 Continued expectations for a solid recovery, despite some downward revision to the near-term outlook

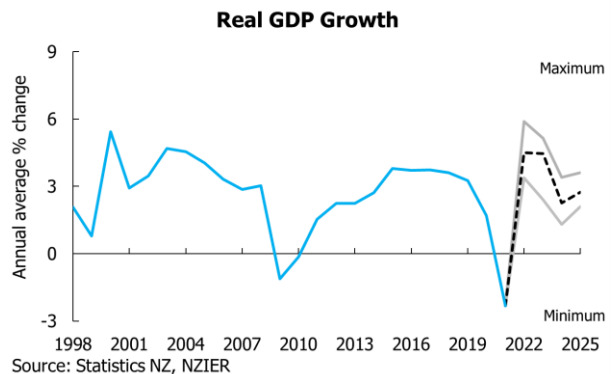


Source: Statistics NZ, NZIER

Near-term growth outlook revised lower

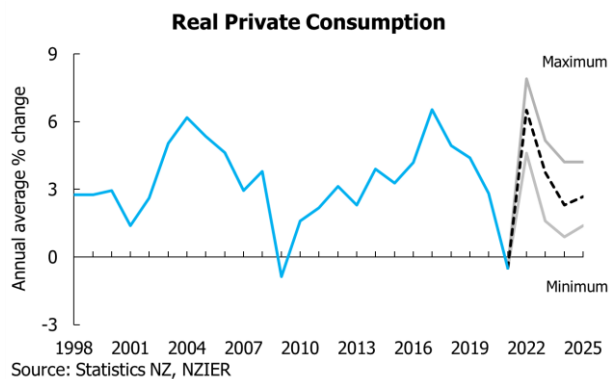
Consensus Forecasts for GDP have been revised lower in the near term, likely reflecting expectations that the recent COVID-19 community outbreak will reduce economic activity.

Despite the downward revision, expectations are for the recovery in demand to remain robust over the next two years. Annual average growth in GDP is forecast to remain at 4.5 percent for the year to March 2023.



Household momentum expected to continue

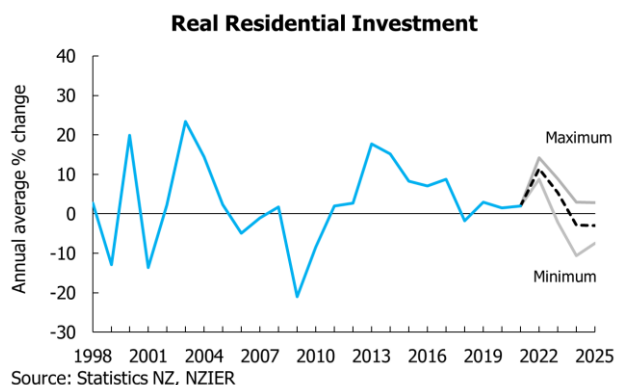
Forecasts for household spending has been revised up for the next two years. Stronger household income as a result of the improvement in the labour market has boosted consumer confidence. As a result, households are feeling more positive about spending, particularly on big-ticket items. Forecasts are for solid growth in household spending for the next two years.



Investment forecast revised lower for the coming year

Investment forecasts have been revised lower for the coming year, likely reflecting the impact of COVID-19 containment measures and restrictions.

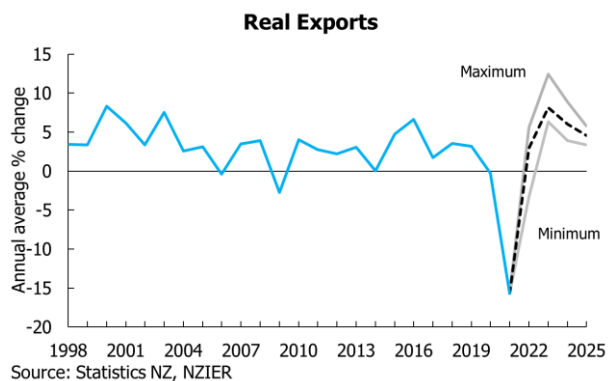
Beyond that, forecasts for investment have been revised up, suggesting expectations of a rebound in demand as New Zealand moves down the alert levels. Business confidence has been picking up over the past year, with businesses feeling more positive about investing.



Export outlook revised lower

Forecasts for export growth have been revised lower across the projection but remain robust. Outbreaks of the more contagious Delta strain of COVID-19 worldwide have caused jitters about the global growth outlook. A weakening in global growth has potentially negative implications for demand for New Zealand exports.

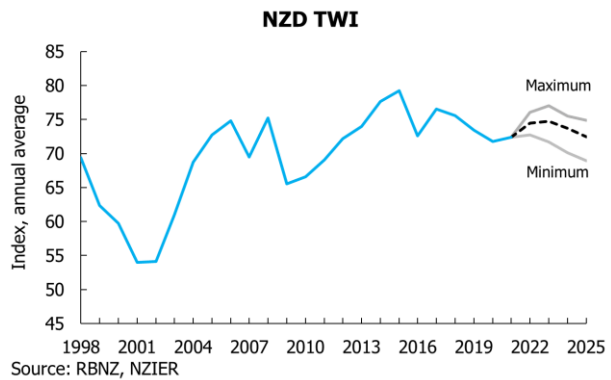
Meanwhile, forecasts for import growth has been revised higher for the next two years, reflecting solid domestic spending.



NZD outlook mixed

The NZD TWI has again been revised lower in the near term, but expectations are for the currency to remain elevated over the coming years. With the Reserve Bank indicating it was keen to start raising the OCR, this has improved the yield attractiveness of the New Zealand dollar.

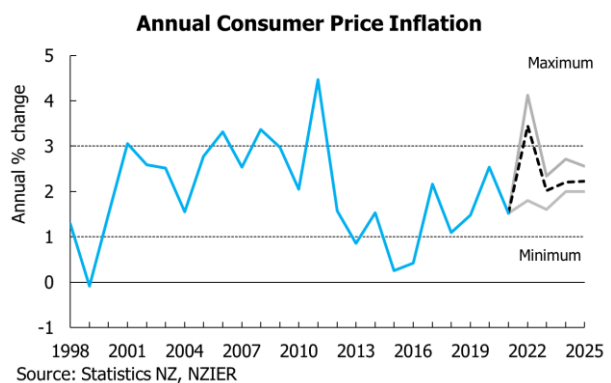
The NZD TWI is expected to peak at 74.8 for the year to March 2023 before easing to 72.5 in 2025.



Inflation outlook revised up

Capacity pressures continue to build up across the New Zealand economy, as acute labour shortages and COVID-related supply chain disruptions drive up cost pressures further. Solid demand has made it easier for businesses to pass these costs onto customers by raising prices.

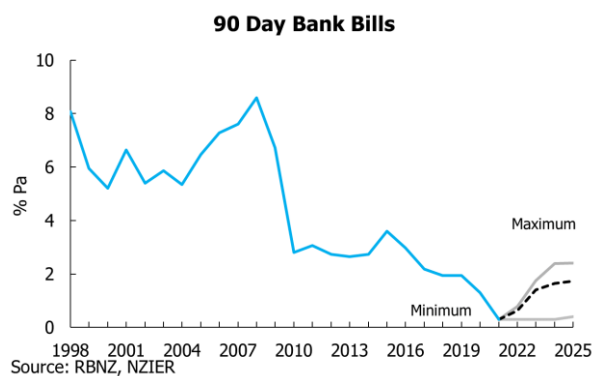
Annual CPI inflation rose above the Reserve Bank's 1 to 3 percent target band in June 2021, and the latest CF suggest expectations are for these inflation pressures to persist over the coming year.



Short-term interest rate outlook higher

Increased inflation pressures have driven up the short-term interest rate outlook. The Reserve Bank indicated at its August meeting that had it not been for the discovery of community transmission of COVID-19 the previous day, it would have raised the OCR. This suggests the central bank is ready to start its tightening cycle.

In contrast, forecasts for long-term interest rates have been revised down, reflecting global movements on concerns about global growth.



Wage growth higher

Businesses are facing very acute labour shortages. The average forecast for the unemployment rate is for it to edge below 4 percent by 2023 before picking up in the following years.

The tight labour market is driving up wage growth as businesses compete for workers. Border restrictions are exacerbating this labour shortage, given the difficulty in bringing workers in from overseas.

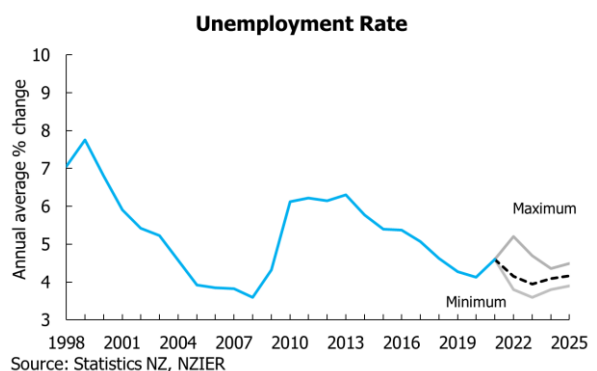


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Sep-2021 survey				Jun-2021 survey		
	2021/22	2022/23	2023/24	2024/25	2021/22	2022/23	2023/24
GDP	4.5 ↓	4.5 ↑	2.3 ↓	2.7	5.0	3.7	2.6
Private consumption	6.5 ↑	3.8 ↑	2.3 ↓	2.7	5.7	3.0	2.7
Public consumption	4.3 ↑	1.7 ↓	1.2 ↓	2.2	3.2	1.9	1.4
Fixed investment:					0.0	0.0	0.0
Residential	11.5 →	5.4 ↑	-2.9 ↓	-2.9	11.5	1.2	-1.7
Other	7.9 ↓	7.1 ↑	4.1 ↓	3.1	8.4	6.3	4.7
Total	8.9 ↓	6.6 ↑	2.2 ↓	1.5	9.3	4.9	3.0
Exports, goods & services	2.9 ↓	8.1 ↓	6.0 ↓	4.6	4.7	9.6	6.2
Imports, goods & services	14.7 ↑	7.4 ↑	4.6 ↓	3.0	14.6	6.2	5.0
Consumer price index (apc)	3.5 ↑	2.0 ↑	2.2 →	2.2	2.1	1.9	2.2
New Zealand TWI (avg yr to Mar)	74.5 ↓	74.8 ↑	73.7 →	72.5	74.8	74.5	73.7
90 day bank bill (avg yr to Mar)	0.6 ↑	1.4 ↑	1.6 ↑	1.7	0.4	0.7	1.0
10 year govt bond (avg yr to Mar)	1.8 ↓	2.3 →	2.5 ↓	2.7	2.0	2.3	2.6
Current account balance (NZ\$b; Mar yr)	-14.4 ↓	-16.6 ↓	-16.8 ↓	-15.1	-11.9	-12.1	-12.4
Employment	2.1 ↑	2.0 ↓	1.7 ↓	1.7	1.5	2.3	1.9
Unemployment (% of labour force)	4.2 ↓	3.9 ↓	4.1 ↑	4.2	4.6	4.1	4.0
Wages (private sector avg hourly earnings)	3.7 ↑	3.8 ↑	3.6 ↑	3.9	3.1	3.1	3.1
Government operating balance (NZ\$b, September yr)	-18.2 ↑	-10.3 ↑	-6.1 ↑	-1.8	-18.8	-11.7	-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

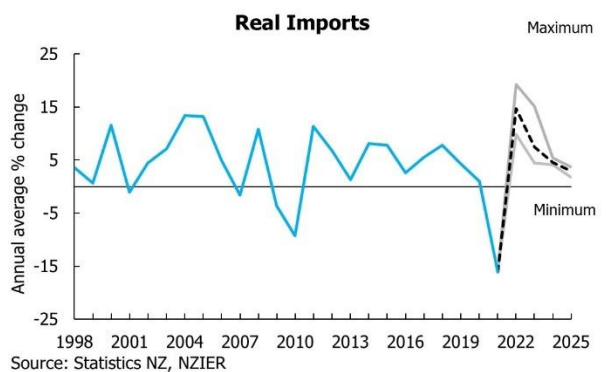
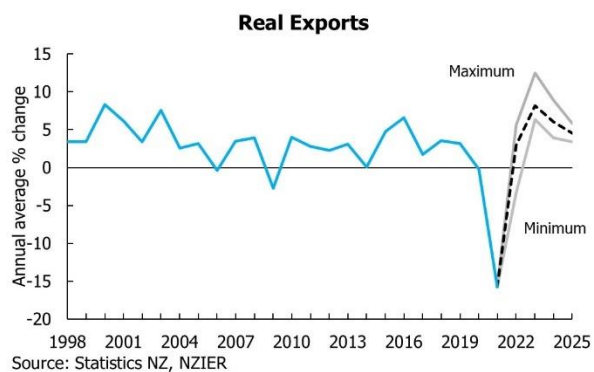
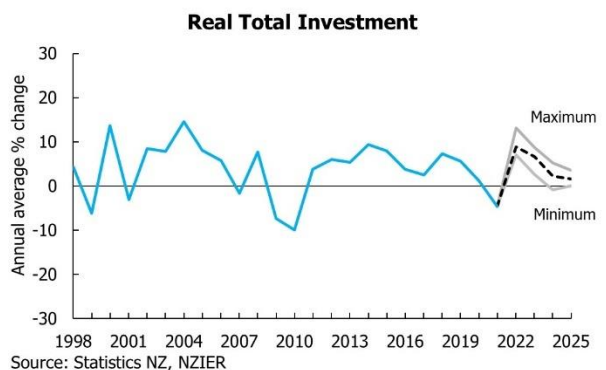
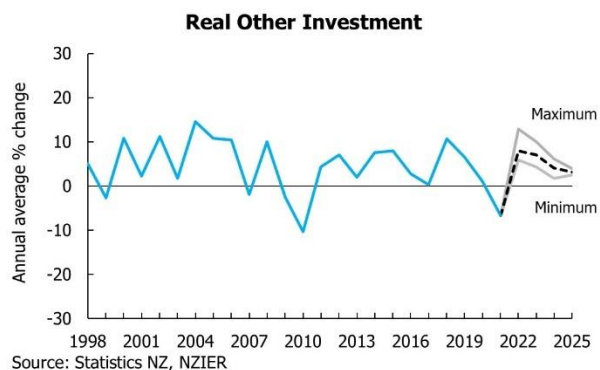
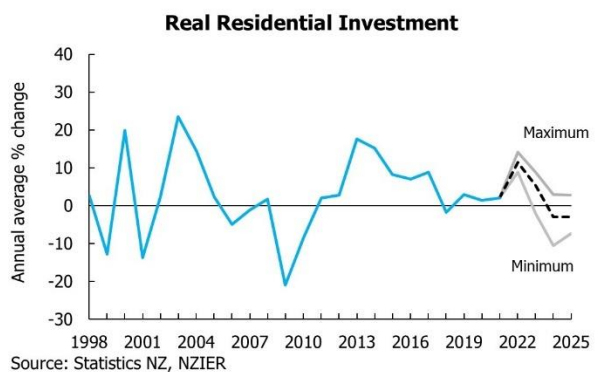
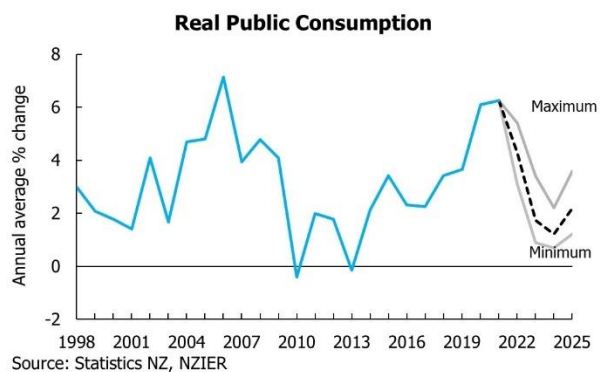
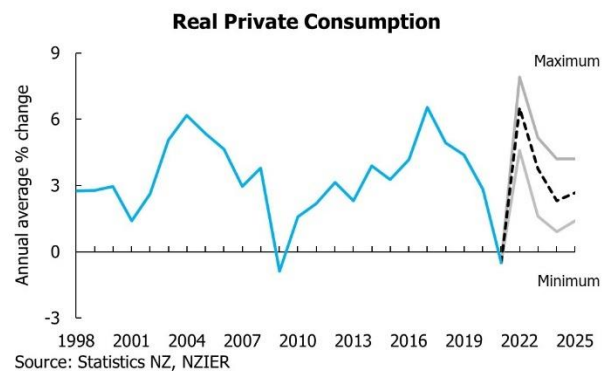
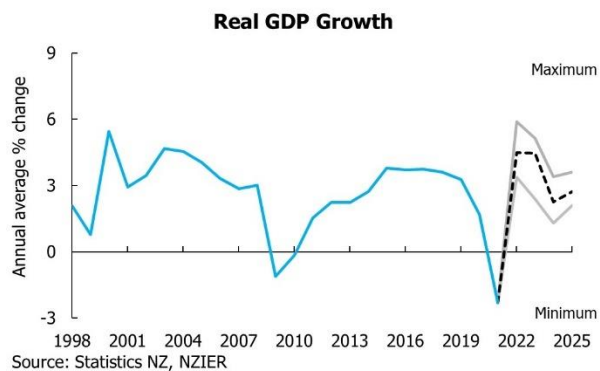
qpc, quarters				Jun-21 f			Sep-21 f			Dec-21 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	0.7	1.0	1.5	-7.0	-4.3	1.1	0.8	5.7	9.0			
	Sep-21 f			Dec-21 f			Mar-22 f					
CPI (qpc)	0.7	1.2	1.5	0.1	0.4	0.6	0.4	0.6	0.7			

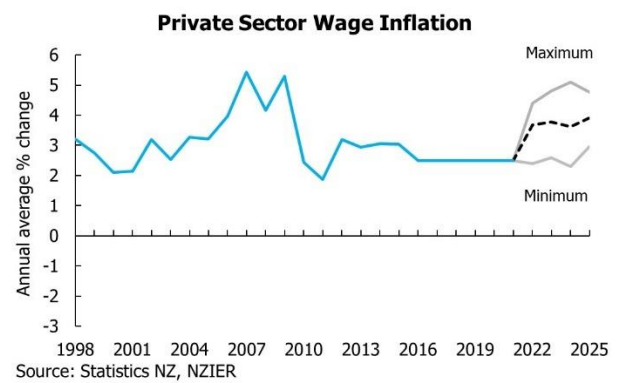
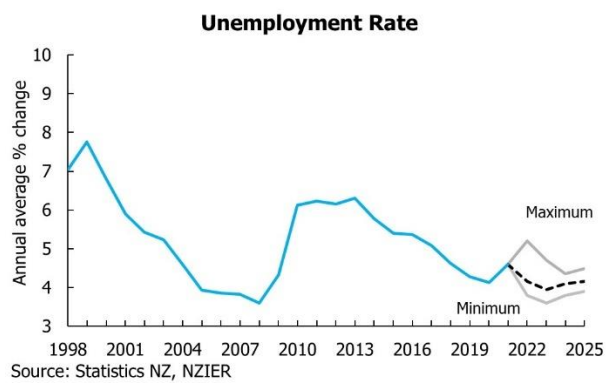
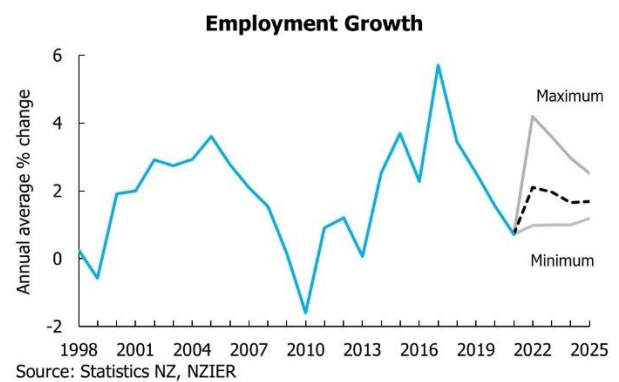
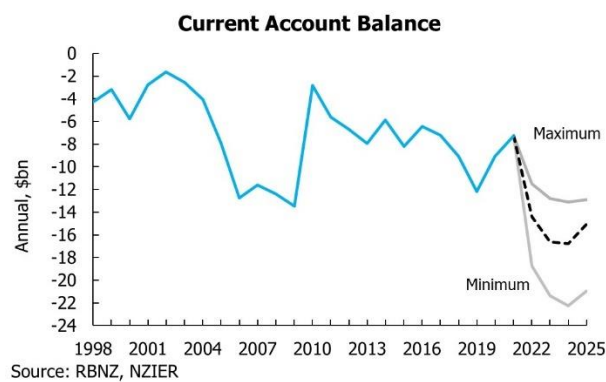
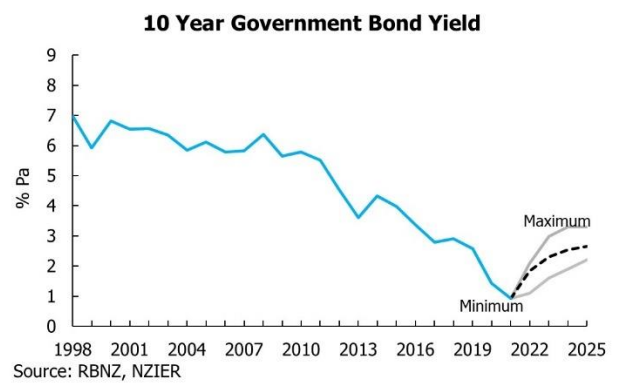
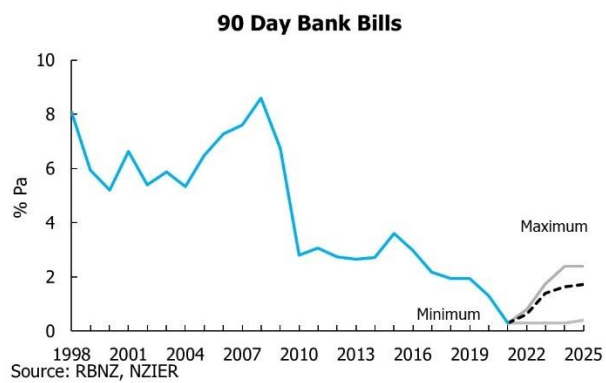
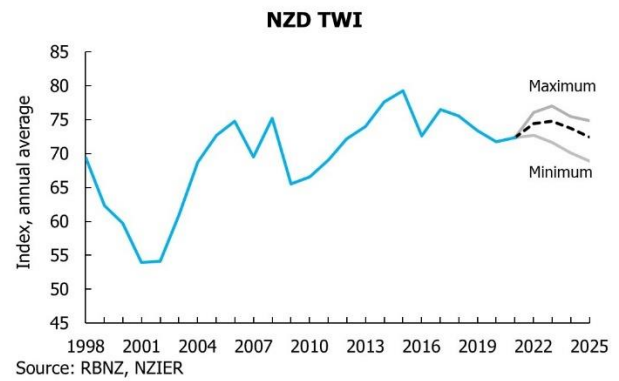
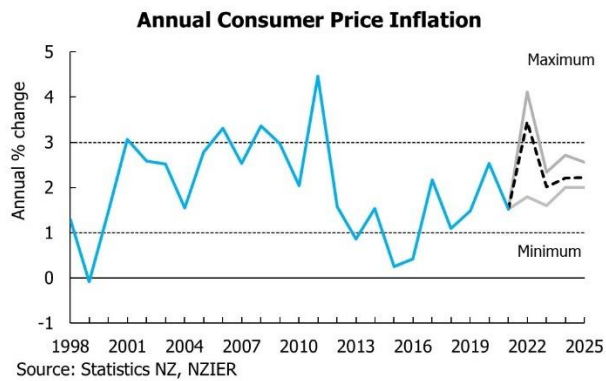
aapc, March years				2021/2022 f			2022/2023 f			2023/2024 f			2024/2025 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	3.4	4.5	5.9	2.4	4.5	5.1	1.3	2.3	3.4	2.1	2.7	3.6			
Private consumption	4.6	6.5	7.9	1.6	3.8	5.2	0.9	2.3	4.2	1.4	2.7	4.2			
Public consumption	3.1	4.3	5.4	0.9	1.7	3.4	0.7	1.2	2.2	1.2	2.2	3.6			
Fixed investment															
- Residential	8.8	11.5	14.2	-2.1	5.4	8.9	-10.6	-2.9	3.0	-7.4	-2.9	2.8			
- Other	5.9	7.9	12.9	4.3	7.1	10.0	1.8	4.1	6.1	2.5	3.1	3.9			
- Total	7.1	8.9	13.2	2.6	6.6	8.7	-0.8	2.2	5.3	0.1	1.5	3.6			
Exports, goods and services	-3.3	2.9	5.6	6.4	8.1	12.5	3.9	6.0	8.9	3.4	4.6	5.8			
Imports, goods and services	9.9	14.7	19.2	4.5	7.4	15.2	4.1	4.6	5.5	1.7	3.0	3.7			
Consumer price index (apc)	1.8	3.5	4.1	1.6	2.0	2.3	2.0	2.2	2.7	2.0	2.2	2.6			
New Zealand TWI (avg yr to Mar)	72.7	74.5	76.1	71.7	74.8	77.0	70.1	73.7	75.5	68.9	72.5	74.9			
90 day bank bill (avg yr to Mar)	0.3	0.6	0.8	0.3	1.4	1.8	0.3	1.6	2.4	0.4	1.7	2.4			
10 year government stock (avg yr to Mar)	1.1	1.8	2.1	1.6	2.3	3.0	1.9	2.5	3.3	2.2	2.7	3.3			
Current account balance (NZ\$b; Mar yr)	-18.8	-14.4	-11.5	-21.4	-16.6	-12.8	-22.2	-16.8	-13.1	-20.9	-15.1	-12.9			
Employment	1.0	2.1	4.2	1.0	2.0	3.6	1.0	1.7	3.0	1.2	1.7	2.5			
Unemployment rate (% of labour force)	3.8	4.2	5.2	3.6	3.9	4.7	3.8	4.1	4.4	3.9	4.2	4.5			
Wages (private sector avg hourly earnings)	2.4	3.7	4.4	2.6	3.8	4.8	2.3	3.6	5.1	3.0	3.9	4.8			
Government operating balance (NZ\$m, December yr)	-20.8	-18.2	-16.2	-16.3	-10.3	-5.5	-10.0	-6.1	0.0	-5.5	-1.8	2.4			

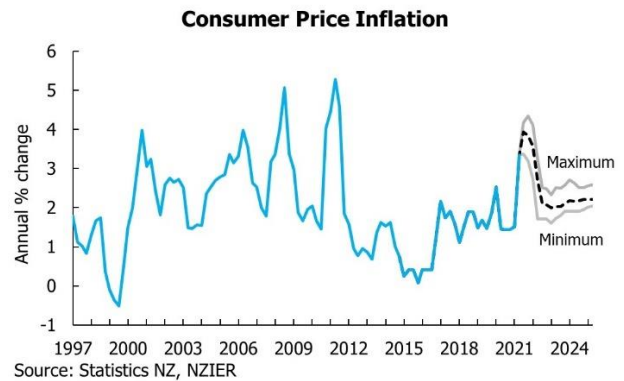
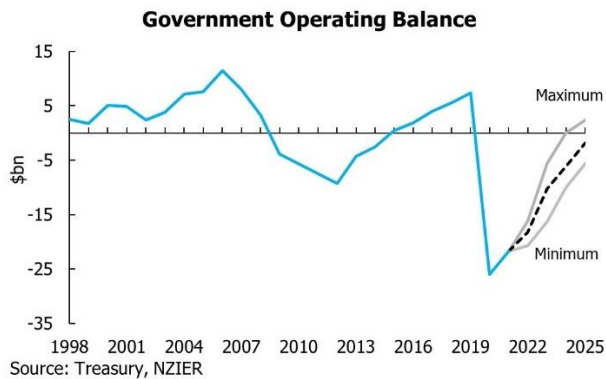
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

Summary charts







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

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

For further information, please contact:

Christina Leung
Principal Economist & Head of Membership Services
021 992 985
christina.leung@nzier.org.nz