

NZ Institute of Economic Research (Inc)
Media release 15 June 2020

Consensus Forecasts

NZIER *Consensus Forecasts* shows growth outlook highly uncertain

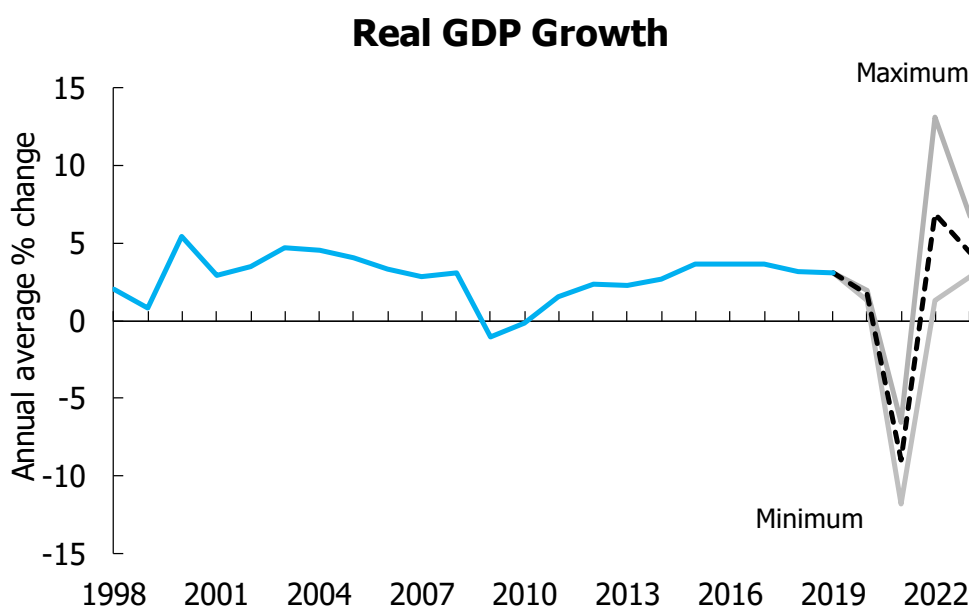
The latest NZIER *Consensus Forecasts* showed an even greater degree of uncertainty over the growth outlook ahead. With New Zealand having eliminated the number of active cases of COVID-19 and moving to Alert Level 1 on 8 June, focus now turns to keeping imported cases at bay on the long road to recovery for the economy. The large range in forecasts across the key economic measures highlights the uncertainty in how this recovery will pan out.

The rapidly evolving situation meant that due to the timing of when the forecasts were finalised this affected the extent to which an expected impact of the coronavirus was captured in the forecasts, and thus likely contributed to the wide range in forecasts. Nonetheless, we continue to consider the average of the analysts' forecasts as providing a good indication of the growth outlook.

Although there is a downward revision to the growth outlook through to 2021, beyond that expectations are for stronger growth in the subsequent years. Hence the growth outlook for the New Zealand economy is V-shaped, with a sharp decline in activity forecast for the coming year, followed by a strong rebound.

This V-shaped forecast of economic growth is reflected across many of the activity measures, including household spending, business investment, and export demand. Despite the forecast sharp rebound in economic activity, the impact on the labour market is expected to be more persistent. The unemployment rate is forecast to edge up above 8 percent in the year to March 2021, while annual wage growth is forecast to ease to 1.3 percent over that period.

Figure 1 Forecasts reflect high degree of uncertainty over outlook

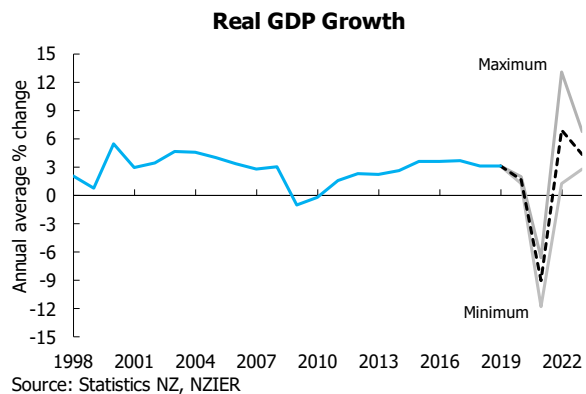


Source: Statistics NZ, NZIER

Near-term growth outlook sharply lower

Consensus Forecasts for GDP have been revised down sharply for the year to March 2021, before a strong rebound in subsequent years. There is an even greater degree of uncertainty than usual, particularly over the strength of rebound in the year to March 2022.

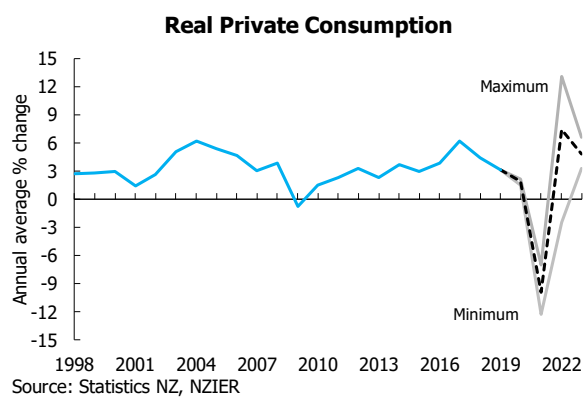
On average, annual GDP is now expected to contract by 9 percent for the year to March 2021.



V-shaped recovery also expected for household spending

Similarly, household spending is forecast to decline sharply over the coming year, before rebounding strongly in subsequent years.

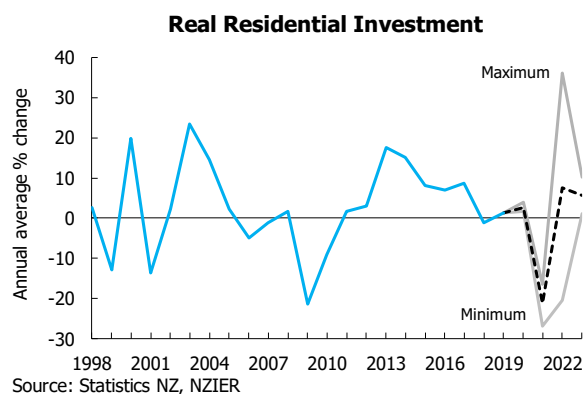
The latest electronic card spending data showed a solid rebound in retail spending in May. Nonetheless, uncertainty over income prospects in the wake of the COVID-19 outbreak has sharply dented consumer confidence, and this will likely weigh on spending over the longer term.



Uncertainty over strength of investment rebound

The investment outlook has also been revised down sharply for the year to March 2021. Even prior to the lockdown, the NZIER *Quarterly Survey of Business Opinion* showed a sharp drop in business confidence.

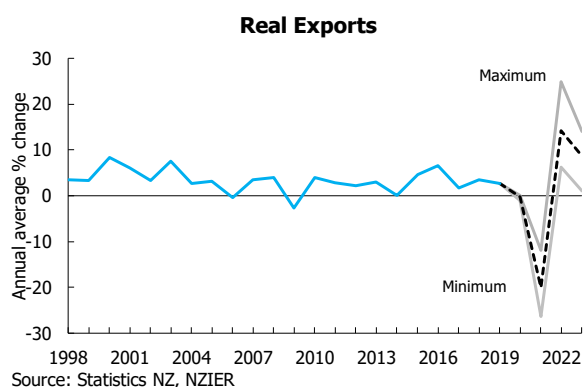
There is a large degree of uncertainty over how much investment will rebound in the next year. The average forecast is for annual growth in total investment to rebound to 9.8 percent for the year to March 2022.



Strong rebound forecast for exports

Border closures have had a significant negative impact on tourism activity. Besides tourism, the impact of COVID-19 on New Zealand export demand has been mixed across the commodities, with increased demand for dairy, meat and fruit exports, offset by a decline in forestry, seafood and non-food manufacturing exports.

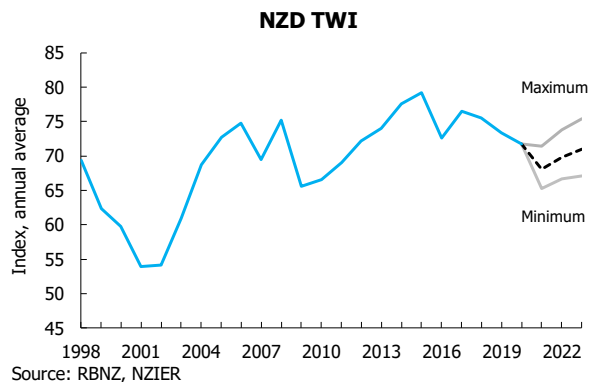
Average forecast is for annual growth in exports to rise above 14 percent for the year to March 2022.



Uncertainty over NZD outlook

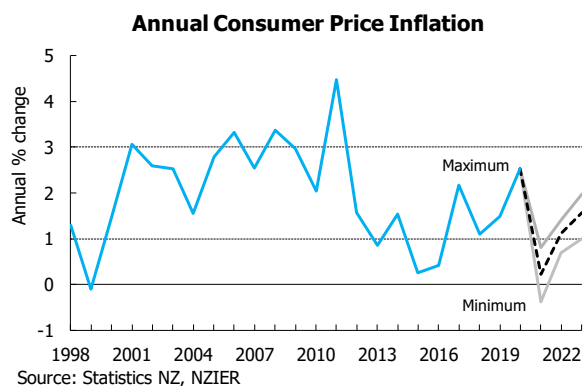
The NZD TWI has been revised lower. The currency fell sharply in recent weeks as the Reserve Bank of New Zealand (RBNZ) unleashed a substantial amount of stimulus in the economy through quantitative easing with the expansion of its Large Scale Asset Purchase (LSAP) programme. It also indicated the potential for the OCR to head into negative territory next year.

This has reduced the yield attractiveness of the NZD.



Inflation expected to fall below target band over the coming year

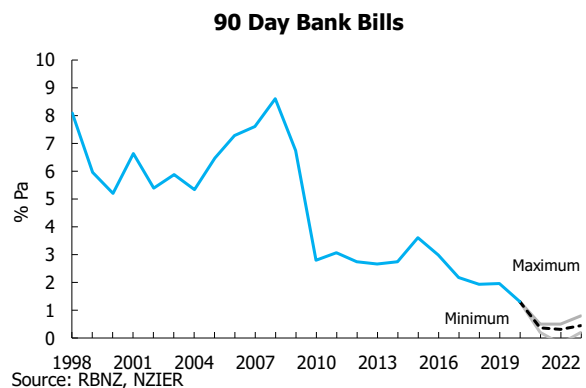
A V-shape is also forecast for inflation; annual CPI inflation is expected to decline sharply over the coming year before recovering in subsequent years. Weaker global crude oil prices are driving lower fuel prices at the pump here in NZ. This is having an immediate effect in lowering CPI inflation below the target band over the coming year. Beyond that, average forecast is for CPI inflation to rise to 1.6 percent for the year to March 2023.



Interest rate outlook lower across curve

Interest rate forecasts have been revised lower. The RBNZ launched and subsequently expanded its LSAP programme, which is helping to keep long-term interest rates low. The central bank has also opened the door to the potential for a negative OCR next year.

The large amount of stimulus unleashed by other central banks is keeping interest rates low globally.



Forecast spike in unemployment rate

Weaker activity over the coming year is forecast to lead to a sharp rise in the unemployment rate. There have been widespread announcements of high-profile redundancies by major corporates and closures of small businesses.

The average forecast for the unemployment rate is for a spike above 8 percent over the coming year, with one forecast as high as 9.6 percent. Beyond that, the unemployment rate is forecast to remain elevated for the year to March 2023.

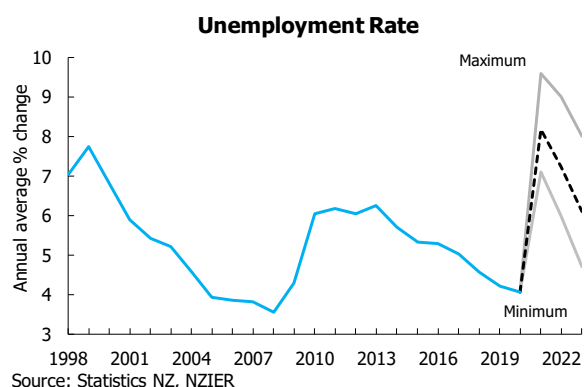


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Jun-2020 survey				Mar-2020 survey			
	2019/20	2020/21	2021/22	2022/23	2019/20	2020/21	2021/22	2022/23
GDP	1.7 ↓	-9.0 ↓	6.9 ↑	4.3 ↑	1.9	2.0	2.9	2.5
Private consumption	1.9 ↓	-9.9 ↓	7.4 ↑	4.8 ↑	2.6	2.9	3.1	2.7
Public consumption	4.8 ↑	6.7 ↑	2.2 →	0.7 ↓	3.6	3.4	2.2	2.1
Fixed investment:								
Residential	2.6 ↓	-21.2 ↓	7.5 ↑	5.7 ↑	4.3	2.8	1.2	0.8
Other	1.0 ↓	-14.8 ↓	10.6 ↑	5.9 ↑	1.8	1.7	3.4	2.9
Total	1.4 ↓	-16.4 ↓	9.8 ↑	5.9 ↑	2.4	2.0	2.9	2.4
Exports, goods & services	-0.3 ↑	-20.0 ↓	14.1 ↑	8.7 ↑	-0.4	-0.5	3.7	2.8
Imports, goods & services	0.9 ↓	-17.3 ↓	11.9 ↑	7.9 ↑	1.6	1.9	3.9	3.0
Consumer price index (apc)	2.5 ↑	0.2 ↓	1.1 ↓	1.6 ↓	2.2	1.8	2.0	1.9
New Zealand TWI (avg yr to Mar)	71.5 ↓	68.1 ↓	69.8 ↓	71.0 ↓	71.8	70.9	71.4	72.4
90 day bank bill (avg yr to Mar)	1.2 →	0.3 ↓	0.3 ↓	0.4 ↓	1.2	0.9	1.2	1.5
10 year govt bond (avg yr to Mar)	1.4 →	0.8 ↓	1.0 ↓	1.4 ↓	1.4	1.3	1.8	2.2
Current account balance (NZ\$b; Mar yr)	-8.7 ↑	-10.9 ↑	-8.0 ↑	-7.8 ↑	-10.1	-12.0	-12.9	-13.6
Employment	1.5 ↑	-5.0 ↓	3.1 ↑	3.1 ↑	1.3	1.3	1.8	1.5
Unemployment (% of labour force)	4.2 →	8.2 ↑	7.2 ↑	6.1 ↑	4.2	4.4	4.3	4.2
Wages (private sector avg hourly earnings)	3.4 →	1.3 ↓	1.9 ↓	2.1 ↓	3.4	3.0	3.3	3.0
Government operating balance (NZ\$b, September yr)	-29.4 ↓	-26.8 ↓	-21.9 ↓	-12.6 ↓	-0.1	0.3	2.3	4.2

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

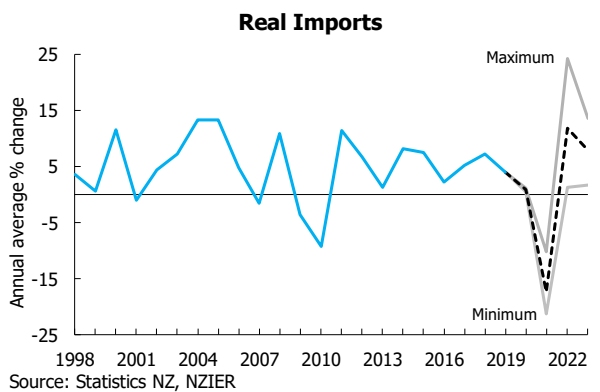
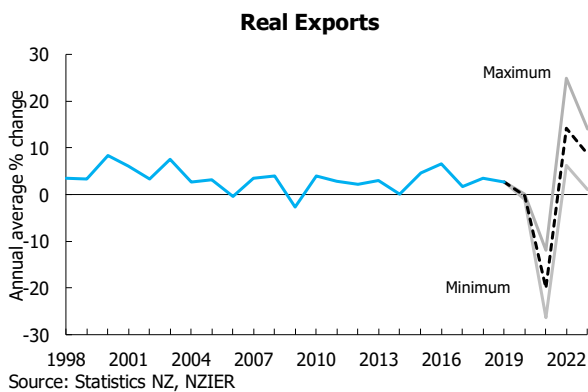
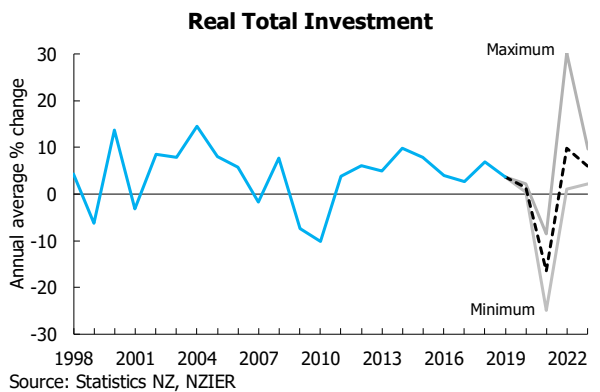
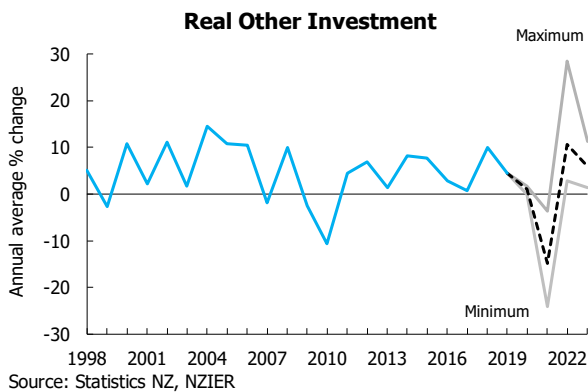
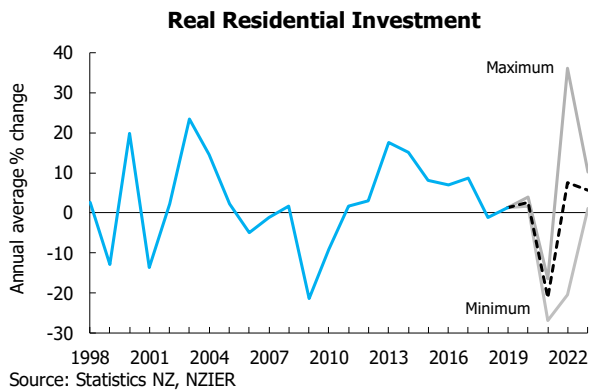
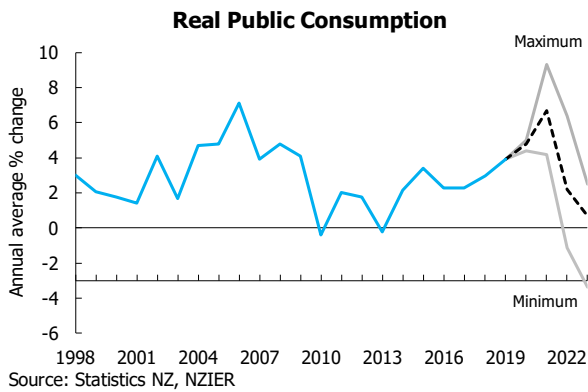
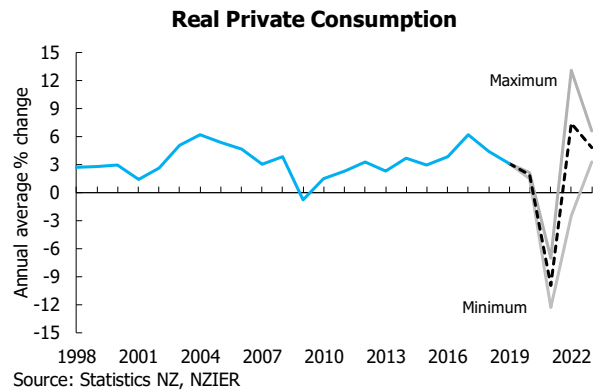
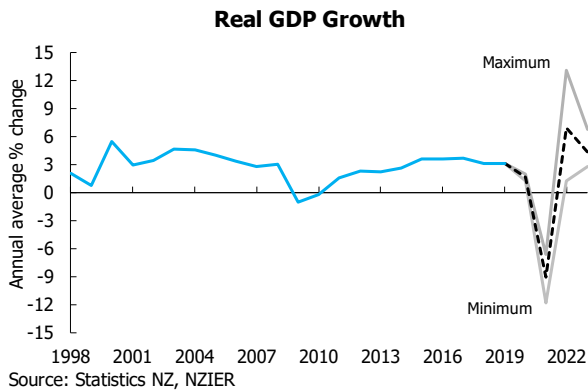
qpc, quarters	Mar-20 f			Jun-20 f			Sep-20 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	-2.5	-0.8	0.5	-23.5	-17.5	-1.0	-17.0	11.9	23.8
	Jun-20 f			Sep-20 f			Dec-20 f		
CPI (qpc)	-0.7	-0.3	0.0	-0.2	0.3	0.8	-0.2	-0.1	0.1

aapc, March years	2019/2020 f			2020/2021 f			2021/2022 f			2022/2023 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	1.3	1.7	2.0	-11.8	-9.0	-6.6	1.3	6.9	13.1	2.8	4.3	6.7
Private consumption	1.5	1.9	2.1	-12.2	-9.9	-7.0	-2.4	7.4	13.1	3.3	4.8	6.6
Public consumption	4.4	4.8	5.0	4.2	6.7	9.3	-1.1	2.2	6.4	-3.4	0.7	2.5
Fixed investment												
- Residential	1.8	2.6	3.9	-26.9	-21.2	-16.5	-20.5	7.5	36.1	1.2	5.7	10.2
- Other	0.0	1.0	1.8	-24.1	-14.8	-3.7	2.8	10.6	28.4	1.4	5.9	11.2
- Total	0.4	1.4	2.2	-24.8	-16.4	-8.5	1.0	9.8	30.3	2.2	5.9	9.6
Exports, goods and services	-1.1	-0.3	0.1	-26.4	-20.0	-11.9	6.2	14.1	25.0	1.0	8.7	14.0
Imports, goods and services	0.5	0.9	1.2	-21.2	-17.3	-10.2	1.3	11.9	24.2	1.7	7.9	13.5
Consumer price index (apc)	2.0	2.5	2.5	-0.4	0.2	0.8	0.7	1.1	1.4	1.0	1.6	2.0
New Zealand TWI (avg yr to Mar)	70.9	71.5	71.8	65.3	68.1	71.4	66.6	69.8	73.8	67.1	71.0	75.5
90 day bank bill (avg yr to Mar)	1.1	1.2	1.3	0.2	0.3	0.5	-0.2	0.3	0.5	0.2	0.4	0.8
10 year government stock (avg yr to Mar)	1.3	1.4	1.5	0.6	0.8	1.1	0.7	1.0	1.3	1.1	1.4	1.8
Current account balance (NZ\$m; Mar yr)	-10.5	-8.7	-8.2	-15.9	-10.9	-4.4	-14.3	-8.0	-1.3	-13.4	-7.8	1.3
Employment	0.7	1.5	1.6	-7.3	-5.0	-3.2	1.7	3.1	4.7	2.1	3.1	5.2
Unemployment rate (% of labour force)	4.1	4.2	4.2	7.1	8.2	9.6	6.0	7.2	9.0	4.7	6.1	8.0
Wages (private sector avg hourly earnings)	2.3	3.4	3.7	-2.3	1.3	2.9	0.7	1.9	3.3	0.8	2.1	2.9
Government operating balance (NZ\$m, December yr)	-37.1	-29.4	-24.0	-34.1	-26.8	-17.1	-24.2	-21.9	-20.4	-15.1	-12.6	-9.7

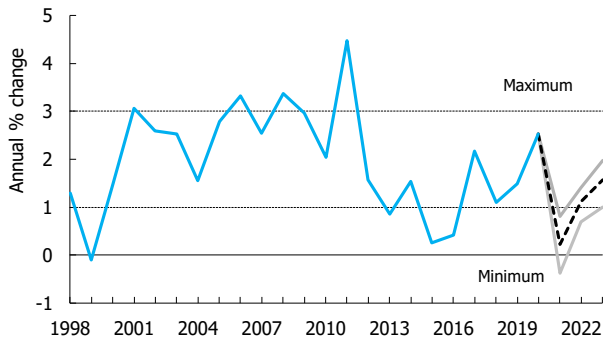
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

Summary charts

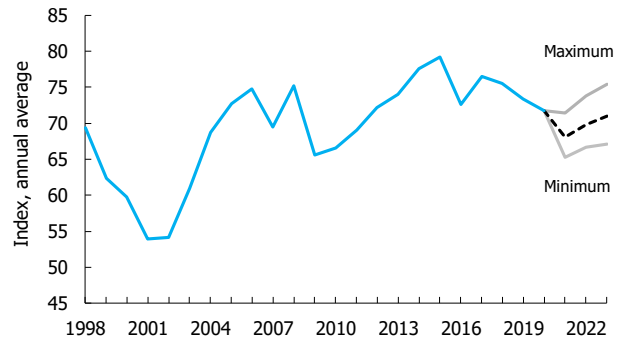


Annual Consumer Price Inflation



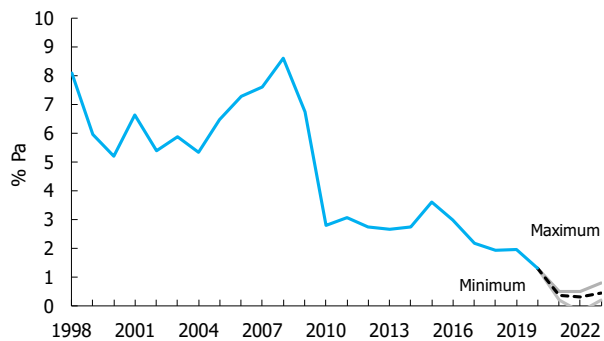
Source: Statistics NZ, NZIER

NZD TWI



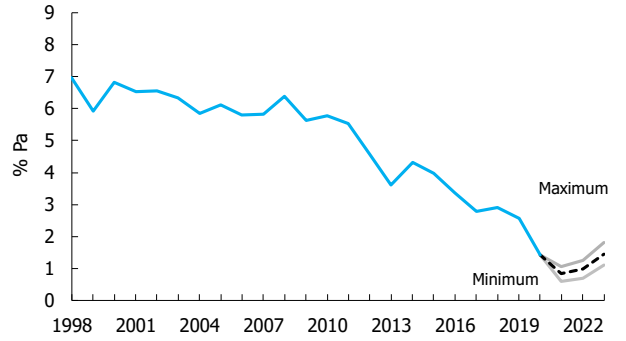
Source: RBNZ, NZIER

90 Day Bank Bills



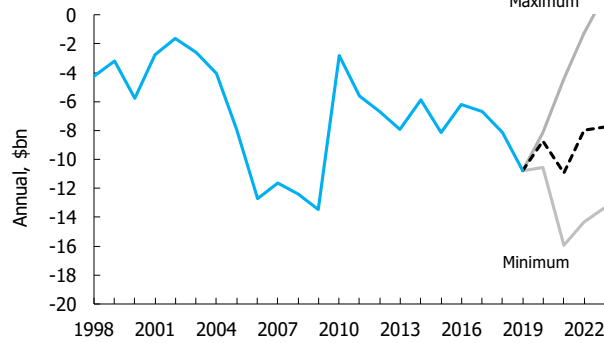
Source: RBNZ, NZIER

10 Year Government Bond Yield



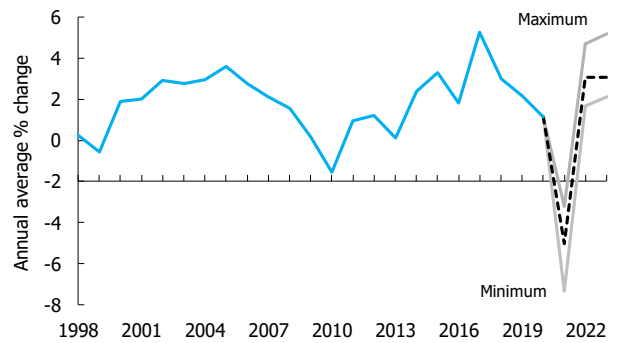
Source: RBNZ, NZIER

Current Account Balance



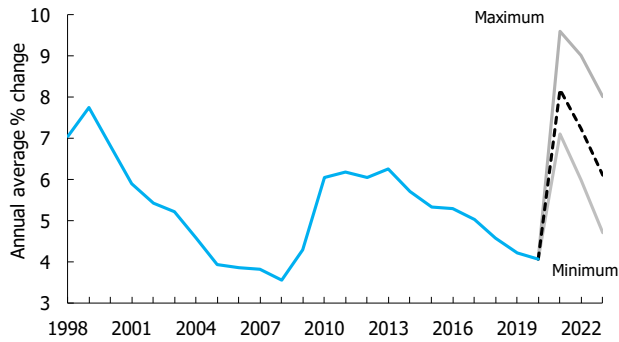
Source: RBNZ, NZIER

Employment Growth



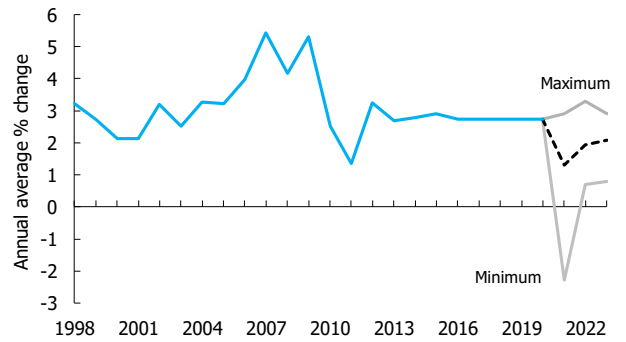
Source: Statistics NZ, NZIER

Unemployment Rate

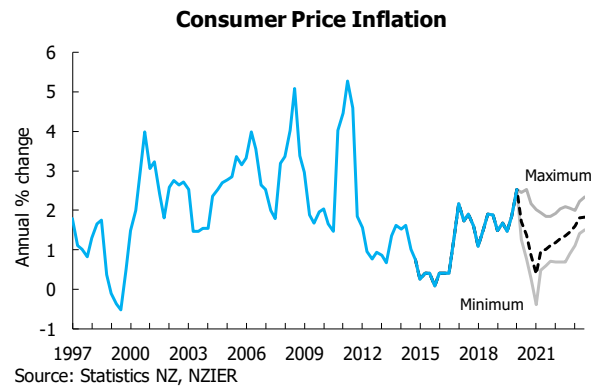
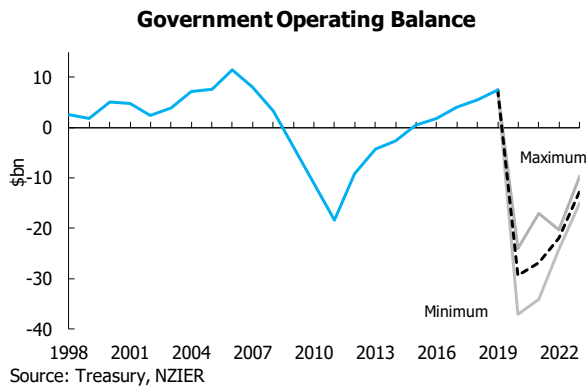


Source: Statistics NZ, NZIER

Private Sector Wage Inflation



Source: Statistics NZ, NZIER



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. 2020 refers to the year ended March 2020.

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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