

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* shows growth outlook highly uncertain

Note: *Consensus Forecasts* were finalised prior to the Reserve Bank of New Zealand’s emergency OCR cut of 75bp which was announced at 8am this morning.

The latest NZIER *Consensus Forecasts* highlights the large degree of uncertainty over the effects of the COVID-19 coronavirus outbreak on the New Zealand economy. This uncertainty is reflected in the range of forecasts across the key economic measures being greater than usual.

Given the fast-evolving situation, the timing of when the forecasts were finalised would affect the extent to which an expected impact of the coronavirus which is incorporated into the forecasts. Nonetheless, we consider the average of the analysts’ forecasts should provide a reasonable snapshot of the growth outlook over the coming years.

Relative to the previous quarter, there has been a downward revision to the growth outlook through to 2021. However, expectations are of a stronger rebound in GDP growth in the subsequent years. Unsurprisingly, the downward revision to the growth outlook was driven by expectations of weaker export demand to 2021. In contrast, expectations of Government spending were revised up. The Government had already announced \$12 billion of infrastructure spending prior to the coronavirus outbreak. In the wake of the deteriorating situation as the effects of the outbreak spread around the world, the Government has also indicated it will be supporting businesses who are bearing the brunt from reduced demand with a range of stimulus measures.

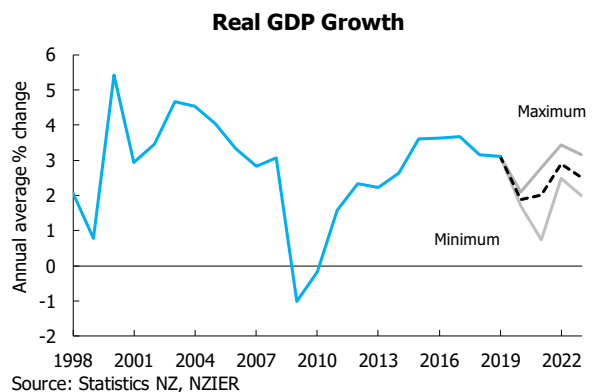
Figure 1 A further slight downward revision to the growth outlook



Near-term growth outlook revised down

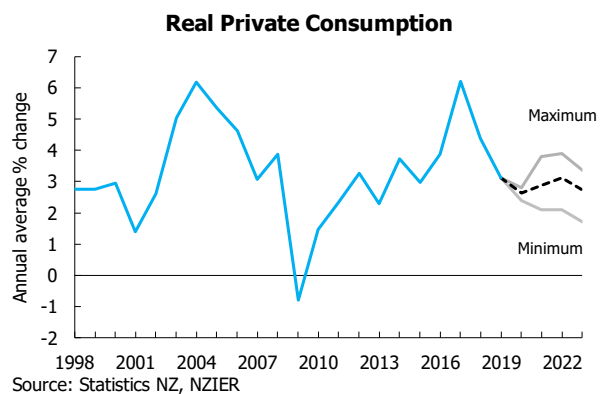
Consensus Forecasts for GDP have been revised down through to 2021, before a solid rebound in subsequent years. There is a greater degree of uncertainty than usual, given how quickly the situation over the COVID-19 coronavirus outbreak is evolving.

On average, annual GDP growth is now expected to ease to 1.9 percent for the year to March 2020.



Household spending broadly unchanged over 2020 and 2021

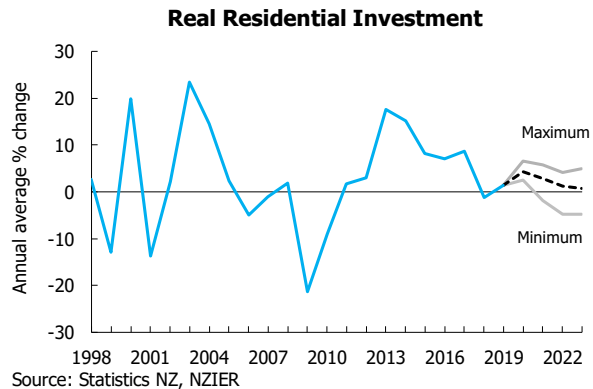
Expectations for household spending are broadly unchanged in the near term but have been revised up from 2022. Prior to the coronavirus outbreak, consumer confidence had been solid and retail spending robust. The latest retail spending data also showed spending was robust in February, even beyond the boost in supermarket spending as households stocked up in preparation of a deterioration in the outbreak.



Investment outlook mixed

Although expectations for residential investment through to 2023 are generally lower, other areas of business investment are more mixed. Overall, total investment is expected to be weaker over 2020, but stronger in the other years relative to expectations in the previous quarter.

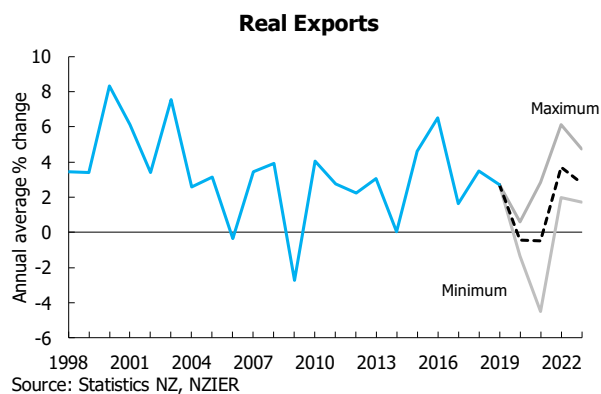
Prior to the outbreak, businesses had been cautious about investment given continued weak profitability.



Near-term export outlook sharply lower

There is a wide range of views about the export outlook, but on average expectations are for a decline in exports through to 2021, before a solid rebound in the subsequent years.

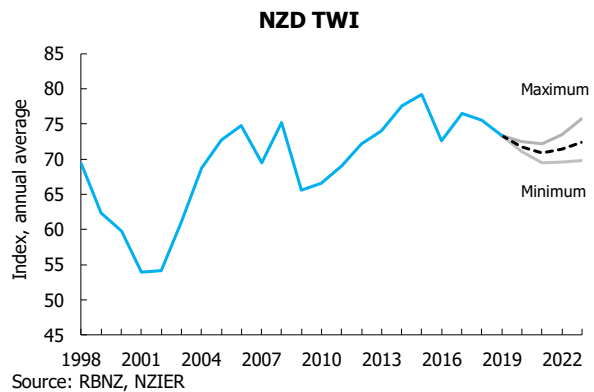
Recent trade data already shows a sharp decline in exports to China in the wake of the outbreak. There are concerns the impact on export demand will be more widespread as infections spread across the world.



NZD outlook higher in the near term

The NZD TWI is expected to be higher through to 2021 but lower in the subsequent years, relative to the previous quarter.

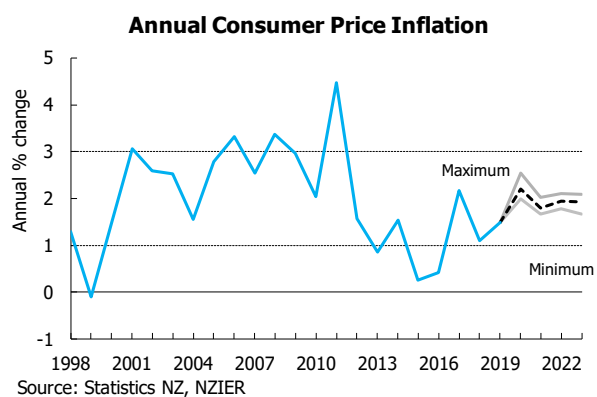
There are different forces driving the NZD at the moment. Although risk aversion tends to put downward pressure on the NZD, the emergency cut by the US Federal Reserve to its Fed funds rate has increased the attractiveness of NZD-denominated investments.



Inflation expected to spike

Annual inflation edged up to 1.9 percent for the year to December 2019. Beyond the volatility of fuel prices, housing-related inflation such as rents and local authority rates remain key contributors to inflation.

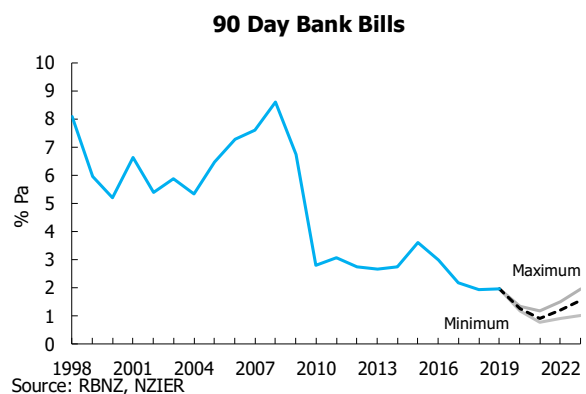
The inflation outlook is generally higher over the projection period, relative to the previous quarter. Annual CPI is expected to spike up to 2.2 percent for the year to March 2020, before tracking close to 2 percent from 2022.



Interest rate outlook lower

Interest rate expectations have been revised lower across the projection period. Interest rate cuts by major central banks including the US Federal Reserve, Bank of England and Reserve Bank of Australia have fuelled expectations the RBNZ will cut the OCR at its March meeting.

Expectations of weaker global growth is weighing on longer-term interest rate forecasts.



Labour market outlook highly uncertain

There is a large degree of uncertainty over labour market prospects over the coming years, with forecasts of the unemployment rate for the year to March 2021 ranging from 4.1 percent to 5.2 percent.

On average, expectations are for weaker employment growth through to 2021, before picking up from 2022. Unemployment rate forecasts have been revised up from 2021.

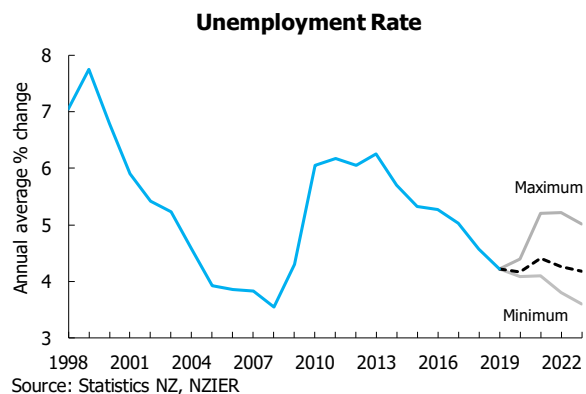


Table 1 Latest Consensus Forecasts compared to previous

aapc, March years	Mar-2020 survey				Dec-2019 survey			
	2019/20	2020/21	2021/22	2022/23	2019/20	2020/21	2021/22	2022/23
GDP	1.9 ↓	2.0 ↓	2.9 ↑	2.5 ↑	2.2	2.6	2.5	2.2
Private consumption	2.6 ↓	2.9 ↑	3.1 ↑	2.7 ↑	2.7	2.8	2.8	2.6
Public consumption	3.6 ↑	3.4 ↑	2.2 ↑	2.1 ↓	3.3	3.0	1.9	2.3
Fixed investment:								
Residential	4.3 →	2.8 ↓	1.2 ↓	0.8 ↑	4.3	2.9	1.6	0.4
Other	1.8 ↑	1.7 ↓	3.4 ↑	2.9 →	1.4	2.4	3.0	2.9
Total	2.4 ↑	2.0 ↓	2.9 ↑	2.4 ↑	2.2	2.6	2.6	2.2
Exports, goods & services	-0.4 ↓	-0.5 ↓	3.7 ↑	2.8 ↑	1.1	2.1	2.3	2.3
Imports, goods & services	1.6 ↑	1.9 ↓	3.9 ↑	3.0 ↑	1.2	3.2	3.2	2.9
Consumer price index (apc)	2.2 ↑	1.8 →	2.0 ↑	1.9 →	2.1	1.8	1.9	1.9
New Zealand TWI (avg yr to Mar)	71.8 ↑	70.9 ↑	71.4 ↓	72.4 ↓	71.5	70.8	72.0	72.9
90 day bank bill (avg yr to Mar)	1.2 ↓	0.9 ↓	1.2 ↓	1.5 ↓	1.4	1.1	1.3	1.7
10 year govt bond (avg yr to Mar)	1.4 ↓	1.3 ↓	1.8 ↓	2.2 →	1.5	1.6	1.9	2.2
Current account balance (NZ\$b; Mar yr)	-10.1 ↓	-12.0 ↓	-12.9 ↓	-13.6 ↓	-9.8	-10.5	-11.6	-13.1
Employment	1.3 ↓	1.3 ↓	1.8 ↑	1.5 ↑	1.5	1.6	1.5	1.4
Unemployment (% of labour force)	4.2 ↓	4.4 ↑	4.3 ↑	4.2 ↑	4.3	4.3	4.1	4.0
Wages (private sector avg hourly earnings)	3.4 ↓	3.0 ↓	3.3 →	3.0 ↓	3.5	3.1	3.3	3.4
Government operating balance (NZ\$b, September yr)	-0.1 ↓	0.3 ↓	2.3 ↓	4.2 ↓	4.3	3.5	5.8	9.0

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

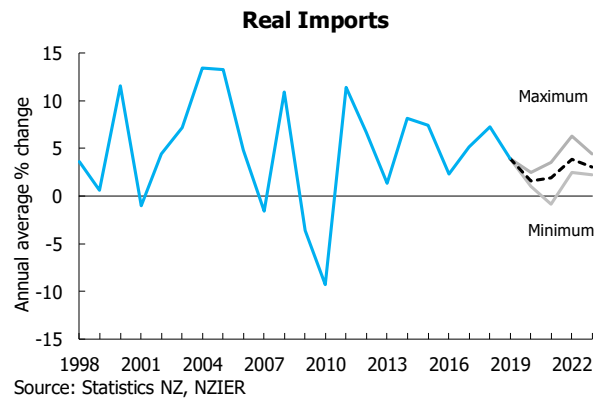
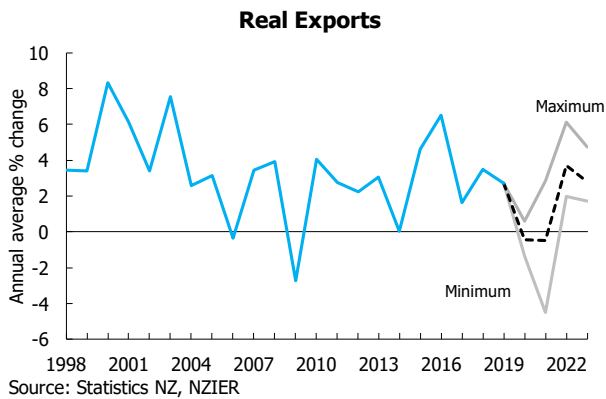
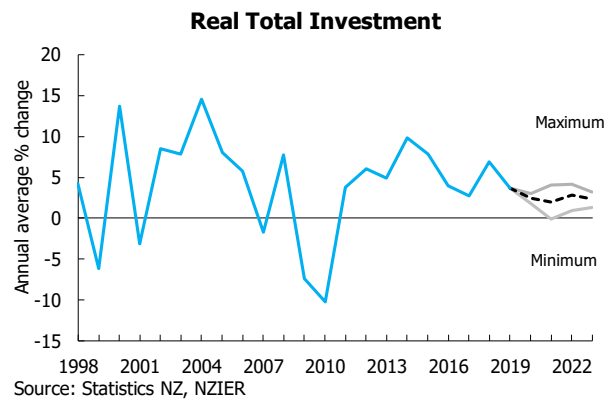
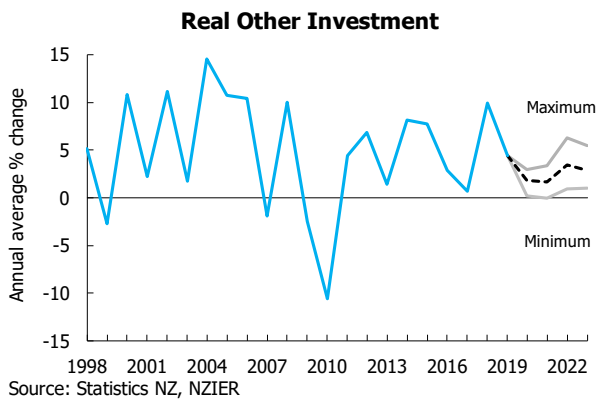
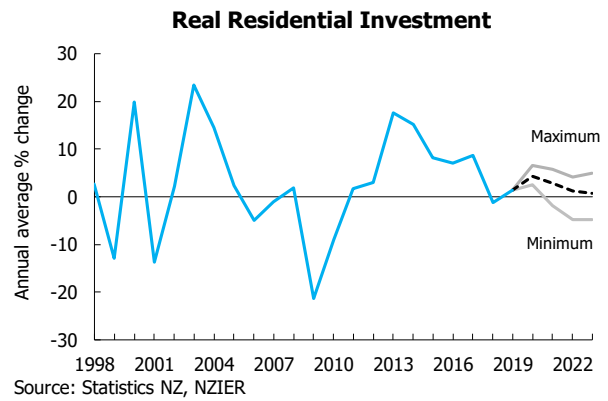
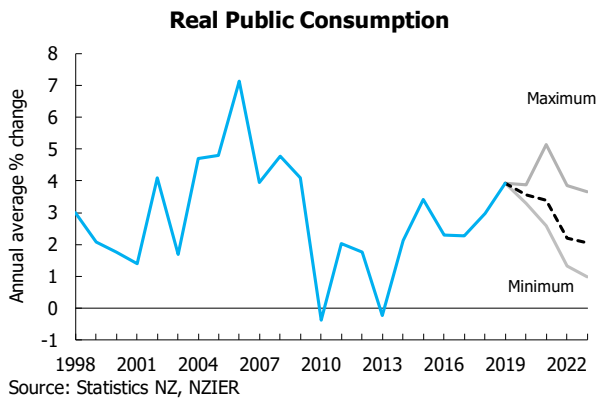
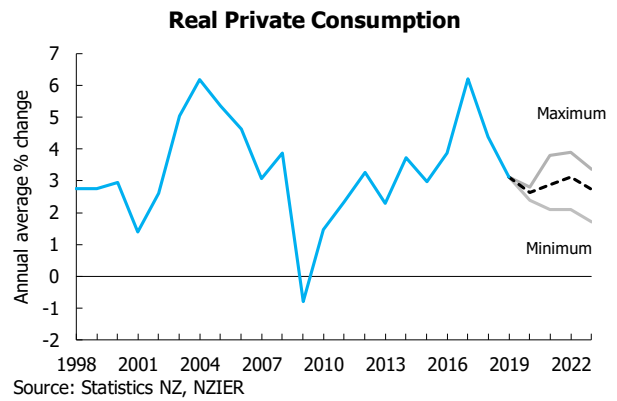
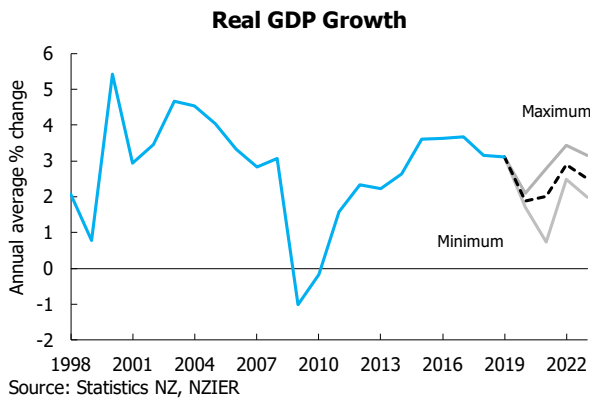
qpc, quarters	Dec-19 f			Mar-20 f			Jun-20 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	0.3	0.5	0.6	-0.2	0.1	0.7	-0.1	0.4	0.9
	Mar-20 f			Jun-20 f			Sep-20 f		
CPI (qpc)	0.3	0.5	0.8	-0.2	0.3	0.5	0.4	0.7	1.0

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	1.7	1.9	2.1	0.7	2.0	2.8	2.5	2.9	3.4	2.0	2.5	3.2
Private consumption	2.4	2.6	2.8	2.1	2.9	3.8	2.1	3.1	3.9	1.7	2.7	3.4
Public consumption	3.3	3.6	3.9	2.6	3.4	5.1	1.3	2.2	3.9	1.0	2.1	3.6
Fixed investment												
- Residential	2.5	4.3	6.6	-1.8	2.8	5.8	-4.7	1.2	4.1	-4.8	0.8	4.9
- Other	0.2	1.8	2.9	-0.1	1.7	3.4	0.9	3.4	6.3	1.1	2.9	5.5
- Total	1.8	2.4	3.0	-0.1	2.0	4.1	1.0	2.9	4.2	1.3	2.4	3.2
Exports, goods and services	-1.3	-0.4	0.6	-4.5	-0.5	2.8	2.0	3.7	6.1	1.7	2.8	4.7
Imports, goods and services	1.0	1.6	2.5	-0.8	1.9	3.5	2.4	3.9	6.3	2.2	3.0	4.4
Consumer price index (apc)	2.0	2.2	2.5	1.7	1.8	2.0	1.8	2.0	2.1	1.7	1.9	2.1
New Zealand TWI (avg yr to Mar)	71.1	71.8	72.5	69.5	70.9	72.2	69.6	71.4	73.5	69.9	72.4	75.8
90 day bank bill (avg yr to Mar)	1.2	1.2	1.3	0.8	0.9	1.2	0.9	1.2	1.5	1.0	1.5	1.9
10 year government stock (avg yr to Mar)	1.3	1.4	1.4	1.0	1.3	2.0	1.3	1.8	2.5	1.7	2.2	2.8
Current account balance (NZ\$b; Mar yr)	-10.6	-10.1	-9.7	-14.7	-12.0	-9.6	-15.8	-12.9	-9.6	-17.2	-13.6	-10.2
Employment	0.9	1.3	1.7	0.4	1.3	2.1	1.2	1.8	2.1	1.2	1.5	1.6
Unemployment rate (% of labour force)	4.1	4.2	4.4	4.1	4.4	5.2	3.8	4.3	5.2	3.6	4.2	5.0
Wages (private sector avg hourly earnings)	2.3	3.4	3.7	2.3	3.0	3.8	2.4	3.3	3.9	2.1	3.0	4.0
Government operating balance (NZ\$m, December yr)	-0.9	-0.1	1.5	-0.9	0.3	2.4	0.2	2.3	5.3	1.3	4.2	6.8

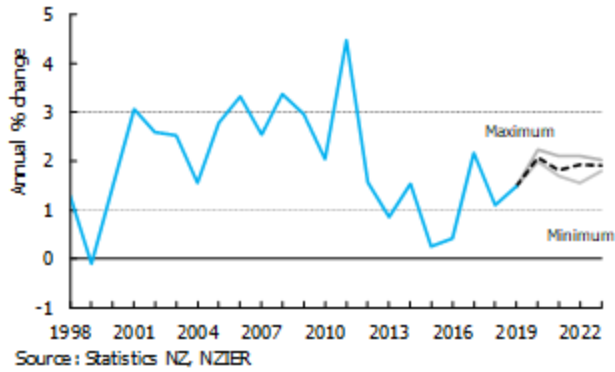
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

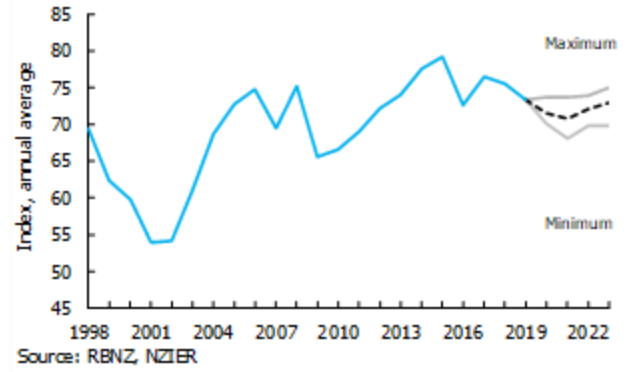
Summary charts



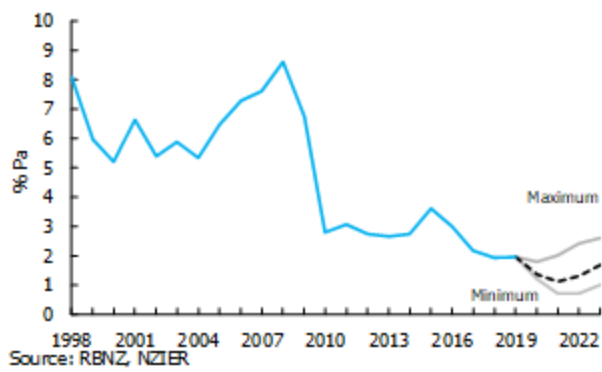
Annual Consumer Price Inflation



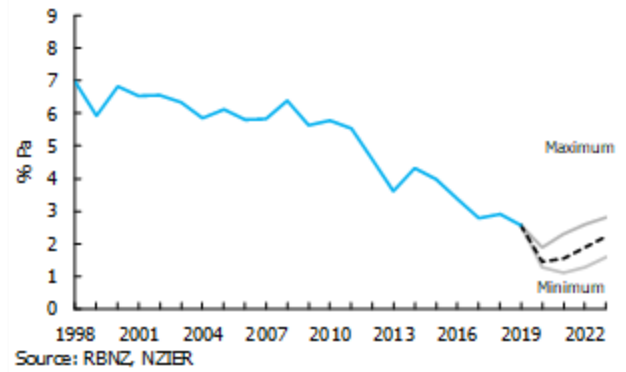
NZD TWI



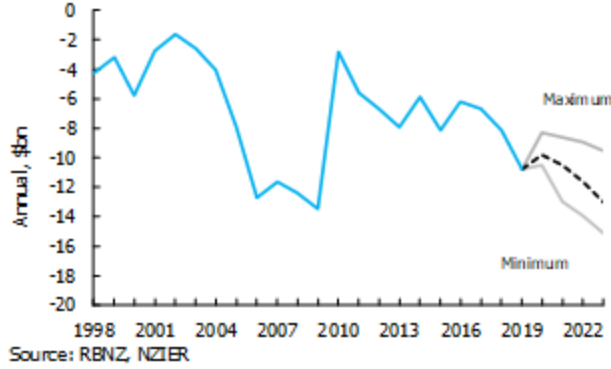
90 Day Bank Bills



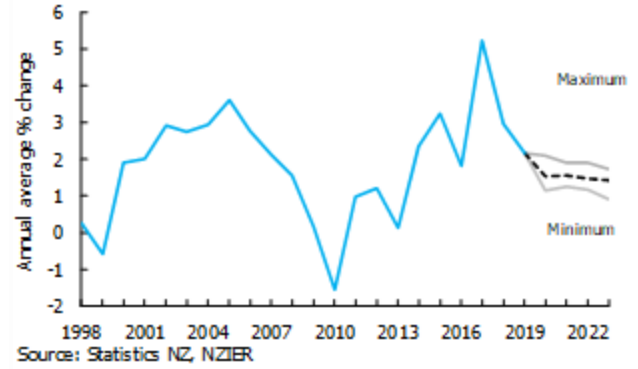
10 Year Government Bond Yield



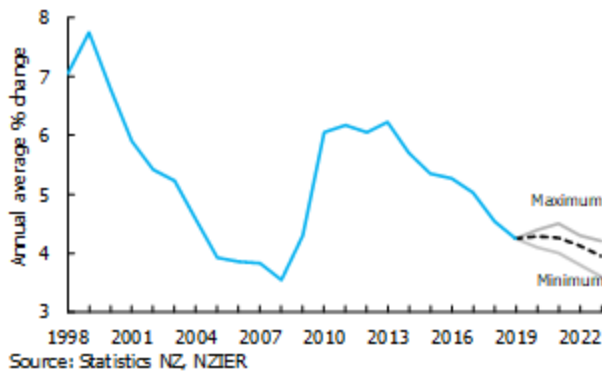
Current Account Balance



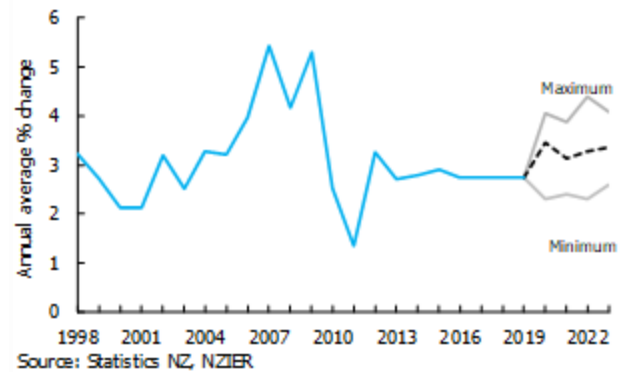
Employment Growth

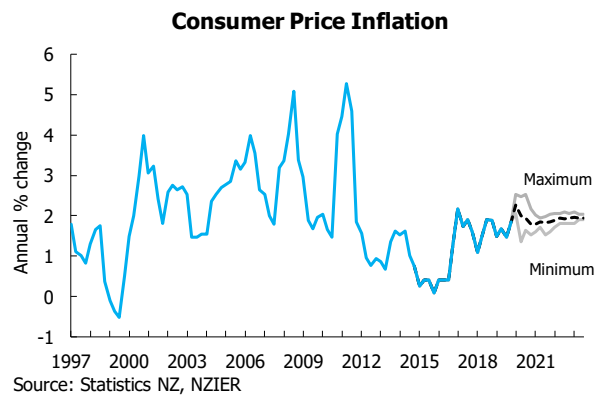
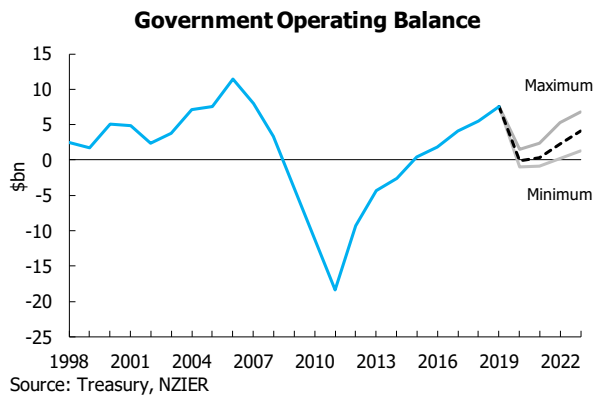


Unemployment Rate



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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