

NZ Institute of Economic Research (Inc)  
Media release 14 September 2020

# Consensus Forecasts

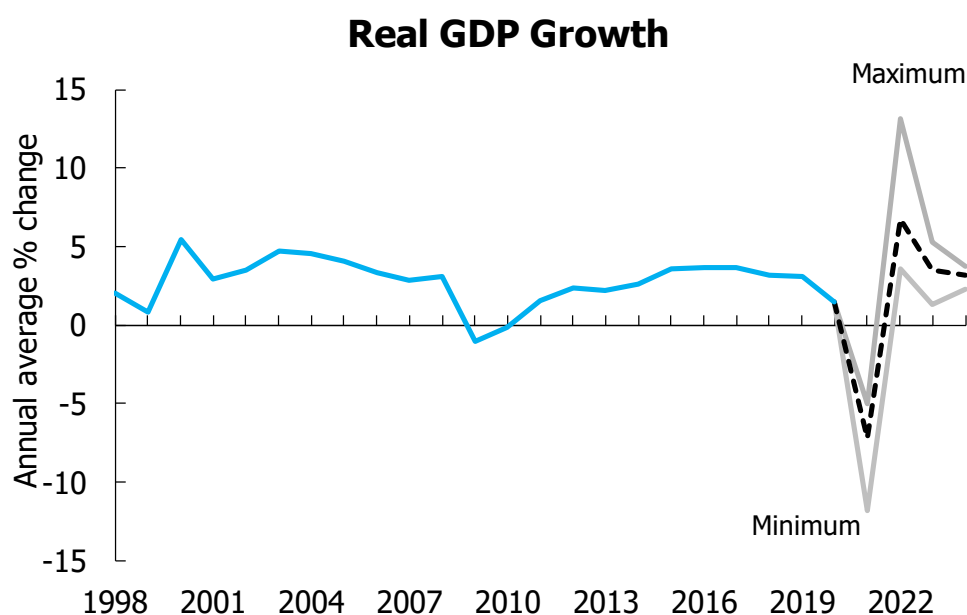
## NZIER *Consensus Forecasts* show a wide range of forecasts

The latest NZIER *Consensus Forecasts* continues to show a wide range of forecasts for the economy, reflecting a large degree of uncertainty over the growth outlook. The announcement on 11 August of new COVID-19 cases in the community, and the subsequent return of Auckland to Alert Level 3 and the rest of New Zealand to Alert Level 2, has added to the uncertainty over how the economic recovery will pan out over the coming years. The most optimistic forecast for the New Zealand economy is a decline in GDP of 5 percent on average for the year to March 2021, while the most pessimistic is a decline of 11.8 percent.

Beyond this decline in economic activity over the coming year, *Consensus* expectations are for a V-shaped recovery in the subsequent year. Prior to the second community outbreak, economic activity indicators had pointed to a recovery in demand as the economy responded to the unprecedented amount of stimulus measures introduced by the Government and the Reserve Bank. With the New Zealand economy looking to be resilient, a strong rebound in activity is expected over 2021.

This V-shaped recovery is expected across many of the activity measures, including household spending, business investment, and export demand. However, the effects on the labour market are expected to be more persistent, with *Consensus* forecasts for the unemployment rate to spike up to almost 8 percent over the coming year, before moderating to 5.8 percent by 2023. Reflecting the weaker labour market, wage inflation is also expected to remain subdued over the coming years.

**Figure 1 There remains a wide range of expectations for the growth outlook**



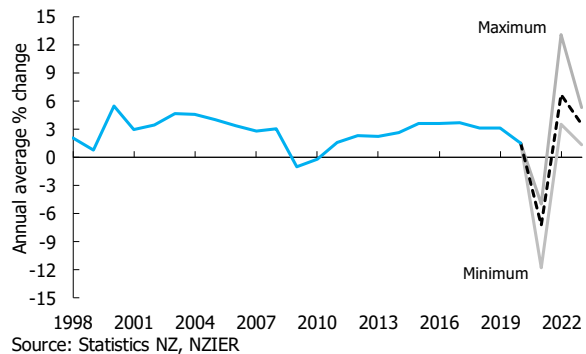
Source: Statistics NZ, NZIER

## Near-term growth outlook revised up

*Consensus Forecasts* for GDP have been revised up for the year to March 2021, as the New Zealand economy has turned out more resilient than expected. Unprecedented stimulus measures introduced by the Government and the Reserve Bank have also helped to support demand.

On average, annual GDP is now expected to contract by 7.2 percent for the year to March 2021, before a rebound to 6.7 percent in the following year.

**Real GDP Growth**

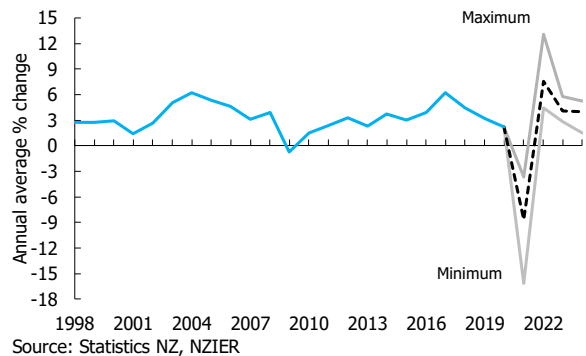


## Expected rebound in household spending

Household spending is also expected to have a V-shaped growth profile, with a sharp rebound in spending expected from 2021.

Besides the severe negative impact of lockdown restrictions and social distancing requirements on hospitality spending, there had been signs of a recovery in spending in other areas. Lower mortgage rates, the wage subsidy and mortgage deferrals are helping to support household demand.

**Real Private Consumption**

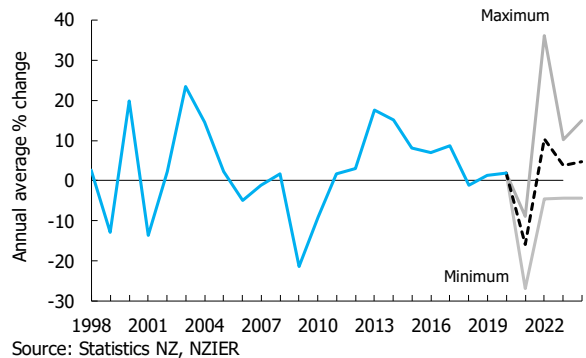


## Wide range for investment outlook

There remains a wide range of forecasts for investment, particularly beyond 2021. Although residential investment is expected to decline over the coming year, *Consensus* expectations are for robust growth in the subsequent years.

Weaker business confidence is weighing on other areas of investment. Nonetheless, annual growth in other investment is expected to rebound up to 9.7 percent annual average growth for the year to March 2022.

**Real Residential Investment**

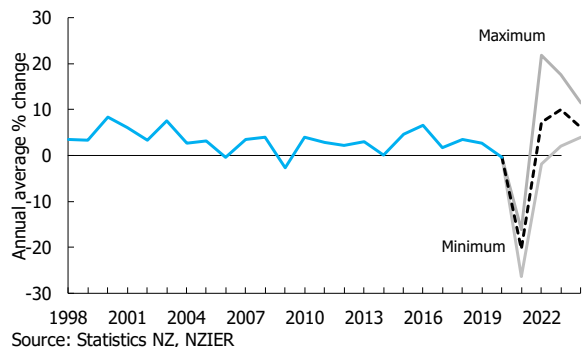


## Positive longer-term outlook for exports

Similarly, a strong rebound in exports is expected from 2021. Border restrictions have had a particularly negative impact on services exports, primarily tourism and international education.

However, demand for New Zealand commodities exports has been more mixed, with demand for dairy, meat and fruit exports higher since early February, relative to the same period a year ago.

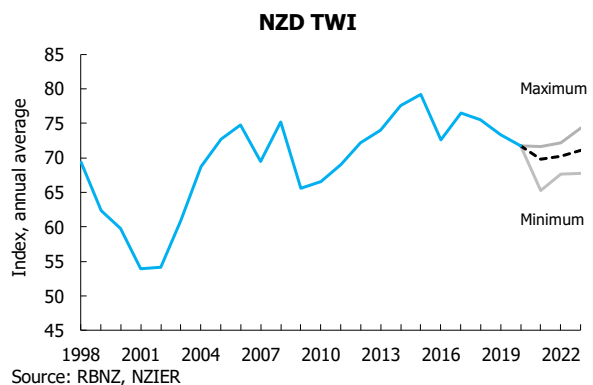
**Real Exports**



## Slight easing expected for the NZD

The NZD TWI has been revised up over the projection horizon, with the currency expected to track around 70.

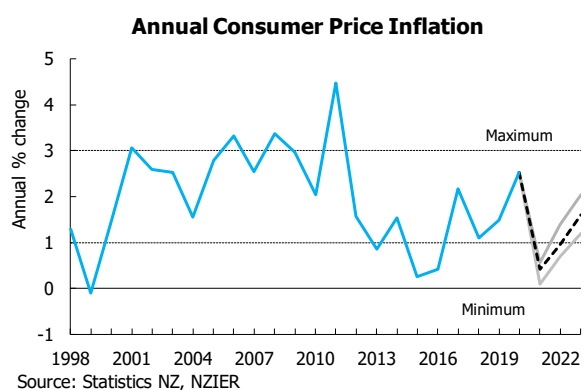
Although the sharp cut to the OCR and introduction of quantitative easing by the Reserve Bank had put downward pressure on the NZD, New Zealand's relative success in containing COVID-19 has supported demand for the currency. With other major central banks also embarking on very loose monetary policy, the NZD remains attractive.



## Inflation expected to remain below 2%

Although annual CPI inflation is expected to pick up from 2021, *Consensus* forecasts are for inflation to remain in the bottom half of the Reserve Bank's 1-3 percent inflation target band through to 2024.

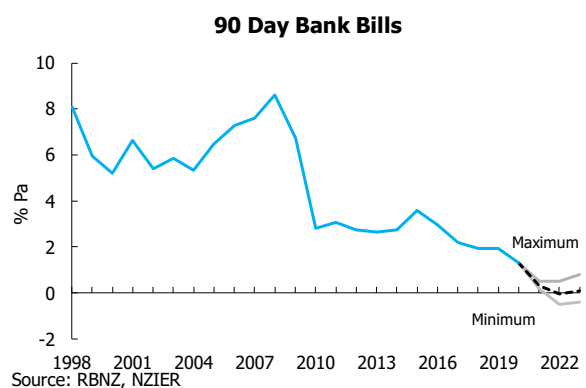
The sharp decline in economic activity has created excess capacity in the economy, and this is expected to persist. The range of inflation forecasts remain relatively narrow, indicating less uncertainty over the inflation outlook.



## Interest rate outlook revised lower

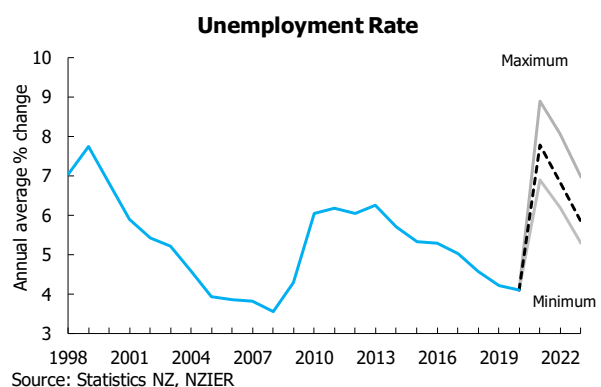
Interest rate forecasts have been revised lower over the coming years, as speculation that the Reserve Bank will introduce a negative OCR next year grows.

Expectations for long-term bond yields have also been revised lower, as the increase in the Reserve Bank's quantitative easing programme puts downward pressure on interest rates across the yield curve.



## Unemployment rate expected to remain high

The forecast for the unemployment rate has been revised lower through the projection period, but average expectations are for it to remain persistently high at 5.8 percent in 2023. The range of forecasts for the unemployment rate is wide, reflecting uncertainty over how the labour market will perform as the wage subsidy scheme comes to an end, and with the potential for further COVID-19 outbreaks.



**Table 1 Latest *Consensus Forecasts* compared to previous**

<b>aapc, March years</b>	<b>Sep-2020 survey</b>			<b>Jun-2020 survey</b>		
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
GDP	-7.2 ↑	6.7 ↓	3.5 ↓	-9.0	6.9	4.3
Private consumption	-8.7 ↑	7.6 ↑	4.1 ↓	-9.9	7.4	4.8
Public consumption	6.4 ↓	1.2 ↓	-0.3 ↓	6.7	2.2	0.7
Fixed investment:						
Residential	-15.9 ↑	10.3 ↑	3.9 ↓	-21.2	7.5	5.7
Other	-13.8 ↑	9.7 ↓	5.2 ↓	-14.8	10.6	5.9
Total	-14.3 ↑	9.8 →	4.9 ↓	-16.4	9.8	5.9
Exports, goods & services	-20.3 ↓	7.3 ↓	10.0 ↑	-20.0	14.1	8.7
Imports, goods & services	-19.6 ↓	8.5 ↓	8.8 ↑	-17.3	11.9	7.9
Consumer price index (apc)	0.4 ↑	0.9 ↓	1.6 →	0.2	1.1	1.6
New Zealand TWI (avg yr to Mar)	69.9 ↑	70.2 ↑	71.1 ↑	68.1	69.8	71.0
90 day bank bill (avg yr to Mar)	0.3 →	0.0 ↓	0.1 ↓	0.3	0.3	0.4
10 year govt bond (avg yr to Mar)	0.7 ↓	0.7 ↓	1.2 ↓	0.8	1.0	1.4
Current account balance (NZ\$b; Mar yr)	-9.4 ↑	-11.1 ↓	-11.4 ↓	-10.9	-8.0	-7.8
Employment	-5.2 ↓	3.1 →	2.8 ↓	-5.0	3.1	3.1
Unemployment (% of labour force)	7.8 ↓	6.8 ↓	5.8 ↓	8.2	7.2	6.1
Wages (private sector avg hourly earnings)	1.8 ↑	1.4 ↓	1.9 ↓	1.3	1.9	2.1
Government operating balance (NZ\$b, September yr)	-28.8 ↓	-30.8 ↓	-25.4 ↓	-26.8	-21.9	-12.6

Source: NZIER

**Table 2 Breakdown of the forecasts**

<b>qpc, quarters</b>	<b>Jun-20 f</b>			<b>Sep-20 f</b>			<b>Dec-20 f</b>		
	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>
GDP (seasonally adjusted, qpc)	-23.5	-15.2	-13.0	9.9	12.2	16.4	-4.0	1.4	4.1
	<b>Sep-20 f</b>			<b>Dec-20 f</b>			<b>Mar-21 f</b>		
CPI (qpc)	0.3	0.7	1.1	-0.2	0.0	0.1	-0.2	0.2	0.5

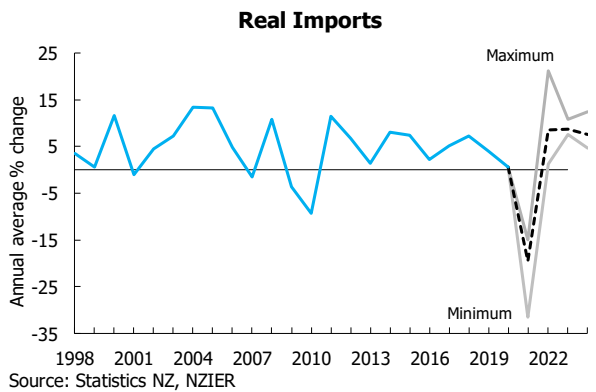
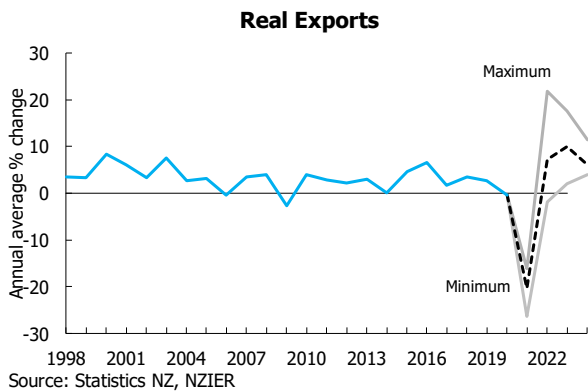
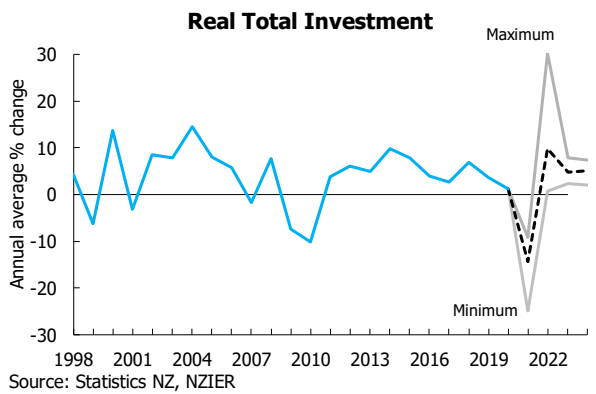
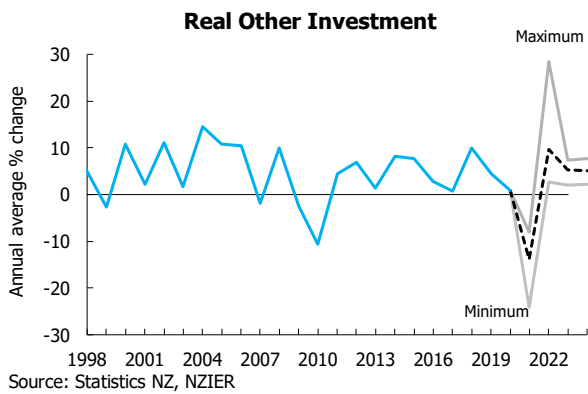
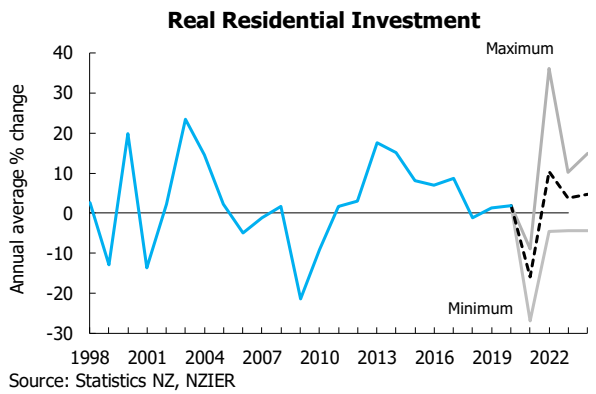
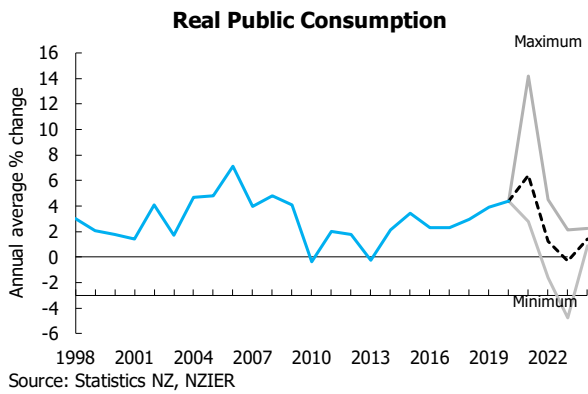
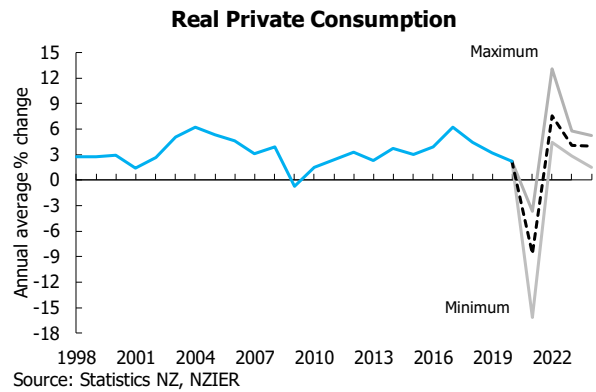
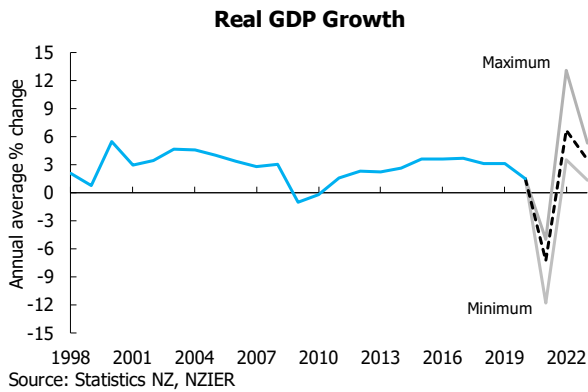
  

<b>aapc, March years</b>	<b>2020/2021 f</b>			<b>2021/2022 f</b>			<b>2022/2023 f</b>			<b>2023/2024 f</b>		
	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>
GDP	-11.8	-7.2	-5.0	3.6	6.7	13.1	1.3	3.5	5.3	2.3	3.2	3.7
Private consumption	-16.1	-8.7	-3.7	4.5	7.6	13.1	2.8	4.1	5.8	1.5	3.9	5.2
Public consumption	2.8	6.4	14.2	-1.6	1.2	4.5	-4.8	-0.3	2.1	0.9	1.4	2.2
Fixed investment												
- Residential	-26.9	-15.9	-8.9	-4.6	10.3	36.1	-4.4	3.9	10.2	-4.4	4.7	15.0
- Other	-24.1	-13.8	-8.0	2.7	9.7	28.4	2.0	5.2	7.4	2.2	5.1	7.7
- Total	-24.8	-14.3	-9.1	0.7	9.8	30.3	2.3	4.9	7.9	2.1	5.1	7.4
Exports, goods and services	-26.4	-20.3	-16.2	-1.8	7.3	21.8	2.0	10.0	17.6	4.0	6.1	11.4
Imports, goods and services	-31.5	-19.6	-15.0	1.3	8.5	21.1	7.5	8.8	10.7	4.6	7.5	12.5
Consumer price index (apc)	0.1	0.4	0.6	0.7	0.9	1.4	1.2	1.6	2.0	1.5	1.9	2.5
New Zealand TWI (avg yr to Mar)	65.3	69.9	71.6	67.6	70.2	72.2	67.7	71.1	74.3	67.7	71.0	75.0
90 day bank bill (avg yr to Mar)	0.2	0.3	0.5	-0.5	0.0	0.5	-0.4	0.1	0.8	0.1	0.5	1.3
10 year government stock (avg yr to Mar)	0.5	0.7	1.0	0.1	0.7	1.2	0.4	1.2	1.5	0.8	1.7	2.1
Current account balance (NZ\$m; Mar yr)	-12.9	-9.4	-5.1	-14.3	-11.1	-5.9	-17.3	-11.4	-7.0	-18.3	-13.5	-9.2
Employment	-9.5	-5.2	-3.2	1.9	3.1	4.7	1.8	2.8	4.4	1.0	1.9	2.2
Unemployment rate (% of labour force)	6.9	7.8	8.9	6.2	6.8	8.1	5.3	5.8	7.0	5.0	5.4	6.0
Wages (private sector avg hourly earnings)	1.2	1.8	2.1	0.4	1.4	2.0	0.9	1.9	2.9	1.8	2.2	2.4
Government operating balance (NZ\$m, December yr)	-36.3	-28.8	-23.3	-47.4	-30.8	-22.2	-50.3	-25.4	-13.0	-50.5	-19.7	-1.0

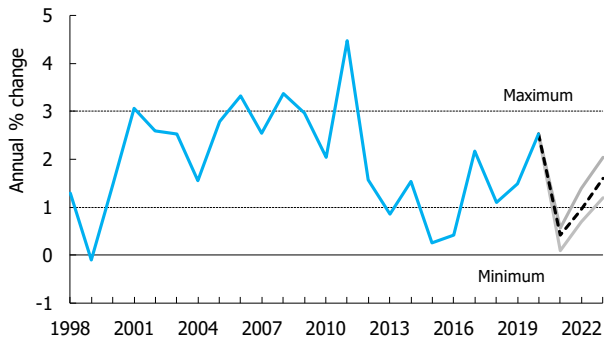
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change  
 These results show only means; standard deviations are available on request

Source: NZIER

## Summary charts

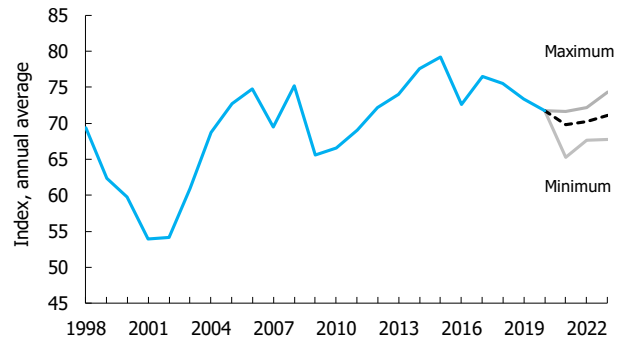


**Annual Consumer Price Inflation**



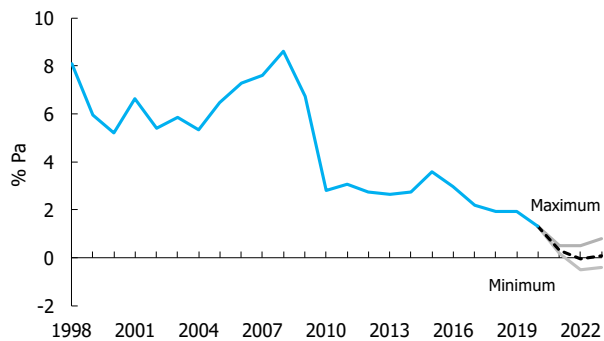
Source: Statistics NZ, NZIER

**NZD TWI**



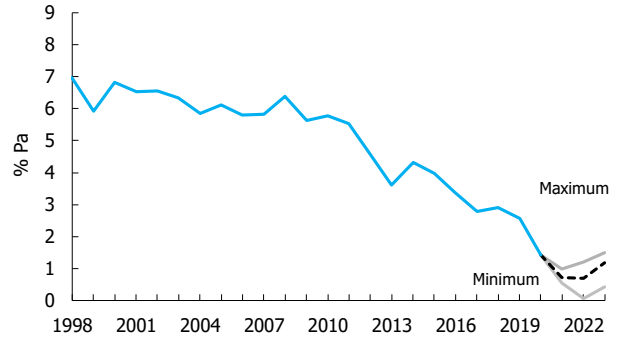
Source: RBNZ, NZIER

**90 Day Bank Bills**



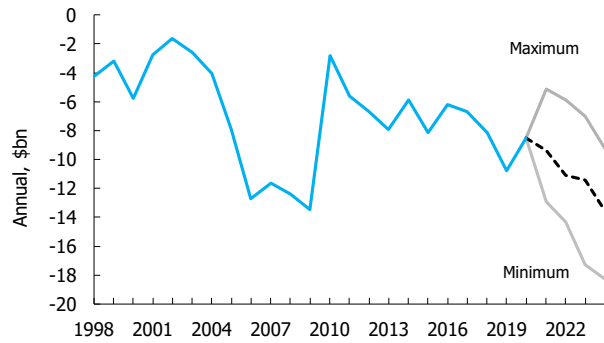
Source: RBNZ, NZIER

**10 Year Government Bond Yield**



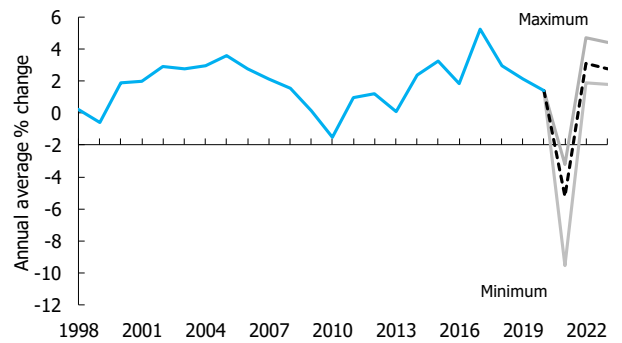
Source: RBNZ, NZIER

**Current Account Balance**



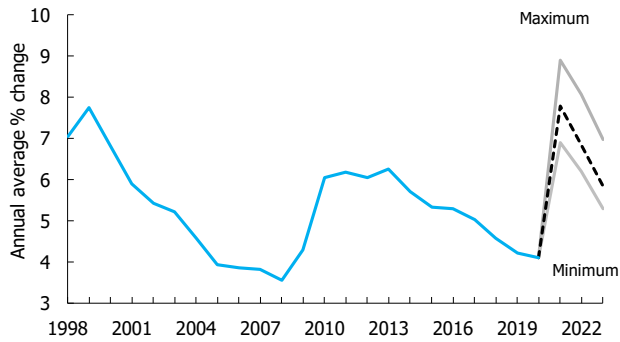
Source: RBNZ, NZIER

**Employment Growth**



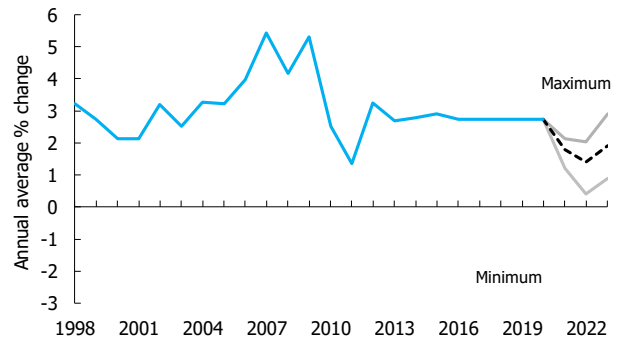
Source: Statistics NZ, NZIER

**Unemployment Rate**

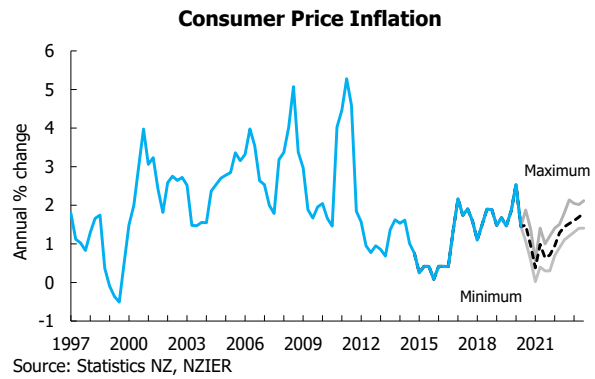
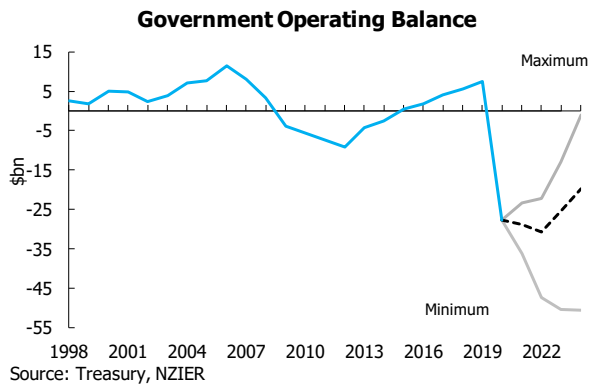


Source: Statistics NZ, NZIER

**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. 2021 refers to the year ended March 2021.*

## Respondents

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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