

# NZIER Consensus Forecasts

December 2011<sup>1</sup>

**Embargoed until 12 noon Monday 12 December 2011**

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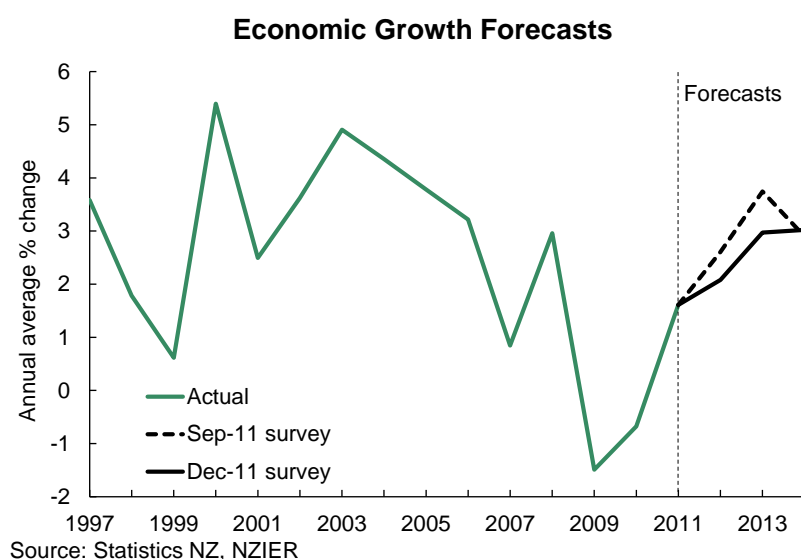
## Lower growth for longer

*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. 2011/12 refers to the year ended March 2012.*

The recovery will slower than previously thought, according to the NZIER *Consensus Forecasts*. But the economy will still grow: 2.2% in the year ending March 2012 and then accelerate to 3.0% in 2013 and 2014. The Canterbury reconstruction will be a key driver, with the rest of the economy growing more modestly, averaging 2.2% over the next three years.

A darkening global economic outlook and a later rebuild in Canterbury were the two key drivers of a weaker economic outlook. A weaker global backdrop and a high exchange rate will see only slow export growth. Domestic demand will also be slower. As a result new jobs and living costs will rise modestly. Households will spend less and businesses will be cautious about investing more.

A weaker economy and subdued inflation mean economists now expect the RBNZ to raise interest rates later and more gradually. Slow economic growth means tax revenues will be lower than previously thought. There will be a fiscal deficit of \$1 billion in the June 2014 year, compared to a forecast surplus of \$1 billion in the survey three months ago.



<sup>1</sup> Incorporating returns received up to Thursday 8 December 2011

### Still a recovery, but slower

The recovery will be slower than economists expected in the September survey. Economic growth will be modest in the March 2012 year (2.2% from 2.6%), but accelerate in 2013 (3.0% from 3.7%) and 2014 (3.0% from 2.9%).

Economic growth will average 2.7% per year over the next three years. The Canterbury rebuild, particularly residential construction, will be a key driver. Excluding this, economic growth will average 2.2%. Household spending and business investment will grow at current rates, rather than accelerate. Public spending will slow and exports will grow less strongly.

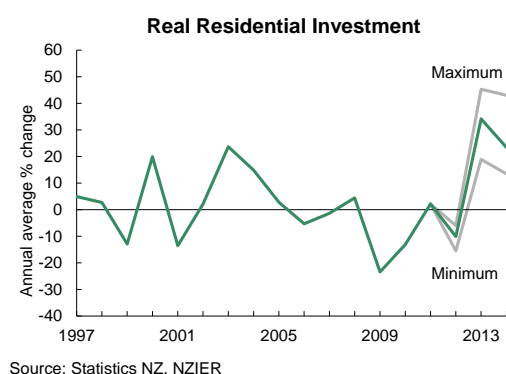
Economic growth will be robust in the September quarter, rising 0.7% from the previous quarter and 2.4% from a year earlier (data due 22 December).



### Canterbury rebuild delayed

Residential construction activity will surge in coming years, driven mainly by the anticipated Canterbury rebuild. However, forecasts suggest a later start to the rebuild compared to the September survey.

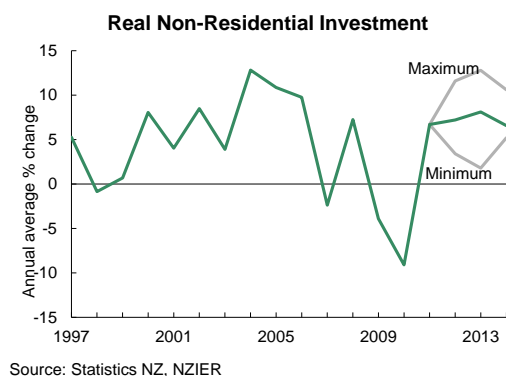
Residential construction will be weak in the March 2012 year (-10.1% from -5.6%), but surge in 2013 (34.1% from 39.8%) and 2014 (23.4% from 9.8%). There is a wide range of forecasts for residential construction, reflecting uncertainties in forecasting the size and timing of the rebuild in Canterbury, and a cyclical recovery elsewhere.



### Business investment to continue

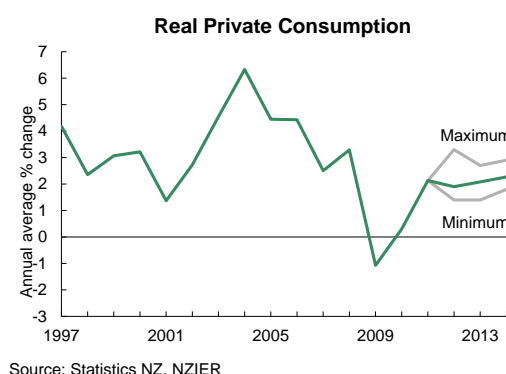
Business investment will continue to grow at current rates. There is a wide divergence of views, ranging from a rapid acceleration to moderation.

Non-residential investment will remain broadly stable over the March 2012, 2013 and 2014 years at 7.2%, 8.1% and 6.6% respectively.



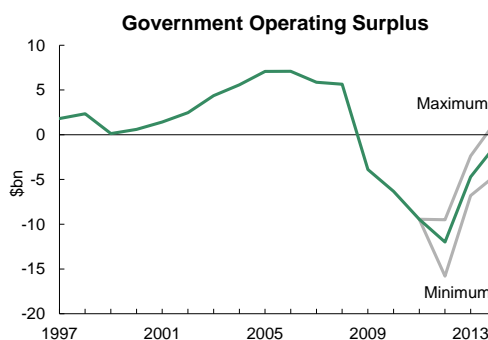
### Subdued consumer spending

Household spending will remain subdued in coming years. This is consistent with a modest outlook for job creation and income growth. Economists expect 1.9% consumption growth in the March 2012 year, increasing slightly to 2.2% by 2014. This is a moderate pace compared to a 4.4% average growth rate in the 5 years preceding the recession.



### Fiscal balance in red for longer

A slower economic recovery will keep the fiscal balance in deficit for longer. This is despite a slump in public consumption growth from 3.8% in the March 2011 year to 0.2% in 2014. The fiscal balance will improve from a \$12 billion deficit in the June 2012 year, but remain in a \$1 billion deficit in 2014. In the September 2011 survey economists had expected a surplus of \$1 billion by 2014.

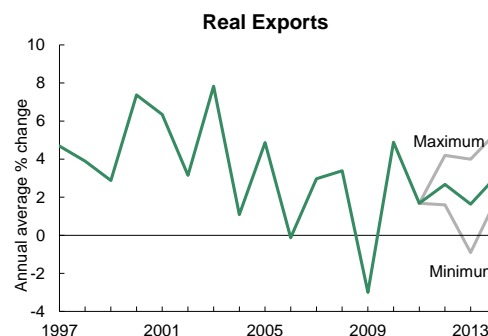


Source: Treasury, NZIER

### Exports affected by global growth and high NZD

The outlook for exports is more subdued compared to the September survey, because of a weaker global economic outlook and an elevated exchange rate. Exports will grow solidly in the March 2012 year (2.7% from 3.2%), slow in 2013 (1.6% from 2.8%) and then rebound in 2014 (3.1% from 3.3%).

The NZD will remain high on a trade weighted basis at around 70 (compared to an average of 60 since 1990).

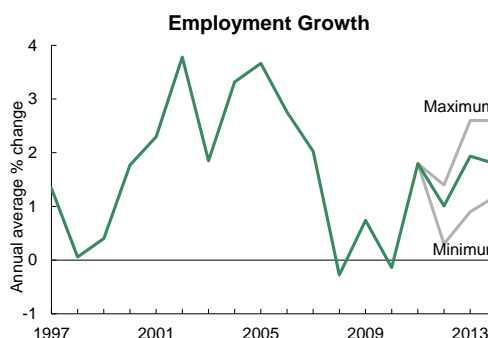


Source: Statistics NZ, NZIER

### Slower employment growth

Employment growth will be slow, in line with the economy. Economists expect slow employment growth in the March 2012 year (1.1% from 1.7%), but improve through 2013 (1.9% from 2.5%) and 2014 (1.8% from 1.7%).

This equates to around 100,000 more jobs by March 2014, compared to the September 2011 quarter.

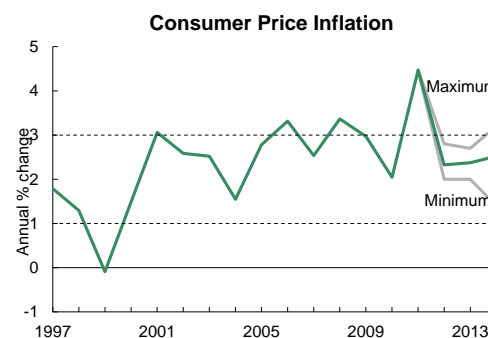


Source: Statistics NZ, NZIER

### Contained inflation outlook

Inflation will be contained over the next three years, averaging 2.4% per year. In the September survey inflation was forecast to average 2.7%.

A more moderate outlook for the economy and inflation means economists now expect a later start to interest rate increases by the RBNZ. Forecasters on average expect the 90 day bank bill to rise from 2.8% in the March 2012 year to 3.2% in 2013 and 4.2% in 2014.



Source: Statistics NZ, NZIER

## Previous and latest consensus forecasts

aapc, March years	September 2011 survey			December 2011 survey		
	2011/12 f	2012/13 f	2013/14 f	2011/12 f	2012/13 f	2013/14 f
GDP	2.6	3.7	2.9	2.1 ↓	3.0 ↓	3.0 ↑
Private consumption	2.0	2.3	2.6	1.9 ↓	2.1 ↓	2.3 ↓
Public consumption	2.5	0.5	0.3	1.4 ↓	-0.2 ↓	0.2 ↓
Fixed investment						
Residential	-5.6	39.8	9.8	-10.1 ↓	34.1 ↓	23.4 ↑
Other	8.3	10.2	6.4	7.2 ↓	8.1 ↓	6.6 ↑
Total	6.0	14.1	7.0	4.2 ↓	11.6 ↓	9.2 ↑
Exports, goods and services	3.2	2.8	3.3	2.7 ↓	1.6 ↓	3.1 ↓
Imports, goods and services	6.6	5.5	4.0	5.5 ↓	4.5 ↓	4.8 ↑
Consumer price index (apc)	2.8	2.6	2.7	2.3 ↓	2.4 ↓	2.5 ↓
New Zealand TWI (Ave for yr to Mar)	71.1	71.1	68.8	70.1 ↓	70.9 ↓	71.1 ↑
90 day bank bill (Ave for yr to Mar)	3.0	4.1	4.8	2.8 ↓	3.2 ↓	4.2 ↓
10 year government stock (Ave for yr to Mar)	5.1	5.5	5.6	4.7 ↓	4.8 ↓	5.2 ↓
Balance of payments (current a/c; NZ\$m; Mar yr)	-8,664	-11,817	-13,772	-8,406 ↑	-11,854 ↓	-14,211 ↓
Employment (apc, Mar yr)	1.7	2.5	1.7	1.0 ↓	1.9 ↓	1.8 ↑
Unemployment rate (% of labour force; Mar)	6.0	5.2	4.8	6.3 ↑	5.8 ↑	5.1 ↑
Private sector wages (hourly; aapc)	3.2	3.5	3.8	3.3 ↑	3.3 ↓	3.6 ↓
Government operating balance (NZ\$m; Jun yr)	-9,253	-3,554	923	-11,987 ↓	-4,712 ↓	-1,077 ↓

Note: aapc = annual average percent change, apc = annual percent change, arrows refer to direction of change from last survey

## Summary of results – December 2011 survey

qpc, quarters	September 2011			December 2011		
	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	0.0	0.7	0.9	0.4	0.8	1.1
CPI (qpc)				0.2	0.4	0.5

aapc, March years	2011/12 f			2012/13 f			2013/14 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	1.3	2.1	2.3	2.1	3.0	3.6	2.5	3.0	3.7
Private consumption	1.4	1.9	3.3	1.4	2.1	2.7	1.8	2.3	2.9
Public consumption	0.8	1.4	2.0	-1.6	-0.2	2.0	-0.4	0.2	1.8
Fixed investment									
- Residential	-15.5	-10.1	-6.0	18.9	34.1	45.3	13.5	23.4	43.0
- Other	3.4	7.2	11.6	1.8	8.1	12.8	5.2	6.6	10.6
- Total	0.7	4.2	8.6	4.3	11.6	16.2	6.9	9.2	14.4
Exports, goods and services	1.6	2.7	4.2	-0.9	1.6	4.0	1.9	3.1	5.4
Imports, goods and services	3.6	5.5	7.2	2.0	4.5	6.1	2.7	4.8	8.0
Consumer price index (apc)	2.0	2.3	2.8	2.0	2.4	2.7	1.4	2.5	3.2
New Zealand TWI (Ave for yr to Mar)	68.7	70.1	71.7	66.4	70.9	74.9	65.7	71.1	75.1
90 day bank bill (Ave for yr to Mar)	2.7	2.8	2.8	2.8	3.2	3.6	3.5	4.2	4.7
10 year government stock (Ave for yr to Mar)	4.5	4.7	4.8	4.2	4.8	5.5	4.8	5.2	5.9
Current account balance (NZ\$m; Mar yr)	-10,731	-8,406	-5,026	-15,515	-11,854	-7,871	-20,264	-14,211	-11,168
Employment (apc, Mar yr)	0.3	1.0	1.4	0.9	1.9	2.6	1.2	1.8	2.6
Unemployment rate (% of labour force; Mar)	5.8	6.3	6.7	5.1	5.8	6.5	4.7	5.1	6.0
Private sector wages (hourly; aapc)	2.8	3.3	3.7	2.2	3.3	4.5	2.8	3.6	4.5
Government operating balance (NZ\$m; Jun yr)	-15,800	-11,987	-9,500	-6,800	-4,712	-2,375	-4,460	-1,077	1,576

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

**Summary charts**

**Real GDP Growth**



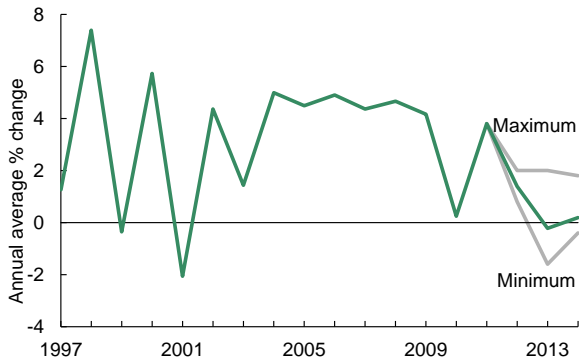
Source: Statistics NZ, NZIER

**Real Private Consumption**



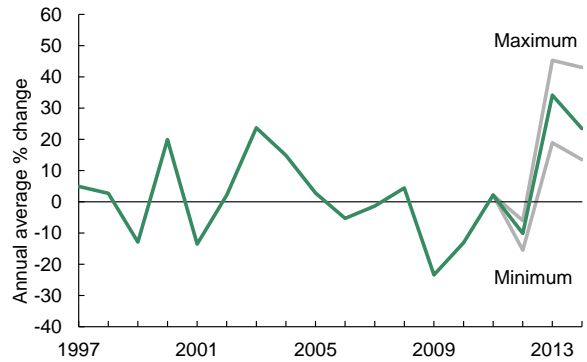
Source: Statistics NZ, NZIER

**Real Public Consumption**



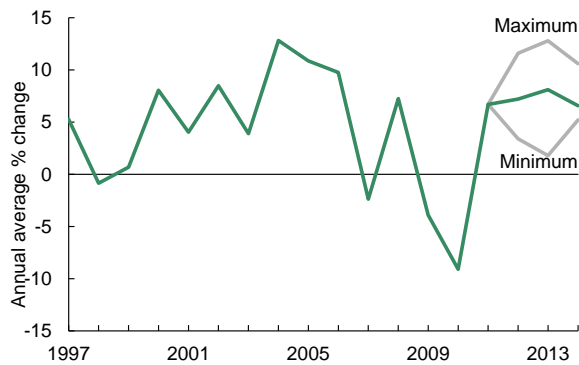
Source: Statistics NZ, NZIER

**Real Residential Investment**



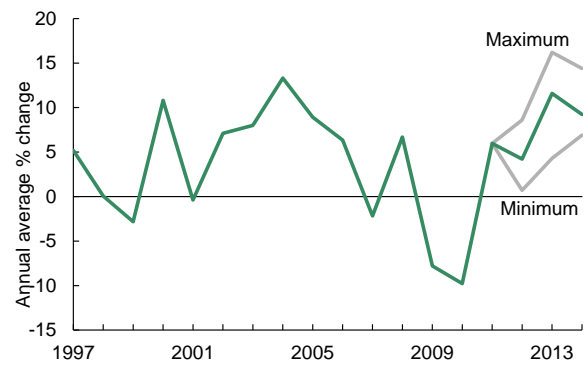
Source: Statistics NZ, NZIER

**Real Non-Residential Investment**



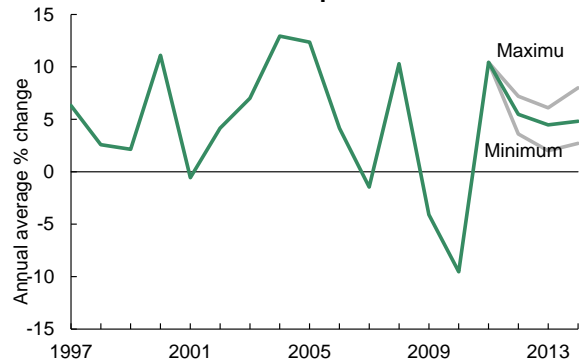
Source: Statistics NZ, NZIER

**Real Total Investment**



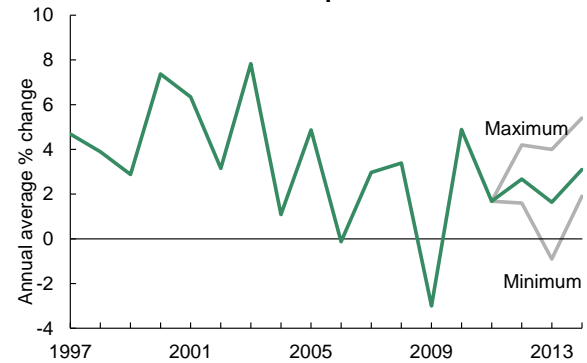
Source: Statistics NZ, NZIER

**Real Imports**

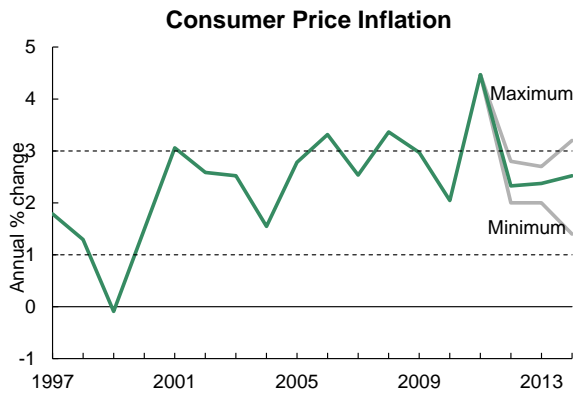


Source: Statistics NZ, NZIER

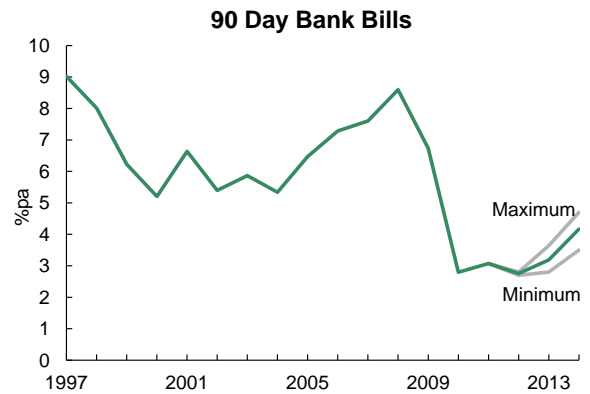
**Real Exports**



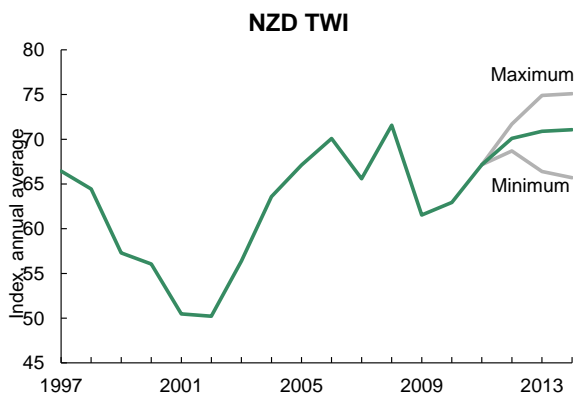
Source: Statistics NZ, NZIER



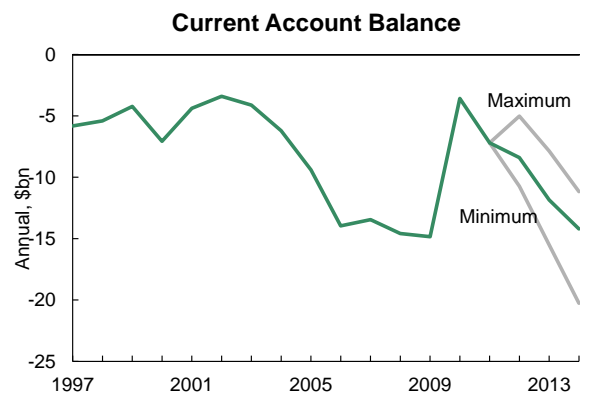
Source: Statistics NZ, NZIER



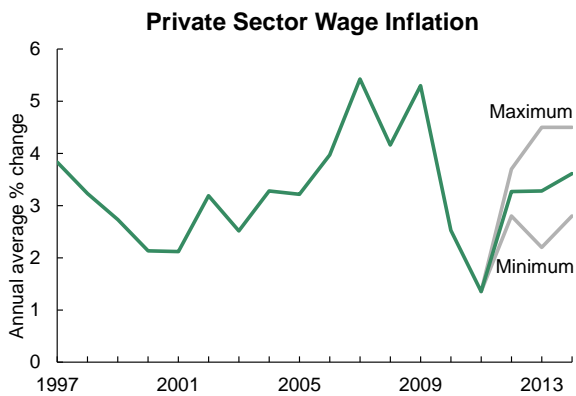
Source: RBNZ, NZIER



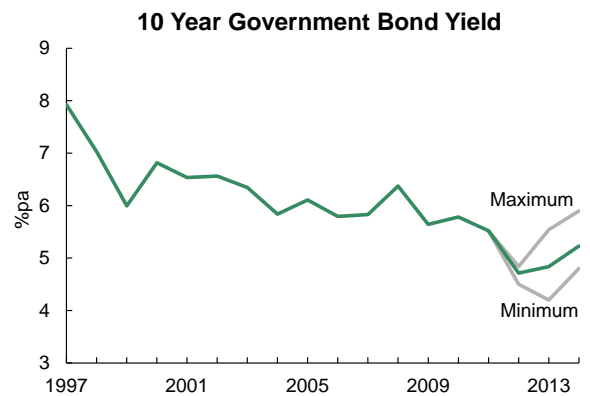
Source: RBNZ, NZIER



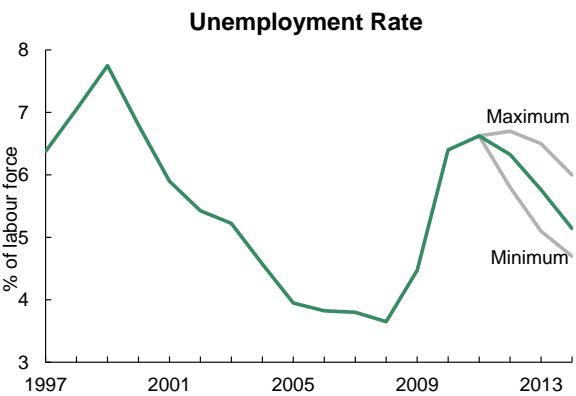
Source: Statistics NZ, NZIER



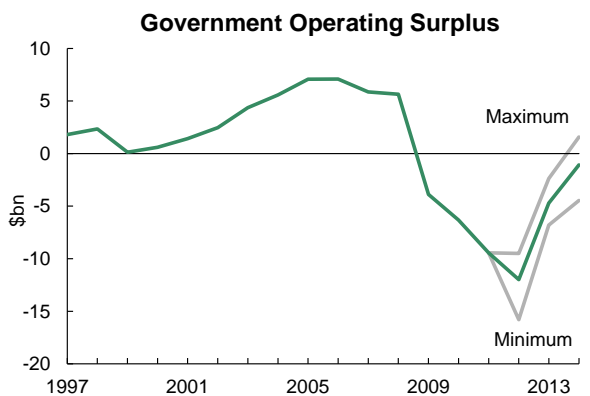
Source: Statistics NZ, NZIER



Source: RBNZ, NZIER



Source: Statistics NZ, NZIER



Source: Treasury, NZIER

**Respondents:**

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ASB Bank  
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