

# NZIER Consensus Forecasts

**Embargoed until 12 noon Monday 20 June 2011**

**Prepared by Peter Nicholls**

**Incorporating returns received up to Monday 13 June 2011**

## Constructive outlook

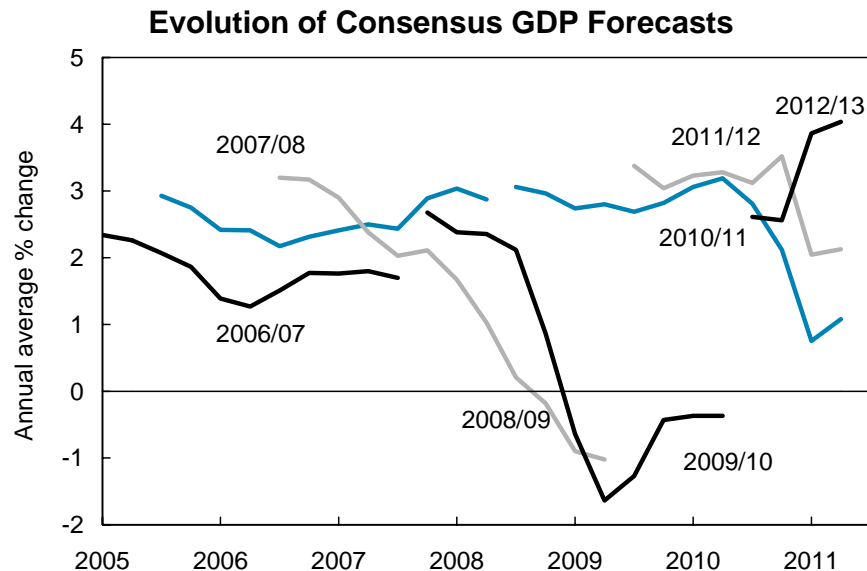
The NZIER Consensus Forecasts are an average of New Zealand economic forecasts compiled from a survey of financial and economic agencies. These are not NZIER's forecasts. The average forecasts do not necessarily represent the views of individual participants. Forecasts are for March years, e.g. 2010/11 refers to the year ended March 2011.

Economic forecasters are more optimistic. Economic growth forecasts have been revised up a touch for the next two years, according to the latest NZIER Consensus Forecasts Survey.

Economists expect economic growth to accelerate from an estimated 1.1% in the year ending March 2011 to 2.0% in 2012. The full effects of the Canterbury reconstruction will lift growth to 4.0% in 2013. Forecasts for the next two years have been revised upwards by a small amount (0.1 percentage point).

The Canterbury rebuild continues to be a central pillar of strong economic growth, particularly for construction. Continued aftershocks complicate the outlook with economists' views diverging on the scale and timing of reconstruction in the region.

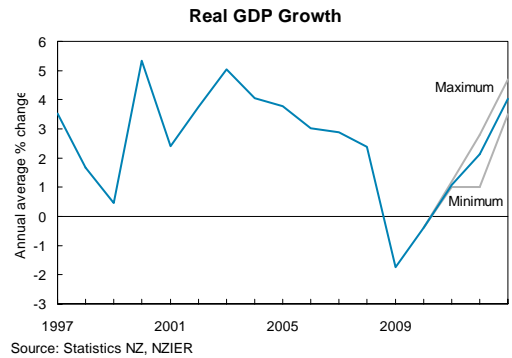
Consumer price inflation peaked at 4.5% in 2011, but will ease over 2012 and 2013 to the top end of the Reserve Bank's target band. Inflation forecasts have been revised upwards compared to the March survey. Real wages will remain flat over the next two years, with inflation cancelling out nominal wage growth. The labour market outlook is still soft, with forecasters revising down employment expectations for 2012. Unemployment is set to trend down from 6.6% in 2011 to 5.3% by March 2013.



Source: NZIER

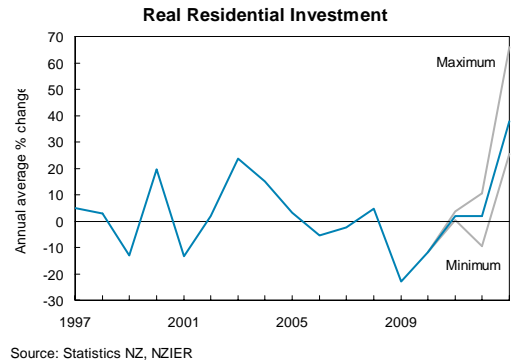
### Accelerating recovery

The recovery will accelerate. Forecasters are slightly more optimistic than the March survey. Economists expect GDP to contract by -0.1% in the March 2011 quarter (data due 23 June), but rebound by 0.5% in the June 2011 quarter. Forecasters are a little more optimistic about the March 2012 year (2.1% from 2.0%) and 2013 (4.0% from 3.9%). Economists are now more optimistic of the investment outlook, particularly the Canterbury rebuild.



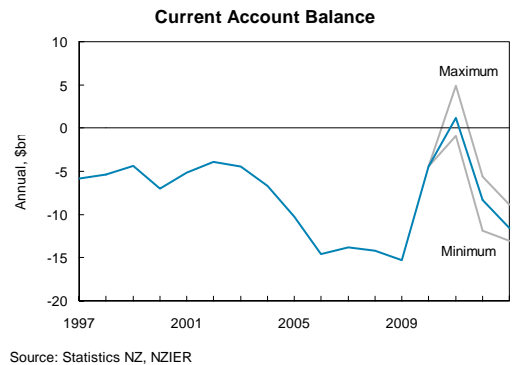
### Residential investment to surge in 2013

Residential construction will surge, eventually. Near term projections are subdued, with just 2.0% growth in the March 2012 year, from 1.8% in the March 2011 year. But economists expect a 37.9% increase in the March 2013 year (revised up from 26.9%). The scale of the revision shows ongoing uncertainty around the scale and timing of the Canterbury rebuild.



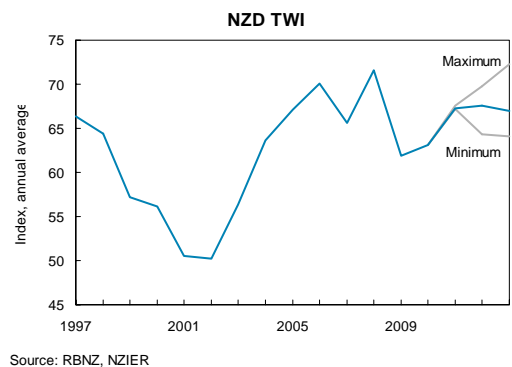
### Fleeting relief for current account deficit

The current account balance will be in a fleeting surplus before deteriorating again. Economists expect a \$1.1b surplus in the March 2011 year, but then deteriorate to a \$11.5b deficit by the March 2013 year. The recent improvement reflects a strong trade position and one-off flows from earthquake insurance claims and one-off banking sector back taxes.



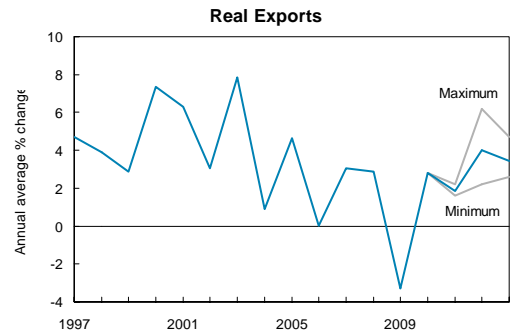
### Steady Kiwi

Consensus forecasts show a broadly steady NZD over the next two years. There is some typical divergence between forecasts, with expectations ranging from renewed appreciation to peak levels to moderate depreciation. The consensus forecast for the NZD trade weighted index is 67.2, 67.6 and 66.9 in March 2011, March 2012 and March 2013 respectively. The exchange rate is expected to stay relatively high in the coming years.



### Trade balance to worsen

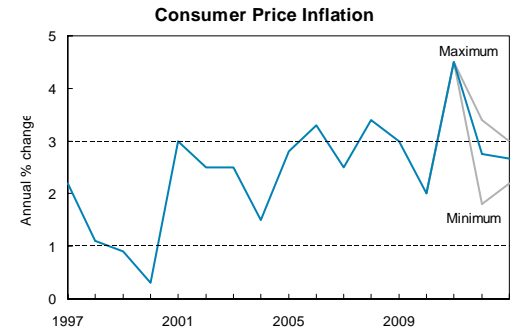
The trade balance will worsen as imports rise more quickly than exports. Export growth forecasts for 2011 (1.8% from 2.1%), 2012 (4.0% from 4.2%) and 2013 (3.4% from 3.6%) have been revised down slightly. Imports will grow more strongly in 2011 (10.2% from 6.9%), 2012 (7.5% from 6.4%) and 2013 (4.9% from 5.4%). An elevated exchange rate will reduce export competitiveness and stoke import demand.



Source: Statistics NZ, NZIER

### Inflation risks rise

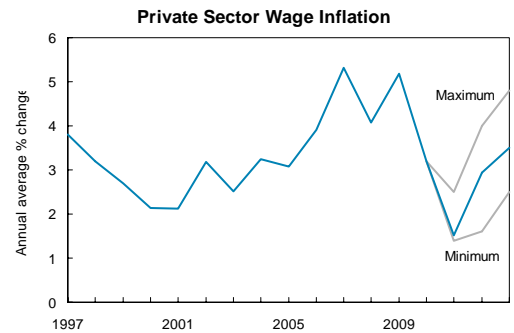
Inflation forecasts are being revised upwards. Economists expect inflation to average 2.8% in the March 2012 year, up from 2.6% three months earlier. The inflation rate will remain elevated at 2.7% in the March 2013 year. Inflation expectations have been rising across many surveys in recent months; this will be a cause for concern for the RBNZ, which is mandated to control inflation between 1% and 3% over the medium term.



Source: Statistics NZ, NZIER

### Inflation erodes majority of wage increases

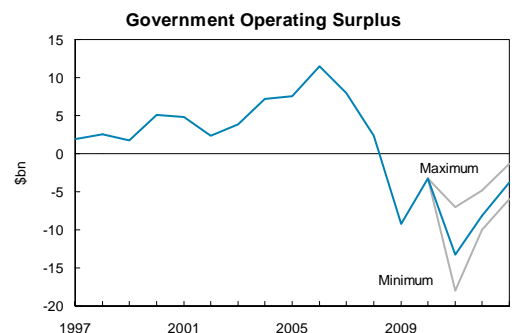
A gradual recovery in the labour market will see the unemployment trending down from 6.6% in 2011 to 5.3% in 2013. Employment growth will remain modest in 2012 (1.3%), but accelerate in 2013 (2.5%). These improvements will feed through to higher wages. Wage forecasts range from a strong rebound to a grinding recovery. Nominal wages will grow by 2.9% in 2012 and 3.5% in 2013. Small increases in real incomes will be welcome relief to households and will support a gradual recovery in household spending.



Source: Statistics NZ, NZIER

### Government aiming for 2015 surplus

The 2011 budget re-affirmed the government's goal of posting a budget surplus by 2015 through fiscal consolidation. Economists now expect a faster improvement in the deficit, but the deficit will be larger in 2012, as costs from the Canterbury earthquake are met.



Source: Treasury, NZIER

## Previous and latest consensus forecasts

AAPC, March years	March 2011			June 2011		
	2010/11 f	2011/12 f	2012/13 f	2010/11 f	2011/12 f	2012/13 f
GDP	0.8	2.0	3.9	1.1	2.1	4.0
Private consumption	1.4	1.4	2.2	1.7	1.9	2.4
Public consumption	1.7	1.5	1.1	2.3	2.1	0.6
Fixed investment						
Residential	2.3	3.5	26.9	1.8	2.0	37.9
Other	3.2	6.0	8.7	6.8	8.6	10.9
Total	3.5	5.7	11.3	6.2	7.6	14.4
Exports, goods and services	2.1	4.2	3.6	1.8	4.0	3.4
Imports, goods and services	6.9	6.4	5.4	10.2	7.5	4.9
Consumer price index (apc)	4.6	2.6	2.6	4.5	2.8	2.7
New Zealand TWI (Ave for yr to Mar)	67.3	66.1	65.2	67.2	67.6	66.9
90 day bank bill (Ave for yr to Mar)	3.1	2.9	4.2	3.1	2.9	4.2
10 year government stock (Ave for yr to Mar)	5.5	5.9	6.2	5.5	5.6	6.1
Balance of payments (current a/c; NZ\$m; Mar yr)	-418	-7,733	-10,083	1,182	-8,286	-11,551
Employment (apc, Mar yr)	0.8	1.8	2.6	1.7	1.3	2.5
Unemployment rate (% of labour force; Mar)	6.7	6.4	5.5	6.6	6.1	5.3
Private sector wages (hourly; aapc)	1.7	2.9	3.2	1.5	2.9	3.5
Government operating balance (NZ\$m; Jun yr)	-10,649	-6,731	-4,361	-13,216	-8,195	-3,782

Note: aapc = annual average percent change, apc = annual percent change

## Summary of results – June 2011 survey

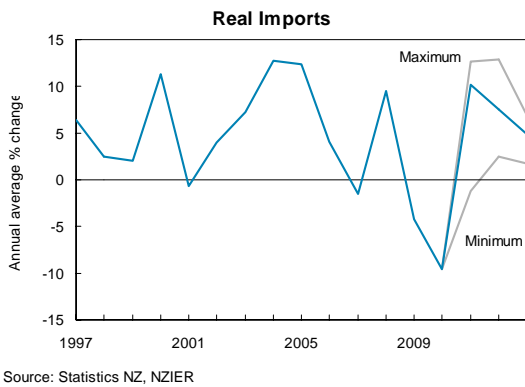
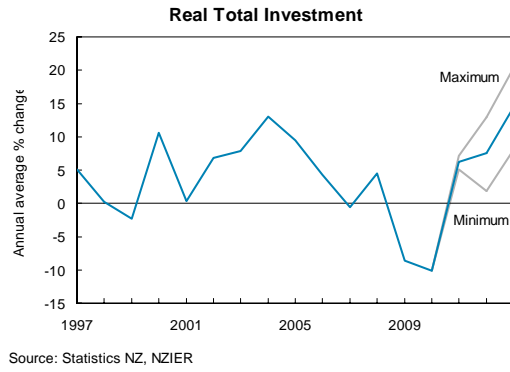
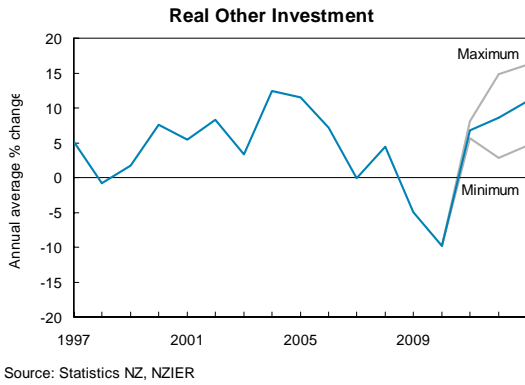
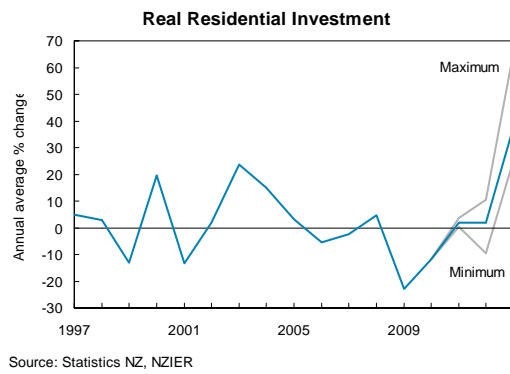
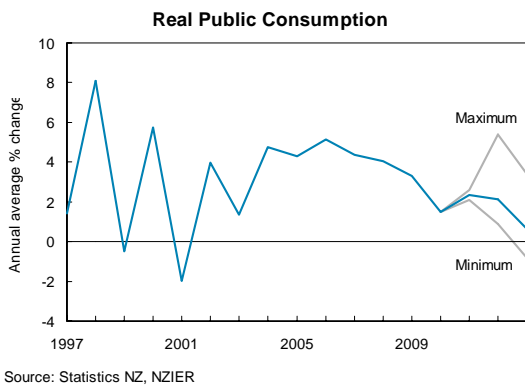
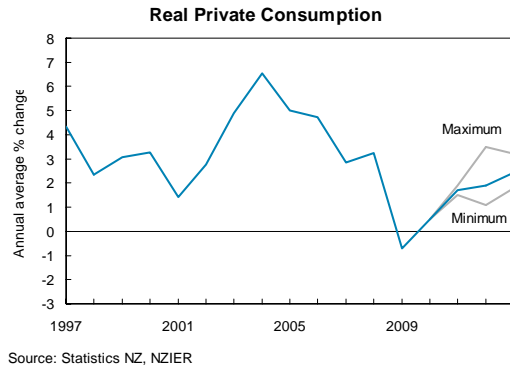
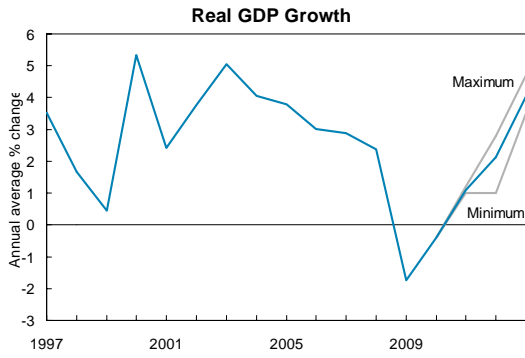
QPC, quarters	March 2011			June 2011		
	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	-0.5	-0.1	0.3	0.1	0.5	0.8
CPI (qpc)				0.5	0.8	1.0

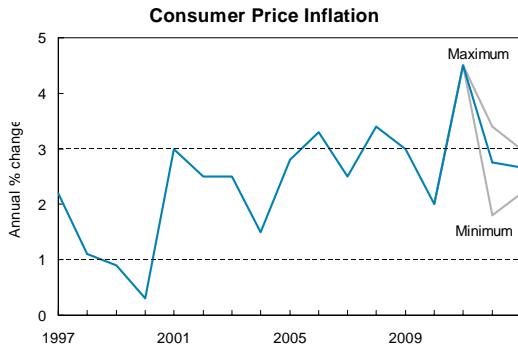
AAPC, March years	2010/11 f			2011/12 f			2012/13 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	1.0	1.1	1.2	1.0	2.1	2.8	3.5	4.0	4.7
Private consumption	1.5	1.7	1.9	1.1	1.9	3.5	1.8	2.4	3.2
Public consumption	2.1	2.3	2.6	0.9	2.1	5.4	-0.8	0.6	3.4
Fixed investment									
- Residential	0.5	1.8	3.6	-9.6	2.0	10.4	25.5	37.9	65.9
- Other	5.7	6.8	8.1	2.8	8.6	14.8	4.5	10.9	16.2
- Total	5.1	6.2	7.1	1.9	7.6	12.9	8.0	14.4	20.3
Exports, goods and services	1.6	1.8	2.2	2.2	4.0	6.2	2.6	3.4	4.7
Imports, goods and services	-1.2	10.2	12.7	2.5	7.5	12.9	1.7	4.9	6.9
Consumer price index (apc)	4.5	4.5	4.5	1.8	2.8	3.4	2.2	2.7	3.0
New Zealand TWI (Ave for yr to Mar)	67.2	67.2	67.6	64.3	67.6	69.8	64.1	66.9	72.2
90 day bank bill (Ave for yr to Mar)	3.0	3.1	3.1	2.7	2.9	3.4	3.6	4.2	4.7
10 year government stock (Ave for yr to Mar)	5.5	5.5	5.5	5.3	5.6	5.9	5.7	6.1	6.6
Balance of payments (current a/c; NZ\$m; Mar yr)	-898	1,182	4,881	-11,875	-8,286	-5,584	-13,075	-11,551	-8,887
Employment (apc, Mar yr)	0.6	1.7	1.8	0.5	1.3	1.8	1.7	2.5	3.9
Unemployment rate (% of labour force; Mar)	6.6	6.6	6.8	5.7	6.1	6.5	4.7	5.3	6.0
Private sector wages (hourly; aapc)	1.4	1.5	2.5	1.6	2.9	4.0	2.5	3.5	4.8
Government operating balance (NZ\$m; Jun yr)	-18,003	-13,216	-7,000	-10,000	-8,195	-4,862	-6,000	-3,782	-1,350

Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change

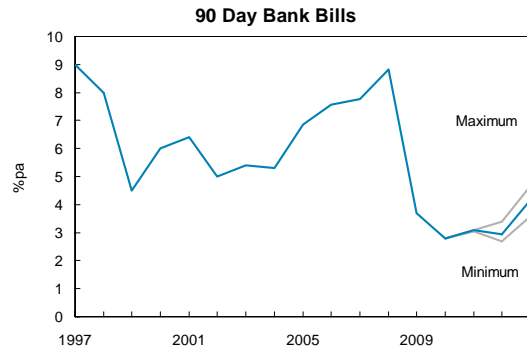
These results show only means; standard deviations are available on request

# Summary charts

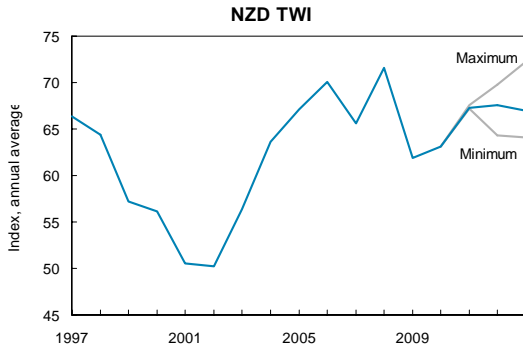




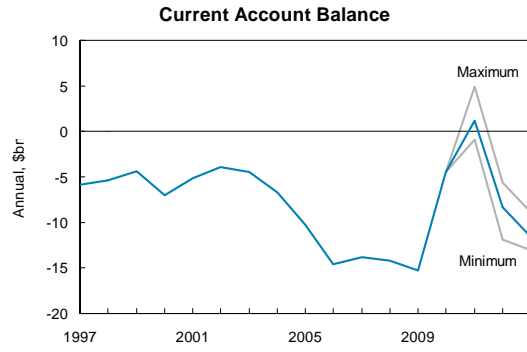
Source: Statistics NZ, NZIER



Source: RBNZ, NZIER



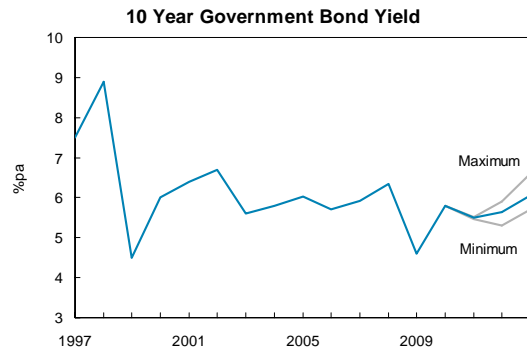
Source: RBNZ, NZIER



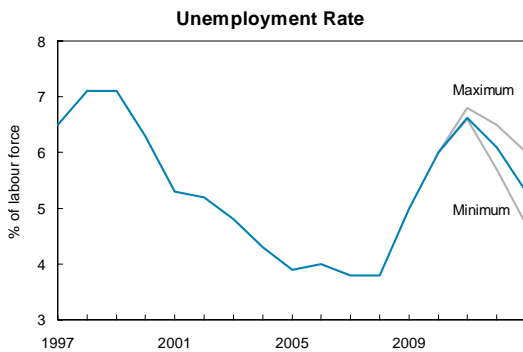
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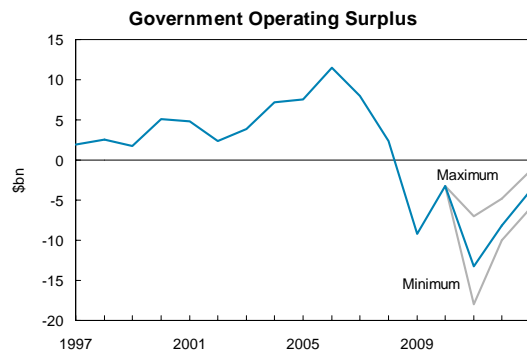
Source: Statistics NZ, NZIER



Source: RBNZ, NZIER



Source: Statistics NZ, NZIER



Source: Treasury, NZIER

## Respondents

ANZ-National Bank  
ASB Bank  
Bank of New Zealand  
Deutsche Bank  
First NZ Capital  
Goldman Sachs

New Zealand Institute of Economic Research  
Reserve Bank of New Zealand  
The Treasury  
UBS  
Westpac

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