

NZIER Consensus Forecasts

Embargoed until 12 noon Monday 21 March 2011

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Incorporating returns received up to Monday 14 March 2011

Earthquake delays recovery until 2013

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.

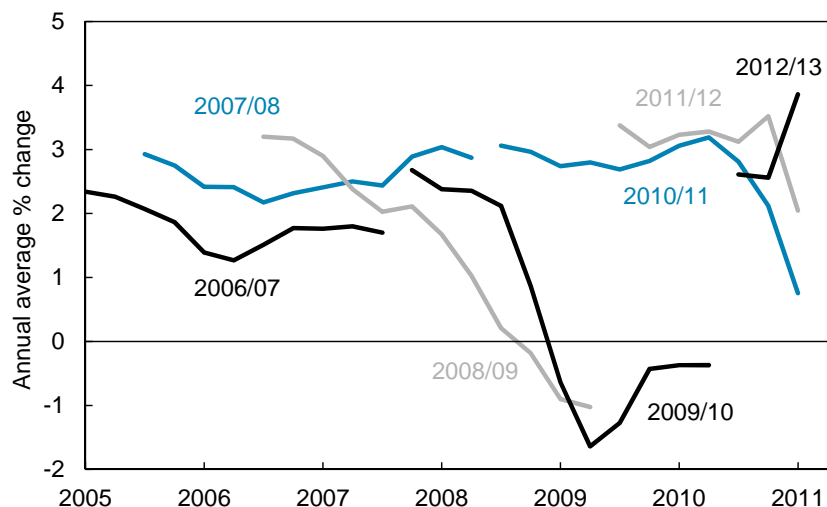
Economic forecasters believe the past year was weaker than previously thought, and the recovery has been delayed due mainly to the second Canterbury earthquake, according to the latest NZIER *Consensus Forecasts Survey*.

Economists have revised down expectations for economic growth for the March 2011 year (0.8%, down from 2.1% in the December 2010 survey) and 2012 (2.0%, down from 3.5%). But the outlook for March 2013 has brightened (3.9% from 2.6%). Revisions over the past quarter reflect weakening activity in the near term and a delay of reconstruction in Canterbury.

Forecasters continue to incorporate the impact of the two devastating Canterbury earthquakes. The bulk of the estimated reconstruction activity in the March 2012 year has been pushed back to the March 2013 year. Given the full extent of the rebuilding is still unknown, views diverge significantly on the size and timing of reconstruction in the region. Recent economic data has been lacklustre and dampened near term growth forecasts.

Consumer price inflation will spike due to GST and other policy changes, peaking at 4.6% in March 2011. Excluding one-off effects the inflation rate will be 1.7% and 2.5% in March 2011 and March 2012 respectively. Real wages will remain flat over the next two years, with personal tax cuts compensating households for inflation from increased government charges. The labour market outlook will remain soft in the near term and will recover very gradually. The unemployment rate is set to trend down from 6.7% in the March 2011 year to 5.5% (from 5% previously) by March 2013.

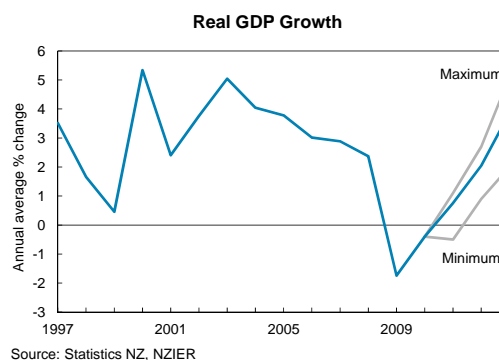
Evolution of Consensus GDP Forecasts



Source: NZIER

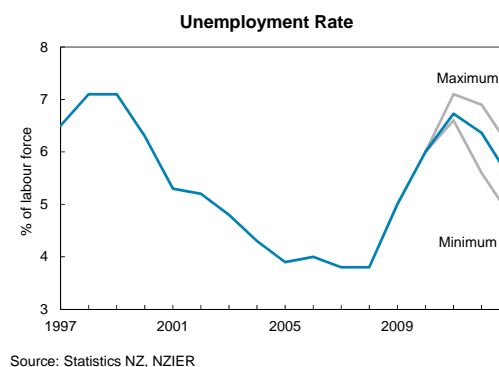
Second earthquake slows recovery

Forecasters expect a subdued recovery in the near term, but building momentum in 2013. The March 2011 year GDP forecast was slashed after the second earthquake in Canterbury to 0.8% (from 2.1% previously). Slow domestic conditions are also responsible for the softening near term outlook. Forecasters expect quarterly GDP growth of 0.0% in the December 2010 quarter (data due 24 March) and -0.2% in the March 2011 quarter. The near term forecasts have weakened for the March 2012 year (2.0% from 3.5%). Economic growth is forecast to surge to 3.9% (from 2.6% in the previous survey) in the March 2013 year due to reconstruction in Canterbury.



Labour market outlook softens

The unemployment rate is expected to weaken before a slow recovery. Forecasters predict a modest rise to 6.7% (from 6.2%) in the March 2011 year. Displacement and shedding of jobs is expected in the near term in Canterbury before activity is restored in the region. The unemployment rate is expected to improve gradually to 5.5% (from 5.1% in the previous survey) in the March 2013 year due to reconstruction.



Trade balance declines

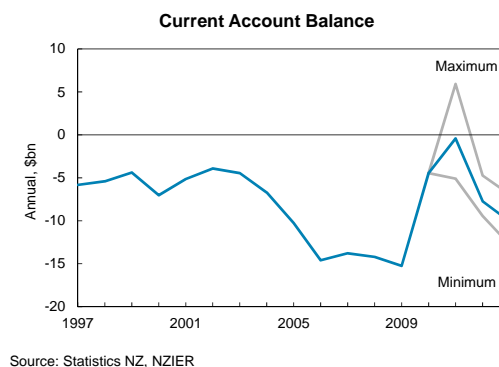
The trade balance outlook remains negative. Moderate export growth is expected to fall short of increasing imports over the forecast horizon. Export growth forecasts remain positive but have again been trimmed, 2011 (2.1% from 2.6%), 2012 (4.2% from 4.9%) and 2013 (3.6% from 3.8%). Export forecasts diverge wildly for the March 2012 year (1.7% to 8.7%), reflecting uncertainty over the exchange rate and global growth outlook.



Imports are expected to outstrip exports over all of the forecast years. Near term forecasts have softened, but imports remain resilient in the March 2013 year. Imports are forecast to surge in 2011 (6.9% from 8.2%), 2012 (6.4% from 6.8%) and 2013 (5.4% from 4.8%).

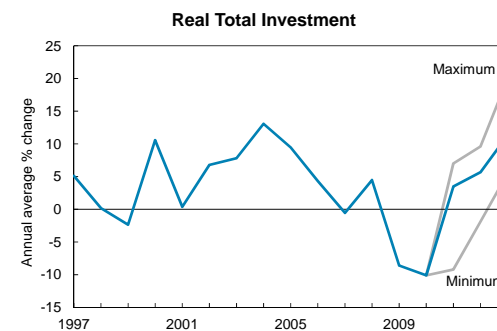
Temporary relief for current account

The current account deficit is expected to improve markedly, before rapid deterioration. The current account improvement in the March 2011 year is due to payments from overseas reinsurers for the two earthquakes in Canterbury. Forecasters expect a marked increase in the deficit by March 2013 due to a weakening trade balance and increased costs of financing New Zealand's large net foreign liability position.



Investment recovery delayed by earthquake

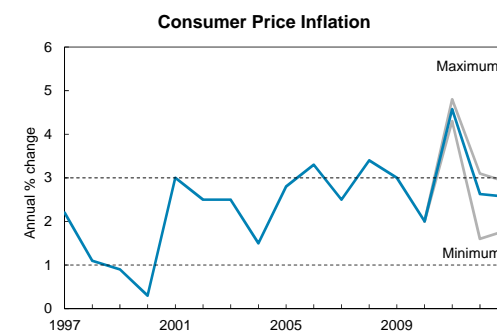
The second Canterbury earthquake is expected to have significant impacts on investment. Investment activity is forecast to improve in 2011 and 2012 before surging in 2013. Forecasters expect investment to recover gradually from 2011 (3.5% from 6.8%), 2012 (5.7% from 9.0%) and 2013 (11.3% from 6.3%). The expected reconstruction in Canterbury in the March 2012 year has been delayed until the March 2013 year. Non-residential investment forecasts have similarly been trimmed in the near term before growth increases in 2013. Economists have wildly diverging views on the size and timing of the reconstruction impact from both earthquakes.



Source: Statistics NZ, NZIER

Inflation unchanged from earthquake

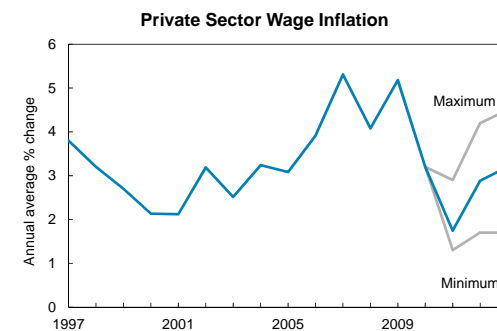
The Canterbury earthquake has had no impact on inflation forecasts. The inflation outlook for March 2011 remains unchanged since the December survey at 4.6%. Inflation outside of policy changes (GST, ACC and ETS) remains subdued, despite increasing food and fuel prices. Inflation is expected to ease to 2.6% (unchanged from December 2010) over the March 2012 year and 2.5% (from 2.6%) in March 2013.



Source: Statistics NZ, NZIER

Wages barely outstrip inflation

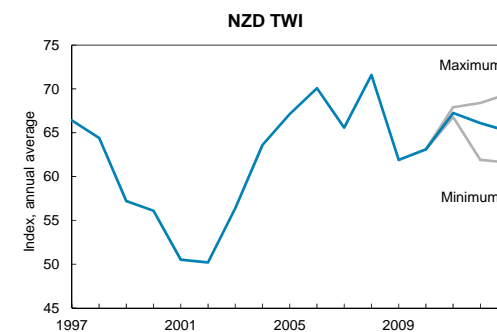
Gradual increases in real wages have been forecast. Upcoming wage negotiations are expected to ignore GST impacts as wage earners have been compensated by personal tax cuts. Nominal wages are expected to grow by 1.7% in March 2011 (from 1.8%), recover in 2012 (unchanged at 2.9%) and accelerate in 2013 (3.2% from 3.3%). Over the next two years general wage inflation, excluding one-off increases, will erode about 80%-90% of wage increases.



Source: Statistics NZ, NZIER

Steady depreciation of NZD

The NZD is expected to depreciate gradually over the forecast horizon. Forecasters' views on the Kiwi are divergent, but uncertainty has eased since December. The consensus forecast for the NZD trade weighted index is 67.3, 66.1 and 65.2 in March 2011, March 2012 and March 2013 respectively. A depreciating exchange rate will increase the cost of imports and also export incomes, assisting the weakening trade balance.



Source: RBNZ, NZIER

Previous and latest consensus forecasts

AAPC, March years	December 2010			March 2011		
	2010/11 f	2011/12 f	2012/13 f	2010/11 f	2011/12 f	2012/13 f
GDP	2.1	3.5	2.6	0.8	2.0	3.9
Private consumption	1.9	1.8	1.9	1.4	1.4	2.2
Public consumption	2.9	1.6	1.4	1.7	1.5	1.1
Fixed investment						
Residential	12.4	12.7	5.5	2.3	3.5	26.9
Other	5.3	8.6	6.4	3.2	6.0	8.7
Total	6.8	9.0	6.3	3.5	5.7	11.3
Exports, goods and services	2.6	4.9	3.8	2.1	4.2	3.6
Imports, goods and services	8.2	6.8	4.8	6.9	6.4	5.4
Consumer price index (apc)	4.6	2.6	2.5	4.6	2.6	2.6
New Zealand TWI (Ave for yr to Mar)	67.0	66.4	64.0	67.3	66.1	65.2
90 day bank bill (Ave for yr to Mar)	3.2	4.3	5.0	3.1	2.9	4.2
10 year government stock (Ave for yr to Mar)	5.5	5.8	6.0	5.5	5.9	6.2
Balance of payments (current a/c; NZ\$m; Mar yr)	-7,372	-9,967	-11,892	-418	-7,733	-10,083
Employment (apc, Mar yr)	1.3	2.4	1.8	0.8	1.8	2.6
Unemployment rate (% of labour force; Mar)	6.2	5.5	5.1	6.7	6.4	5.5
Private sector wages (hourly; aapc)	1.8	2.9	3.3	1.7	2.9	3.2
Government operating balance (NZ\$m; Jun yr)	-8,441	-5,211	-4,269	-10,649	-6,731	-4,361

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

Summary of results – March 2011 survey

QPC, quarters	December 2010			March 2011		
	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	-0.5	0.0	0.3	-0.7	-0.2	0.3
CPI (qpc)				0.6	0.9	1.1

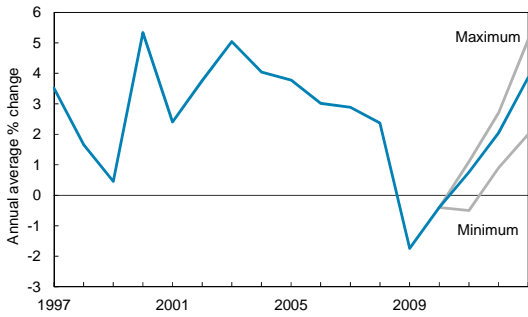
AAPC, March years	2010/11 f			2011/12 f			2012/13 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	-0.5	0.8	1.1	0.9	2.0	2.7	2.0	3.9	5.1
Private consumption	0.4	1.4	2.0	0.6	1.4	2.6	1.5	2.2	3.2
Public consumption	0.2	1.7	2.3	0.5	1.5	3.9	-1.6	1.1	2.8
Fixed investment									
- Residential	-13.0	2.3	8.6	-13.2	3.5	17.2	-0.1	26.9	48.4
- Other	-12.2	3.2	7.2	0.2	6.0	9.9	3.5	8.7	15.9
- Total	-9.2	3.5	7.0	-1.9	5.7	9.6	5.5	11.3	20.0
Exports, goods and services	0.9	2.1	4.6	1.7	4.2	8.7	2.2	3.6	5.0
Imports, goods and services	-9.4	6.9	9.4	1.7	6.4	10.2	1.2	5.4	7.9
Consumer price index (apc)	4.3	4.6	4.8	1.6	2.6	3.1	1.8	2.6	2.9
New Zealand TWI (Ave for yr to Mar)	66.8	67.3	67.9	61.9	66.1	68.4	61.6	65.2	69.4
90 day bank bill (Ave for yr to Mar)	2.9	3.1	3.1	2.5	2.9	3.5	3.9	4.2	4.7
10 year government stock (Ave for yr to Mar)	5.5	5.5	5.6	5.3	5.9	6.2	5.5	6.2	6.7
Balance of payments (current a/c; NZ\$m; Mar yr)	-5,100	-418	5,915	-9,428	-7,733	-4,735	-12,800	-10,083	-6,938
Employment (apc, Mar yr)	0.0	0.8	1.3	1.2	1.8	2.5	1.7	2.6	4.1
Unemployment rate (% of labour force; Mar)	6.6	6.7	7.1	5.6	6.4	6.9	4.8	5.5	6.1
Private sector wages (hourly; aapc)	1.3	1.7	2.9	1.7	2.9	4.2	1.7	3.2	4.5
Government operating balance (NZ\$m; Jun yr)	-15,263	-10,649	-6,300	-11,000	-6,731	-4,120	-7,000	-4,361	-2,259

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

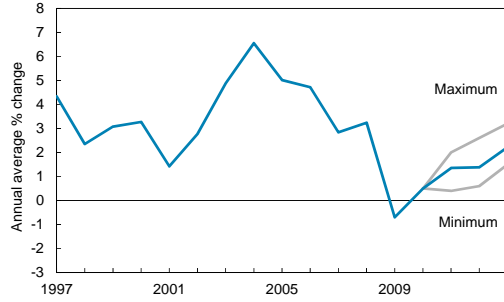
Summary charts

Real GDP Growth



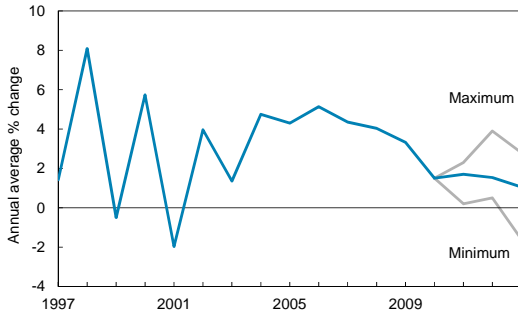
Source: Statistics NZ, NZIER

Real Private Consumption



Source: Statistics NZ, NZIER

Real Public Consumption



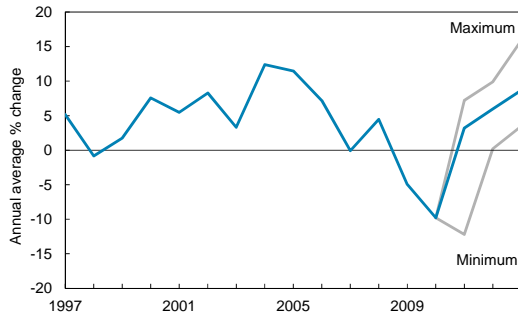
Source: Statistics NZ, NZIER

Real Residential Investment



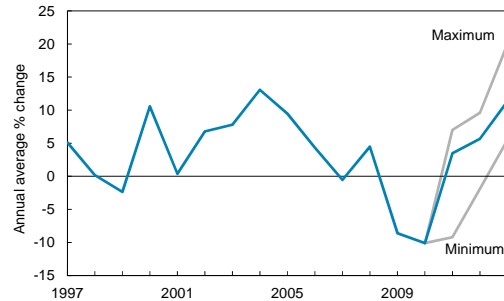
Source: Statistics NZ, NZIER

Real Other Investment



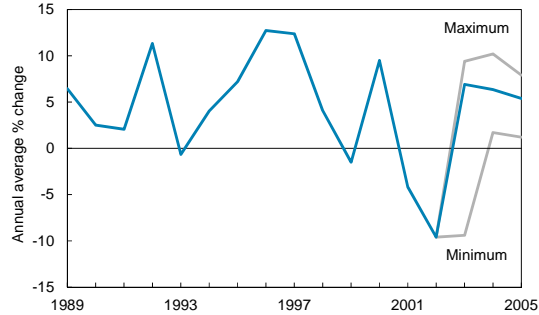
Source: Statistics NZ, NZIER

Real Total Investment



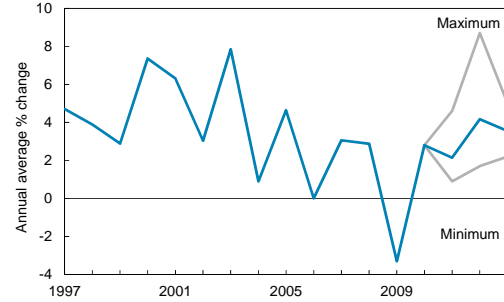
Source: Statistics NZ, NZIER

Real Imports

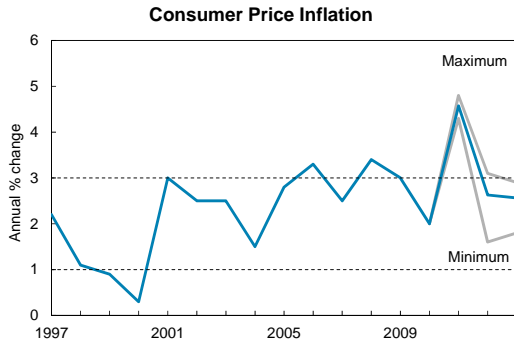


Source: Statistics NZ, NZIER

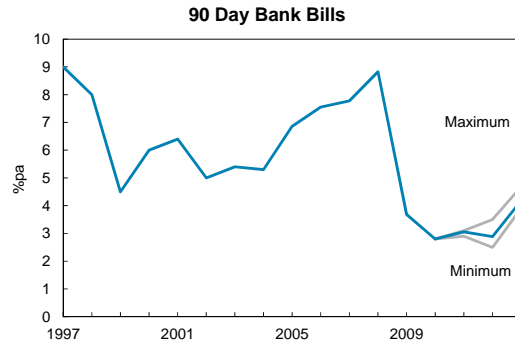
Real Exports



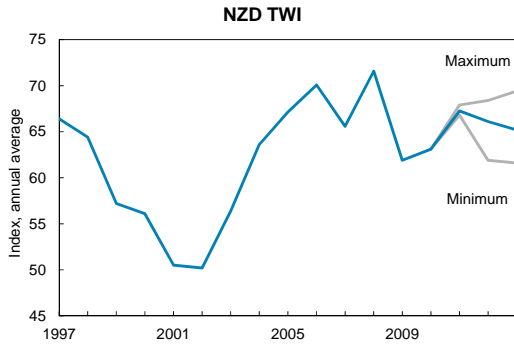
Source: Statistics NZ, NZIER



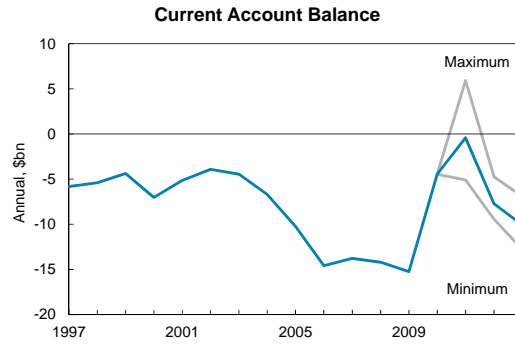
Source: Statistics NZ, NZIER



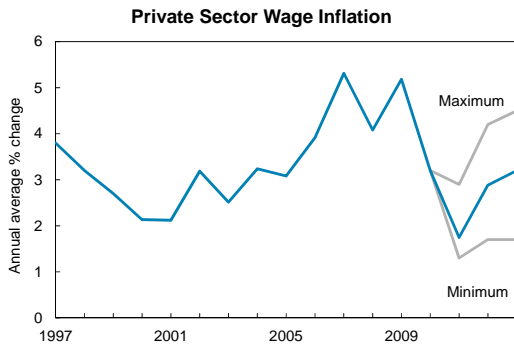
Source: RBNZ, NZIER



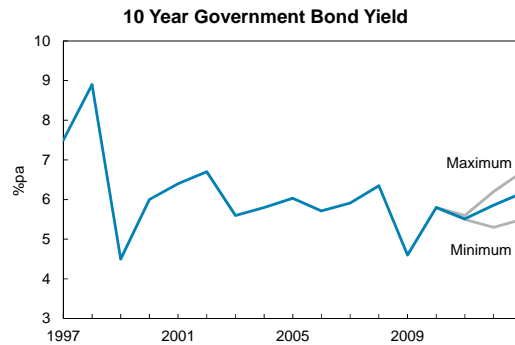
Source: RBNZ, NZIER



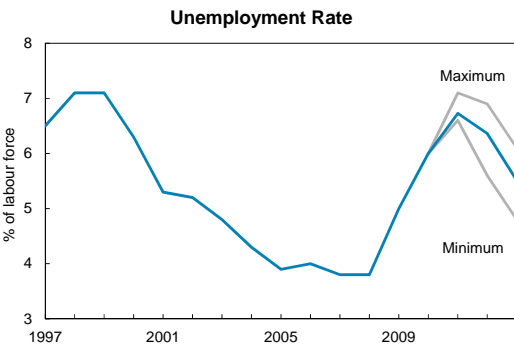
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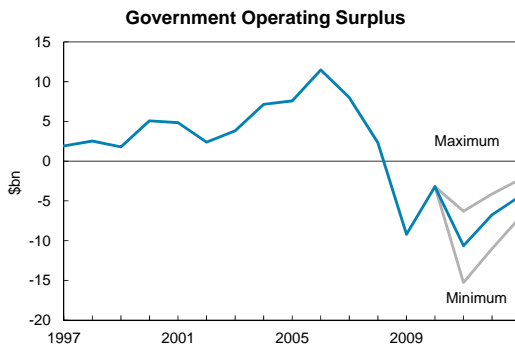
Source: Statistics NZ, NZIER



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
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