

NZIER Consensus forecasts

Embargoed until 10am Tuesday 21 September 2010

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Incorporating returns received up to Tuesday 14 September 2010

Still positive, but less rosy economic outlook

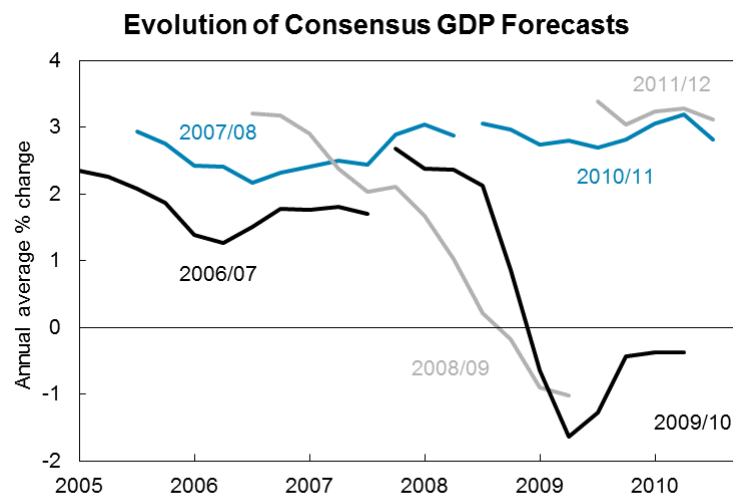
The NZIER Consensus Forecasts are an average of New Zealand economic forecasts compiled from a survey of financial and economic agencies. These are not NZIER's forecasts. The average forecasts do not necessarily represent the views of individual participants. Forecasts are for March years, e.g. 2010/11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

Economic forecasters are less sanguine about the recovery, according to the latest NZIER *Consensus Forecasts Survey*. The growth outlook remains positive, no double-dip recession, but the outlook is a little less optimistic than in June. Interest rates will rise gradually over the next two years, but less sharply than previously to support the economic recovery.

Not all forecasters have incorporated the possible effects of the Canterbury earthquake. Indeed, more information on the true extent of damage is needed before the impact can be accurately assessed. Latest Treasury estimates suggest around \$4b of building and infrastructure damage, but it is unclear how much and over what time period the reconstruction will take place.

Economists on average expect positive economic growth in 2011 (2.8%, down from 3.2% in the June survey) and 2012 (3.1%, down from 3.3%). But the outlook for March 2013 is soft at 2.6%. Revisions over the past quarter diverged sharply, reflecting a shallow recovery and uncertainties following the Canterbury earthquake.

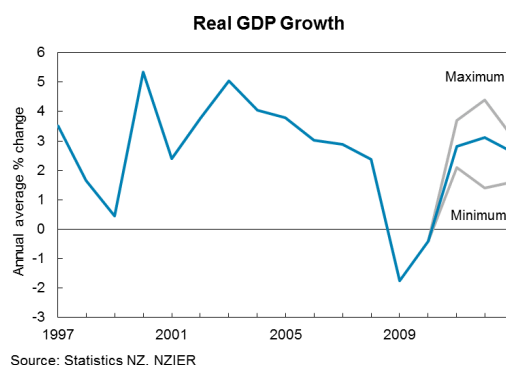
Consumer price inflation will spike due to GST and other policy changes, peaking at 4.7% in March 2011. Excluding one-off effects the inflation rate will be 1.9% and 2.4% in March 2011 and March 2012. Personal tax cuts will compensate households for these one-off price increases, but general inflationary pressures will erode 80%-90% of wage gains over the next two years. The labour market outlook remains soft, with the unemployment rate set to trend down from 6.2% in the March 2011 year to 5.3% by March 2013.



Source: NZIER

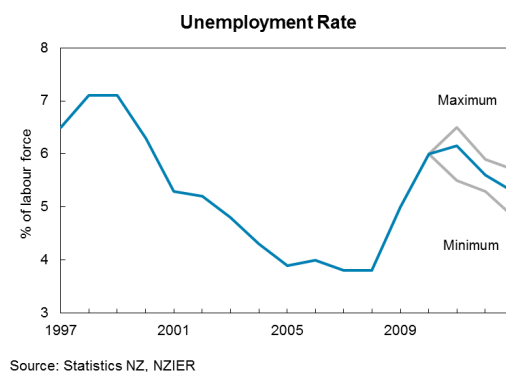
Outlook eases

Forecasters expect a continued but slightly shallower recovery. The March 2011 year forecast fell 0.4% to 2.8%. Forecasters expect quarterly GDP growth of 0.7% in the June quarter (data due 23 September) and 0.7% in the September 2010 quarter. Economic growth is expected to strengthen to 3.1% in the March 2012 year (down from 3.3% in the previous survey). Economic growth is forecast to ease to 2.6% in the March 2013 year. However, the range of forecasts has widened (1.4% to 4.4%), indicating some uncertainty on the outlook and potential impacts of the Canterbury earthquake.



Labour market recovery delayed

The unemployment rate has stabilised, but is not expected to improve until 2012. Forecasters predict a modest rise to 6.2% in the March 2011 year, worse than 5.9% forecast in the previous survey. This follows a surge in the unemployment rate in the June 2010 quarter (from 6.0% to 6.8%). The unemployment rate is expected to gradually improve to 5.3% in the March 2013 year as the recovery accelerates.



Trade balance to weaken

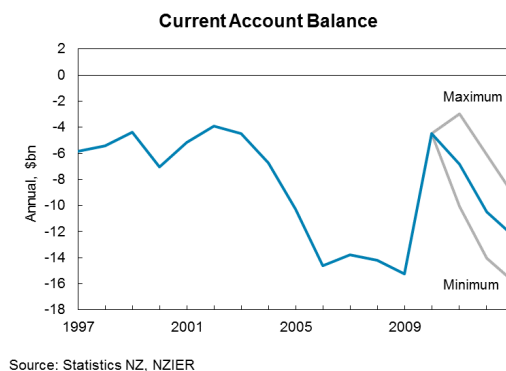
The trade balance outlook is negative. Strong but slowing export growth will be overcome by rapidly increasing imports. Export growth forecasts positive but have been trimmed, 2011 (2.8% from 3.5%), 2012 (5.2% from 5.3%) and 2013 3.8%. There is a wide range of forecasts for the March 2012 year (2.1% to 9.7%), but more comparable in other years.

Imports are expected to outpace exports in all of the forecast years. Imports are forecast to surge in 2011 (unchanged at 9.7%), 2012 (6.5% from 5.9%) and 2013 (4.5%).



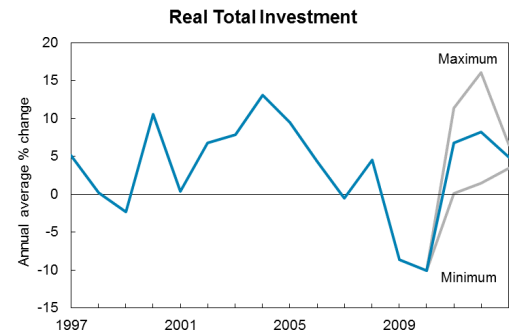
Current account deficit to widen again

The current account deficit is expected to deteriorate through the forecast horizon. The current account was boosted in the March 2010 year by one-off tax payments by the banking sector and improved trade balance. Rising imports and the cost of financing New Zealand's large net foreign liability position are expected to widen the current account again. There are diverging views on the level, but all expect a marked increase in the deficit by March 2013.



Uncertainty over investment recovery

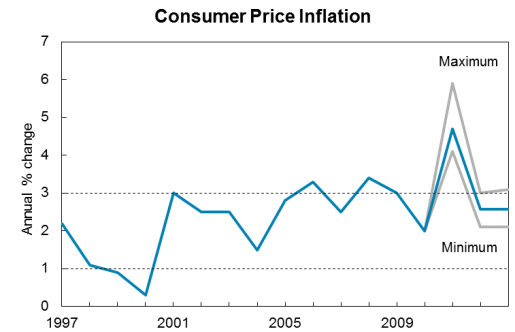
Investment activity is forecast to surge in 2011, 2012 and 2013. Forecasters expect investment to rebound strongly in 2011 (6.8%, down from 7.4% in March), 2012 (8.2% from 9.0%) and 2013 (4.9%). Within this, residential investment has had major downward revisions, while other investment has eased slightly. However, the large divergence in views can be partially explained by some forecasters already including impacts from the Canterbury earthquake.



Source: Statistics NZ, NZIER

GST increase to drive inflation

Inflation forecasts have eased since the June survey (4.7% from 5.1%), reflecting weak domestic inflation outside of policy changes (GST, ACC and ETS). Excluding the increase in GST, inflation is expected to remain within the upper end of the RBNZ's 1%-3% target band over the forecast horizon. Inflation is expected to peak in March 2011 at 4.7% and remain elevated at 2.6% until 2013. The policy changes will affect CPI inflation figures for some time.



Source: Statistics NZ, NZIER

Wages to improve from 2012

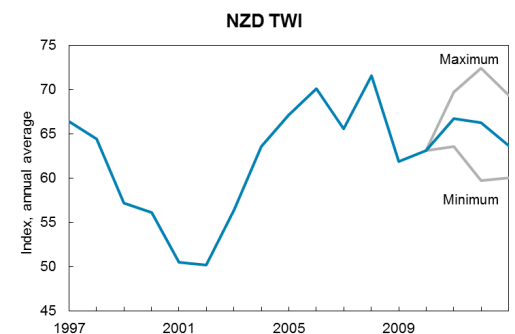
GST increases are not expected to impact on average wages, given wage earners are compensated by personal tax cuts. Wages are expected to grow by 1.5% in March 2011 (unchanged from the previous survey), recover in 2012 (2.9% from 3.0%) and accelerate in 2013 (3.3%). Over the next two years general wage inflation, excluding the one-off increases, will erode about 80%-90% of wage increases.



Source: Statistics NZ, NZIER

Economists disagree on kiwi

Forecasters' views on the NZD outlook diverge significantly. Forecasts range from hitting new highs to easing back towards 2003 levels. On average moderate exchange rate variation is expected before dipping in 2013. The consensus forecast for the NZD trade weighted index is 66.7, 66.3 and 63.7 in March 2011, March 2012 and March 2013 respectively. An appreciating exchange rate has reduced the cost of imports, but also export incomes.



Source: RBNZ, NZIER

Previous and latest consensus forecasts

AAPC, March years	June 2010			September 2010		
	2009/10 f	2010/11 f	2011/12 f	2010/11 f	2011/12 f	2012/13 f
GDP	-0.4	3.2	3.3	2.8	3.1	2.6
Private consumption	0.5	2.5	2.0	2.6	2.0	2.1
Public consumption	0.8	2.0	1.8	2.7	1.8	1.5
Fixed investment						
Residential	-11.0	17.5	10.6	12.7	9.9	5.0
Other	-10.2	5.6	8.6	3.9	7.7	5.6
Total	-9.9	7.4	9.0	6.8	8.2	4.9
Exports, goods and services	2.8	3.5	5.3	2.8	5.2	3.8
Imports, goods and services	-9.6	9.7	5.9	9.7	6.5	4.5
Consumer price index (apc)	2.0	5.1	2.7	4.7	2.6	2.6
New Zealand TWI (Ave for yr to Mar)	62.9	66.6	66.4	66.7	66.3	63.7
90 day bank bill (Ave for yr to Mar)	2.8	3.7	5.3	3.4	4.8	5.4
10 year government stock (Ave for yr to Mar)	5.8	6.0	6.3	5.6	6.1	6.3
Balance of payments (current a/c; NZ\$m; Mar yr)	-5,021	-6,749	-8,803	-6,844	-10,508	-12,376
Employment (apc, Mar yr)	-0.1	1.7	2.4	1.2	2.1	1.8
Unemployment rate (% of labour force; Mar)	6.0	5.9	5.3	6.2	5.6	5.3
Private sector wages (hourly; aapc)	3.2	1.5	3.0	1.5	2.9	3.3
Government operating balance (NZ\$m; Jun yr)	-4,693	-7,412	-3,915	-8,002	-4,844	-3,999

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

Summary of results – September 2010 survey

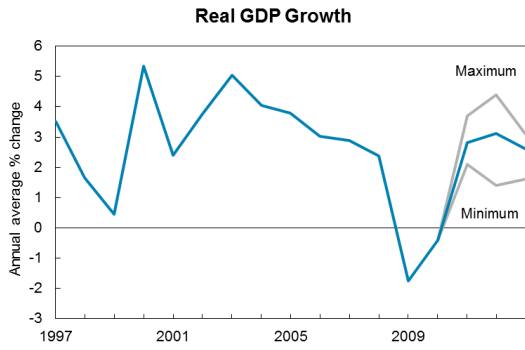
QPC, quarters	June 2010			September 2010		
	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	0.5	0.7	1.0	0.2	0.7	1.5
CPI (qpc)				0.8	1.1	1.3

AAPC, March years	2010/11 f			2011/12 f			2012/13 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	2.1	2.8	3.7	1.4	3.1	4.4	1.6	2.6	3.1
Private consumption	1.9	2.6	3.8	0.5	2.0	3.3	1.0	2.1	3.2
Public consumption	1.7	2.7	4.5	1.4	1.8	2.8	0.9	1.5	2.3
Fixed investment									
- Residential	-11.5	12.7	25.0	0.7	9.9	24.3	-2.3	5.0	11.9
- Other	-9.1	3.9	8.7	0.6	7.7	14.2	4.4	5.6	9.0
- Total	0.1	6.8	11.4	1.5	8.2	16.0	3.4	4.9	6.5
Exports, goods and services	1.5	2.8	4.8	2.1	5.2	9.7	2.4	3.8	4.5
Imports, goods and services	5.6	9.7	14.4	2.5	6.5	9.4	2.6	4.5	6.2
Consumer price index (apc)	4.1	4.7	5.9	2.1	2.6	3.0	2.1	2.6	3.1
New Zealand TWI (Ave for yr to Mar)	63.6	66.7	69.7	59.7	66.3	72.4	60.0	63.7	69.3
90 day bank bill (Ave for yr to Mar)	3.2	3.4	4.2	4.0	4.8	6.1	4.6	5.4	6.2
10 year government stock (Ave for yr to Mar)	5.4	5.6	5.9	5.7	6.1	6.7	5.8	6.3	7.4
Balance of payments (current a/c; NZ\$m; Mar yr)	-10,060	-6,844	-2,983	-14,040	-10,508	-6,112	-15,862	-12,376	-9,215
Employment (apc, Mar yr)	-0.3	1.2	2.1	1.3	2.1	2.5	0.9	1.8	2.8
Unemployment rate (% of labour force; Mar)	5.5	6.2	6.5	5.3	5.6	5.9	4.8	5.3	5.7
Private sector wages (hourly; aapc)	0.8	1.5	2.6	2.2	2.9	3.5	2.2	3.3	4.0
Government operating balance (NZ\$m; Jun yr)	-10,000	-8,002	-6,700	-7,000	-4,844	-2,900	-6,606	-3,999	-2,239

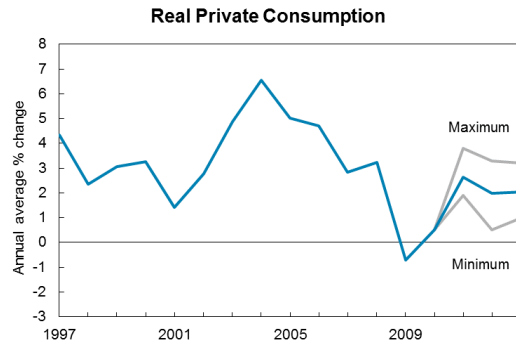
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change

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

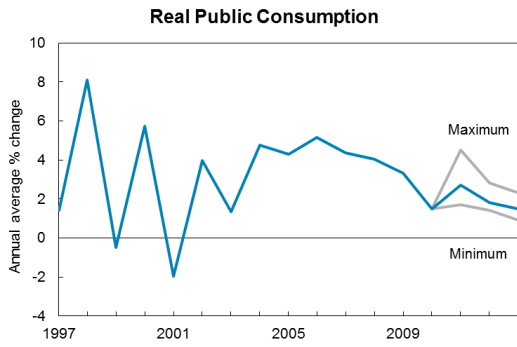
Summary charts



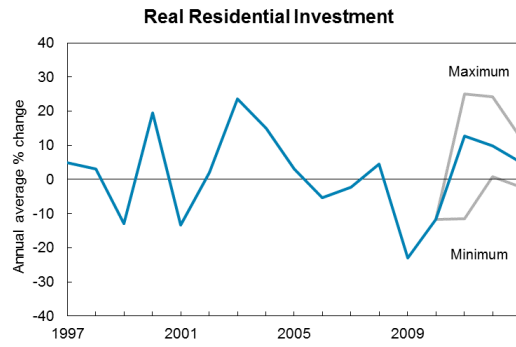
Source: Statistics NZ, NZIER



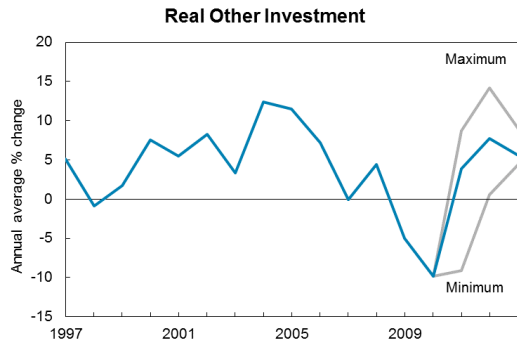
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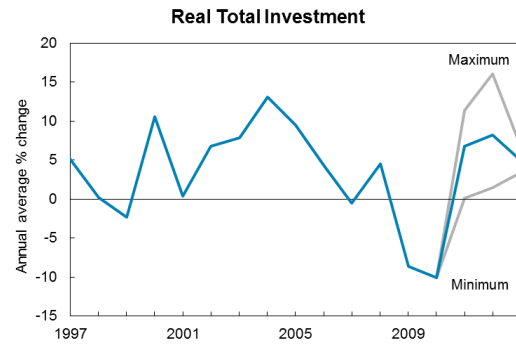
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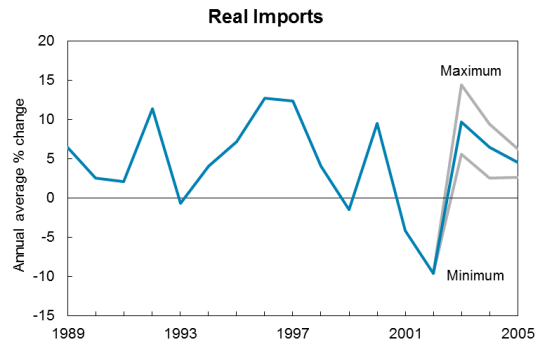
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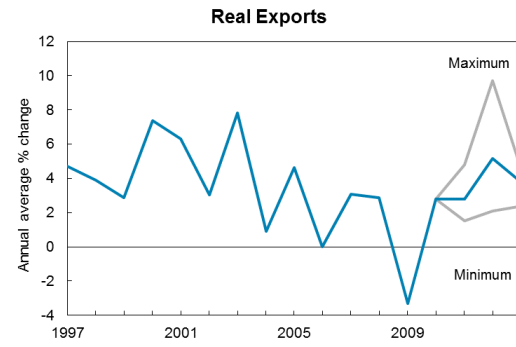
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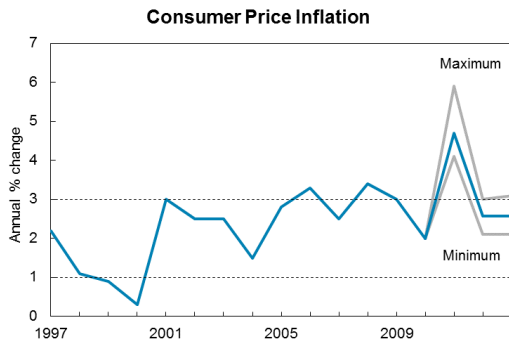
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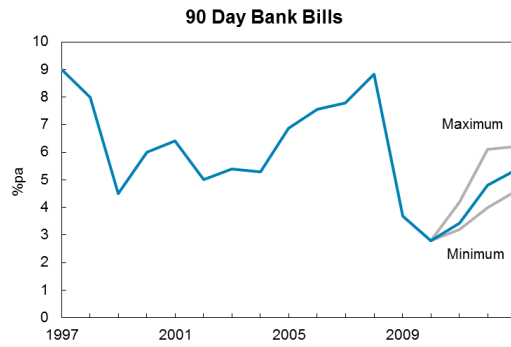
Source: Statistics NZ, NZIER



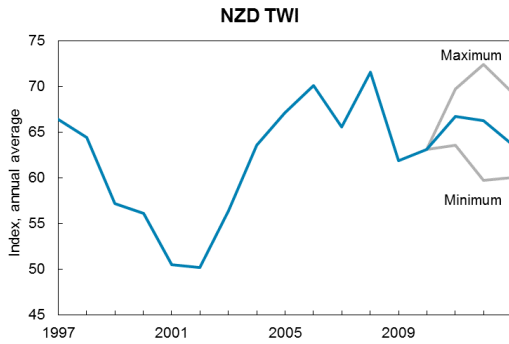
Source: Statistics NZ, NZIER



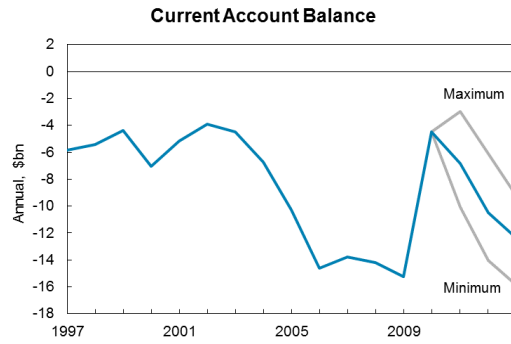
Source: Statistics NZ, NZIER



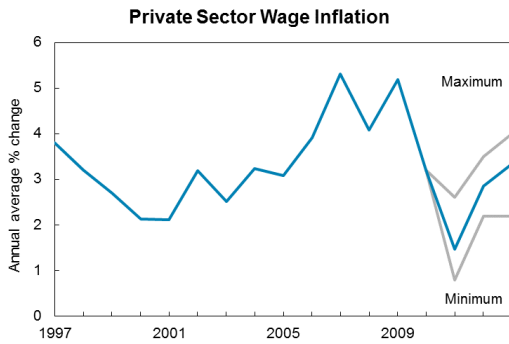
Source: RBNZ, NZIER



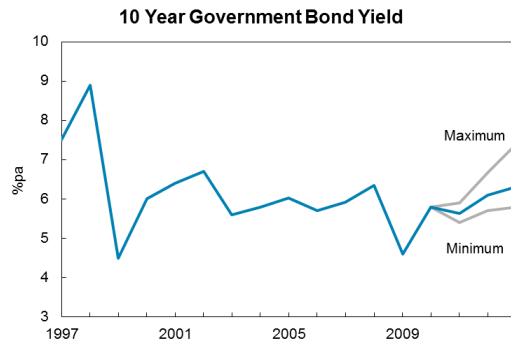
Source: RBNZ, NZIER



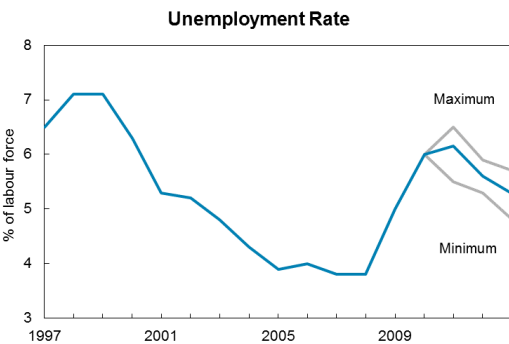
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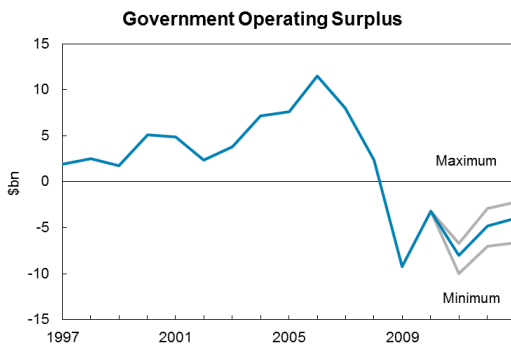
Source: Statistics NZ, NZIER



Source: RBNZ, NZIER



Source: Statistics NZ, NZIER



Source: Treasury, NZIER

Respondents

ANZ-National Bank
UBS
New Zealand Institute of Economic Research
Bank of New Zealand
Deutsche Bank

First NZ Capital
ASB Bank
Westpac
Reserve Bank of New Zealand
The Treasury

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