

NZIER Consensus forecasts

Embargoed until 10am Tuesday 22 June 2010

Prepared by Peter O'Connor

Incorporating returns received up to Tuesday 15 June 2010

Sustained and sustainable growth

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. 2009/10 refers to the year ended March 2010.

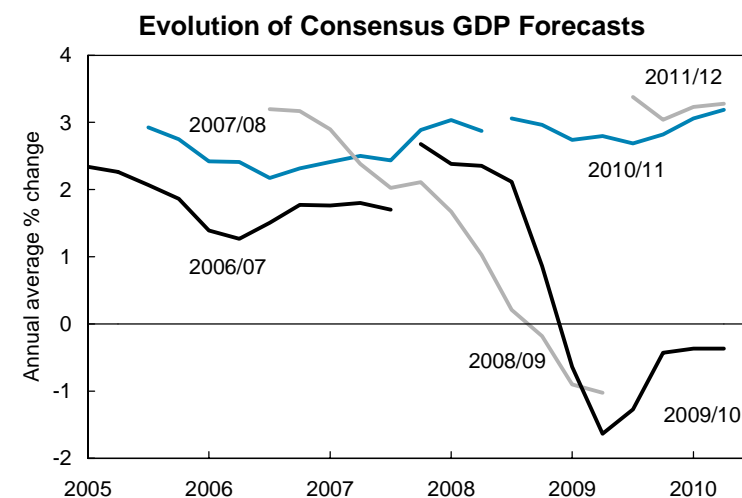
The economy is on the path to sustained and sustainable economic growth, according to economic forecasters in the latest NZIER Consensus Forecasts Survey. The broad consensus is of a rebalancing from consumption and housing towards exports, and a return towards trend growth. However, there is considerable divergence of views on the residential construction sector's recovery, the exchange rate and the current account deficit.

The consensus on average forecasts sustained economic growth in 2011 (3.2%, up from 3.1% in the March survey) and 2012 (3.3%, up from 3.2%). GDP forecasts for the March 2010 year remained flat at -0.4% as the year draws to an end. The pace of upward revisions has slowed, suggesting the economy is no longer surprising on the upside.

The unemployment rate is expected to gradually improve from 6.0% currently to 5.3% in March 2012, in line with the economy. Wage growth will be slow in the March 2011 year (1.5%), but a strengthening economy will see accelerating wages from 2012.

Consumer price inflation will spike due to GST and other administered charges, peaking at 5.1% in March 2011. Household spending will be subdued, despite personal tax cuts, due to a slow recovery in jobs, wages and the inflation spike eroding households' purchasing power.

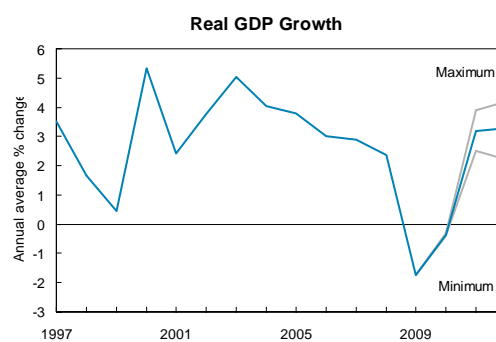
The outlook for residential construction is positive, but there is a wide divergence of views, ranging from a rip-roaring recovery to renewed deterioration. Exports will be strong through the forecast horizon, helped by a recovering global economy and moderate exchange rate appreciation. The exchange rate outlook is wildly divergent, suggesting exporters and importers will need to manage their currency exposure carefully.



Source: NZIER

Sustained recovery

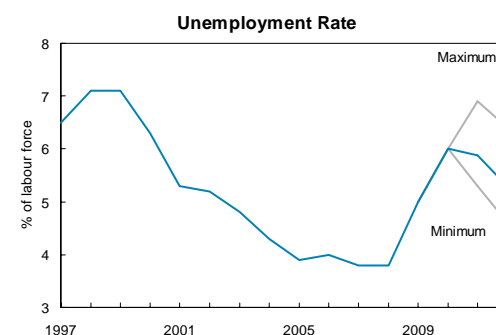
Forecasters are optimistic of the economic recovery. Upward revisions to GDP growth forecasts have stabilised in the June quarter. The March 2010 year forecast remained unchanged at -0.4%. Forecasters expect quarterly GDP growth of 0.6% in the March quarter (data due 24 June) and 0.9% in the June 2010 quarter. Economic growth is expected to be strong at 3.2% in the March 2011 year (up from 3.1% in the previous survey). Economic growth will remain strong at 3.3% in the March 2012 year (up from 3.2%). However, there is a wide range of forecasts (2.2% to 4.2%), indicating some uncertainty on the outlook.



Source: Statistics NZ, NZIER

Unemployment has peaked

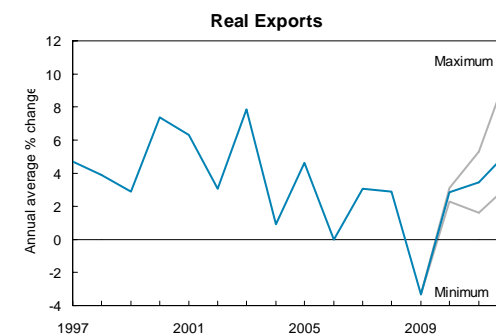
The unemployment rate has peaked. Forecasters expect it to have already peaked at 6.0% in the March 2010 year, a substantial improvement from the 7.2% forecast in the previous survey. This reflects a surprise dip in the unemployment rate in the March 2010 quarter (from 7.1% to 6.0%). The unemployment rate is expected to gradually improve to 5.3% in the March 2012 year in line with an improving economy.



Source: Statistics NZ, NZIER

Exports strong and imports soar from 2011

The export outlook is strong. Improving global activity, particularly in Asia has boosted export forecasts. Forecasters expect exports to grow strongly in 2011 (3.5% from 2.7%) and 2012 (5.3% from 5.1%). There is some divergence of views on the exchange rate and this is reflected in a wide band of export forecasts.

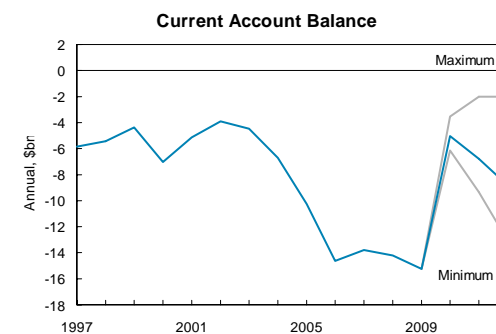


Source: Statistics NZ, NZIER

Imports are expected to recover in line with the domestic economy. Imports are expected to recover sharply in 2011 (9.7% from 7.3%) and 2012 (5.9% from 6.2%). The trade balance may worsen as imports grow more strongly than exports.

Current account to worsen in 2011 and 2012

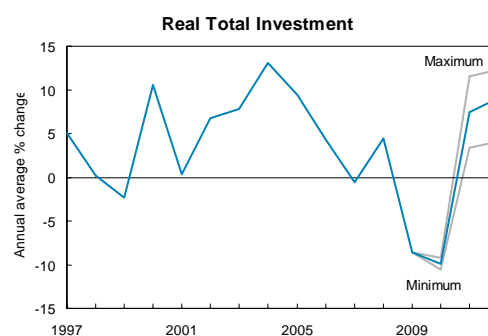
The current account deficit is expected to deteriorate through the forecast horizon. After being boosted in the March 2010 year by one-off tax payments by the banking sector and an improving trade balance, the current account is expected to return to large deficits. There remains much uncertainty with a wide divergence of views, ranging from very small deficits to the deficit nearing recent high levels. Again, this reflects a wide divergence of views on the exchange rate.



Source: Statistics NZ, NZIER

Investment to rebound sharply

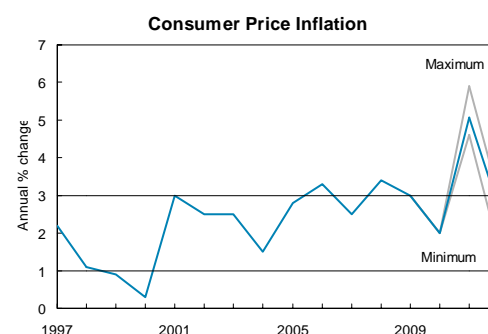
Investment activity is forecast to surge in 2011 and 2012 after two years of contraction. Forecasters expect investment to contract in March 2010 (-9.9% from -10.9%), but rebound strongly in March 2011 (7.4% from 6.1%) and March 2012 (9.0% from 8.7%). Within this, forecasters now expect the recovery in the residential sector to occur earlier and other investment to be strong over the forecast horizon. However, the residential construction sector outlook ranges from strong recovery to renewed weakness. Forecasts for other investment are universally positive.



Source: Statistics NZ, NZIER

GST increase to drive inflation

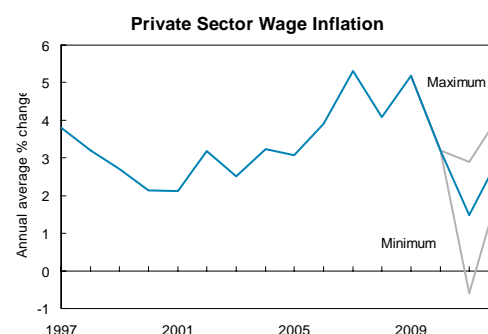
Inflation forecasts have surged from the March survey (5.1% from 2.4%), reflecting the GST increase announced in the May 2010 Budget. Excluding the increase in GST, inflation is expected to fall in the upper end of the RBNZ's 1%-3% target band over the forecast horizon. Inflation is expected to peak in March 2011 at 5.1% and remain elevated at 2.7% in 2012. The policy changes will influence published CPI inflation figures for some time. Excluding these changes inflation is expected to be closer to 2% in the March 2012 year.



Source: Statistics NZ, NZIER

Wage growth subdued – uncertain

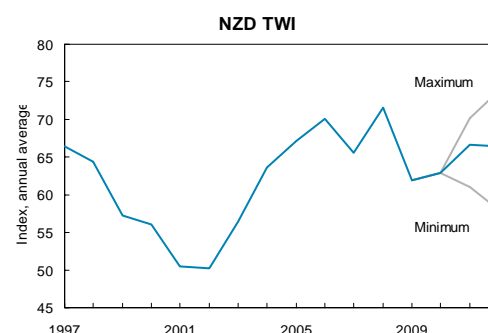
The private sector wage outlook is wildly divergent. Forecasts for March 2011 range from a respectable 2.9% to a lacklustre 0.6% decline in wages. On average wages are expected to grow by 1.5% in March 2011 (down from 1.9% in the previous survey), but recover in 2012 (3.0% from 2.6%). A slow recovery in wages is reflected in only a gradual household spending recovery over the forecast horizon.



Source: Statistics NZ, NZIER

Kiwi to strengthen

Economic forecasters expect moderate exchange rate appreciation over the forecast horizon. The exchange rate outlook remains uncertain, reflected in a wide range of forecasts, from strong appreciation to moderate depreciation. The consensus forecast for the NZD trade weighted index is 62.9, 66.6 and 66.4 in March 2010, March 2011 and March 2012 respectively. An appreciating exchange rate will reduce the price of imports and erode export competitiveness.



Source: RBNZ, NZIER

Previous and latest consensus forecasts

AAPC, March years	March 2010			June 2010		
	2009/10 f	2010/11 f	2011/12 f	2009/10 f	2010/11 f	2011/12 f
GDP	-0.4	3.1	3.2	-0.4	3.2	3.3
Private consumption	0.3	2.2	1.8	0.5	2.5	2.0
Public consumption	0.7	1.9	1.9	0.8	2.0	1.8
Fixed investment						
Residential	-13.3	16.8	11.3	-11.0	17.5	10.6
Other	-11.5	3.7	7.9	-10.2	5.6	8.6
Total	-10.9	6.1	8.7	-9.9	7.4	9.0
Exports, goods and services	2.2	2.7	5.1	2.8	3.5	5.3
Imports, goods and services	-12.1	7.3	6.2	-9.6	9.7	5.9
Consumer price index (apc)	2.2	2.4	2.4	2.0	5.1	2.7
New Zealand TWI (Ave for yr to Mar)	61.8	63.6	63.1	62.9	66.6	66.4
90 day bank bill (Ave for yr to Mar)	2.8	3.7	5.1	2.8	3.7	5.3
10 year government stock (Ave for yr to Mar)	5.8	6.1	6.4	5.8	6.0	6.3
Balance of payments (current a/c; NZ\$m; Mar yr)	-3,724	-6,942	-8,180	-5,021	-6,749	-8,803
Employment (apc, Mar yr)	-1.4	1.6	2.3	-0.1	1.7	2.4
Unemployment rate (% of labour force; Mar)	7.2	7.0	6.2	6.0	5.9	5.3
Private sector wages (hourly; aapc)	3.3	1.9	2.6	3.2	1.5	3.0
Government operating balance (NZ\$m; Jun yr)	-5,679	-5,987	-4,950	-4,693	-7,412	-3,915

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

Summary of results – June 2010 survey

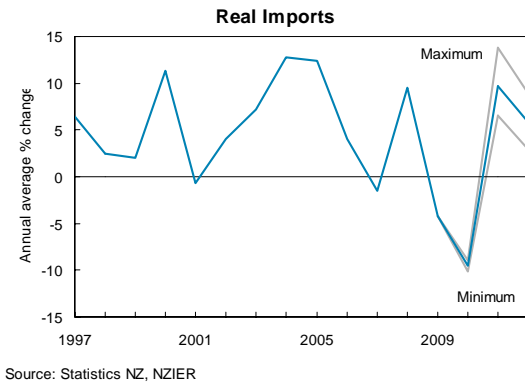
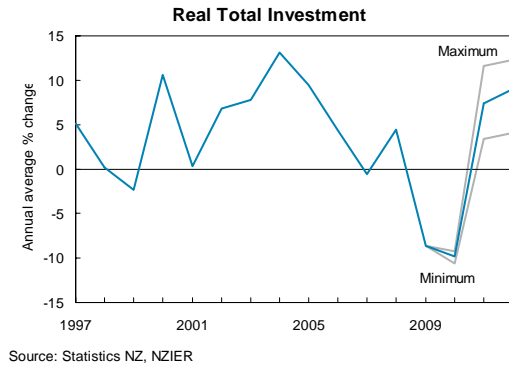
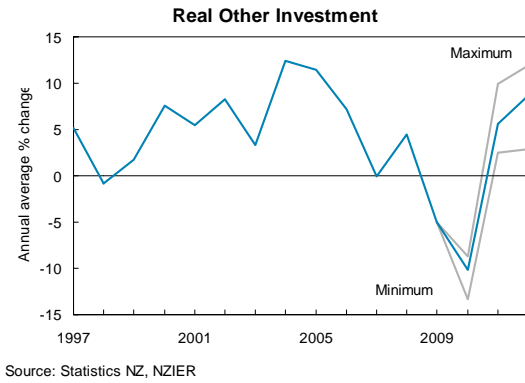
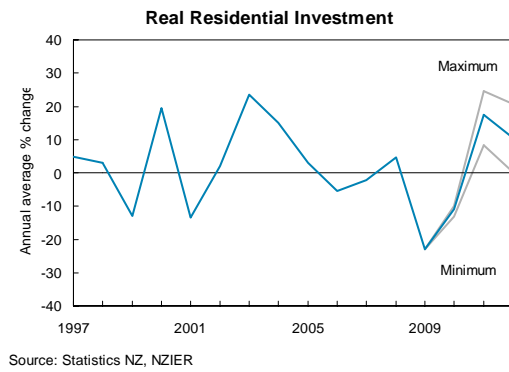
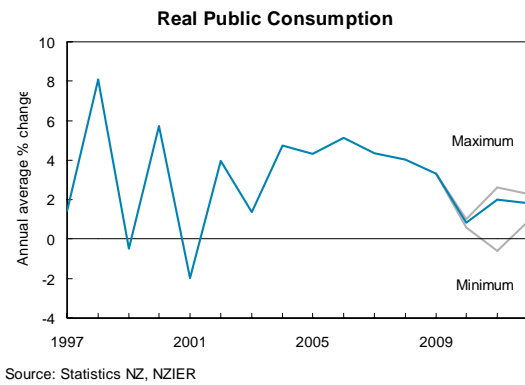
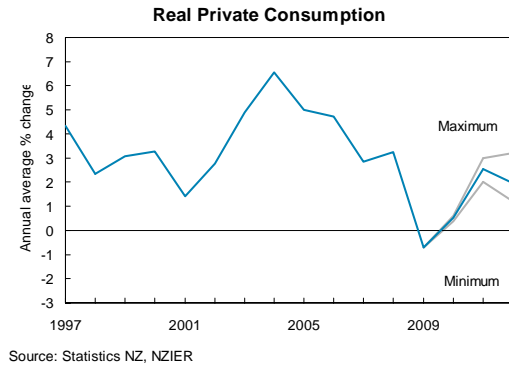
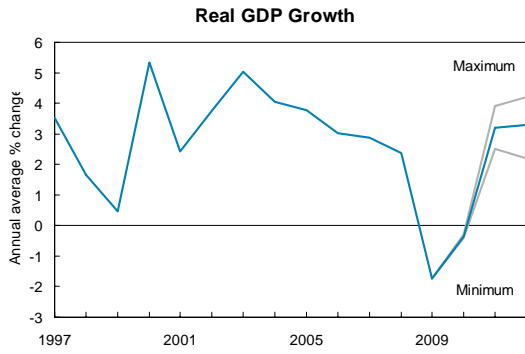
QPC, quarters	March 2010			June 2010		
	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	0.4	0.6	0.8	0.7	0.9	1.2
CPI (qpc)				0.3	0.5	0.9

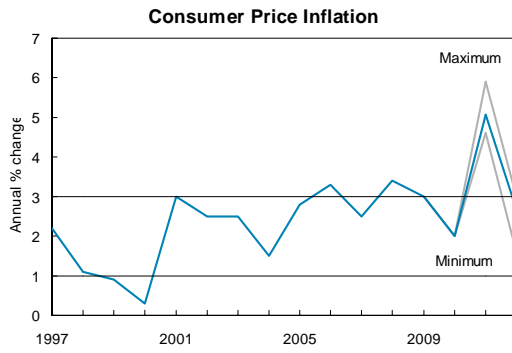
AAPC, March years	2009/10 f			2010/11 f			2011/12 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	-0.4	-0.4	-0.3	2.5	3.2	3.9	2.2	3.3	4.2
Private consumption	0.4	0.5	0.6	2.0	2.5	3.0	1.2	2.0	3.2
Public consumption	0.6	0.8	1.0	-0.6	2.0	2.6	0.9	1.8	2.3
Fixed investment									
- Residential	-13.1	-11.0	-9.9	8.3	17.5	24.6	0.3	10.6	20.8
- Other	-13.3	-10.2	-8.7	2.5	5.6	9.9	2.9	8.6	11.9
- Total	-10.6	-9.9	-9.2	3.4	7.4	11.6	4.1	9.0	12.3
Exports, goods and services	2.3	2.8	3.1	1.6	3.5	5.3	3.2	5.3	10.1
Imports, goods and services	-10.1	-9.6	-8.9	6.5	9.7	13.8	2.9	5.9	8.9
Consumer price index (apc)	2.0	2.0	2.0	4.6	5.1	5.9	1.6	2.7	3.0
New Zealand TWI (Ave for yr to Mar)	62.9	62.9	62.9	61.0	66.6	70.2	58.0	66.4	73.8
90 day bank bill (Ave for yr to Mar)	2.8	2.8	2.8	3.5	3.7	4.0	4.9	5.3	5.8
10 year government stock (Ave for yr to Mar)	5.8	5.8	5.8	5.5	6.0	6.5	5.9	6.3	6.9
Balance of payments (current a/c; NZ\$m; Mar yr)	-6,159	-5,021	-3,520	-9,352	-6,749	-2,000	-13,100	-8,803	-2,020
Employment (apc, Mar yr)	-0.1	-0.1	-0.1	0.1	1.7	2.6	1.6	2.4	4.1
Unemployment rate (% of labour force; Mar)	6.0	6.0	6.0	5.3	5.9	6.9	4.6	5.3	6.4
Private sector wages (hourly; aapc)	3.2	3.2	3.2	-0.6	1.5	2.9	2.1	3.0	4.1
Government operating balance (NZ\$m; Jun yr)	-7,651	-4,693	-3,000	-8,600	-7,412	-6,200	-5,500	-3,915	-2,900

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

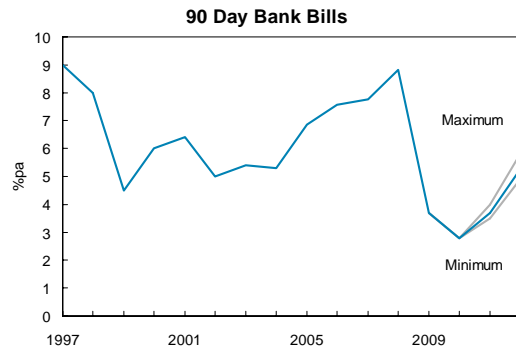
These results show only means; standard deviations are available on request

Summary charts

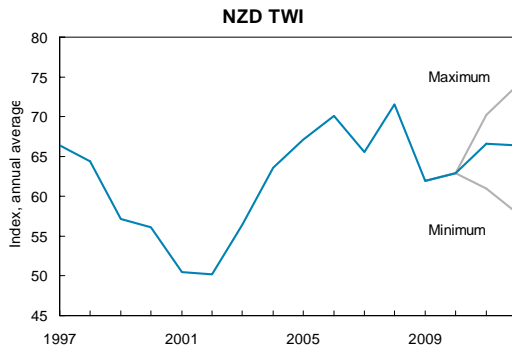




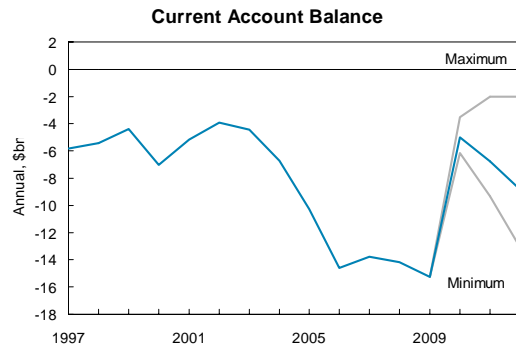
Source: Statistics NZ, NZIER



Source: RBNZ, NZIER



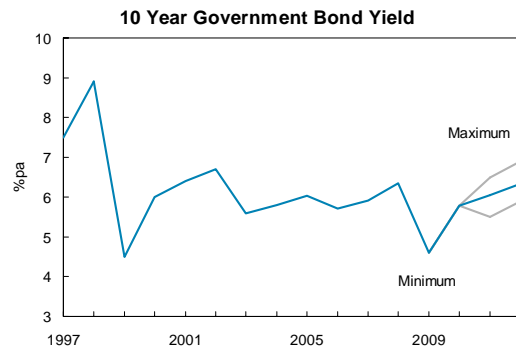
Source: RBNZ, NZIER



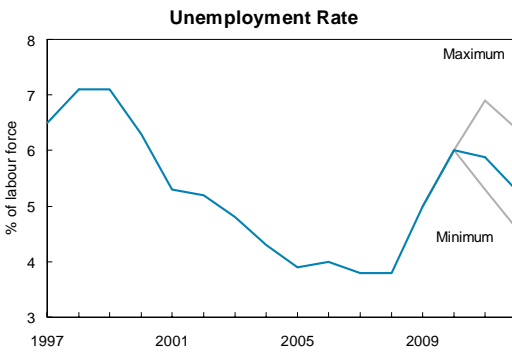
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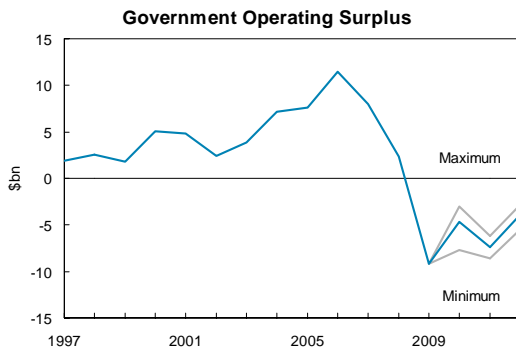
Source: Statistics NZ, NZIER



Source: RBNZ, NZIER



Source: Statistics NZ, NZIER



Source: Treasury, NZIER

Respondents

ANZ-National Bank
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

For more information contact:

Shamubeel Equb
Ph: (04) 470 1810
shamubeel.eaqub@nzier.org.nz

Peter O'Connor
Ph: (04) 470 1808
peter.oconnor@nzier.org.nz

New Zealand Institute of Economic Research (Inc)

Phone: +64 4 472 1880
Fax: +64 4 472 1211
Web: www.nzier.org.nz
Email: econ@nzier.org.nz

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