

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* show stronger near-term growth

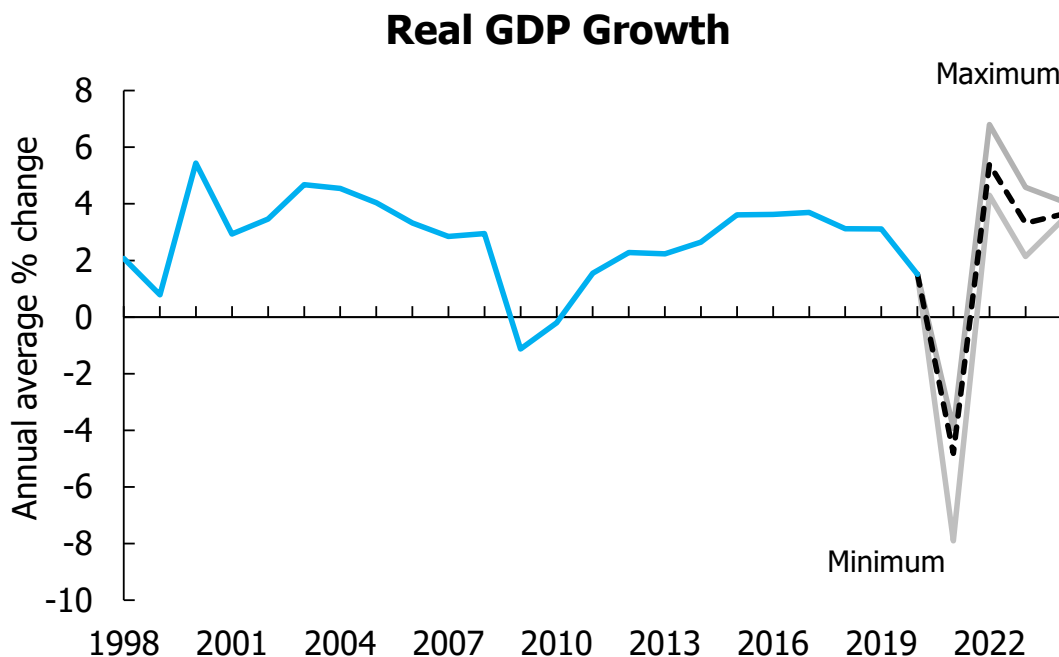
The latest NZIER *Consensus Forecasts* show a substantial upward revision to growth forecasts over the coming year. The consensus is clearly for a ‘V’ shaped economy recovery in New Zealand.

Part of this upward revision reflects a stronger starting point, as recent activity indicators point to a larger than expected rebound in demand as the New Zealand economy responds to the stimulus measures implemented by the Government and the Reserve Bank. In particular, the wage subsidy scheme, increased welfare payments and lower mortgage rates have boosted housing demand and retail spending. The range of growth forecasts for the years ahead have narrowed, suggesting reduced uncertainty about the growth outlook. Nonetheless, the most pessimistic forecast for the New Zealand economy is an annual average decline in GDP of 7.9 percent for the year to March 2021, while the most optimistic forecast is a decline of 3.9 percent.

Expectations of a stronger growth outlook have flowed through to slightly higher inflation forecasts. With business confidence and hiring intentions recovering, expectations for the unemployment rate have been revised lower. Emerging capacity pressures in the labour market are expected to flow through to stronger wage growth.

With the New Zealand economy proving to be more resilient than expected, expectations of the Reserve Bank introducing a negative OCR are ebbing. Average expectations are now for the 90-day bank bill rate to trough at 0.1 percent over the coming years, before rising gradually from 2023. Long-term interest rate expectations have also been revised higher over the coming years.

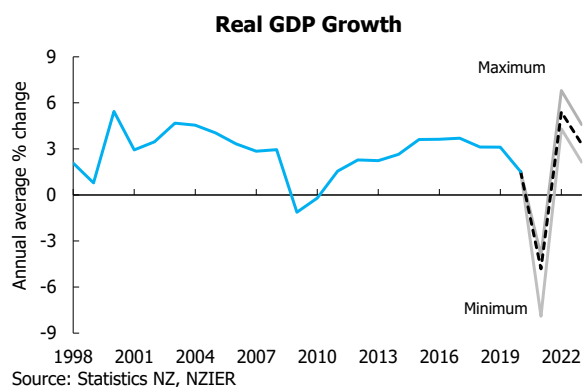
Figure 1 Narrower range of expectations for the growth outlook



Stronger near-term growth outlook

Consensus Forecasts for GDP have been revised markedly higher for the year ahead. On average, annual growth is now expected to contract by 4.8 percent for the year to March 2021 – much smaller than the 7.2 percent contraction forecast in the previous *Consensus Forecasts*.

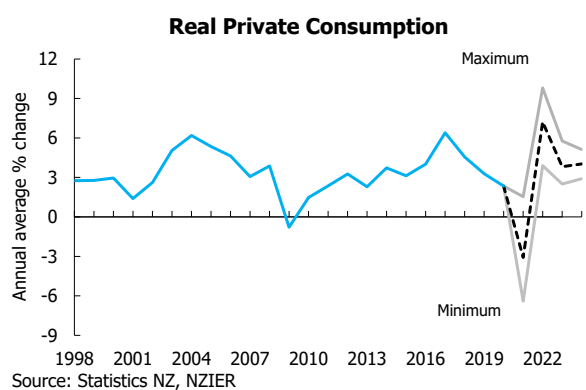
However, growth expectations for the following year have been pared back, with a 5.4 percent rebound forecast for the year to March 2022.



Driven by a stronger household sector

Expectations of stronger household spending is a key driver behind the upward revision to the growth outlook. Stimulus measures such as the wage subsidy scheme, increased welfare and lower mortgage rates have increased demand in the household sector, with retail spending rebounding strongly as lockdown restrictions were relaxed.

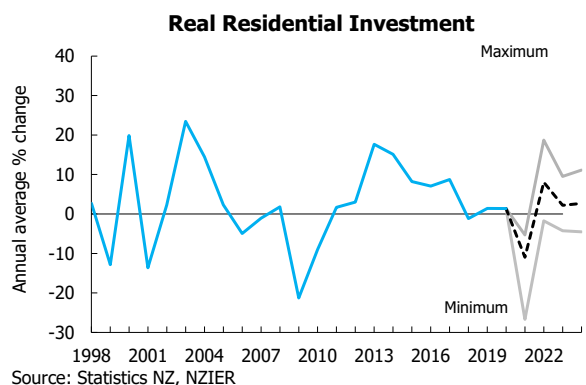
On average, annual growth in private consumption is expected to pick up to 7.2 percent for the year to March 2022.



Stronger investment outlook

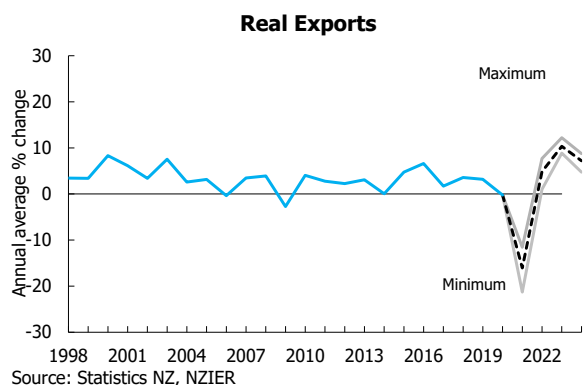
Stronger housing demand is flowing through to increased residential investment. Construction activity recovered as lockdown restrictions were lifted. On average, residential investment is now forecast to contract by 11 percent for the year to March 2021 – a smaller decline than the 15.9 percent expected in the previous *Consensus Forecasts*. Beyond that, it is forecast to rebound to 8 percent annual growth in the subsequent year.

The recovery in firms' investment intentions point to a rebound in investment more broadly.



Reduced uncertainty over export outlook

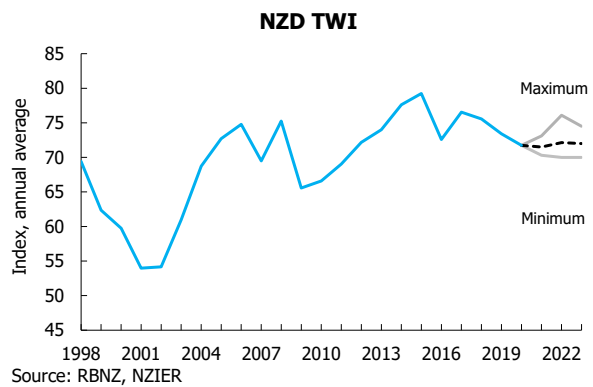
The export outlook has been revised higher, and the narrower range of forecasts point to reduced uncertainty. Global demand for New Zealand's dairy and fruit has been strong in recent months, reflecting the shift in spending towards necessities by China's growing middle class. However, weaker income and investment demand globally has had a negative impact on New Zealand exports of forestry, seafood and non-food manufacturing.



NZD expected to ease from recent highs

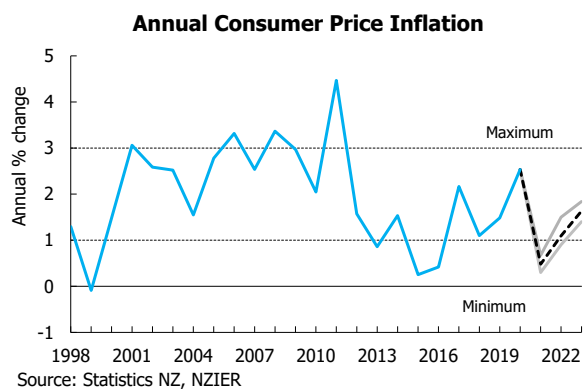
The NZD TWI has again been revised up over the projection horizon. A weak USD and fading expectations of a negative OCR here in New Zealand are helping to support the NZD, with the NZD TWI picking up to above 74.

On average, expectations are for the NZD TWI to ease to 71.5 for the year to March 2021, before picking up to 72.1 in the subsequent year. The range of forecasts remain relatively wide.



Inflation outlook revised slightly higher

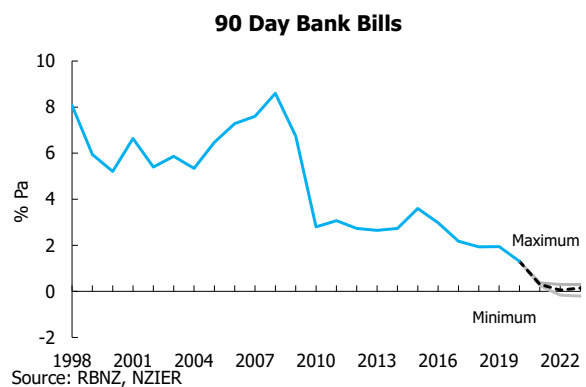
Expectations of a stronger growth outlook have also seen a slight upward revision in the inflation outlook for the coming years. The range of forecasts for CPI inflation remains narrow, suggesting forecasters are confident inflation will return to 2 percent: the mid-point of the RBNZ's target band. Average expectations are for annual CPI inflation to edge back into the RBNZ's target band by March 2022 and rise to 1.9 percent by March 2024.



Interest rate outlook now slightly higher

Interest rate forecasts have been revised higher, as the improved growth outlook sees expectations of a negative OCR fade.

The range of forecasts for short term interest rates has narrowed since the previous *Consensus Forecasts*, with forecasts for the 90-day bank bill rate ranging from 0.1 to 0.7 percent for the year to March 2024. Forecasts for 10-year government bond yields range from 1.3 to 2.0 percent over that period.



Unemployment rate revised lower

There remains a large degree of uncertainty over the unemployment rate over the coming years. Stronger demand in the New Zealand economy is starting to drive a recovery in hiring intentions. As a result, the unemployment rate has been revised lower, but the range of forecasts remain very wide. In particular, forecasts for the unemployment rate in March 2022 range from 5.7 to 7.8 percent.

Nonetheless, expectations of a stronger labour market are driving stronger wage growth forecasts.

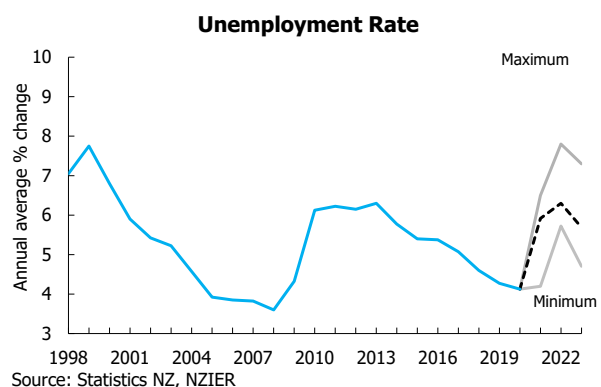


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Dec-2020 survey				Sep-2020 survey			
	2020/21	2021/22	2022/23	2023/24	2020/21	2021/22	2022/23	2023/24
GDP	-4.8 ↑	5.4 ↓	3.3 ↓	3.6 ↑	-7.2	6.7	3.5	3.2
Private consumption	-3.1 ↑	7.2 ↓	3.8 ↓	4.0 ↑	-8.7	7.6	4.1	3.9
Public consumption	5.2 ↓	1.8 ↑	1.2 ↑	1.9 ↑	6.4	1.2	-0.3	1.4
Fixed investment:								
Residential	-11.0 ↑	8.0 ↓	2.2 ↓	2.7 ↓	-15.9	10.3	3.9	4.7
Other	-12.7 ↑	7.9 ↓	4.8 ↓	5.8 ↑	-13.8	9.7	5.2	5.1
Total	-12.3 ↑	7.9 ↓	4.1 ↓	5.1 →	-14.3	9.8	4.9	5.1
Exports, goods & services	-16.1 ↑	4.8 ↓	10.3 ↑	7.2 ↑	-20.3	7.3	10.0	6.1
Imports, goods & services	-19.4 ↑	10.7 ↑	9.4 ↑	7.7 ↑	-19.6	8.5	8.8	7.5
Consumer price index (apc)	0.5 ↑	1.1 ↑	1.6 →	1.9 →	0.4	0.9	1.6	1.9
New Zealand TWI (avg yr to Mar)	71.5 ↑	72.1 ↑	72.0 ↑	71.9 ↑	69.9	70.2	71.1	71.0
90 day bank bill (avg yr to Mar)	0.3 →	0.1 ↑	0.1 →	0.4 ↓	0.3	0.0	0.1	0.5
10 year govt bond (avg yr to Mar)	0.8 ↑	1.0 ↑	1.4 ↑	1.7 →	0.7	0.7	1.2	1.7
Current account balance (NZ\$b; Mar yr)	-5.6 ↑	-10.7 ↑	-11.2 ↑	-12.3 ↑	-9.4	-11.1	-11.4	-13.5
Employment	-1.6 ↑	0.8 ↓	2.6 ↓	2.6 ↑	-5.2	3.1	2.8	1.9
Unemployment (% of labour force)	5.9 ↓	6.3 ↓	5.7 ↓	5.2 ↓	7.8	6.8	5.8	5.4
Wages (private sector avg hourly earnings)	2.8 ↑	1.9 ↑	1.7 ↓	2.6 ↑	1.8	1.4	1.9	2.2
Government operating balance (NZ\$b, September yr)	-26.9 ↑	-17.8 ↑	-13.0 ↑	-7.4 ↑	-28.8	-30.8	-25.4	-19.7

Source: NZIER

Table 2 Breakdown of the forecasts

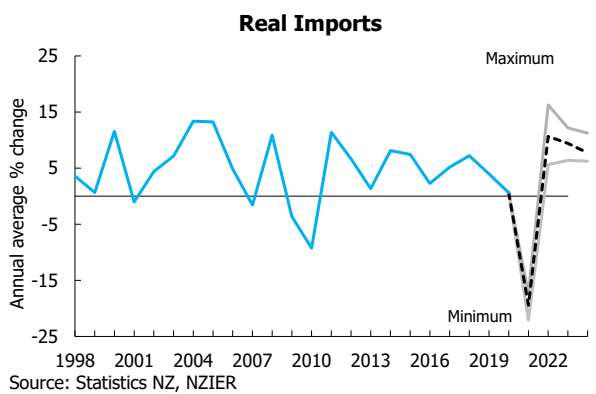
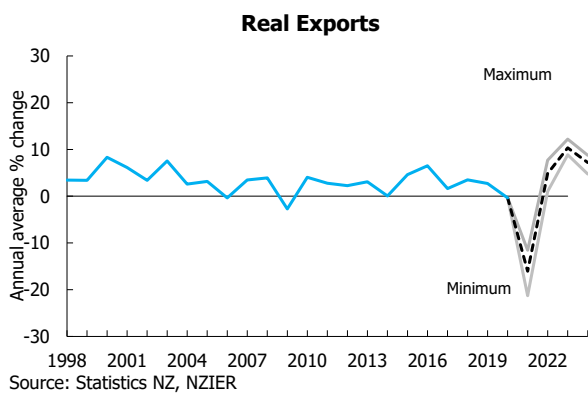
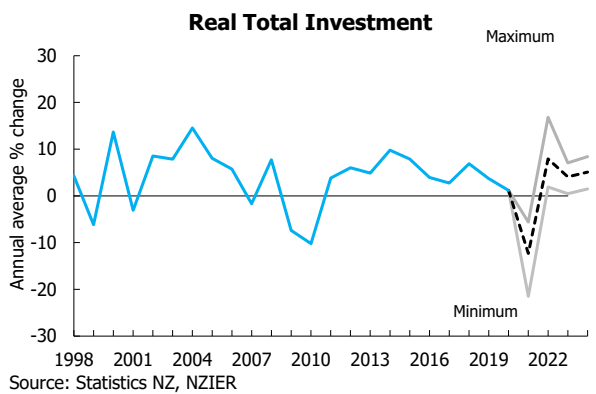
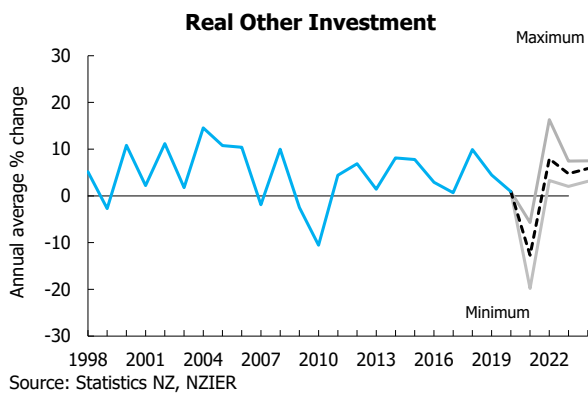
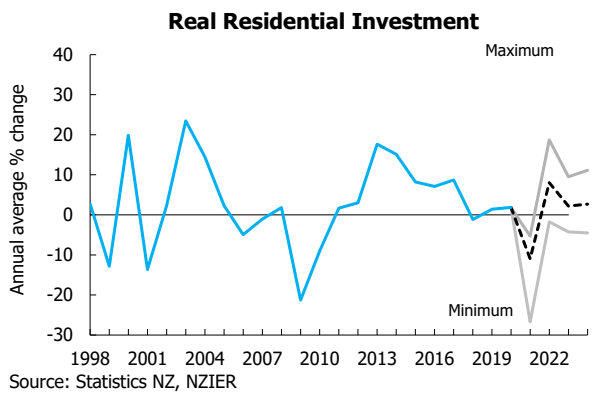
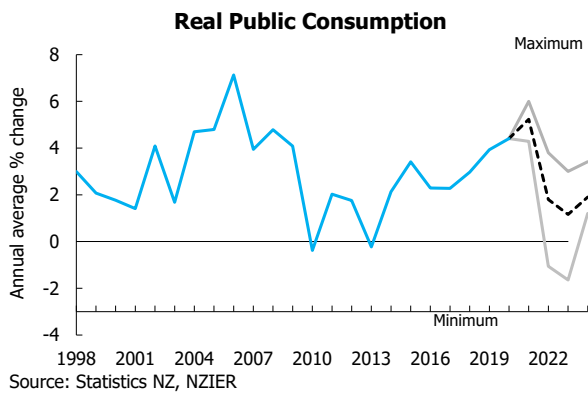
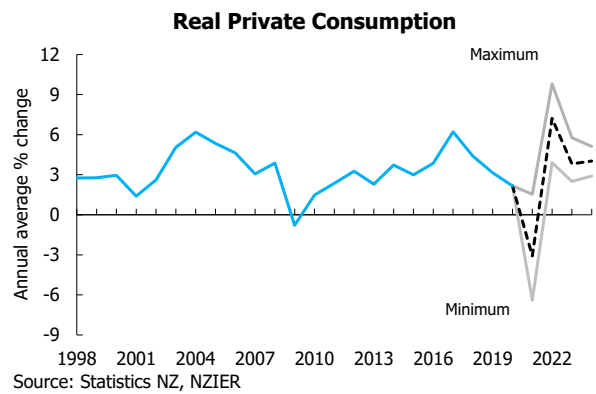
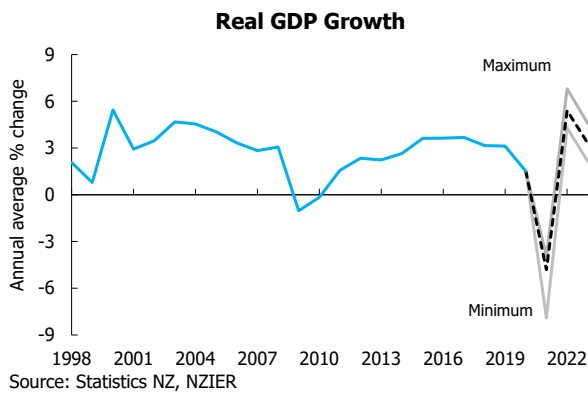
qpc, quarters	Sep-20 f			Dec-20 f			Mar-21 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	11.0	12.4	14.0	-0.7	0.6	2.1	-0.4	0.4	1.3
	Dec-20 f			Mar-21 f			Jun-21 f		
CPI (qpc)	-0.3	0.0	0.2	0.1	0.3	0.6	-0.3	0.1	0.4

aapc, March years	2020/2021 f			2021/2022 f			2022/2023 f			2023/2024 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	-7.9	-4.8	-3.9	4.3	5.4	6.8	2.1	3.3	4.6	3.4	3.6	4.1
Private consumption	-6.4	-3.1	1.5	3.9	7.2	9.8	2.5	3.8	5.8	2.9	4.0	5.1
Public consumption	4.3	5.2	6.0	-1.1	1.8	3.8	-1.6	1.2	3.0	1.2	1.9	3.4
Fixed investment												
- Residential	-26.7	-11.0	-5.3	-1.7	8.0	18.7	-4.3	2.2	9.5	-4.5	2.7	11.1
- Other	-19.8	-12.7	-5.7	3.3	7.9	16.3	2.0	4.8	7.4	3.1	5.8	7.5
- Total	-21.5	-12.3	-5.6	1.9	7.9	16.8	0.5	4.1	7.1	1.5	5.1	8.4
Exports, goods and services	-21.3	-16.1	-11.6	1.0	4.8	7.7	8.9	10.3	12.2	4.7	7.2	8.8
Imports, goods and services	-22.1	-19.4	-17.3	5.6	10.7	16.3	6.4	9.4	12.2	6.2	7.7	11.2
Consumer price index (apc)	0.3	0.5	0.7	0.9	1.1	1.5	1.4	1.6	1.8	1.7	1.9	2.4
New Zealand TWI (avg yr to Mar)	70.3	71.5	73.1	70.0	72.1	76.1	70.0	72.0	74.5	70.0	71.9	75.0
90 day bank bill (avg yr to Mar)	0.3	0.3	0.4	-0.2	0.1	0.3	-0.2	0.1	0.3	0.1	0.4	0.7
10 year government stock (avg yr to Mar)	0.6	0.8	0.9	0.9	1.0	1.2	1.1	1.4	1.7	1.3	1.7	2.0
Current account balance (NZ\$m; Mar yr)	-12.2	-5.6	-1.3	-17.2	-10.7	-5.8	-14.3	-11.2	-7.9	-13.9	-12.3	-8.7
Employment	-3.7	-1.6	2.4	-4.0	0.8	2.5	1.9	2.6	3.6	1.8	2.6	3.3
Unemployment rate (% of labour force)	4.2	5.9	6.5	5.7	6.3	7.8	4.7	5.7	7.3	4.4	5.2	6.1
Wages (private sector avg hourly earnings)	1.5	2.8	3.7	1.1	1.9	2.6	0.4	1.7	2.4	2.4	2.6	2.9
Government operating balance (NZ\$m, December yr)	-29.3	-26.9	-24.8	-21.7	-17.8	-15.7	-14.0	-13.0	-12.0	-9.1	-7.4	-5.8

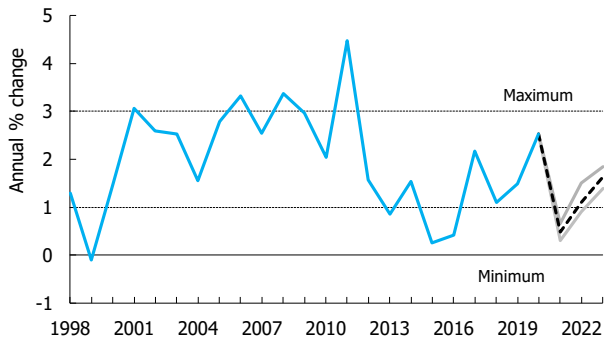
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

Summary charts

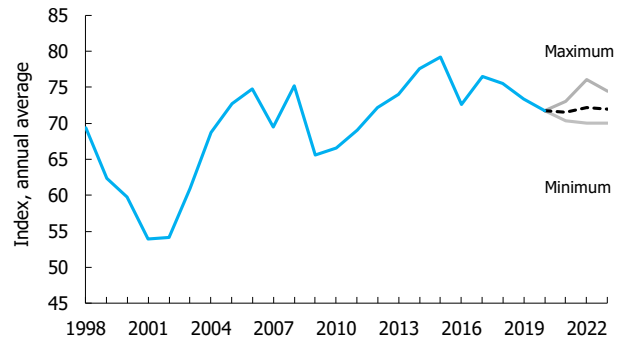


Annual Consumer Price Inflation



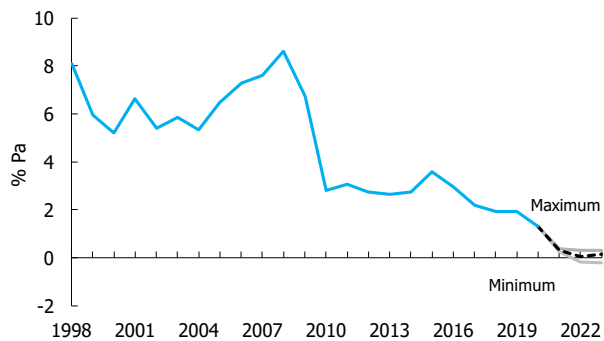
Source: Statistics NZ, NZIER

NZD TWI



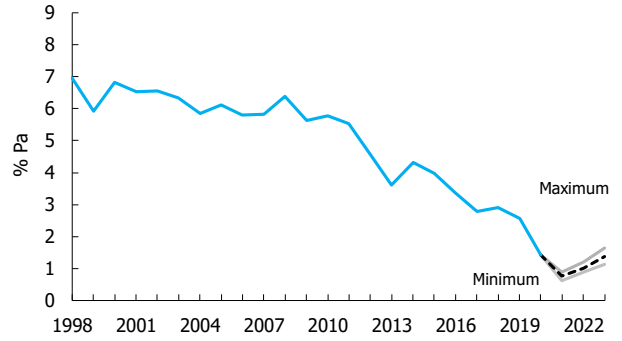
Source: RBNZ, NZIER

90 Day Bank Bills



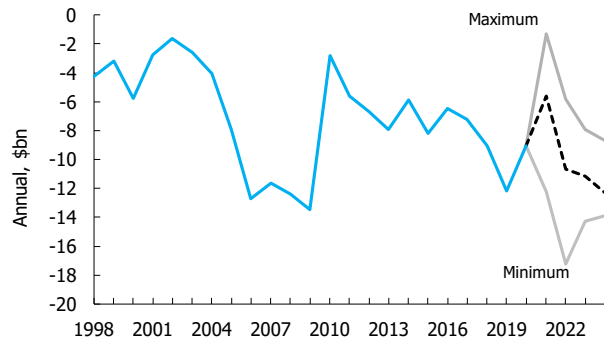
Source: RBNZ, NZIER

10 Year Government Bond Yield



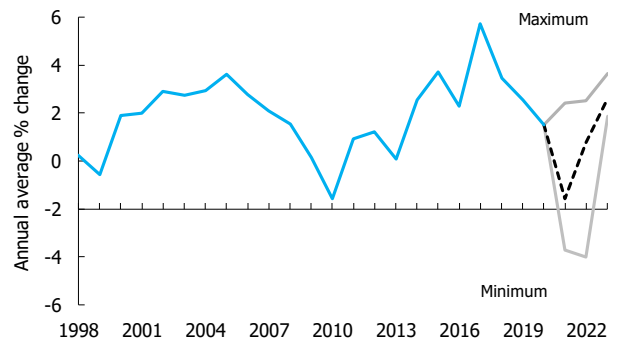
Source: RBNZ, NZIER

Current Account Balance



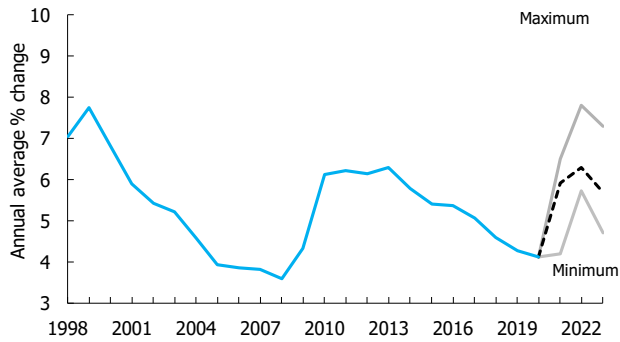
Source: RBNZ, NZIER

Employment Growth



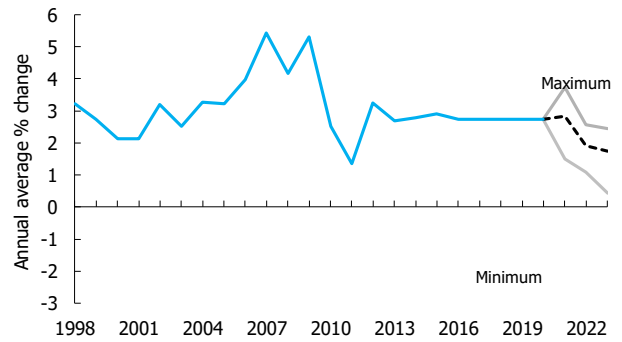
Source: Statistics NZ, NZIER

Unemployment Rate

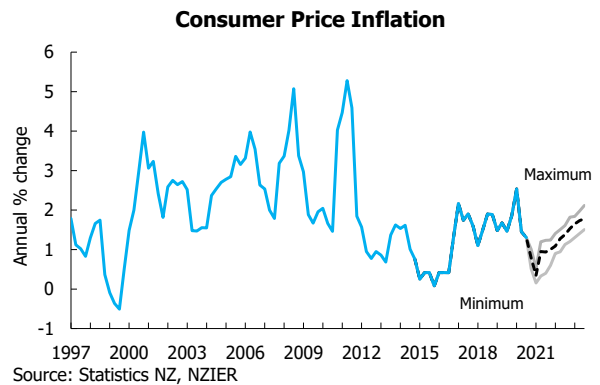
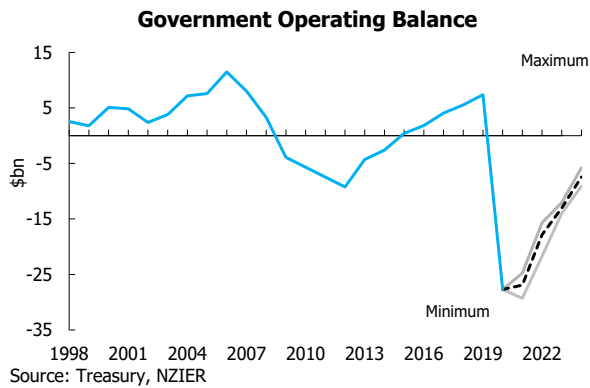


Source: Statistics NZ, NZIER

Private Sector Wage Inflation



Source: Statistics NZ, NZIER



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. 2021 refers to the year ended March 2021.

Respondents

ASB Bank
Bank of New Zealand
Kiwibank
New Zealand Institute of Economic Research
Reserve Bank of New Zealand
The Treasury
Westpac

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