

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* shows mixed growth outlook

The latest NZIER Consensus Forecasts shows another downward revision to the growth outlook, relative to the previous quarter.

This is despite an upward revision to the outlook for public consumption through to 2021, reflecting expectations of increased Government spending in the next two years. This upward revision was offset by downward revisions across other key areas of the New Zealand economy, with expectations of weaker growth in household spending, investment and exports over the next two years. With the trade war between the US and China far from resolved, the heightened uncertainty is expected to weigh on export demand.

Despite the downward revisions to the growth outlook, employment growth forecasts have been revised slightly higher. However, expectations of the unemployment rate are broadly unchanged from the previous quarter.

The New Zealand dollar (NZD) and interest rate outlook has also been revised lower in the wake of the surprise 50 basis point cut to the Official Cash Rate (OCR) in August. Lower global bond yields are also likely to have led to a reassessment of long-term interest rates.

Figure 1 Economic growth outlook revised slightly lower

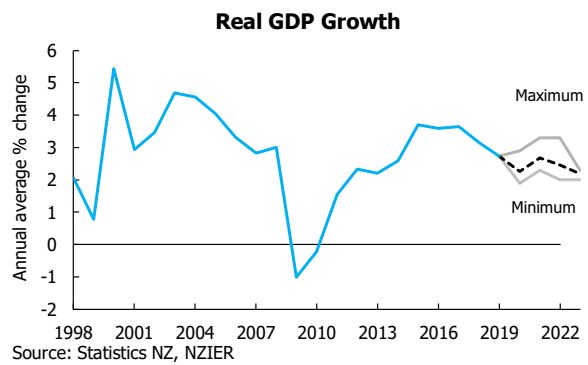


Source: Statistics NZ, NZIER

Growth outlook revised lower

Consensus Forecasts for GDP have been revised down further, reflecting expectations of weaker growth across a broad range of sectors. Activity indicators suggest annual GDP growth could slow to around 2 percent over the coming year.

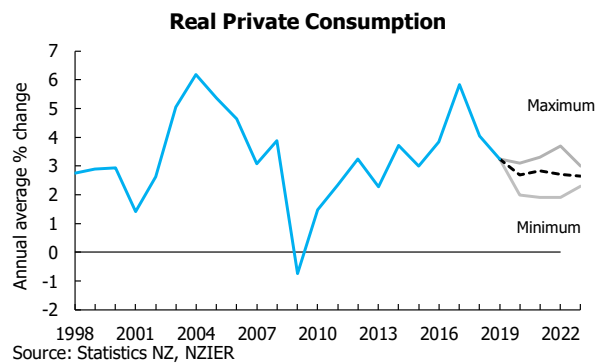
Annual growth in GDP is now expected to be 2.3 percent for the year to March 2020, before picking up to 2.7 percent in the subsequent year.



Weaker near-term household spending

Forecasts of household spending for the coming year has been revised down, but beyond that the outlook is broadly unchanged. Although population growth and low mortgage rates should support spending, consumers have become more cautious.

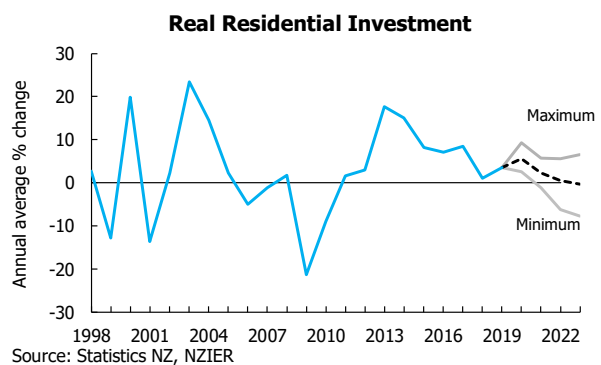
Annual growth in household spending is forecast to oscillate around 2.7 percent over the next few years.



Lower residential investment outlook

Forecasts for residential investment have been revised down for the next two years. The strong population growth in recent years continues to underpin strong residential construction demand, but capacity pressures limit the extent of growth. The upward revision to growth beyond 2021 reflects a more protracted construction cycle.

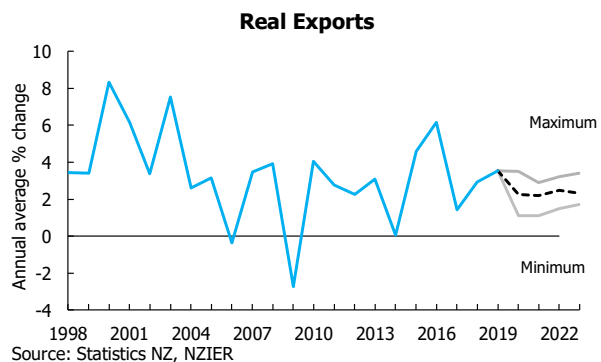
Annual growth is expected to ease from 5.7 percent for the year to March 2020 to 0.6 percent by 2022.



Downward revisions to export outlook

Expectations of export growth over the next few years have been revised down. The erratic nature by which US President Trump makes trade policy (by tweet) has heightened uncertainty over how the trade war between the US and China will play out. This uncertainty is expected to dampen demand for New Zealand exports over the coming years.

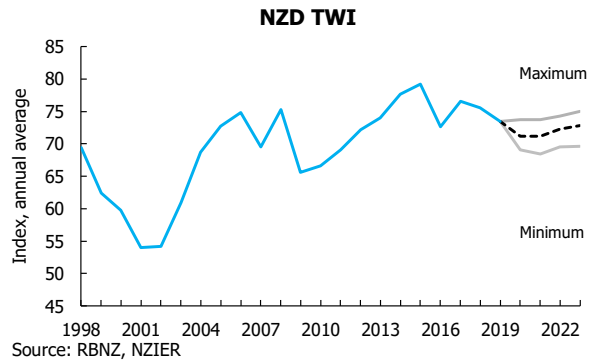
Annual growth is expected to ease to 2.2 percent for the year to March 2021, before picking up to 2.5 percent in the subsequent year.



NZD forecasts revised down

The NZD TWI fell in the wake of the Reserve Bank’s surprise 50bp cut to the OCR. Lower interest rates have reduced the yield attractiveness of the NZD, hence putting downward pressure on the currency.

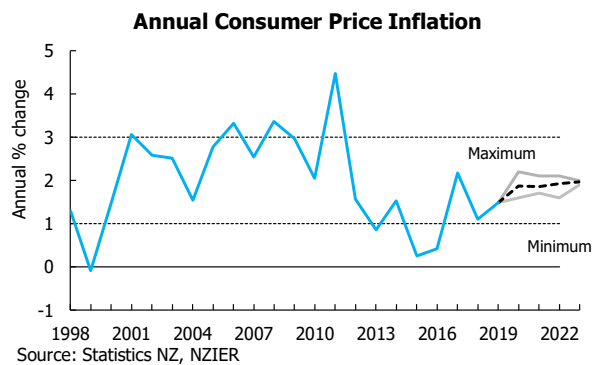
Although the outlook for the NZD has been revised lower, partly reflecting the lower starting point, the consensus is for the NZD TWI to pick up beyond 2020.



Inflation revised slightly lower

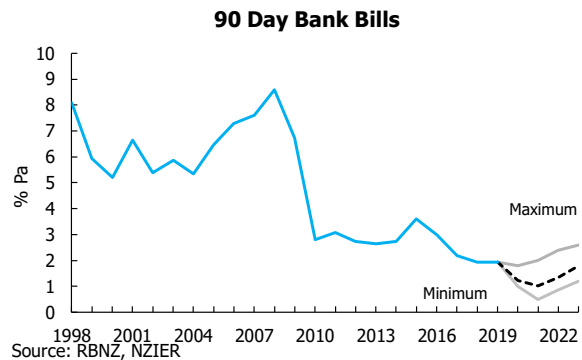
Annual inflation picked up to 1.7 percent for the year to June 2019, reflecting a solid increase in housing-related prices including rents, fuel prices, and insurance premiums. Despite the recent lift in headline inflation, there has been a slight downward revision to the inflation outlook.

Expectations are for headline inflation to track around 1.9 percent over the next few years – slightly below the Reserve Bank’s 1 to 3 percent inflation target mid-point.



Interest rate outlook again revised lower

The Reserve Bank surprised markets by cutting the OCR by 50bp in August and left the door open to further easing. The magnitude of the interest rate cut has led to downward revisions in the outlook for both short and long-term interest rates. Global bond yields have fallen sharply, with increasing speculation recession will hit the US economy. This has influenced long-term interest rates lower here in New Zealand.



Labour market forecast to remain tight

Employment growth forecasts have been revised slightly higher, despite the downward revisions to GDP growth. Nonetheless, expectations remain for annual employment growth to moderate over the coming years.

Meanwhile, the labour market is expected to remain tight, with forecasts for the unemployment rate broadly unchanged.

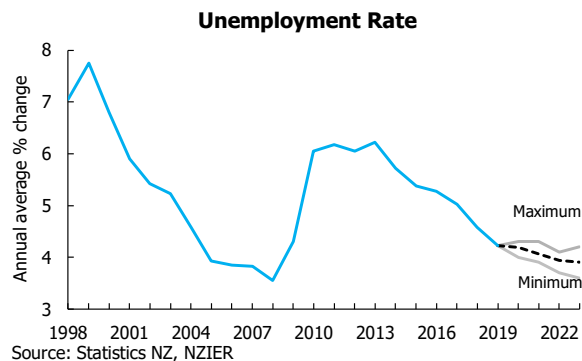


Table 1 Latest Consensus Forecasts compared to previous

aapc, March years	Sep-2019 survey			Jun-2019 survey		
	2019/20	2020/21	2021/22	2019/20	2020/21	2021/22
GDP	2.3 ↓	2.7 ↓	2.5 ↓	2.5	2.9	2.6
Private consumption	2.7 ↓	2.8 →	2.7 ↑	3.2	2.8	2.6
Public consumption	3.4 ↑	3.0 ↑	1.9 ↓	2.8	2.6	2.2
Fixed investment:						
Residential	5.7 ↓	2.4 ↓	0.6 ↑	6.2	2.9	0.2
Other	1.7 ↓	3.3 ↓	3.3 ↑	2.9	3.7	3.1
Total	2.8 ↓	3.1 ↓	2.6 ↑	3.8	3.5	2.3
Exports, goods & services	2.3 ↓	2.2 ↓	2.5 ↓	2.5	2.7	2.6
Imports, goods & services	1.3 ↓	3.2 ↓	3.1 ↑	2.4	3.4	2.9
Consumer price index (apc)	1.9 ↓	1.9 →	1.9 ↓	2.0	1.9	2.0
New Zealand TWI (avg yr to Mar)	71.2 ↓	71.2 ↓	72.3 ↓	71.9	72.5	73.0
90 day bank bill (avg yr to Mar)	1.2 ↓	1.0 ↓	1.3 ↓	1.6	1.6	1.9
10 year govt bond (avg yr to Mar)	1.5 ↓	1.4 ↓	1.9 ↓	1.9	2.3	2.7
Current account balance (NZ\$b; Mar yr)	-9.8 ↑	-10.3 ↑	-11.3 ↑	-10.0	-11.0	-11.7
Employment	1.8 ↑	1.7 ↑	1.5 →	1.7	1.6	1.5
Unemployment (% of labour force)	4.2 →	4.1 →	3.9 ↓	4.2	4.1	4.0
Wages (private sector avg hourly earnings)	3.6 ↑	3.2 →	3.1 ↓	3.4	3.2	3.2
Government operating balance (NZ\$b, September yr)	2.7 ↓	3.6 ↓	6.0 ↓	4.5	5.3	7.5

Note: aapc = annual average percent change, apc = annual percent change, arrows refer to direction of change from last survey

Source: NZIER

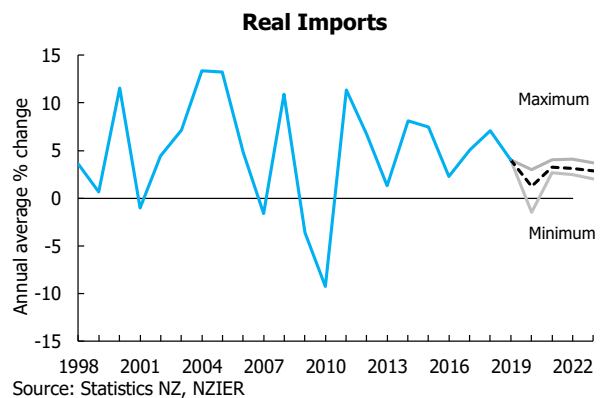
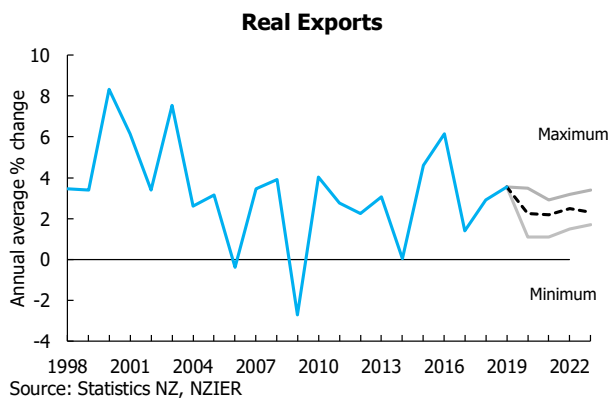
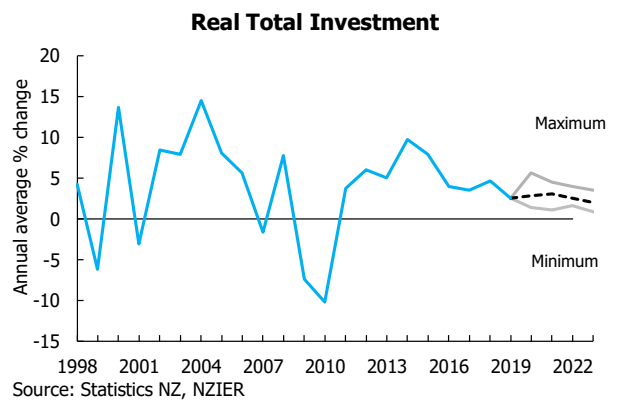
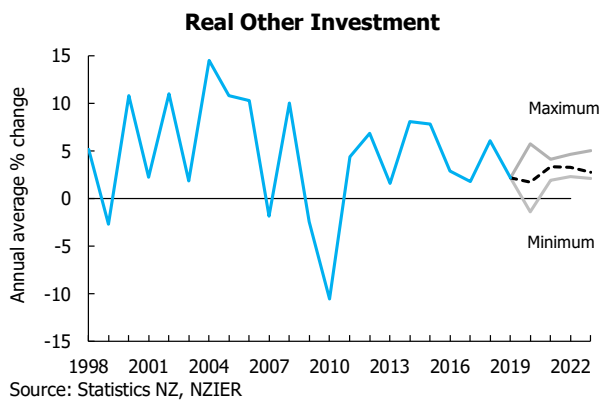
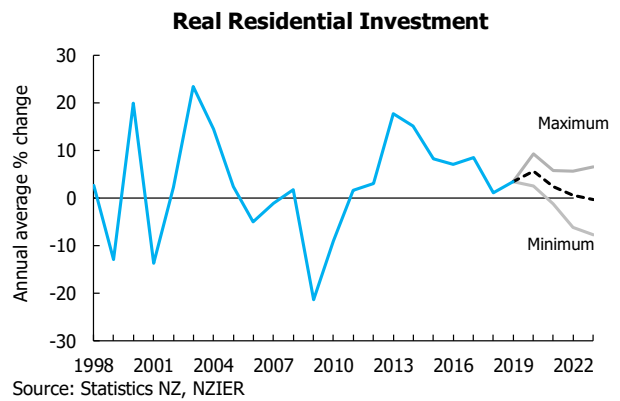
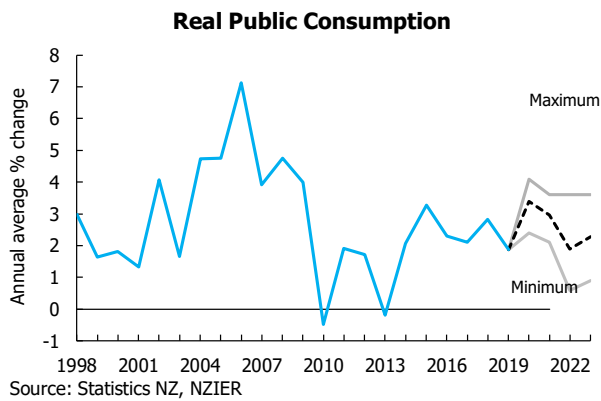
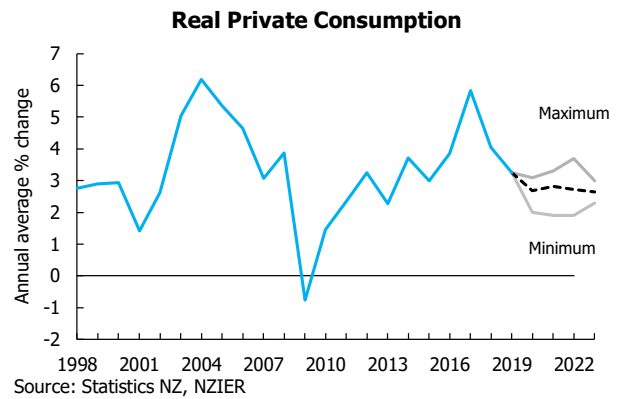
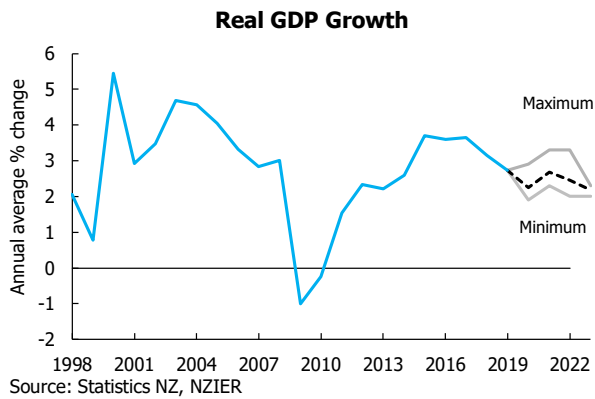
Table 2 Breakdown of the forecasts

qpc, quarters	Jun-19 f			Sep-19 f			Dec-19 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.3	0.5	0.7	0.4	0.5	0.8	0.5	0.6	0.8			
	Sep-19 f			Dec-19 f			Mar-20 f					
CPI (qpc)	0.4	0.6	0.7	0.1	0.3	0.5	0.1	0.5	0.7			
aapc, March years	2019/2020 f			2020/2021 f			2021/2022 f			2022/2023 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	1.9	2.3	2.9	2.3	2.7	3.3	2.0	2.5	3.3	2.0	2.2	2.3
Private consumption	2.0	2.7	3.1	1.9	2.8	3.3	1.9	2.7	3.7	2.3	2.6	3.0
Public consumption	2.4	3.4	4.1	2.1	3.0	3.6	0.6	1.9	3.6	0.9	2.3	3.6
Fixed investment												
- Residential	2.5	5.7	9.3	-1.2	2.4	5.7	-6.2	0.6	5.6	-7.7	-0.3	6.6
- Other	-1.4	1.7	5.7	1.9	3.3	4.1	2.3	3.3	4.6	2.1	2.7	5.0
- Total	1.4	2.8	5.6	1.1	3.1	4.5	1.6	2.6	4.0	0.9	2.0	3.5
Exports, goods and services	1.1	2.3	3.5	1.1	2.2	2.9	1.5	2.5	3.2	1.7	2.3	3.4
Imports, goods and services	-1.5	1.3	3.0	2.7	3.2	4.0	2.5	3.1	4.1	2.0	2.9	3.7
Consumer price index (apc)	1.6	1.9	2.2	1.7	1.9	2.1	1.6	1.9	2.1	1.9	2.0	2.0
New Zealand TWI (avg yr to Mar)	69.0	71.2	73.7	68.4	71.2	73.7	69.5	72.3	74.3	69.6	72.8	75.0
90 day bank bill (avg yr to Mar)	1.0	1.2	1.8	0.5	1.0	2.0	0.9	1.3	2.4	1.2	1.8	2.6
10 year government stock (avg yr to Mar)	1.1	1.5	2.3	0.9	1.4	2.4	1.3	1.9	2.6	1.6	2.3	2.8
Current account balance (NZ\$b; Mar yr)	-11.8	-9.8	-7.0	-12.3	-10.3	-8.8	-14.6	-11.3	-9.1	-15.9	-13.0	-10.4
Employment	1.5	1.8	2.1	1.5	1.7	2.0	1.4	1.5	1.9	1.2	1.4	1.6
Unemployment rate (% of labour force)	4.0	4.2	4.3	3.9	4.1	4.3	3.7	3.9	4.1	3.6	3.9	4.2
Wages (private sector avg hourly earnings)	2.0	3.6	4.4	2.1	3.2	4.2	2.3	3.1	3.6	2.6	3.2	3.6
Government operating balance (NZ\$m, December yr)	0.0	2.7	4.7	0.6	3.6	5.9	2.9	6.0	9.0	6.1	9.3	10.9

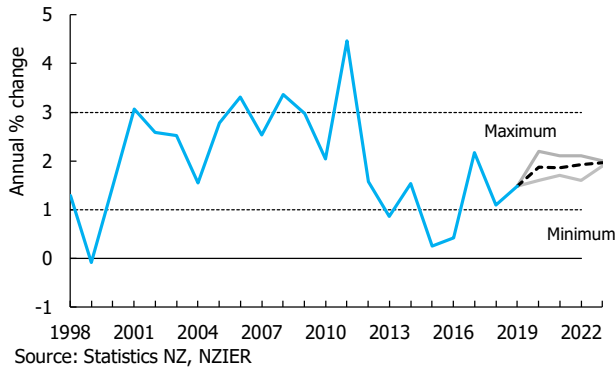
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

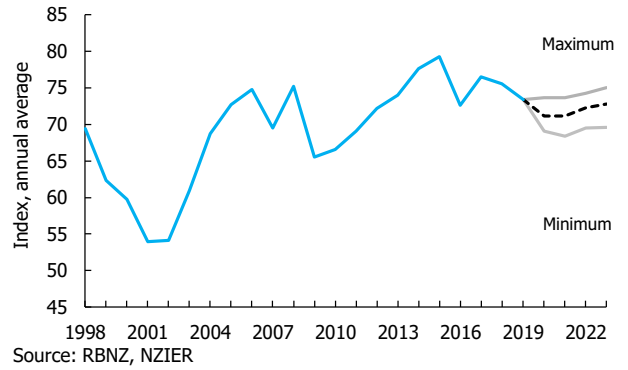
Summary charts



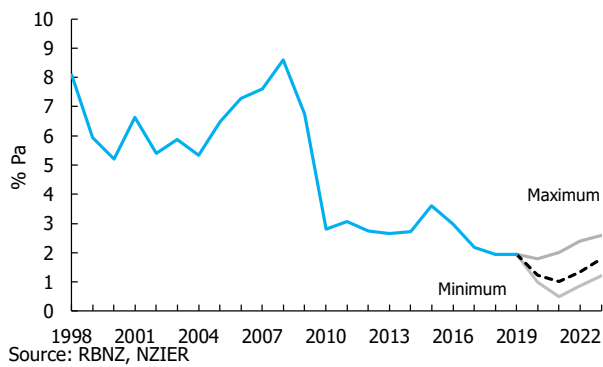
Annual Consumer Price Inflation



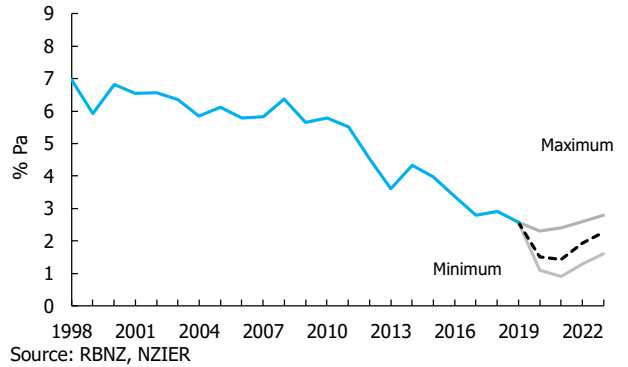
NZD TWI



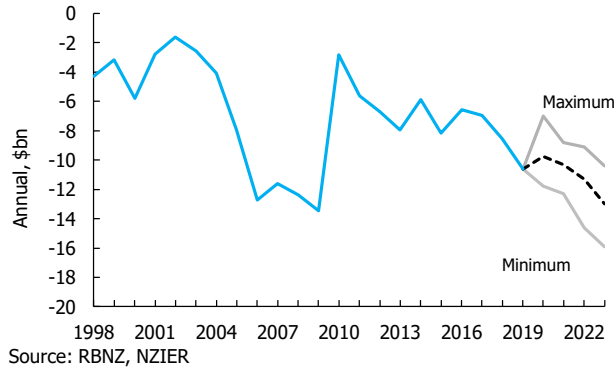
90 Day Bank Bills



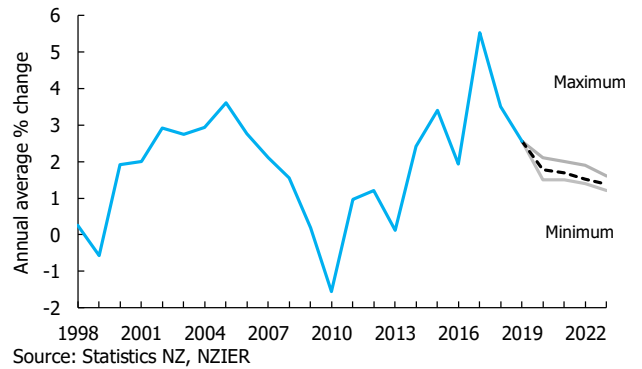
10 Year Government Bond Yield



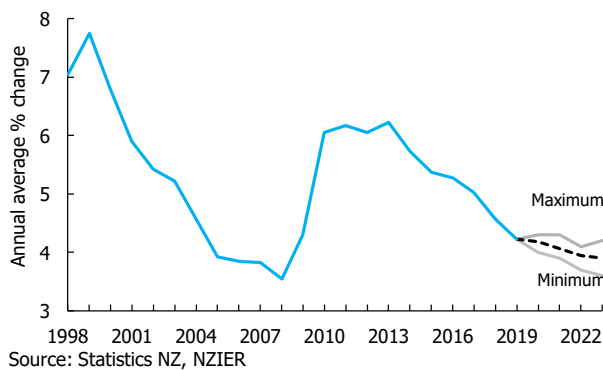
Current Account Balance



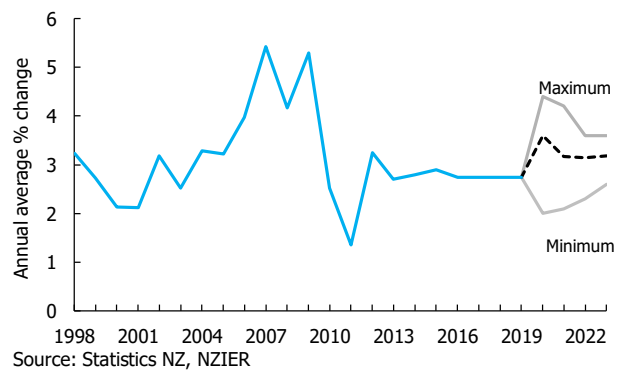
Employment Growth

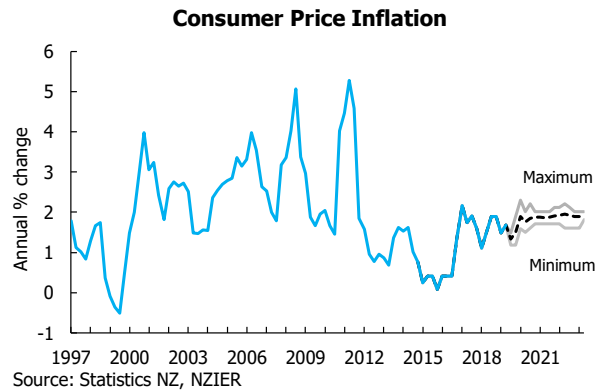
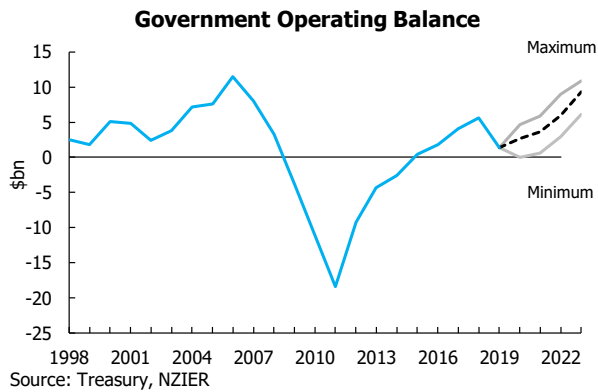


Unemployment Rate



Private Sector Wage Inflation





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. 2019 refers to the year ended March 2019.

Respondents

ANZ-National Bank
ASB Bank
Bank of New Zealand
HSBC
Kiwibank
New Zealand Institute of Economic Research
Reserve Bank of New Zealand
The Treasury
Westpac

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