

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* show a slightly lower growth outlook

The growth outlook has been revised down slightly in the latest NZIER *Consensus Forecasts*, relative to the previous quarter.

The key drivers of the downward revision were lower expectations of business investment and exports, which were partly offset by slightly stronger expectations of household spending. The uncertain global growth outlook has dampened expectations for export growth. Meanwhile, business confidence has fallen in the face of persistently weak profitability, with businesses becoming more cautious about investment. However, consumer confidence remains positive, and households continue to feel buoyant about making big-ticket purchases. This suggests household spending growth should remain robust over the coming years.

Reflecting the softer growth outlook, expectations for the labour market have also been revised lower. Relative to the previous quarter, *Consensus Forecasts* show lower employment and wage growth and a higher unemployment rate over the coming years.

Meanwhile, interest rate expectations have been revised higher for the coming year, but slightly lower beyond 2022.

Figure 1 A further slight downward revision to the growth outlook



Source: Statistics NZ, NZIER

Growth outlook revised down slightly

Consensus Forecasts for GDP have been revised down slightly. Activity indicators suggest annual GDP growth could slow to as low as 1 percent, but the chance of a recession over the coming year is small.¹

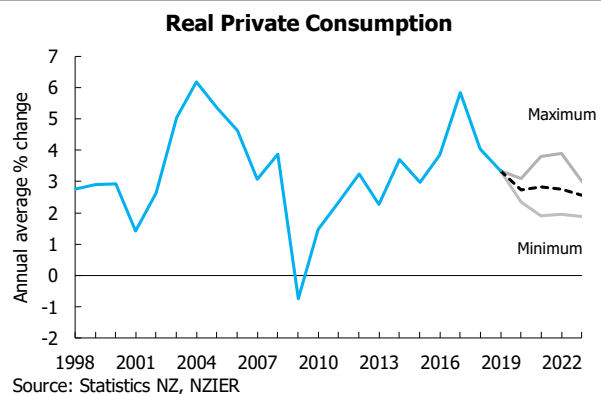
Annual GDP growth is now expected to pick up to 2.6 percent for the year to March 2021 before easing in the subsequent years.



Household spending revised up slightly

Household spending forecasts for the year to March 2022 has been revised up. Consumers are feeling confident, and there are signs of renewed interest in the housing market.

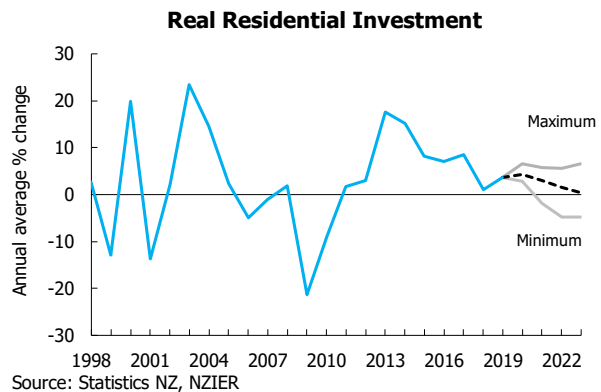
Retail spending tends to increase with house sales as households buy new furniture and electronics to furnish their new homes, so the recent lift in housing market activity should support spending.



Residential investment outlook stronger

Near-term residential investment forecasts have been revised down for the coming year but revised up from 2021.

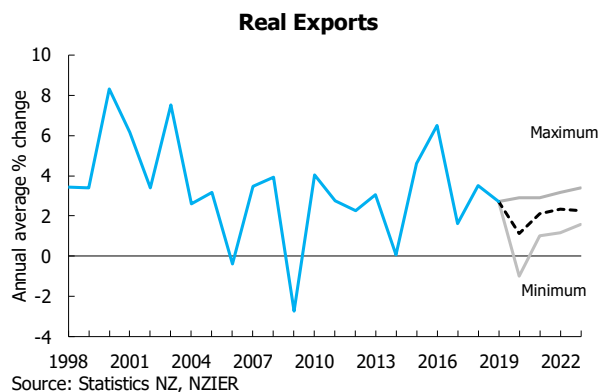
There have been some signs of softness in residential construction over mid-2019. However, with net migration inflows remaining robust, strong population growth is likely to underpin further growth in residential construction demand from 2021.



Downward revisions to export growth

Expectations of export growth have been revised down further, reflecting the uncertain global growth outlook.

Consensus Economics forecasts shows annual GDP growth across our major trading partners is expected to average just over 3 percent. This growth should support demand for NZ exports. However, continued uncertainty over how the trade war between the US and China will play out is dampening growth expectations.

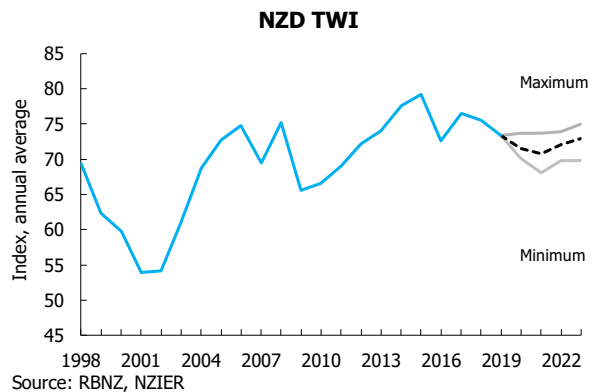


¹ *Recession: what are the chances?*, NZIER Insight 83 https://nzier.org.nz/static/media/filer_public/a6/c3/a6c3fc7f-dd1f-4e26-8101-fa844c627f59/nzier_insight_83_recession_what_are_the_chances.pdf

NZD outlook mixed

The NZD TWI has rebounded more recently, reflecting the increasing yield attractiveness of NZD-denominated investments. This is particularly in light of recent signals by the US Federal Reserve that it was likely to keep its policy rate on hold for an extended period of time, against expectations that it may start to prepare markets for interest rate increases.

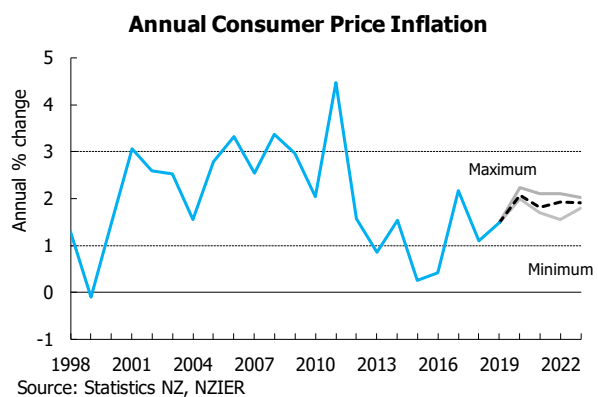
The NZD TWI is expected to ease to 70.8 in March 2021, before appreciating towards 72.9 in 2023.



Inflation expected to track near 2 percent

Annual inflation eased to 1.5 percent for the year to September 2019, as lower petrol and apparel prices weigh on inflation.

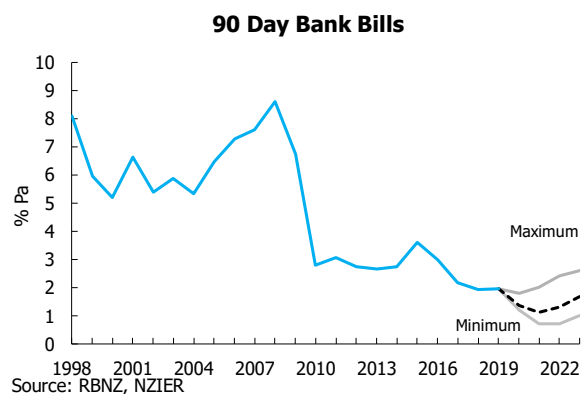
Despite this easing, expectations for inflation for the year to March 2020 have been revised higher. However, beyond 2020 there has been a slight downward revision to the inflation outlook. Overall, annual CPI is expected to track just under the mid-point of the Reserve Bank's inflation target band of 2 percent from 2021.



Near-term interest rate outlook higher

Following the Reserve Bank's surprise 50bp cut in the OCR in August, the central bank surprised markets again in its November meeting – this time by keeping interest rates on hold.

Markets have reduced expectations of further interest rate cuts. However, with markets expecting interest rates will be kept low for a prolonged time, interest rate forecasts have been revised slightly lower from 2023.



Labour market outlook softer

There have been some downward revisions to the labour market outlook, as reflected in expectations of softer employment and wage growth. Meanwhile, expectations of the unemployment rate have been revised up.

The unemployment rate is now expected to lift to 4.3 percent through to 2021, before moderating to 4 percent in the subsequent years.

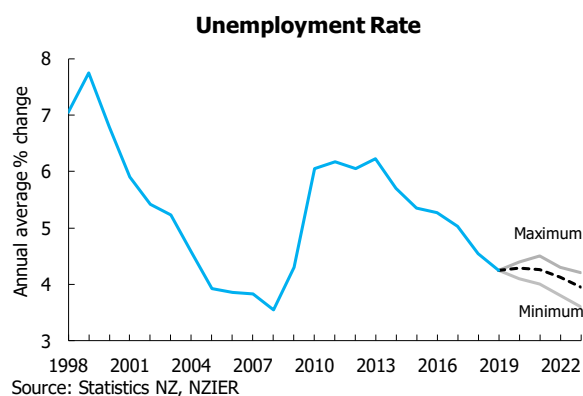


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Dec-2019 survey				Sep-2019 survey			
	2019/20	2020/21	2021/22	2022/23	2019/20	2020/21	2021/22	2022/23
GDP	2.2 ↓	2.6 ↓	2.5 →	2.2 →	2.3	2.7	2.5	2.2
Private consumption	2.7 →	2.8 →	2.8 ↑	2.6 →	2.7	2.8	2.7	2.6
Public consumption	3.3 ↓	3.0 →	1.9 →	2.3 →	3.4	3.0	1.9	2.3
Fixed investment:								
Residential	4.3 ↓	2.9 ↑	1.6 ↑	0.4 ↑	5.7	2.4	0.6	-0.3
Other	1.4 ↓	2.4 ↓	3.0 ↓	2.9 ↑	1.7	3.3	3.3	2.7
Total	2.2 ↓	2.6 ↓	2.6 →	2.2 ↑	2.8	3.1	2.6	2.0
Exports, goods & services	1.1 ↓	2.1 ↓	2.3 ↓	2.3 →	2.3	2.2	2.5	2.3
Imports, goods & services	1.2 ↓	3.2 →	3.2 ↑	2.9 →	1.3	3.2	3.1	2.9
Consumer price index (apc)	2.1 ↑	1.8 ↓	1.9 →	1.9 ↓	1.9	1.9	1.9	2.0
New Zealand TWI (avg yr to Mar)	71.5 ↑	70.8 ↓	72.0 ↓	72.9 ↑	71.2	71.2	72.3	72.8
90 day bank bill (avg yr to Mar)	1.4 ↑	1.1 ↑	1.3 →	1.7 ↓	1.2	1.0	1.3	1.8
10 year govt bond (avg yr to Mar)	1.5 →	1.6 ↑	1.9 →	2.2 ↓	1.5	1.4	1.9	2.3
Current account balance (NZ\$b; Mar yr)	-9.8 →	-10.5 ↓	-11.6 ↓	-13.1 ↓	-9.8	-10.3	-11.3	-13.0
Employment	1.5 ↓	1.6 ↓	1.5 →	1.4 →	1.8	1.7	1.5	1.4
Unemployment (% of labour force)	4.3 ↑	4.3 ↑	4.1 ↑	4.0 ↑	4.2	4.1	3.9	3.9
Wages (private sector avg hourly earnings)	3.5 ↓	3.1 ↓	3.3 ↑	3.4 ↑	3.6	3.2	3.1	3.2
Government operating balance (NZ\$b, September yr)	4.3 ↑	3.5 ↓	5.8 ↓	9.0 ↓	2.7	3.6	6.0	9.3

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

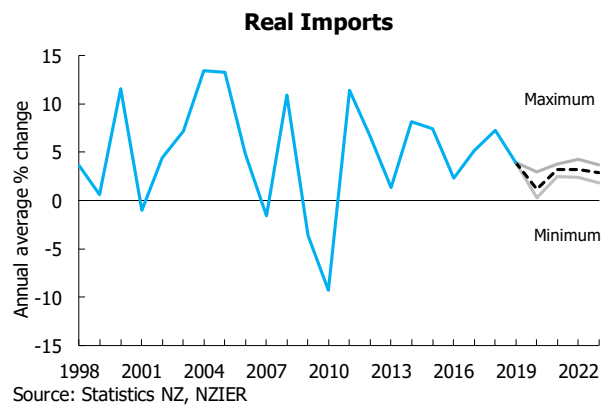
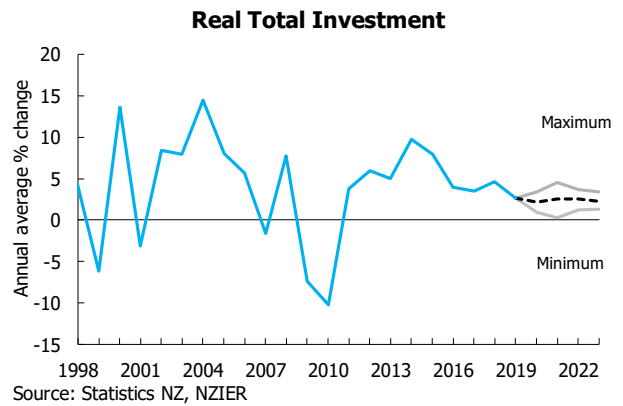
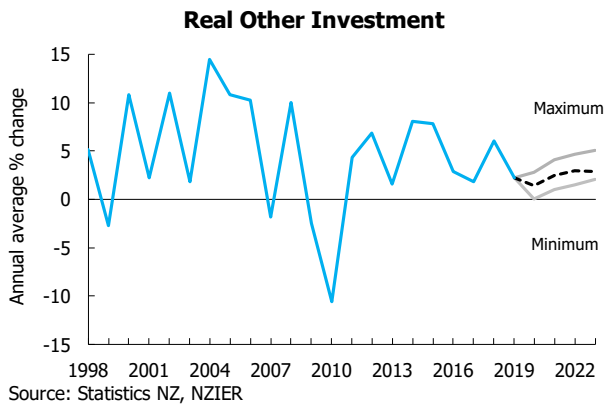
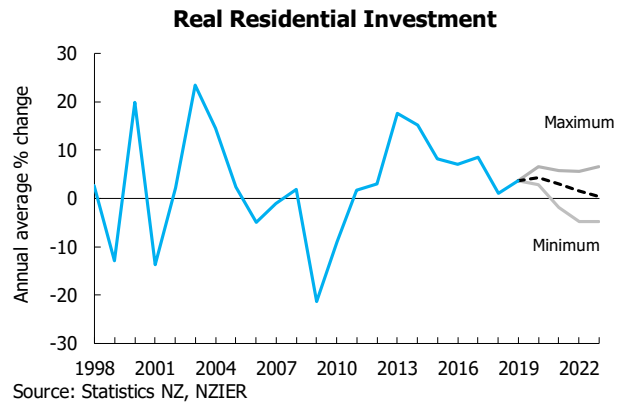
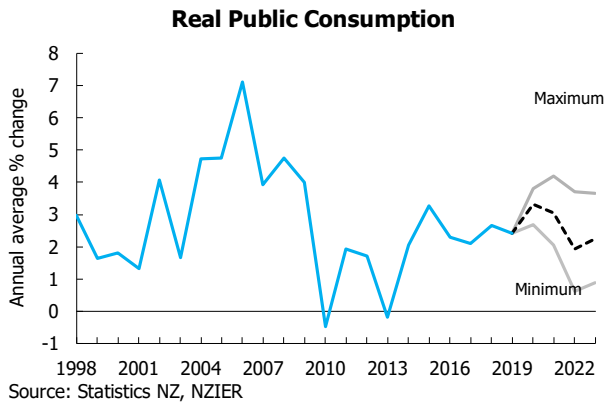
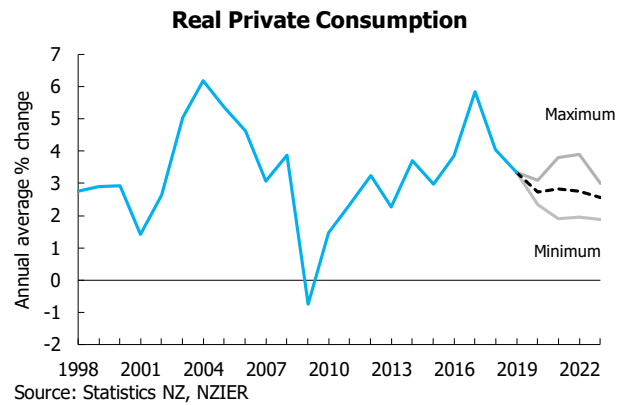
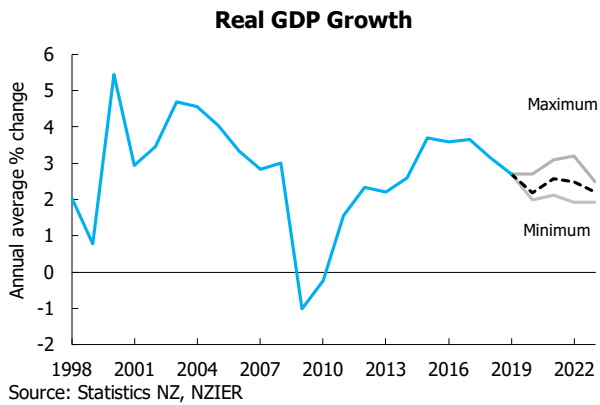
qpc, quarters	Sep-19 f			Dec-19 f			Mar-20 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	0.3	0.5	0.8	0.3	0.6	0.8	0.4	0.6	0.8
	Dec-19 f			Mar-20 f			Jun-20 f		
CPI (qpc)	0.1	0.2	0.4	0.5	0.6	0.7	0.1	0.4	0.6

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	2.0	2.2	2.7	2.1	2.6	3.1	1.9	2.5	3.2	1.9	2.2	2.5
Private consumption	2.3	2.7	3.1	1.9	2.8	3.8	1.9	2.8	3.9	1.9	2.6	3.0
Public consumption	2.7	3.3	3.8	2.1	3.0	4.2	0.6	1.9	3.7	0.9	2.3	3.6
Fixed investment												
- Residential	2.8	4.3	6.6	-1.8	2.9	5.8	-4.7	1.6	5.6	-4.8	0.4	6.6
- Other	0.0	1.4	2.8	1.0	2.4	4.1	1.5	3.0	4.6	2.1	2.9	5.1
- Total	1.0	2.2	3.4	0.3	2.6	4.5	1.2	2.6	3.7	1.3	2.2	3.4
Exports, goods and services	-1.0	1.1	2.9	1.0	2.1	2.9	1.2	2.3	3.2	1.6	2.3	3.4
Imports, goods and services	0.3	1.2	3.0	2.5	3.2	3.8	2.4	3.2	4.2	1.8	2.9	3.7
Consumer price index (apc)	2.0	2.1	2.2	1.7	1.8	2.1	1.5	1.9	2.1	1.8	1.9	2.0
New Zealand TWI (avg yr to Mar)	70.1	71.5	73.7	68.1	70.8	73.7	69.8	72.0	73.9	69.8	72.9	75.0
90 day bank bill (avg yr to Mar)	1.2	1.4	1.8	0.7	1.1	2.0	0.7	1.3	2.4	1.0	1.7	2.6
10 year government stock (avg yr to Mar)	1.3	1.5	1.9	1.1	1.6	2.3	1.3	1.9	2.6	1.6	2.2	2.8
Current account balance (NZ\$b; Mar yr)	-10.5	-9.8	-8.3	-13.0	-10.5	-8.6	-13.9	-11.6	-9.0	-15.1	-13.1	-9.5
Employment	1.1	1.5	2.1	1.3	1.6	1.9	1.2	1.5	1.9	0.9	1.4	1.7
Unemployment rate (% of labour force)	4.1	4.3	4.4	4.0	4.3	4.5	3.8	4.1	4.3	3.6	4.0	4.2
Wages (private sector avg hourly earnings)	2.3	3.5	4.0	2.4	3.1	3.9	2.3	3.3	4.4	2.6	3.4	4.1
Government operating balance (NZ\$m, December yr)	0.5	4.3	7.5	0.6	3.5	5.9	2.4	5.8	9.0	5.3	9.0	10.9

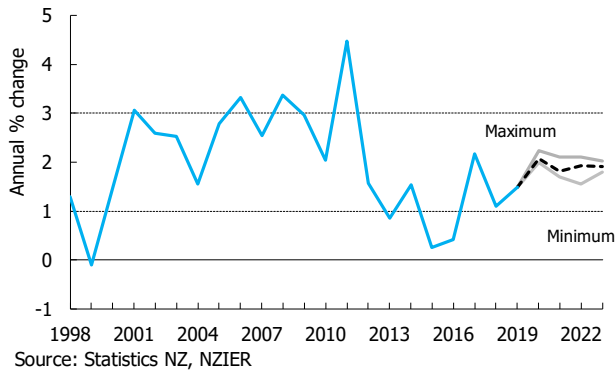
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

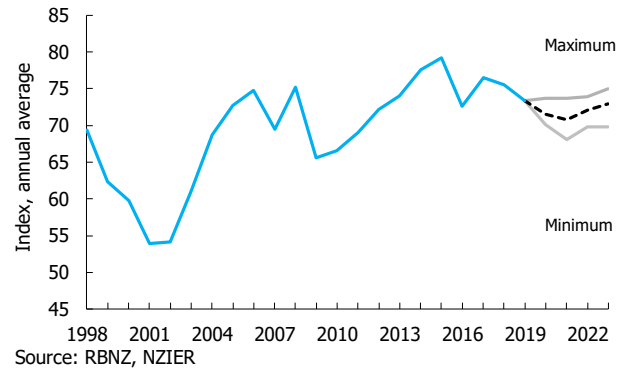
Summary charts



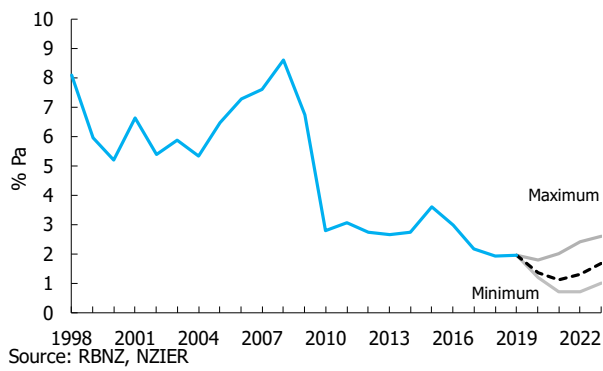
Annual Consumer Price Inflation



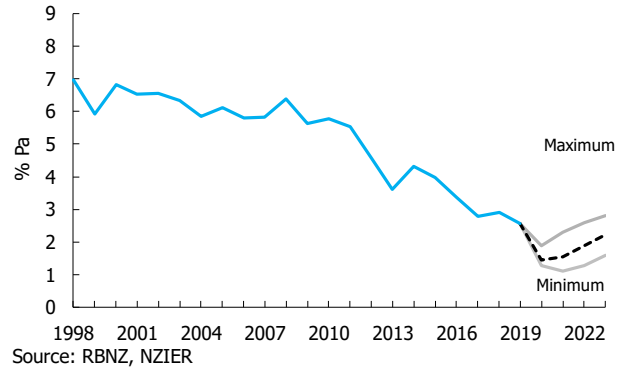
NZD TWI



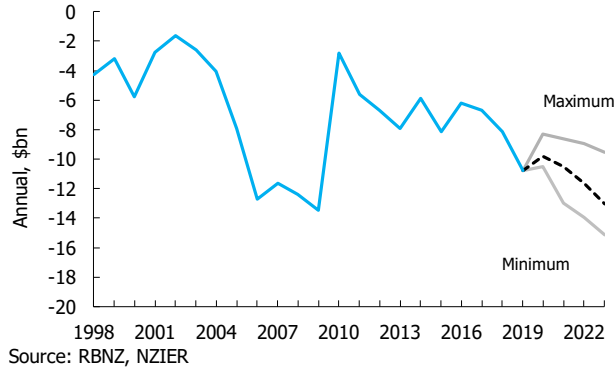
90 Day Bank Bills



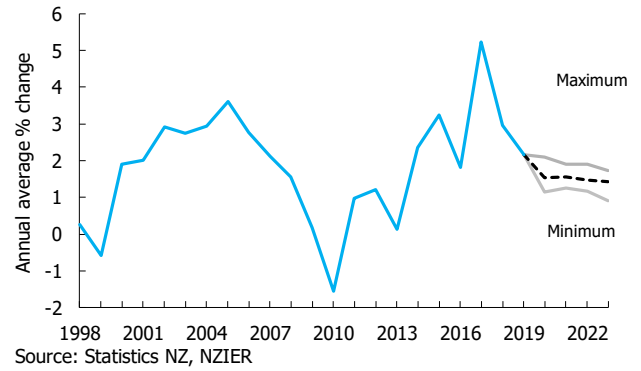
10 Year Government Bond Yield



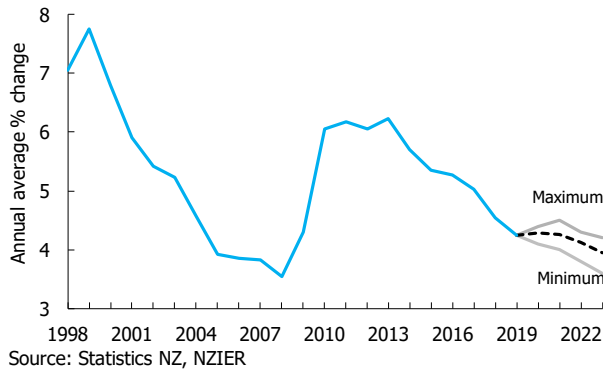
Current Account Balance



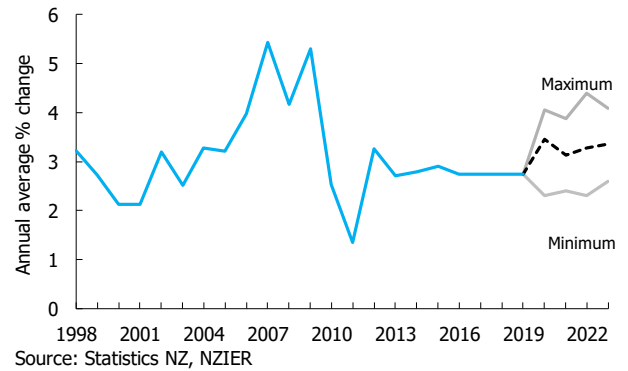
Employment Growth

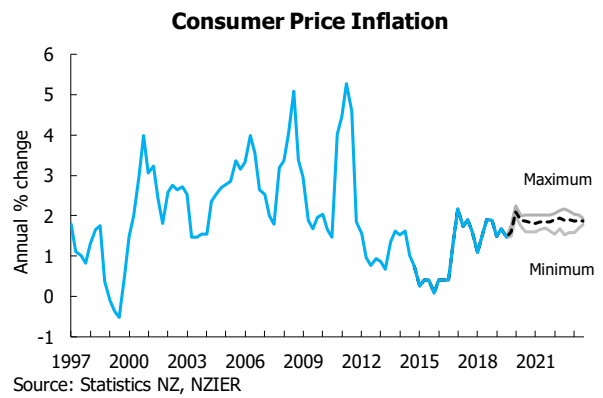
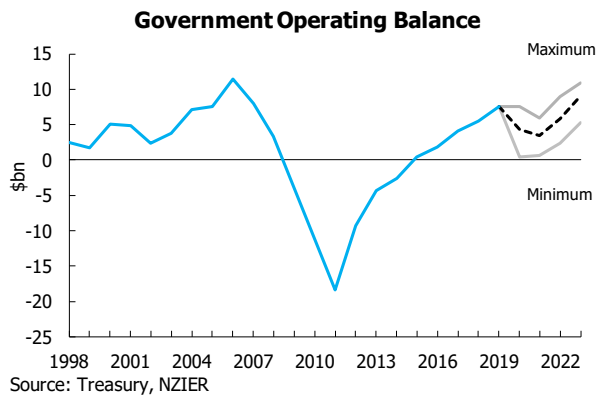


Unemployment Rate



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

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