

NZ Institute of Economic Research (Inc)
Media release 15 March 2021

Consensus Forecasts

NZIER *Consensus Forecasts* show a downward revision to the growth outlook over the longer term

The latest NZIER *Consensus Forecasts* (CF) show a downward revision to growth forecasts later this year. However, this partly reflects a higher starting point, as the recovery in demand after lockdown restrictions were relaxed turned out to be stronger than expected.

The downward revision to the medium-term growth outlook largely reflects expectations that the rebound in household spending will not be as sharp as initially expected. There has also been a downward revision to the longer-term outlook for residential investment, but this follows expectations of strong growth over the coming year. Dwelling consent issuance and the NZIER *Quarterly Survey of Business Opinion's* architects' measure of activity in their own office indicates a robust pipeline of residential construction over the coming year. Low interest rates have contributed to the increase in housing demand, with the surge in house prices encouraging new housing supply to come on board.

Expectations for other investment over the coming years remain robust. Business confidence is recovering, with businesses feeling more positive about hiring and investment. Employment demand is picking up and with signs of a re-emergence in labour shortages the unemployment rate has been revised lower. This is expected to flow through to stronger wage growth over the coming years.

The increase in inflation pressures is underpinning higher interest rate expectations, with *Consensus Forecasts* now suggesting expectations of an increase in the OCR from 2022.

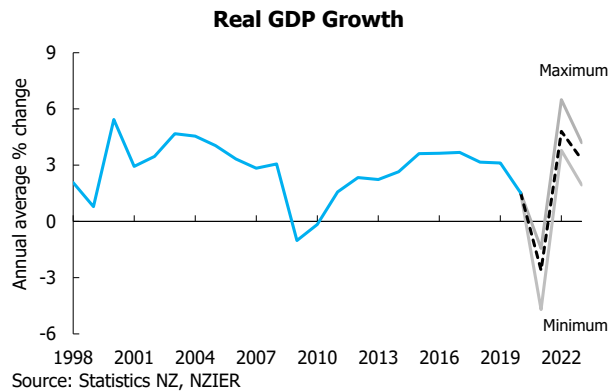
Figure 1 Lower expectations of growth over the medium term



Longer-term growth outlook pared back

Consensus Forecasts for GDP have been revised higher in the near-term, largely reflecting a stronger starting point from the sharp post-lockdown bounce-back in. On average, annual growth is now expected to decline by 2.6 percent for the year to March 2021 – smaller than the 4.8 percent decline forecast in the previous CF.

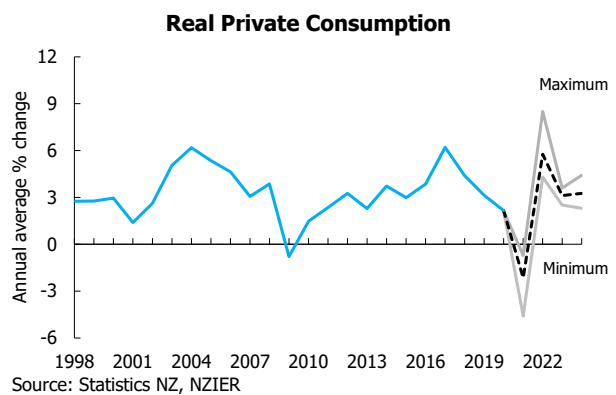
However, growth expectations for the subsequent years have been reduced, with a smaller rebound of 4.8 percent forecast for the year to March 2022.



Driven by a stronger household sector

Expectations of household spending have also been revised up for the near term, but lowered beyond March 2021. Household spending lifted strongly as lockdown restrictions were lifted.

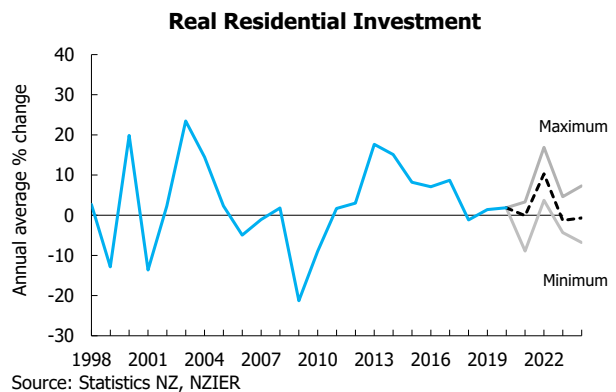
A robust pick-up in spending is expected to continue, but forecasts of this rebound have reduced. Annual average growth in spending is expected to reach 5.8 percent for the year to March 2022 – lower than the 7.2 percent previously forecast.



Stronger investment outlook

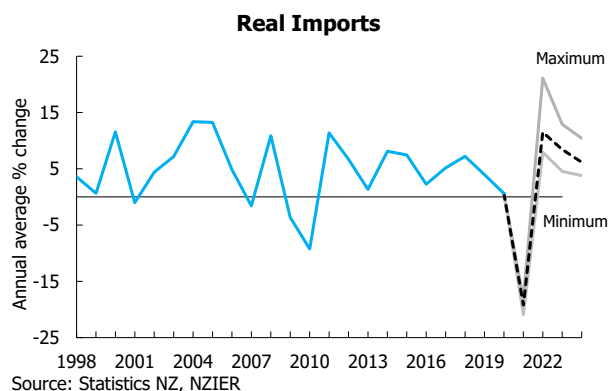
The residential investment growth outlook has been revised up in the near term. On average, residential investment is now forecast to decline by only 0.1 percent for the year to March 2021, before bouncing back strongly by 10.3 percent in the subsequent year.

Other investment is robust beyond 2021, reflecting the improvement in business confidence.



Import outlook weaker from 2022

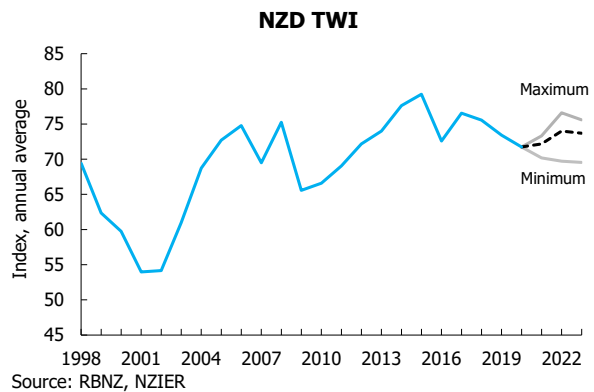
The outlook for imports has been revised lower from 2022, likely reflecting expectations of softer household spending over the medium term. Nonetheless, the outlook remains robust, with annual average growth of 8.4 percent expected for the year to March 2023. The decline in exports for the year to March 2021 is now expected to be smaller than forecast in the previous CF. However, beyond that the export growth outlook has been revised lower.



NZD expected to remain high

The NZD TWI has been revised higher across the projection horizon. A lift in interest rate expectations in the wake of stronger underlying inflation pressures have been supporting an appreciation in the NZD in recent months.

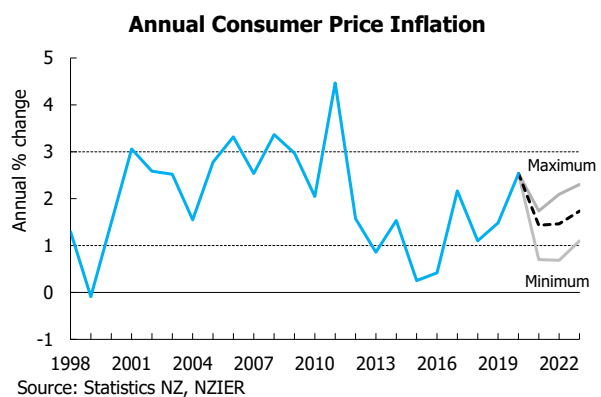
The NZD TWI is expected to be at 74 on average for the year to March 2022, before easing to 73.2 by March 2024.



Higher inflation outlook

The inflation outlook has been revised higher. There are signs of capacity pressures building up in some sectors, and supply chain disruptions relating to COVID-19 are also driving up costs.

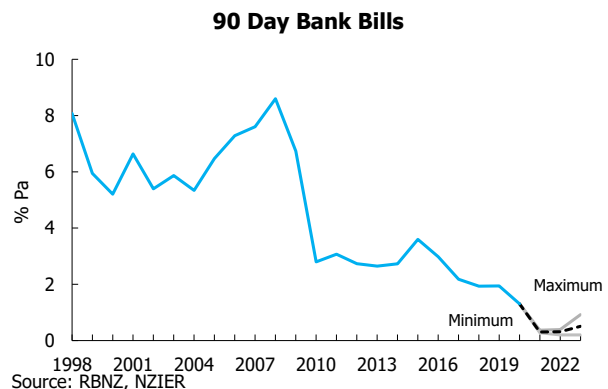
However, the range of forecasts for CPI inflation has widened considerably, suggesting more uncertainty over the outlook. For the year to March 2024, forecasts for CPI inflation range from 1.7 percent to 2.7 percent.



Interest rate outlook also higher

The higher inflation outlook has led to expectations of an earlier pace of monetary policy tightening. *Consensus Forecasts* now expect the OCR to start increasing from 2022. The range of forecasts is wider in the longer term, with forecasts for the 90-day bank bill rate ranging from 0.2 percent to 1.9 percent for the year to March 2024.

Long-term interest rates have also been revised higher, reflecting the effects of the improved growth outlook globally.



Unemployment rate again revised lower

The unemployment rate has been revised lower over the coming years, as firms feel more positive about hiring and labour shortages re-emerge. Nonetheless, the range of forecasts remain very wide, indicating a large degree of uncertainty over the unemployment rate. Forecasts for the unemployment rate range from 3.9 percent to 6.5 percent in March 2023. Reflecting the stronger labour market outlook, forecasts of wage growth have been revised up.

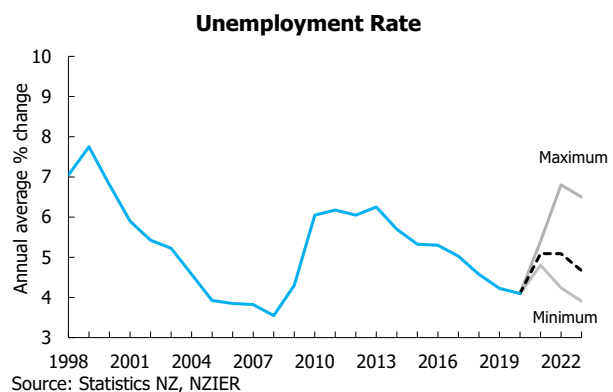


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Mar-2021 survey				Dec-2020 survey			
	2020/21	2021/22	2022/23	2023/24	2020/21	2021/22	2022/23	2023/24
GDP	-2.6 ↑	4.8 ↓	3.3 →	2.9 ↓	-4.8	5.4	3.3	3.6
Private consumption	-2.1 ↑	5.8 ↓	3.1 ↓	3.3 ↓	-3.1	7.2	3.8	4.0
Public consumption	4.8 ↓	2.3 ↑	2.0 ↑	2.0 ↑	5.2	1.8	1.2	1.9
Fixed investment:								
Residential	-0.1 ↑	10.3 ↑	-1.3 ↓	-0.7 ↓	-11.0	8.0	2.2	2.7
Other	-8.5 ↑	7.8 ↓	5.8 ↑	5.6 ↓	-12.7	7.9	4.8	5.8
Total	-6.3 ↑	8.5 ↑	3.9 ↓	4.0 ↓	-12.3	7.9	4.1	5.1
Exports, goods & services	-15.0 ↑	3.6 ↓	10.3 →	6.3 ↓	-16.1	4.8	10.3	7.2
Imports, goods & services	-19.2 ↑	11.5 ↑	8.4 ↓	6.2 ↓	-19.4	10.7	9.4	7.7
Consumer price index (apc)	1.4 ↑	1.5 ↑	1.7 ↑	2.1 ↑	0.5	1.1	1.6	1.9
New Zealand TWI (avg yr to Mar)	72.2 ↑	74.0 ↑	73.7 ↑	73.2 ↑	71.5	72.1	72.0	71.9
90 day bank bill (avg yr to Mar)	0.3 →	0.3 ↑	0.5 ↑	0.9 ↑	0.3	0.1	0.1	0.4
10 year govt bond (avg yr to Mar)	0.9 ↑	1.6 ↑	1.9 ↑	2.2 ↑	0.8	1.0	1.4	1.7
Current account balance (NZ\$b; Mar yr)	-3.8 ↑	-9.4 ↑	-10.1 ↑	-10.4 ↑	-5.6	-10.7	-11.2	-12.3
Employment	-0.5 ↑	1.4 ↑	2.5 ↓	2.2 ↓	-1.6	0.8	2.6	2.6
Unemployment (% of labour force)	5.1 ↓	5.1 ↓	4.7 ↓	4.5 ↓	5.9	6.3	5.7	5.2
Wages (private sector avg hourly earnings)	3.5 ↑	3.2 ↑	2.8 ↑	3.3 ↑	2.8	1.9	1.7	2.6
Government operating balance (NZ\$b, September yr)	-16.4 ↑	-10.7 ↑	-4.5 ↑	-6.9 ↑	-26.9	-17.8	-13.0	-7.4

Source: NZIER

Table 2 Breakdown of the forecasts

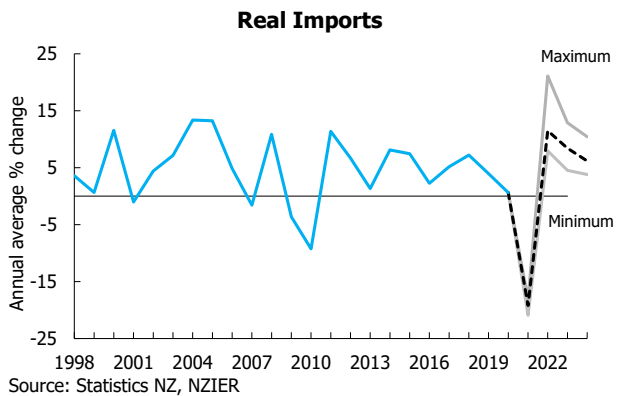
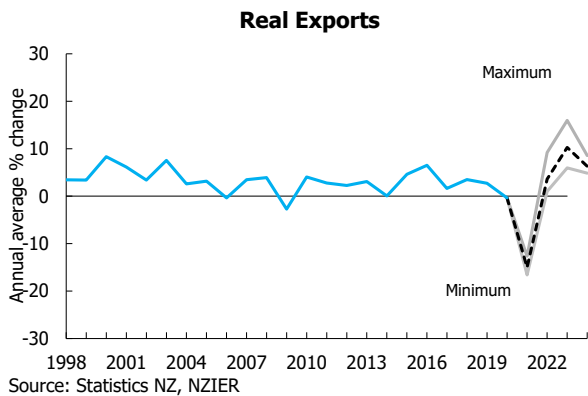
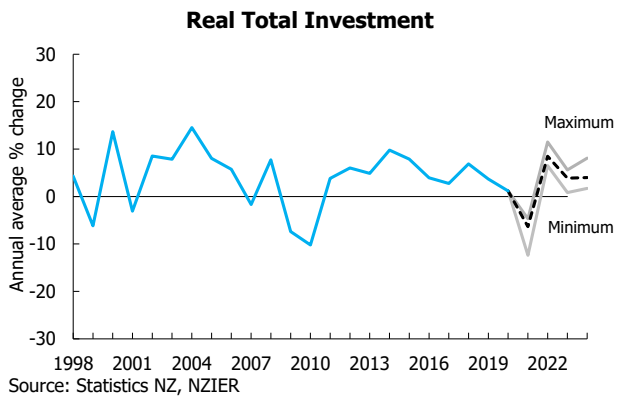
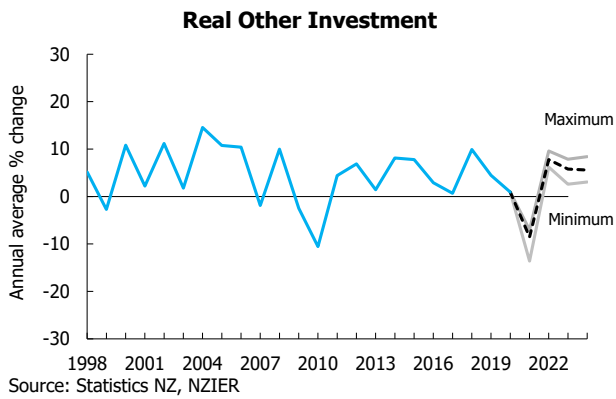
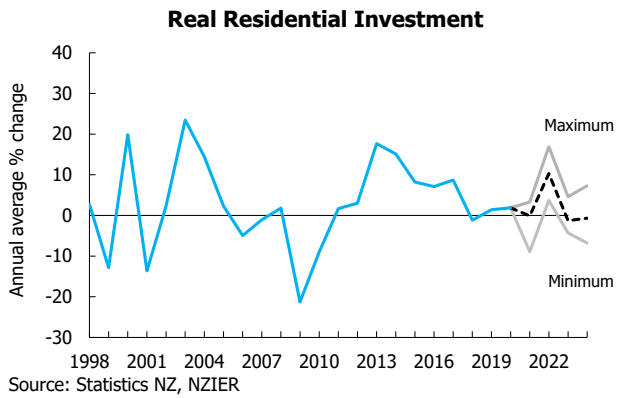
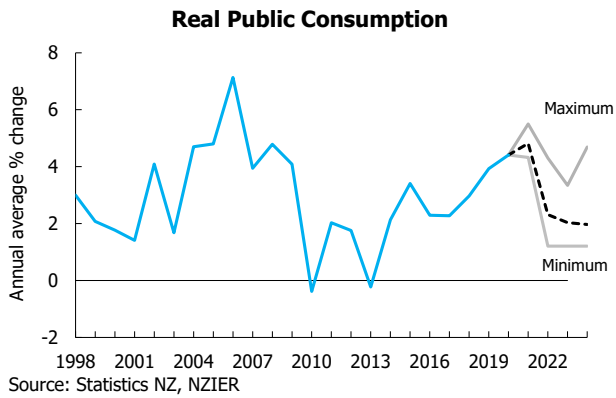
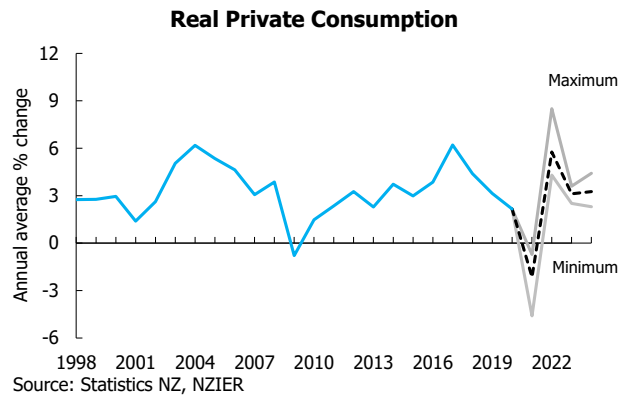
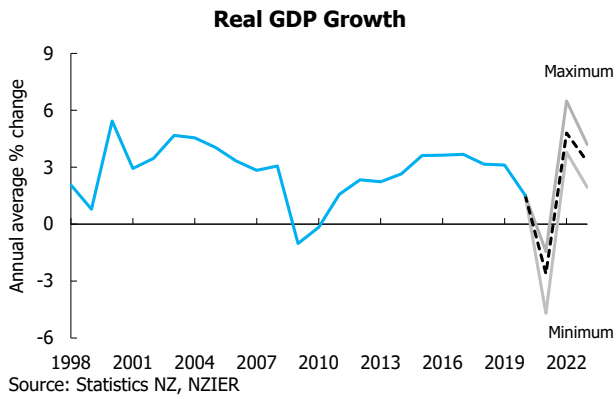
qpc, quarters	Dec-20 f			Mar-21 f			Jun-21 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	-0.7	0.3	2.2	-0.7	-0.1	1.0	0.3	0.7	1.9
	Mar-21 f			Jun-21 f			Sep-21 f		
CPI (qpc)	0.4	0.8	1.1	-0.4	0.3	0.6	0.4	0.6	0.8

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	-4.7	-2.6	-1.4	3.8	4.8	6.5	1.9	3.3	4.2	2.4	2.9	3.9
Private consumption	-4.6	-2.1	-0.7	4.3	5.8	8.5	2.5	3.1	3.6	2.3	3.3	4.4
Public consumption	4.3	4.8	5.5	1.2	2.3	4.3	1.2	2.0	3.3	1.2	2.0	4.7
Fixed investment												
- Residential	-8.9	-0.1	3.3	3.7	10.3	16.9	-4.3	-1.3	4.6	-6.8	-0.7	7.3
- Other	-13.6	-8.5	-7.0	6.2	7.8	9.6	2.6	5.8	7.9	3.1	5.6	8.4
- Total	-12.4	-6.3	-4.7	6.5	8.5	11.5	0.8	3.9	5.6	1.7	4.0	8.1
Exports, goods and services	-16.6	-15.0	-12.6	1.0	3.6	9.2	6.0	10.3	16.0	4.9	6.3	8.5
Imports, goods and services	-20.9	-19.2	-18.1	8.0	11.5	21.1	4.5	8.4	12.9	3.8	6.2	10.4
Consumer price index (apc)	0.7	1.4	1.7	0.7	1.5	2.1	1.1	1.7	2.3	1.7	2.1	2.7
New Zealand TWI (avg yr to Mar)	70.2	72.2	73.3	69.7	74.0	76.6	69.5	73.7	75.6	69.3	73.2	75.5
90 day bank bill (avg yr to Mar)	0.3	0.3	0.4	0.2	0.3	0.4	0.2	0.5	0.9	0.2	0.9	1.9
10 year government stock (avg yr to Mar)	0.6	0.9	1.1	0.5	1.6	2.2	0.8	1.9	2.5	1.3	2.2	2.7
Current account balance (NZ\$m; Mar yr)	-5.1	-3.8	-1.3	-12.8	-9.4	-6.2	-12.3	-10.1	-5.8	-13.7	-10.4	-3.3
Employment	-1.9	-0.5	0.3	0.3	1.4	3.1	1.5	2.5	4.2	1.4	2.2	3.5
Unemployment rate (% of labour force)	4.8	5.1	5.4	4.2	5.1	6.8	3.9	4.7	6.5	3.8	4.5	5.3
Wages (private sector avg hourly earnings)	3.4	3.5	3.6	2.8	3.2	3.4	2.6	2.8	3.1	2.7	3.3	3.7
Government operating balance (NZ\$m, December yr)	-21.6	-16.4	-7.2	-16.4	-10.7	4.1	-11.5	-4.5	14.5	-8.1	-6.9	-4.9

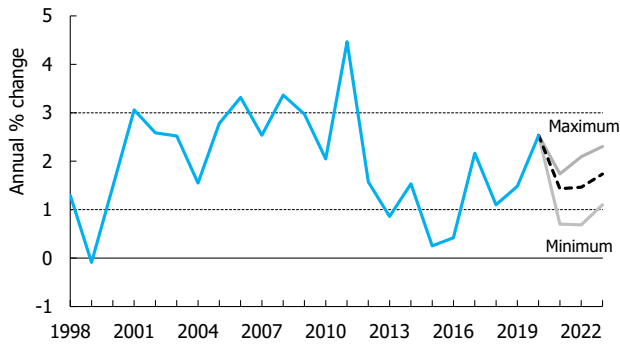
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

Summary charts

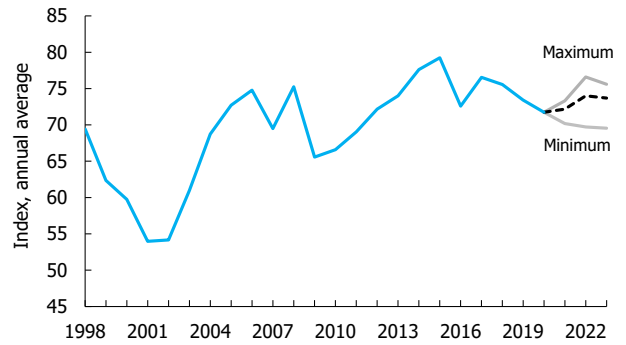


Annual Consumer Price Inflation



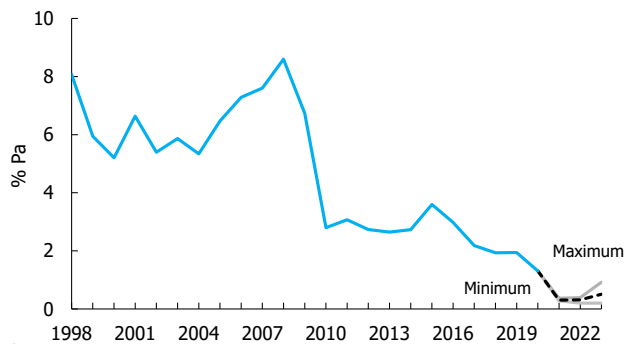
Source: Statistics NZ, NZIER

NZD TWI



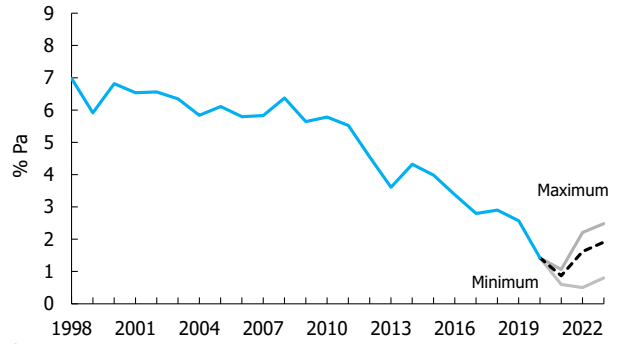
Source: RBNZ, NZIER

90 Day Bank Bills



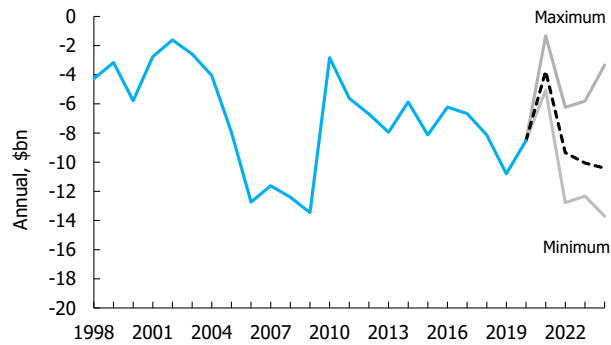
Source: RBNZ, NZIER

10 Year Government Bond Yield



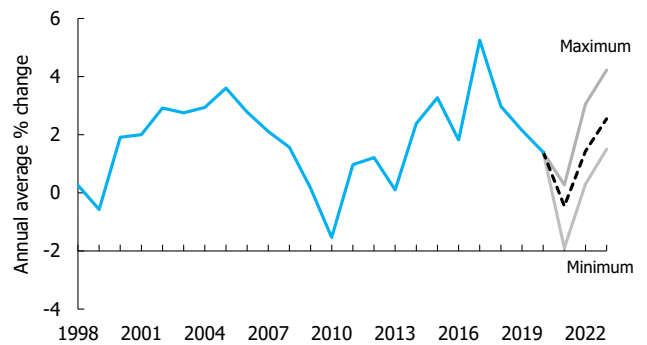
Source: RBNZ, NZIER

Current Account Balance



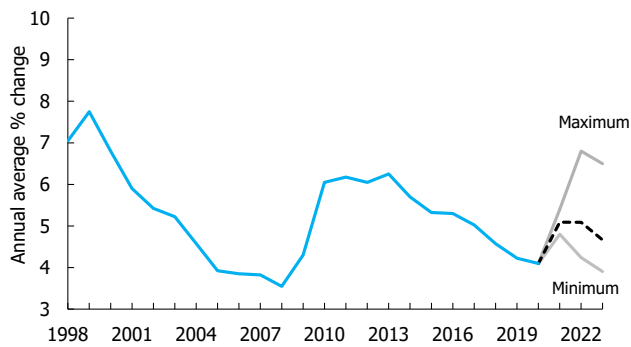
Source: RBNZ, NZIER

Employment Growth



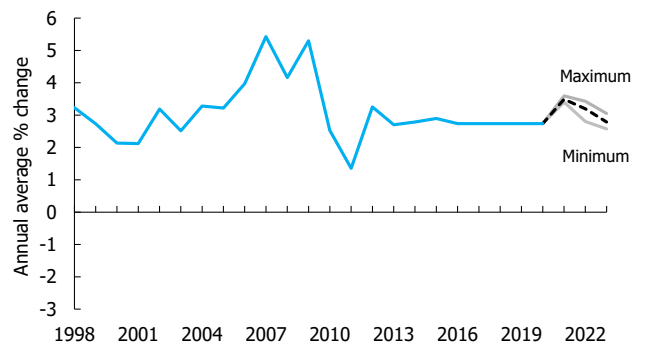
Source: Statistics NZ, NZIER

Unemployment Rate

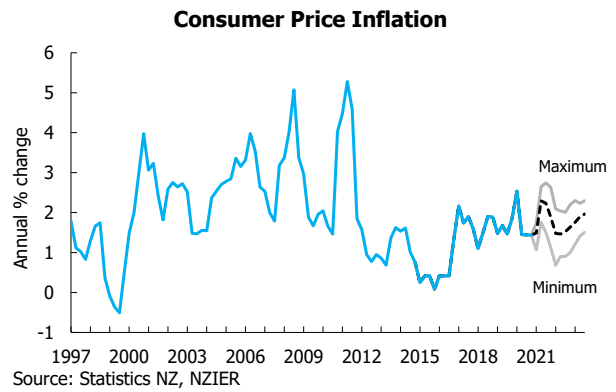
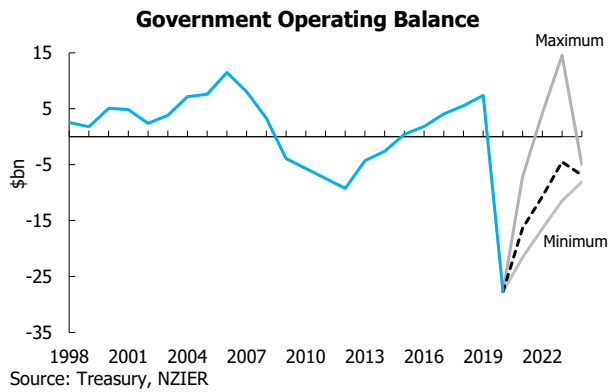


Source: Statistics NZ, NZIER

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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