

NZ Institute of Economic Research (Inc)  
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# Consensus Forecasts

## NZIER *Consensus Forecasts* shows a softer growth outlook

The latest NZIER *Consensus Forecasts* expects a slight downward revision to the growth outlook for the next two years.

Expectations of weaker household and Government spending over the next two years drive much of the moderation. Household spending has been very strong in recent years, but there are signs this is starting to slow as consumer confidence eases.

Meanwhile, the outlook for investment has been revised up for the coming year. This is largely a timing issue – forecasters now expect a faster ramp up in residential construction, but weaker activity in subsequent years.

Capacity constraints in the construction sector remain a key uncertainty weighing on the construction outlook, which is reflected in the wide variation in these forecasts.

The labour market is expected to remain tight, with the unemployment rate forecast to head gradually towards 4.1 percent by 2022. This is expected to flow through to higher wage growth later in the projection.

Inflation is expected to remain contained, with annual CPI inflation expected to oscillate around 2 percent over the next few years.

**Figure 1 Economic growth outlook still solid despite slight downward revision**



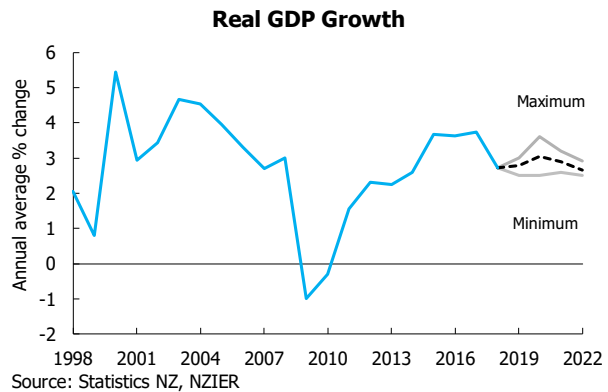
Source: Statistics NZ, NZIER

## Softer near-term growth outlook

There is a further slight downward revision to the growth outlook for the near term in the latest *Consensus Forecasts*.

Recent activity indicators suggest slightly softer growth for the next year, but demand is still holding up reasonably well.

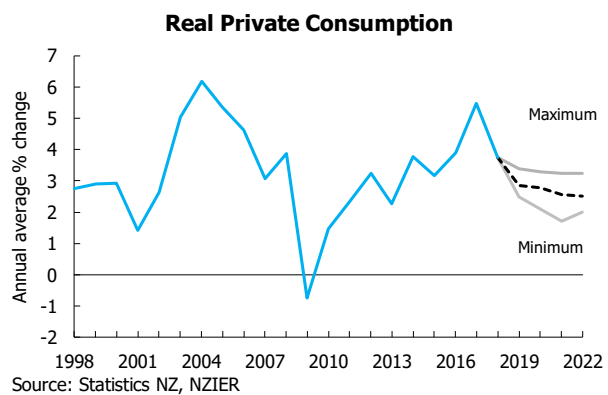
Annual GDP growth is expected to peak at 3.1 percent for the year to March 2020 before moderating to 2.7 percent by 2022, averaging 2.9 percent out to 2020.



## Household spending revised down

A softer outlook for household spending drives much of the downward revision to the near-term growth outlook.

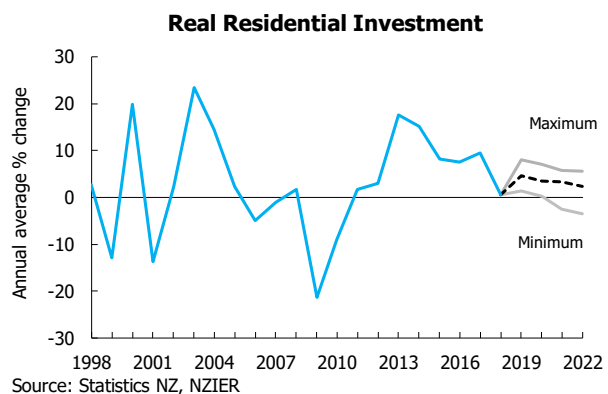
Following robust growth in recent years, annual growth in household spending is expected to ease to 2.5 percent by March 2022. Although the strong labour market is expected to support household income and in turn spending, there is likely to be some offset from slowing population growth.



## Residential construction brought forward

The outlook for residential construction has been revised up for the coming year, but lower in the subsequent years.

Demand is strong, reflecting the effects of the population surge in recent years. But a large degree of uncertainty remains over the extent to which construction activity can ramp up, given ongoing capacity constraints in the sector.



## Export outlook revised up in the near term

Export growth forecasts have been revised up for the coming year, but are lower in the subsequent years. A pick-up in global growth and a lower NZD is supporting export demand, but increasing trade tensions are weighing on the export outlook.

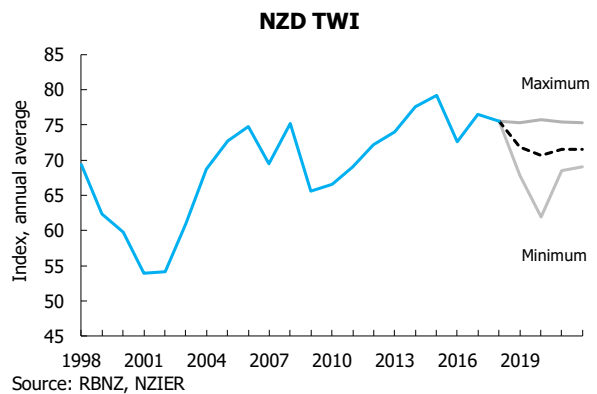
Annual export growth is expected to peak at 3.5 percent in March 2020 before easing to 2.6 percent by 2022.



## NZD expectations again revised lower

The NZD has depreciated recently, following the Reserve Bank's indication in its August *Monetary Policy Statement* that it would likely keep the OCR on hold at its record low of 1.75 percent for longer. The central bank also highlighted the potential for an OCR cut should economic growth not pick up as much as it forecast. This would reduce the yield attractiveness of the NZD.

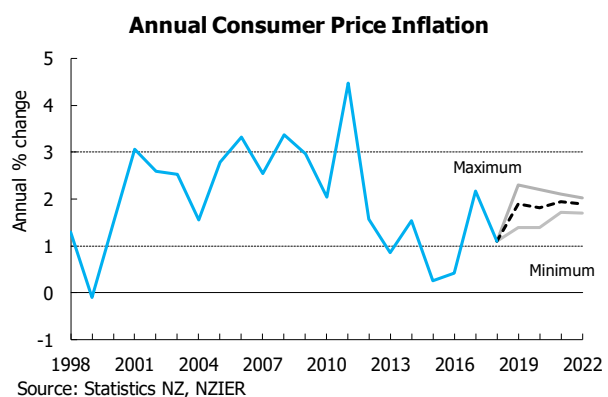
The NZD TWI is expected to reach 71.5 by 2022.



## Inflation outlook remains broadly unchanged

Annual inflation picked up to 1.5 percent for the year to June 2018, with major contributors being higher housing-related and petrol prices. Broader inflation pressures remain muted despite signs of capacity pressures in some areas of the economy.

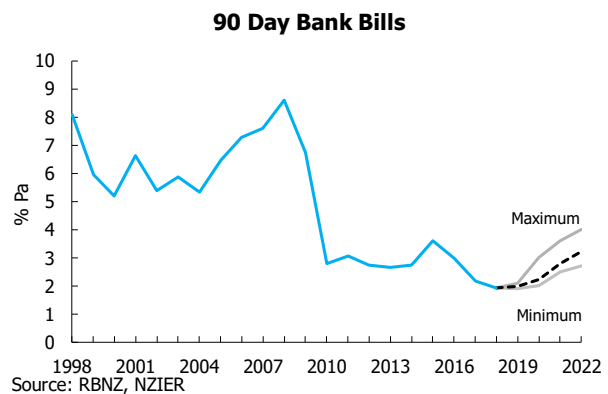
Forecasters expect annual inflation to pick up to 2 percent in March 2019 and track around this level in the subsequent years.



## Interest rates revised lower later in the projection

The Reserve Bank has pushed back its forecast of when it expected to lift the OCR to the second half of 2019. The central bank also highlighted the potential for the OCR to be cut.

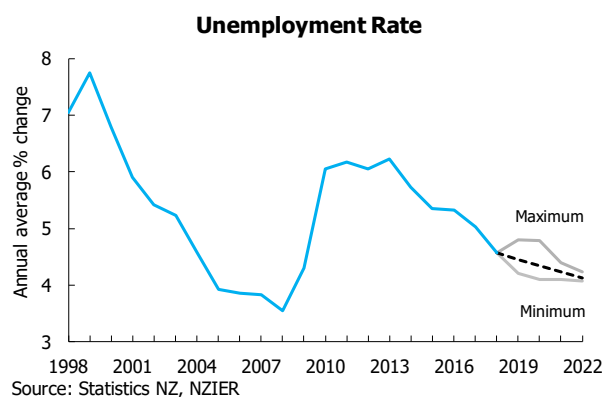
*Consensus Forecasts* for interest rates have been revised lower beyond 2019, reflecting expectations of a later start to the tightening cycle.



## Labour market expected to remain tight

Businesses are still looking to hire, but labour shortages remain acute. With slowing net migration limiting the expansion in the supply of workers, the unemployment rate is expected to remain low.

*Consensus Forecasts* are for annual employment growth to moderate to 1.5 percent by 2022, but for the unemployment rate to edge down to 4.1 percent due to weaker labour supply growth.



**Table 1 Latest Consensus Forecasts compared to previous**

aapc, March years	Sep-2018 survey				Jun-2018 survey			
	2018/19	2019/20	2020/21	2021/22	2017/18	2018/19	2019/20	2020/21
GDP	2.8 ↓	3.1 ↓	2.9 →	2.7	2.8	2.9	3.2	2.9
Private consumption	2.8 ↓	2.8 ↓	2.6 ↑	2.5	4.1	3.4	2.9	2.4
Public consumption	2.5 ↓	2.7 ↓	2.7 ↑	3.2	5.0	3.3	2.8	2.6
Fixed investment:								
Residential	4.6 ↑	3.6 ↓	3.3 ↓	2.3	0.6	2.9	3.7	3.9
Other	4.2 ↑	3.7 ↓	3.7 ↓	3.4	4.8	3.8	4.1	3.8
Total	4.3 ↑	3.7 ↓	3.6 ↓	3.1	3.6	3.5	4.0	3.9
Exports, goods & services	2.5 ↑	3.5 ↓	2.9 ↓	2.6	4.2	1.6	3.8	3.2
Imports, goods & services	4.5 ↑	3.0 ↓	2.9 ↓	3.1	6.4	3.5	3.7	3.2
Consumer price index (apc)	1.9 →	1.8 →	2.0 ↑	1.9	1.1	1.9	1.8	1.9
New Zealand TWI (avg yr to Mar)	71.8 ↓	70.6 ↓	71.5 ↓	71.5	75.5	72.6	72.3	72.0
90 day bank bill (avg yr to Mar)	2.0 →	2.2 ↓	2.8 ↓	3.2	1.9	2.0	2.5	3.1
10 year govt bond (avg yr to Mar)	2.9 ↓	3.3 ↓	3.7 ↓	3.9	2.9	3.1	3.5	3.9
Current account balance (NZ\$b; Mar yr)	-10.2 ↓	-11.1 ↓	-11.6 ↓	-13.5	-7.5	-9.2	-9.6	-9.7
Employment	2.0 →	1.7 ↑	1.6 ↑	1.5	3.1	2.0	1.6	1.5
Unemployment (% of labour force)	4.4 ↑	4.3 →	4.2 →	4.1	4.5	4.3	4.3	4.2
Wages (private sector avg hourly earnings)	2.7 ↓	3.0 ↓	3.5 ↑	2.9	2.9	3.6	3.2	3.1
Government operating balance (NZ\$b, September yr)	2.7 ↓	4.7 ↓	5.3 ↓	6.9	4.4	4.2	6.0	6.3

**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**

<b>qpc, quarters</b>	<b>Jun-18 f</b>			<b>Sep-18 f</b>			<b>Dec-18 f</b>					
	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>			
GDP (seasonally adjusted, qpc)	0.5	0.8	1.0	0.6	0.7	0.9	0.4	0.8	1.1			
	<b>Sep-18 f</b>			<b>Dec-18 f</b>			<b>Mar-19 f</b>					
CPI (qpc)	0.4	0.6	0.8	0.0	0.3	0.5	0.4	0.6	0.8			
<b>aapc, March years</b>	<b>2018/2019 f</b>			<b>2019/2020 f</b>			<b>2020/2021 f</b>			<b>2021/2022 f</b>		
	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>
GDP	2.5	2.8	3.0	2.5	3.1	3.6	2.6	2.9	3.2	2.5	2.7	2.9
Private consumption	2.5	2.8	3.4	2.1	2.8	3.3	1.7	2.6	3.2	2.0	2.5	3.2
Public consumption	1.9	2.5	3.2	1.8	2.7	4.2	1.6	2.7	5.0	1.8	3.2	5.7
Fixed investment												
- Residential	1.4	4.6	8.1	0.3	3.6	7.0	-2.6	3.3	5.7	-3.5	2.3	5.6
- Other	2.6	4.2	7.3	1.0	3.7	7.1	2.5	3.7	4.7	2.7	3.4	4.7
- Total	3.1	4.3	6.0	0.8	3.7	6.4	2.4	3.6	4.8	2.5	3.1	3.8
Exports, goods and services	1.4	2.5	3.7	2.8	3.5	4.4	2.0	2.9	3.8	1.4	2.6	3.5
Imports, goods and services	3.6	4.5	5.5	2.1	3.0	4.1	2.4	2.9	3.6	2.7	3.1	3.4
Consumer price index (apc)	1.4	1.9	2.3	1.4	1.8	2.2	1.7	2.0	2.1	1.7	1.9	2.0
New Zealand TWI (avg yr to Mar)	67.9	71.8	75.3	61.9	70.6	75.8	68.6	71.5	75.4	69.1	71.5	75.3
90 day bank bill (avg yr to Mar)	1.9	2.0	2.1	2.0	2.2	3.0	2.5	2.8	3.6	2.7	3.2	4.0
10 year government stock (avg yr to Mar)	2.7	2.9	3.2	2.9	3.3	3.7	3.4	3.7	4.1	3.4	3.9	4.4
Current account balance (NZ\$b; Mar yr)	-11.6	-10.2	-9.1	-12.5	-11.1	-9.5	-14.3	-11.6	-8.7	-18.3	-13.5	-10.6
Employment	1.5	2.0	2.7	1.6	1.7	1.9	1.4	1.6	2.1	1.2	1.5	2.0
Unemployment rate (% of labour force)	4.2	4.4	4.7	4.1	4.3	4.6	4.1	4.2	4.4	4.1	4.1	4.2
Wages (private sector avg hourly earnings)	2.0	2.7	3.1	2.3	3.0	3.7	2.5	3.5	5.2	2.5	2.9	3.4
Government operating balance (NZ\$m, December yr)	-0.4	2.7	6.8	2.7	4.7	8.8	3.3	5.3	9.6	2.7	6.9	11.7

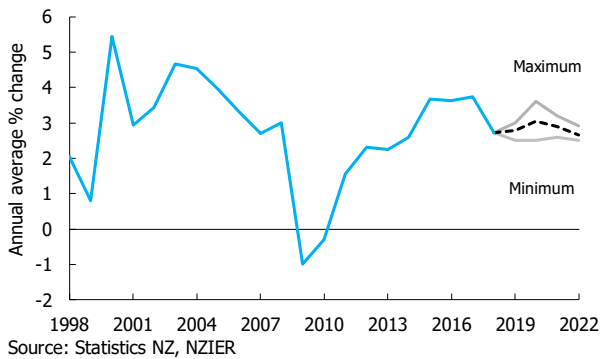
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change  
 These results show only means; standard deviations are available on request

Source: NZIER

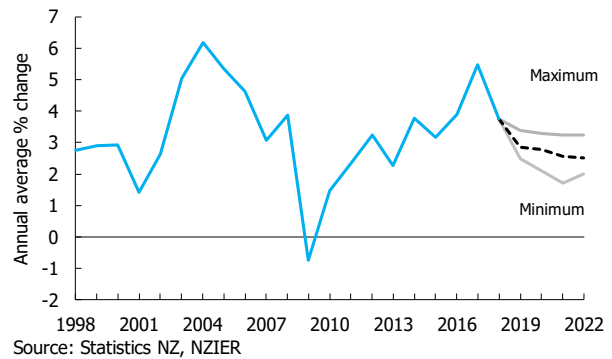
Note: qpc = quarterly percent change.

## Summary charts

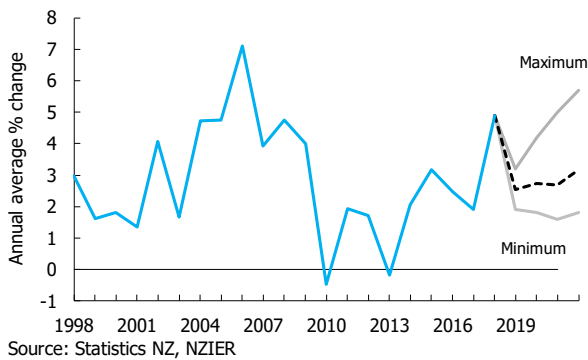
**Real GDP Growth**



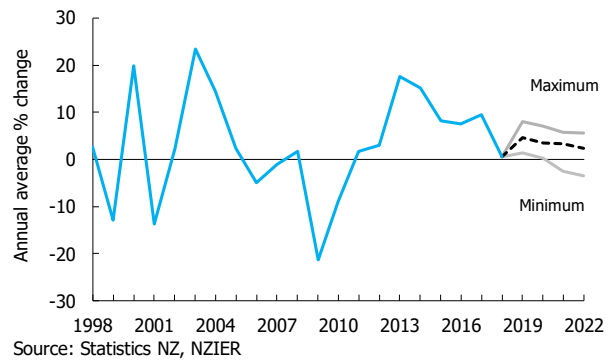
**Real Private Consumption**



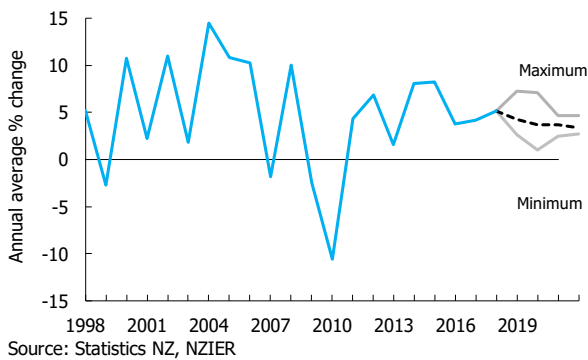
**Real Public Consumption**



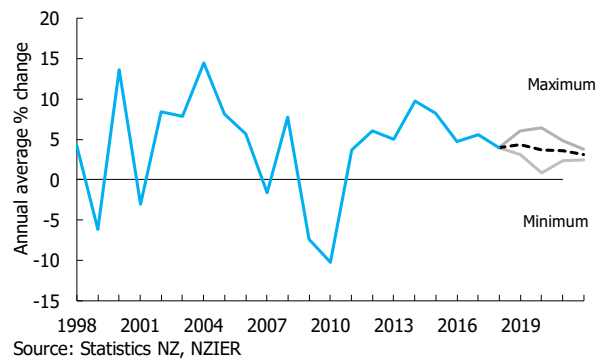
**Real Residential Investment**



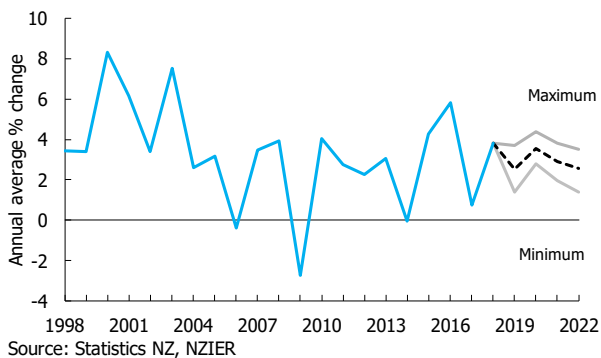
**Real Other Investment**



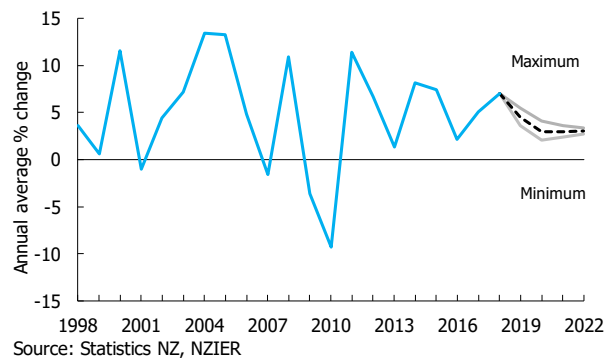
**Real Total Investment**



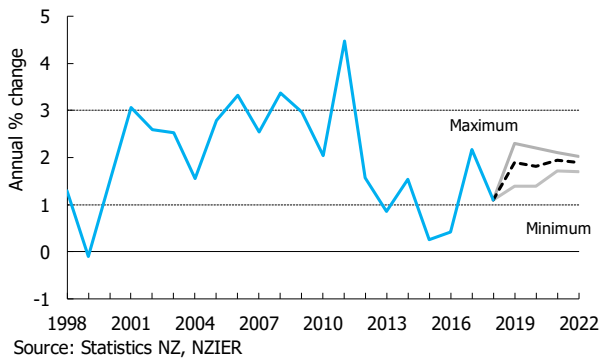
**Real Exports**



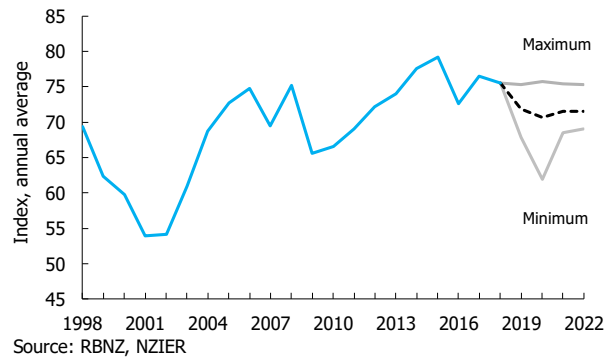
**Real Imports**



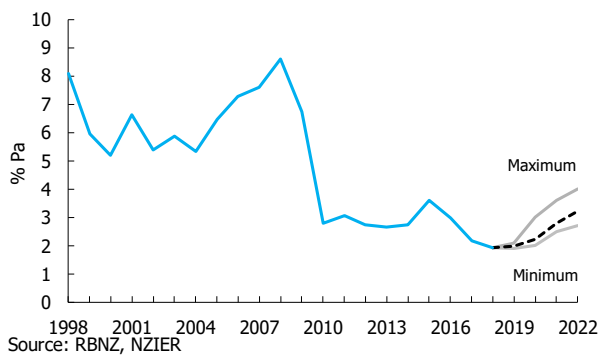
**Annual Consumer Price Inflation**



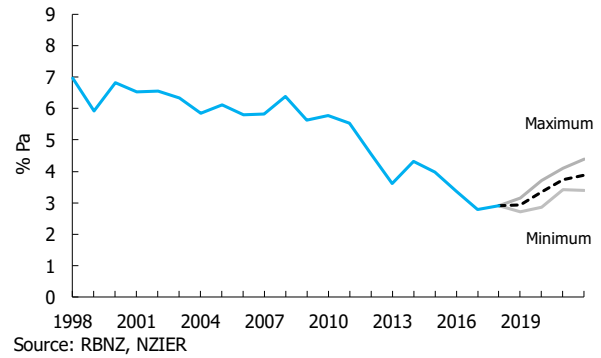
**NZD TWI**



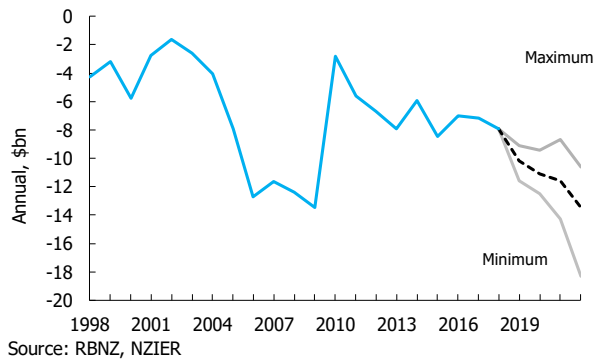
**90 Day Bank Bills**



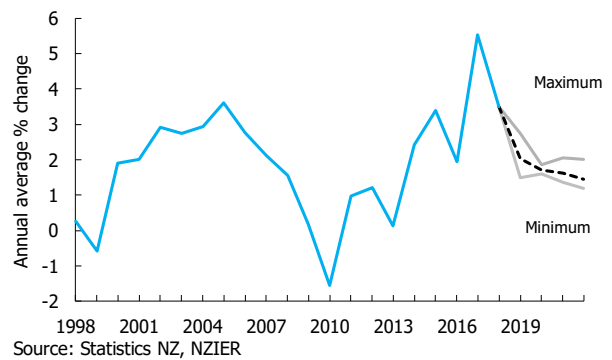
**10 Year Government Bond Yield**



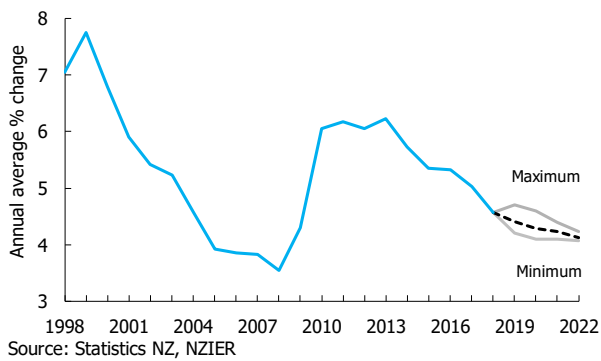
**Current Account Balance**



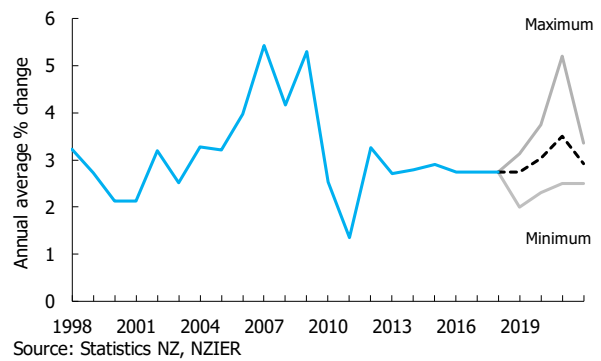
**Employment Growth**

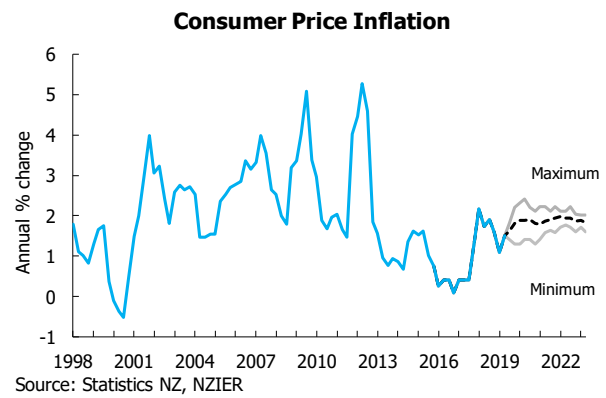
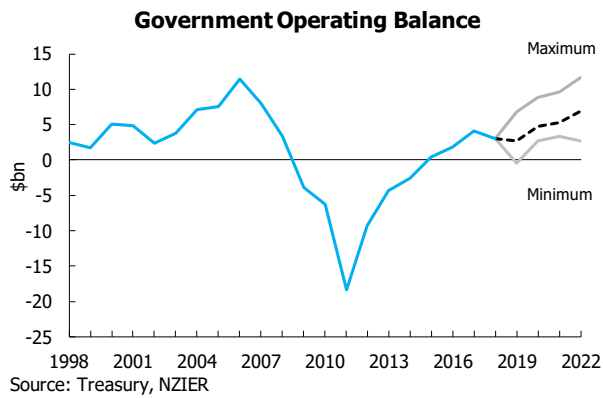


**Unemployment Rate**



**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. 2018 refers to the year ended March 2018.*

## 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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