

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

Broad-based, stronger growth ahead

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. 2014 refers to the year ended March 2014.

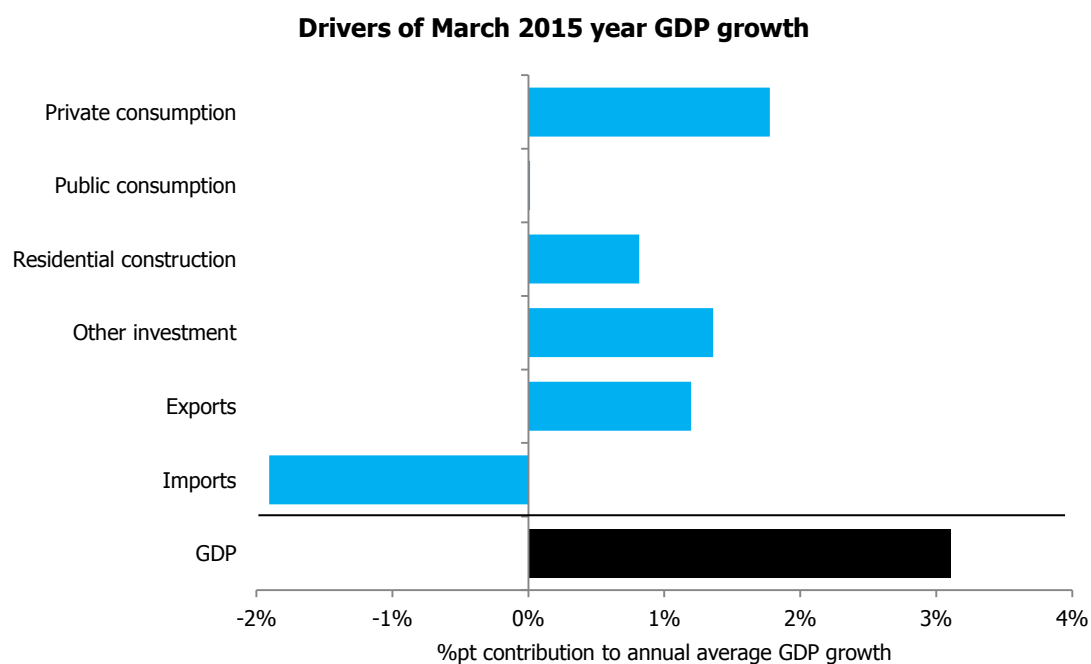
The New Zealand economy will grow strongly over the next couple of years, according to the latest NZIER *Consensus Forecasts*. Economic growth will pick up from 2.8% in the March 2014 year to 3.1% the following year. Economic growth will be broad-based across household spending, investment and exports (Figure 1).

Exports this year were depressed by a drought, but will grow strongly in future years. Dairy production has already recovered strongly from the summer drought.

The labour market will improve. There will be more jobs, fewer unemployed and wages will grow, and the pace of improvement is better than previously forecast.

Inflation will pick up towards 2.5% over the next few years. Interest rates will gradually increase from early 2014.

Figure 1 Broad-based economic growth



Stronger economic growth

The economic recovery will strengthen further. The Canterbury rebuild is a key driver. There is also a broadening recovery across other investment, exports and household spending.

Economic growth will accelerate from 2.8% in 2014 to 3.1% in 2015 before easing off slightly in 2016 (2.5%) and 2017 (2.1%).

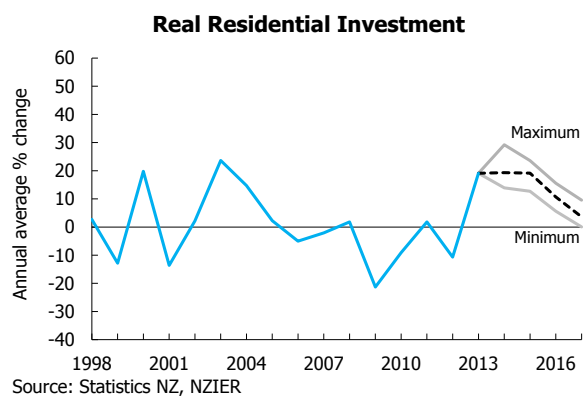
Economic growth is forecast at 1.1% in the September 2013 quarter.



Robust residential construction

Residential construction will continue to grow strongly. The Canterbury rebuild is gathering pace and there is also a cyclical recovery in other regions, particularly Auckland.

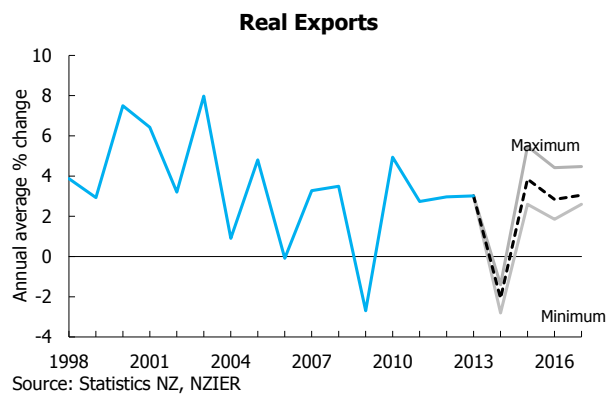
Residential investment growth will still be very strong at 19.3% and 19.2% in 2014 and 2015 respectively. Activity will continue to grow, but at a more moderate pace in 2016 (+10.7%) and 2017 (+3.6%).



Exports to rebound from drought

The 2013 summer drought will lower exports in 2014. There is a convergence of views, with a short, sharp dip in exports in 2014.

Exports will rebound strongly from the drought, growing at an average pace of 3.2% per year, in the following three years. Exports are forecast to grow robustly, even though the exchange rate is expected to stay elevated through the forecast horizon.

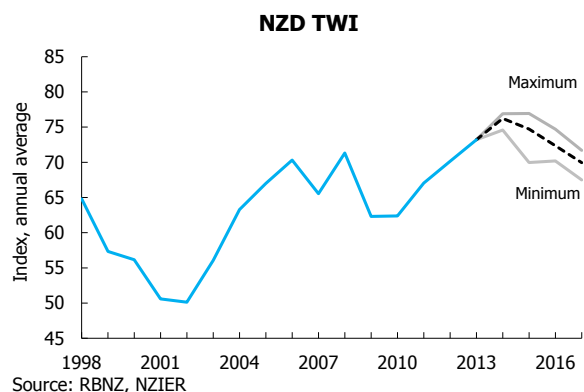


Exchange rate to remain elevated

The NZD will gradually ease from current highs, but the level will remain high compared to history.

On a trade weighted basis, the New Zealand dollar is expected to be a little higher than previously thought.

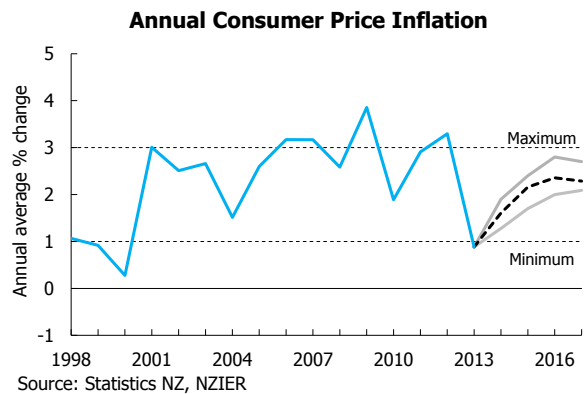
Exporters should plan for a high exchange rate for some time. A high exchange rate favours imports.



Accelerating inflation

Consumer price inflation will gradually lift from an annual average rate of 1% in September, to 2.4% by 2016. The acceleration is gradual but will be approaching the top half of the RBNZ's 1-3% target band by 2016.

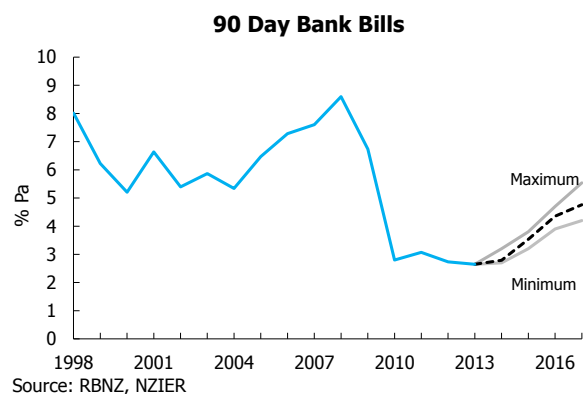
Inflation forecasts have been revised slightly lower over the forecast horizon. This is consistent with expectations of a slightly higher exchange rate, which reduces import prices.



Interest rate increases from 2014

Interest rates will lift from early 2014. The 90 day bank bill rate, which mirrors floating mortgage rates, will rise by 1.7 percentage points by early 2016. The floating mortgage rate is currently around 6% and could rise to 7.6% by early 2016.

On average, the 90 day bank bill rate is forecast to increase from 2.8% in 2014 to 3.5%, 4.4% and 4.8% in 2015, 2016 and 2017 respectively.



Improving labour market

The labour market will improve over the forecast horizon. The unemployment rate will reduce from current historically high level, towards the past decade average of 5%.

Wages will grow at a reasonable pace over the next three years (3% on average). The growth in wages will outpace increases in the cost of living by close to 1% a year.



Fiscal surplus closer

The government operating balance will be in deficit in 2014, but be in surplus in 2015 and continue improving thereafter.

The consensus forecast of a return to surplus in 2015 is consistent with the government's stated goal in the May 2013 Budget.

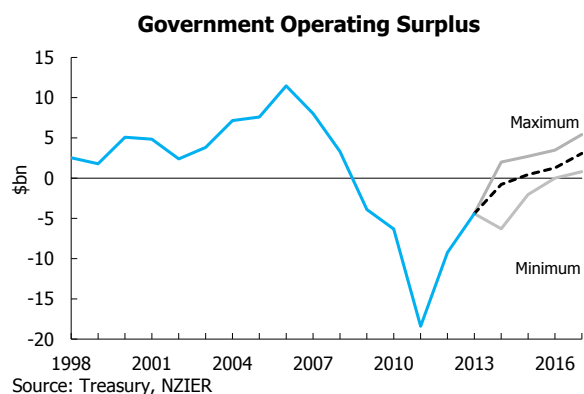


Table 1 Previous and latest consensus forecasts

aapc, March years	Dec-2013 survey				Sep-2013 survey		
	2013/14	2014/15	2015/16	2016/17	2013/14	2014/15	2015/16
GDP	2.8 ↑	3.1 ↑	2.5 ↑	2.1	2.6	3.0	2.3
Private consumption	3.7 ↑	2.8 →	2.2 ↑	1.7	3.3	2.8	2.1
Public consumption	0.3 ↑	0.1 ↓	0.6 →	0.9	0.2	0.5	0.6
Fixed investment:							
Residential	19.3 ↓	19.2 ↑	10.7 ↑	3.6	24.8	17.0	8.4
Other	10.2 ↑	6.8 ↓	3.9 ↑	2.3	7.3	7.5	3.5
Total	12.2 ↑	9.0 ↓	5.1 ↑	2.7	11.1	9.4	4.5
Exports, goods & services	-2.1 ↓	3.8 ↑	2.8 ↓	3.1	0.7	3.4	3.1
Imports, goods & services	6.4 ↑	5.1 ↓	3.0 →	2.0	6.1	5.2	3.0
Consumer price index (apc)	1.6 ↓	2.2 ↓	2.4 →	2.3	1.7	2.3	2.4
New Zealand TWI (ave yr to Mar)	76.2 ↑	74.7 ↑	72.4 ↑	69.9	75.6	74.1	72.2
90 day bank bill (ave yr to Mar)	2.8 ↑	3.5 ↑	4.4 ↑	4.8	2.7	3.4	4.1
10 year govt bond (ave yr to Mar)	4.6 ↑	5.0 ↑	5.3 ↑	5.3	4.2	4.6	5.0
Current account balance (NZ\$b; Mar yr)	-9.0 ↑	-11.7 ↑	-13.4 ↓	-12.9	-10.2	-12.6	-13.3
Employment	2.8 ↑	2.0 →	1.4 ↑	0.9	2.1	2.0	1.2
Unemployment (% of labour force)	5.9 ↓	5.4 ↓	5.2 ↓	5.3	6.0	5.5	5.3
Wages (private sector avg hourly earnings)	2.8 ↑	3.0 ↓	3.2 →	3.1	2.6	3.1	3.2
Government operating balance (NZ\$m, June yr)	-781 ↑	448 ↓	1,271 ↓	3,078	-1,555	529	1,589

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

Table 2 Quarterly forecasts for GDP & CPI

qpc, quarters	Sep-13 f			Dec-13 f			Mar-14 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	0.4	1.1	1.4	0.5	0.8	1.0	0.6	0.9	1.1
CPI (qpc)				-0.3	0.0	0.4	0.3	0.5	0.7

Source: NZIER

Note: qpc = quarterly percent change.

Table 3 Summary of results – June 2013 survey

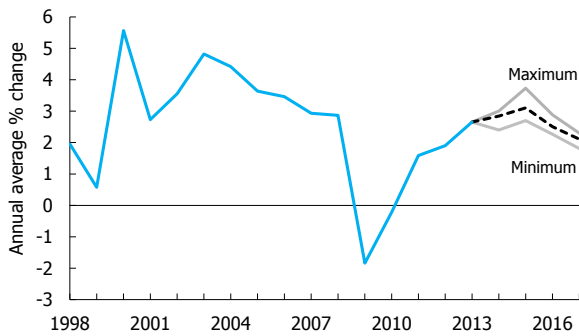
aapc, March years	2013/14 f			2014/15 f			2015/16 f			2016/17 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	2.4	2.8	3.0	2.7	3.1	3.7	2.3	2.5	2.9	1.8	2.1	2.3
Private consumption	2.8	3.7	4.1	2.2	2.8	3.4	1.7	2.2	2.9	1.3	1.7	2.0
Public consumption	-0.3	0.3	0.9	-0.3	0.1	0.6	0.3	0.6	0.9	0.4	0.9	1.8
Fixed investment												
- Residential	13.9	19.3	29.2	12.7	19.2	23.6	5.6	10.7	15.5	0.0	3.6	9.5
- Other	5.5	10.2	14.8	3.2	6.8	9.1	1.9	3.9	5.8	0.3	2.3	4.0
- Total	9.2	12.2	19.7	4.9	9.0	10.5	4.0	5.1	6.8	0.9	2.7	4.3
Exports, goods and services	-2.8	-2.1	-1.4	2.6	3.8	5.5	1.9	2.8	4.4	2.6	3.1	4.5
Imports, goods and services	4.7	6.4	7.6	4.0	5.1	7.3	1.8	3.0	3.6	1.3	2.0	2.8
Consumer price index (apc)	1.3	1.6	1.9	1.7	2.2	2.4	2.0	2.4	2.8	2.1	2.3	2.7
New Zealand TWI (ave yr to Mar)	74.6	76.2	76.9	70.0	74.7	76.9	70.2	72.4	74.7	67.5	69.9	71.7
90 day bank bill (ave yr to Mar)	2.7	2.8	3.2	3.2	3.5	3.8	3.9	4.4	4.7	4.2	4.8	5.5
10 year government stock (ave yr to Mar)	4.3	4.6	5.0	4.8	5.0	5.3	5.0	5.3	5.8	4.8	5.3	5.7
Current account balance (NZ\$b; Mar yr)	-10.9	-9.0	-8.2	-13.7	-11.7	-9.8	-14.3	-13.4	-11.7	-16.6	-12.9	-8.8
Employment	2.3	2.8	3.2	1.3	2.0	2.6	0.5	1.4	2.0	0.3	0.9	1.5
Unemployment rate (% of labour force)	5.7	5.9	6.1	5.0	5.4	5.9	4.8	5.2	5.5	5.0	5.3	5.7
Wages (private sector avg hourly earnings)	2.6	2.8	3.3	2.5	3.0	3.5	2.5	3.2	3.8	2.8	3.1	3.6
Government operating balance (NZ\$m, June yr)	-6,285	-781	2,000	-2,033	448	2,715	2	1,271	3,486	797	3,078	5,413

Source: NZIER

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.

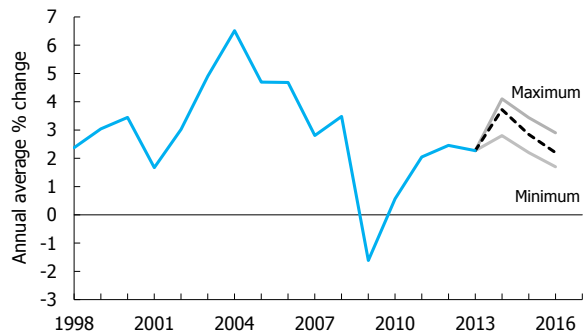
Summary charts

Real GDP Growth



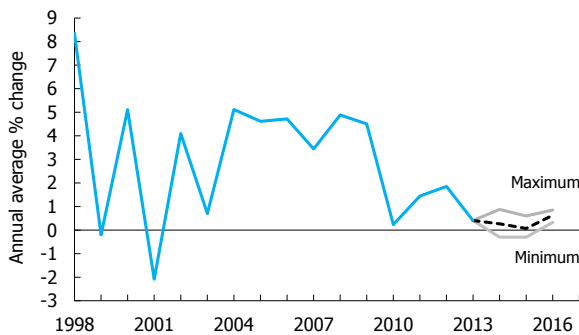
Source: Statistics NZ, NZIER

Real Private Consumption



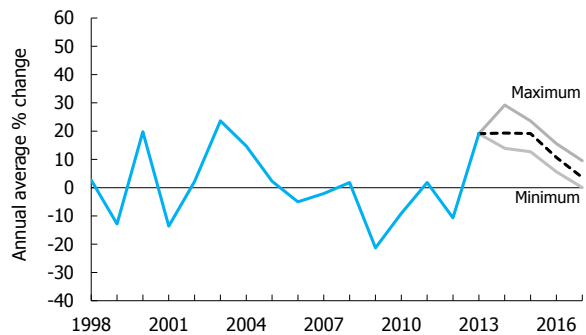
Source: Statistics NZ, NZIER

Real Public Consumption



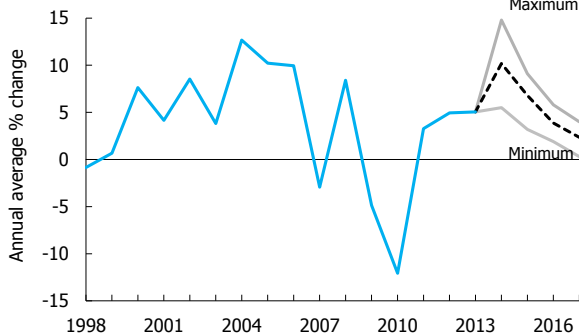
Source: Statistics NZ, NZIER

Real Residential Investment



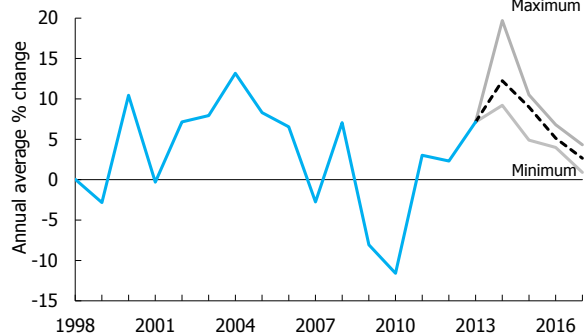
Source: Statistics NZ, NZIER

Real Other Investment



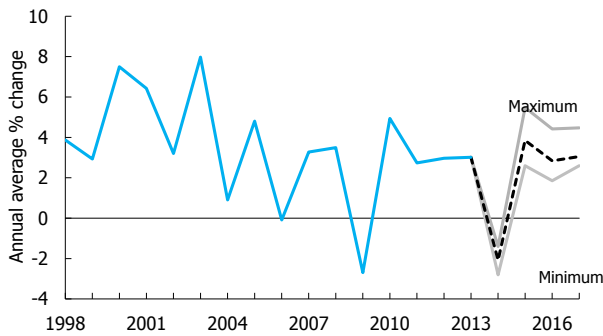
Source: Statistics NZ, NZIER

Real Total Investment



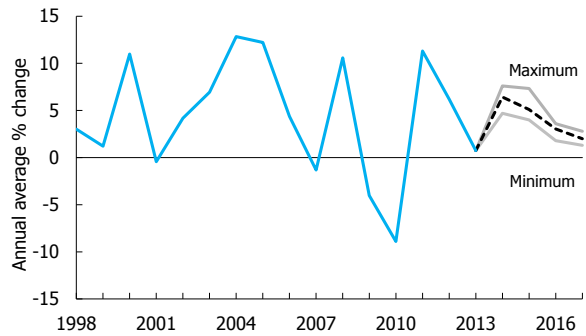
Source: Statistics NZ, NZIER

Real Exports

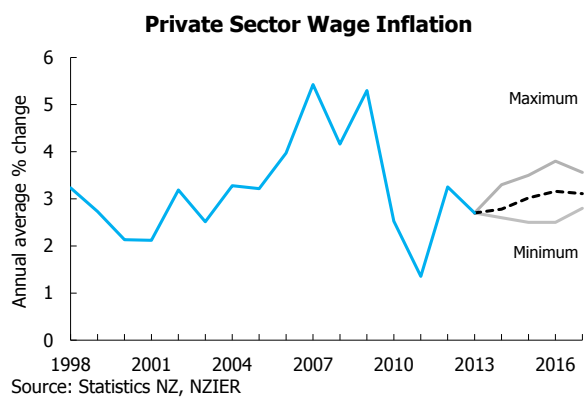
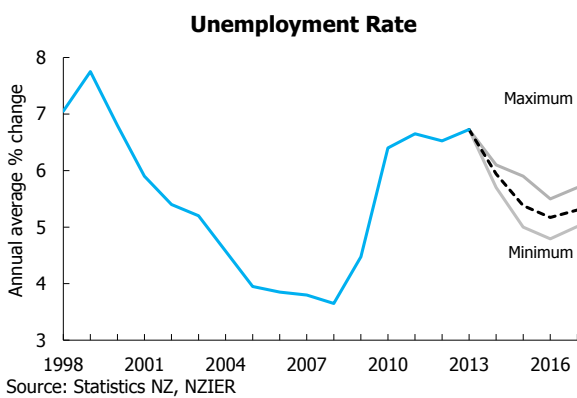
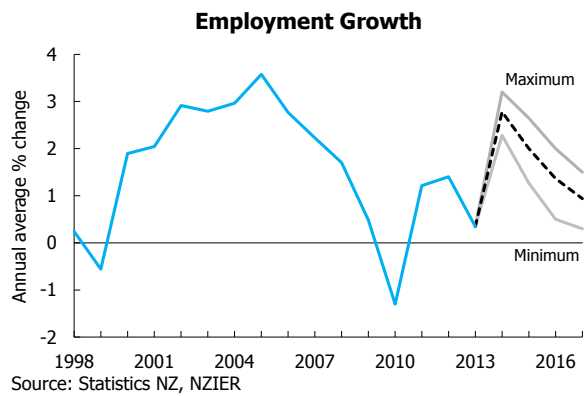
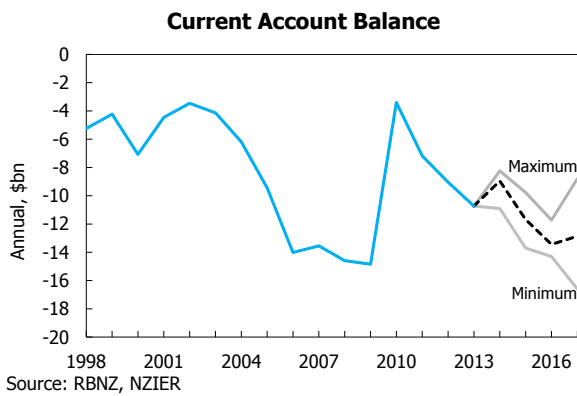
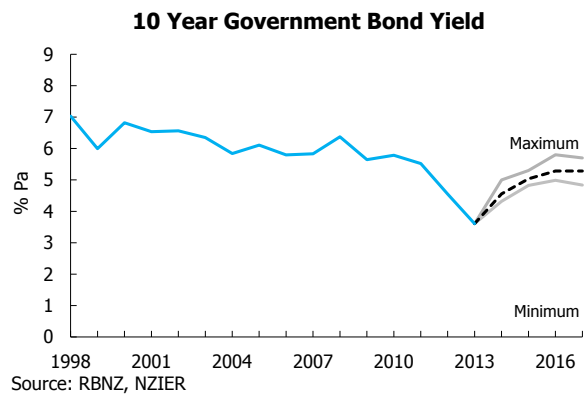
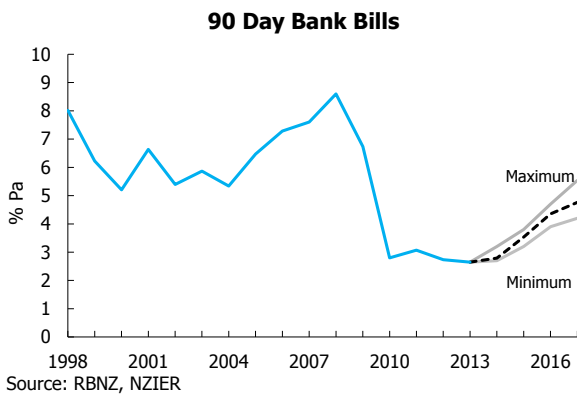
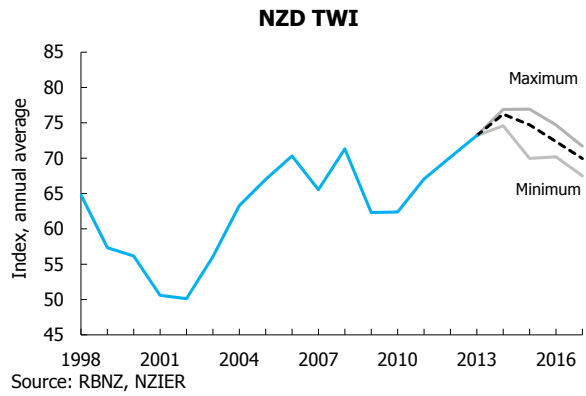
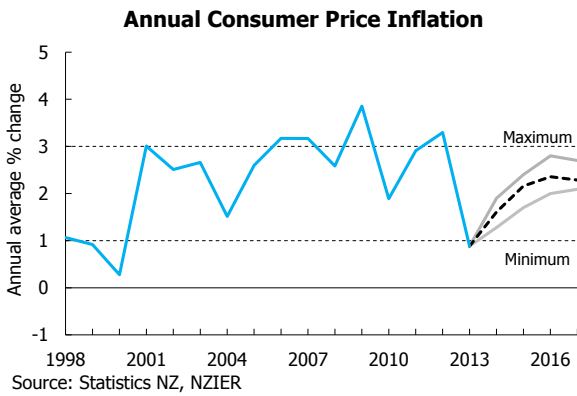


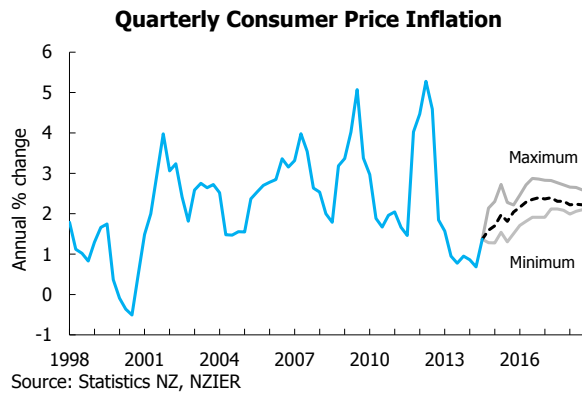
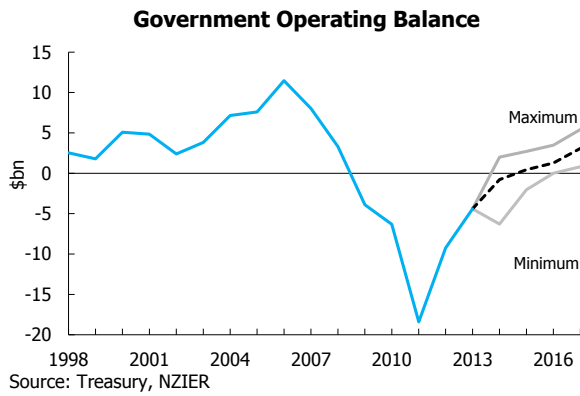
Source: Statistics NZ, NZIER

Real Imports



Source: Statistics NZ, NZIER





Respondents

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