

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

Sustained but gradual recovery

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 is recovering from the recession. The latest NZIER *Consensus Forecasts* predict further gradual economic growth.

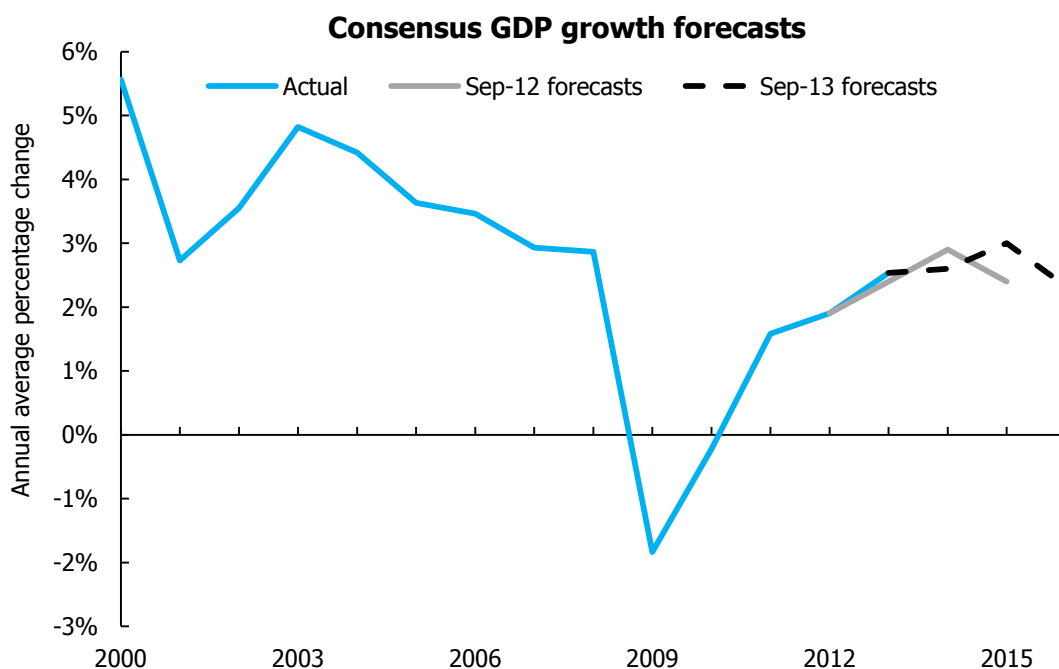
Economic growth will pick up over the next two years, boosted by the Canterbury rebuild and a gradual underlying recovery. Economic growth will average 2.6% over the next three years, better than the past three years (at 1.0% per year), but slower than the 2001-2008 period (3.0% per year).

The drought will flatten export growth in 2014, but economic growth will remain sound as other parts of the economy grow.

The labour market will improve further. There will be more jobs, fewer unemployed and wages will grow, albeit slower than previously forecast.

Inflation will pick up to 2.4% by 2016, up from less than 1% now. Inflation though will remain in the RBNZ's 1%-3% target band. Interest rates will rise gradually from early 2014.

Figure 1 Gradual acceleration in economic growth



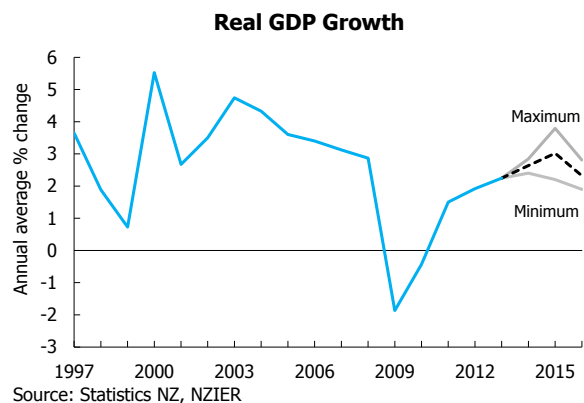
Source: Statistics NZ, NZIER

Slow and steady recovery

The economy is growing at a gradual pace. The Canterbury rebuild is a key driver. There is also a broadening gradual recovery across the economy. The drought will flatten exports for a year.

Economic growth will accelerate from 2.5% in 2013 to 2.6% and 3.0% in the following two years before easing off slightly in 2016 to 2.3%.

Economists expect GDP growth of 0.2% in the June 2013 quarter.

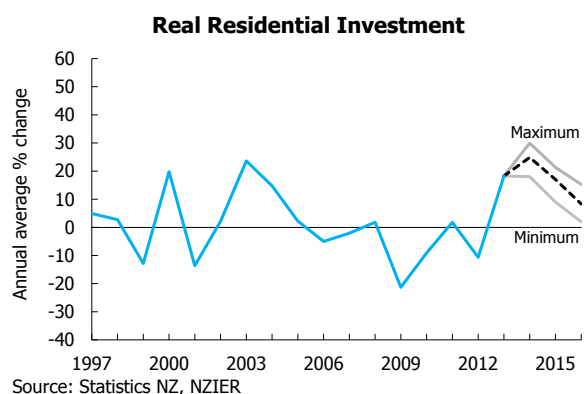


Accelerating investment

The Canterbury rebuild continues to lift investment. Forecasters expect a surge of reconstruction to occur in the next year.

Residential investment will surge by 24.8% and 17.0% in 2014 and 2015 respectively. The pace will be a slower but still strong at 8.4% in 2016.

Other investment, mainly by businesses, will also accelerate over the next three years.



Exports affected by drought

The drought will flatten exports in 2014. There is a wide divergence of views, from a small impact to a short-sharp dip in exports.

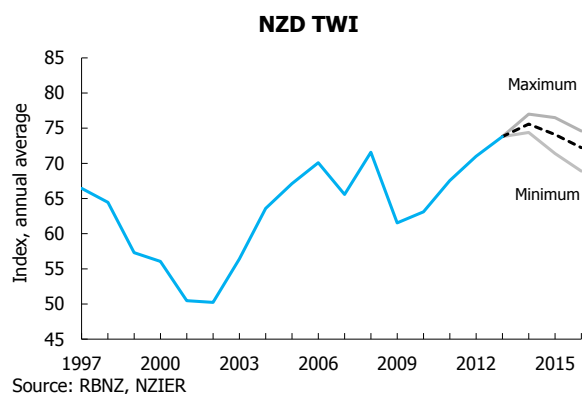
The outlook for exports after the drought is for steady growth of around 2.6% per year.



Exchange rate to remain high

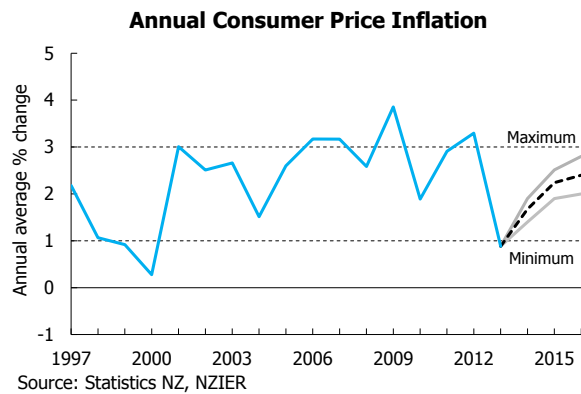
Despite recent weakening, the NZD will continue to remain elevated for some time. On a trade weighted basis, the dollar is expected to be higher than previously thought.

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



Slowly rising inflation

Consumer price inflation will lift from less than 1% currently, to 2.4% by 2016. The acceleration is gradual and inflation will remain within the RBNZ's 1-3% target band.

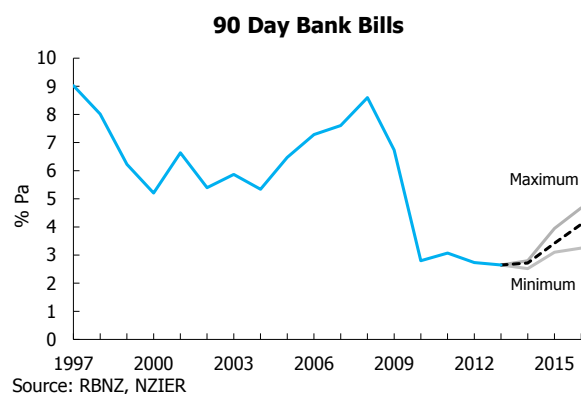


Interest rate increases from 2014

Interest rates will lift from early 2014. By 2016, forecasters expect between a 1.5% point and a 1.7% point increase in the 90 day bank bill rate.

On average, the 90 day bank bill rate is forecast to increase from 2.6% in 2013 to 2.7%, 3.4% and 4.1% in 2014, 2015 and 2016 respectively.

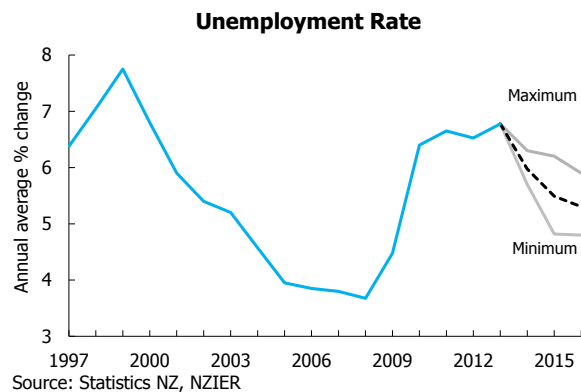
Longer term interest rates will also rise over the forecast horizon.



Improving labour market

The labour market is slowly improving. The unemployment rate will fall from a peak of 6.8% over the next three years.

Wages will grow at a reasonable pace over the next three years (2.9% on average), but slightly lower than in the June survey (3.1%).



Fiscal surplus in 2015

The government operating deficit will narrow over the next three years with consensus forecasting a return to surplus by the end of 2015, matching the government's stated goal in the May 2013 Budget.

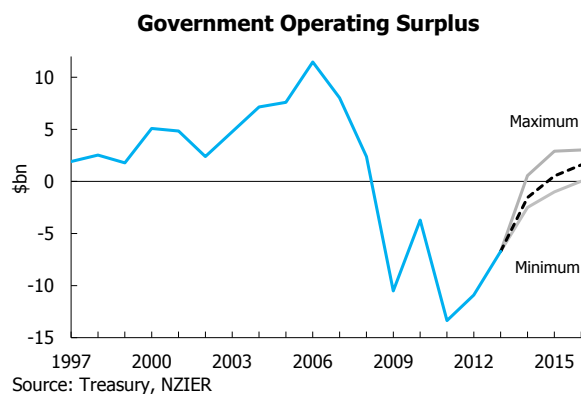


Table 1 Previous and latest consensus forecasts

aapc, March years	Sep-2013 survey			Jun-2013 survey		
	2013/14 f	2014/15 f	2015/16 f	2013/14 f	2014/15 f	2015/16 f
GDP	2.6 ↓	3.0 ↓	2.3 →	2.7	3.1	2.3
Private consumption	3.3 ↑	2.8 ↑	2.1 →	3.0	2.7	2.1
Public consumption	0.2 ↑	0.5 ↑	0.6 →	0.0	0.3	0.6
Fixed investment:						
Residential	24.8 ↑	17.0 ↑	8.4 ↑	22.7	14.8	6.4
Other	7.3 ↓	7.5 ↑	3.5 ↑	9.4	5.7	2.8
Total	11.1 ↓	9.4 ↑	4.5 ↑	12.2	7.6	3.5
Exports, goods & services	0.7 ↑	3.4 ↑	3.1 →	0.0	3.3	3.1
Imports, goods & services	6.1 ↑	5.2 ↑	3.0 ↑	5.3	4.6	2.7
Consumer price index (apc)	1.7 ↑	2.2 ↑	2.4 ↑	1.6	2.1	2.3
New Zealand TWI (ave yr to Mar)	75.6 ↓	74.1 ↓	72.2 ↓	77.3	76.0	73.8
90 day bank bill (ave yr to Mar)	2.7 →	3.4 →	4.1 →	2.7	3.4	4.1
10 year govt bond (ave yr to Mar)	4.2 ↑	4.6 ↑	5.0 ↑	3.8	4.4	4.9
Current account balance (NZ\$m; Mar yr)	-10,195 ↑	-12,636 ↑	-13,255 ↑	-10,557	-13,045	-13,586
Employment	2.1 ↑	2.0 →	1.2 ↑	1.8	2.0	1.1
Unemployment (% of labour force)	6.0 →	5.5 →	5.3 →	6.0	5.5	5.3
Wages (private sector avg hourly earnings)	2.6 ↓	3.1 →	3.2 ↓	2.7	3.1	3.3
Government operating balance (NZ\$m, June yr)	-1,555 ↑	529 ↑	1,589 ↓	-1,633	395	1,822

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	Jun-13 f			Sep-13 f			Dec-13 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	-0.2	0.2	0.4	0.4	0.9	1.4	0.6	0.9	1.1
CPI (qpc)				0.4	0.7	0.9	-0.1	0.2	0.4

Source: NZIER (Notes: qpc = quarterly percent change)

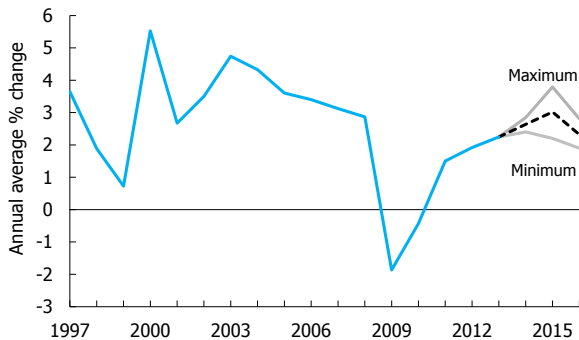
Table 3 Summary of results – June 2013 survey

aapc, March years	2013/14 f			2014/15 f			2015/16 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	2.4	2.6	2.8	2.2	3.0	3.8	1.9	2.3	2.8
Private consumption	2.7	3.3	3.6	2.1	2.8	3.6	1.0	2.1	2.9
Public consumption	-0.6	0.2	0.9	-0.3	0.5	2.6	0.3	0.6	0.8
Fixed investment									
- Residential	18.0	24.8	29.9	9.0	17.0	21.3	2.0	8.4	15.3
- Other	3.7	7.3	14.8	3.6	7.5	11.0	1.9	3.5	5.6
- Total	7.2	11.1	19.7	5.8	9.4	12.4	2.2	4.5	7.5
Exports, goods and services	-2.8	0.7	3.3	1.6	3.4	4.6	2.3	3.1	4.3
Imports, goods and services	4.9	6.1	7.6	4.0	5.2	6.8	1.9	3.0	4.9
Consumer price index (apc)	1.4	1.7	1.9	1.9	2.2	2.5	2.0	2.4	2.8
New Zealand TWI (ave yr to Mar)	74.4	75.6	77.0	71.4	74.1	76.5	68.9	72.2	74.6
90 day bank bill (ave yr to Mar)	2.5	2.7	2.8	3.1	3.4	4.0	3.3	4.1	4.7
10 year government stock (ave yr to Mar)	4.0	4.2	4.6	4.4	4.6	5.1	4.6	5.0	5.6
Current account balance (NZ\$m; Mar yr)	-11,780	-10,195	-8,500	-15,270	-12,636	-9,300	-15,200	-13,255	-10,000
Employment	1.4	2.1	3.2	1.3	2.0	2.8	0.8	1.2	1.8
Unemployment rate (% of labour force)	5.7	6.0	6.3	4.8	5.5	6.2	4.8	5.3	5.9
Wages (private sector avg hourly earnings)	2.1	2.6	3.1	2.5	3.1	3.6	2.7	3.2	3.7
Government operating balance (NZ\$m, June yr)	-2,500	-1,555	560	-1,000	529	2,905	19	1,589	3,015

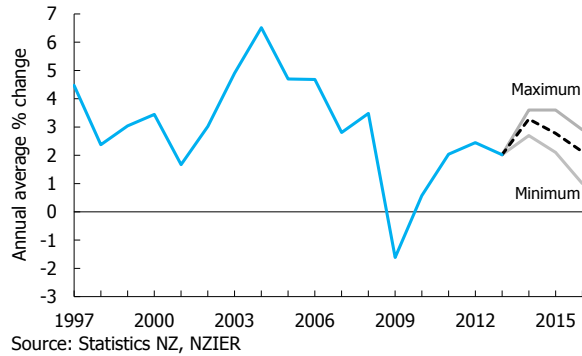
Source: NZIER (Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change. These results show only means; standard deviations are available on request.)

Summary charts

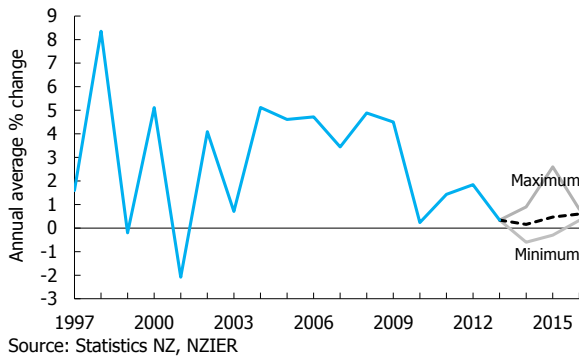
Real GDP Growth



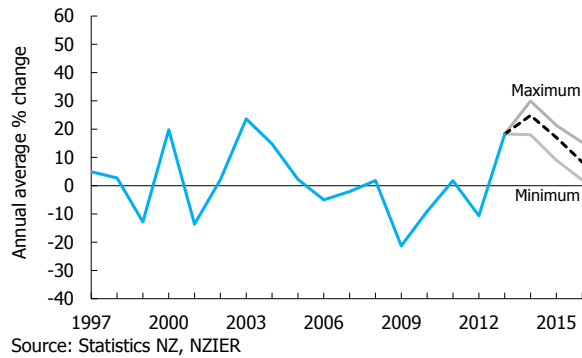
Real Private Consumption



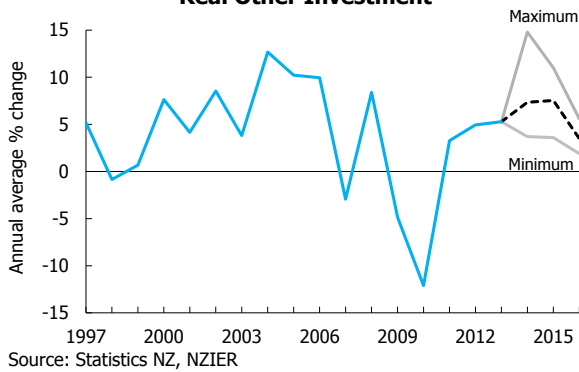
Real Public Consumption



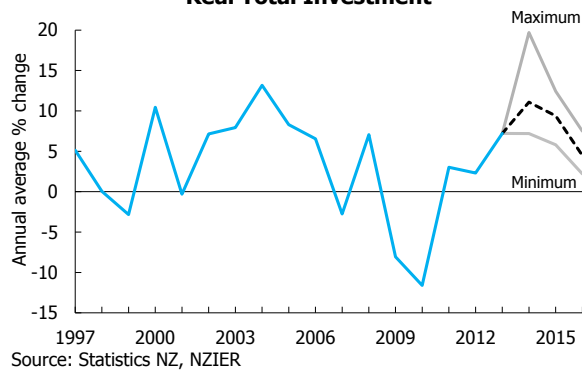
Real Residential Investment



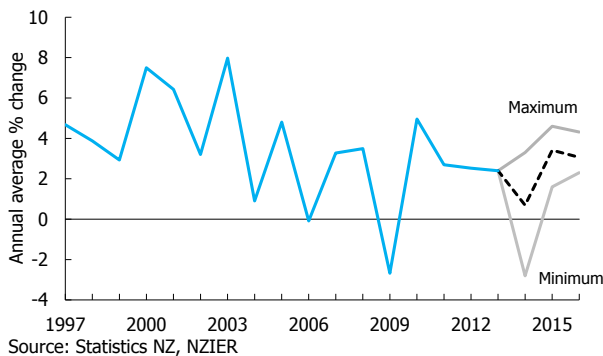
Real Other Investment



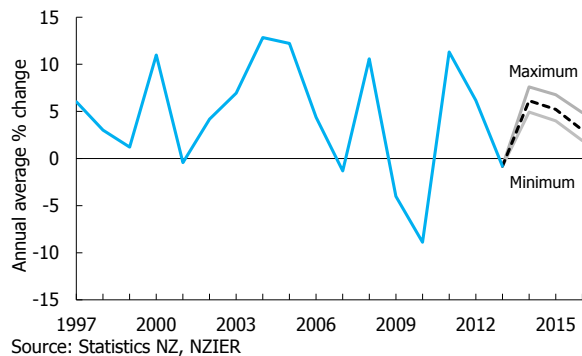
Real Total Investment



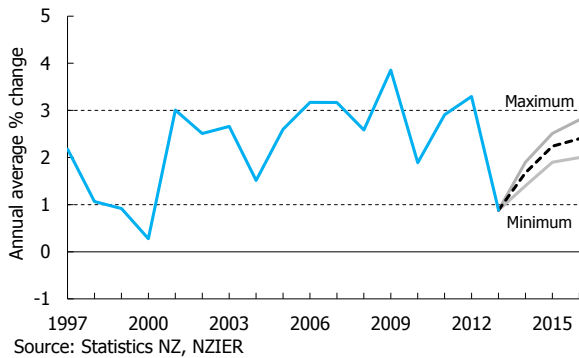
Real Exports



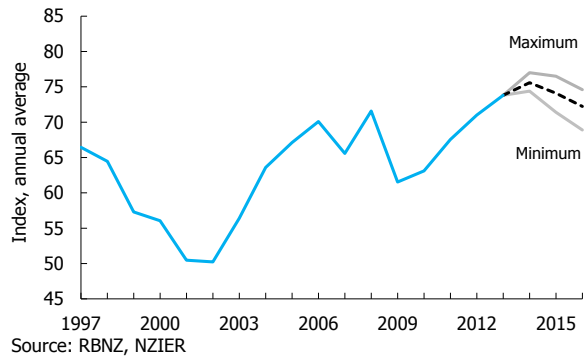
Real Imports



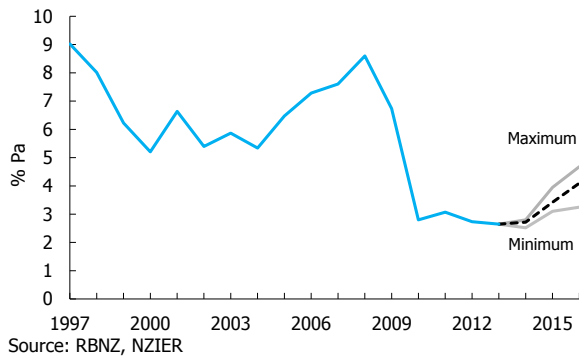
Annual Consumer Price Inflation



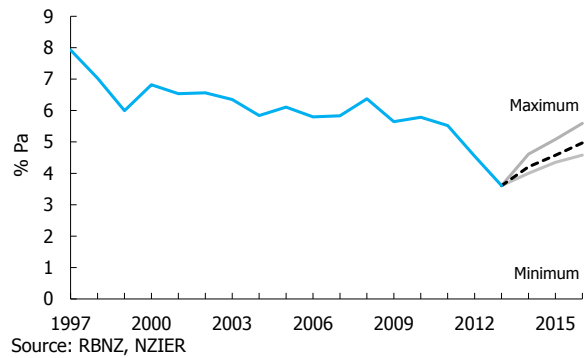
NZD TWI



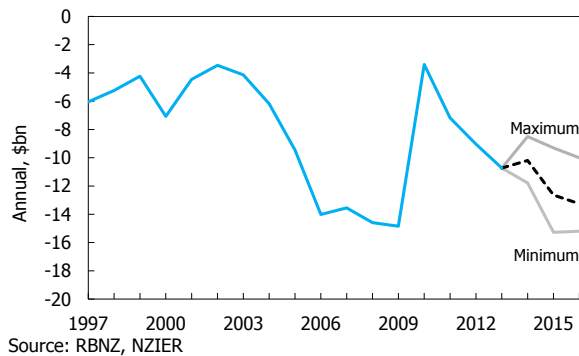
90 Day Bank Bills



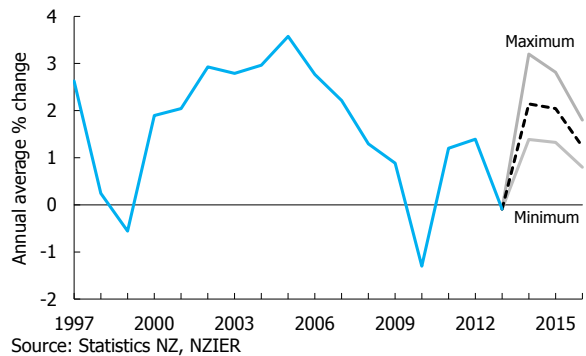
10 Year Government Bond Yield



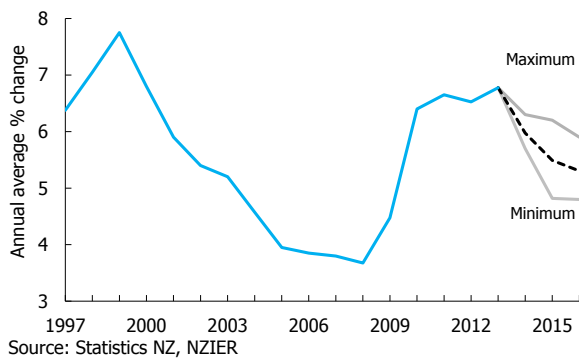
Current Account Balance



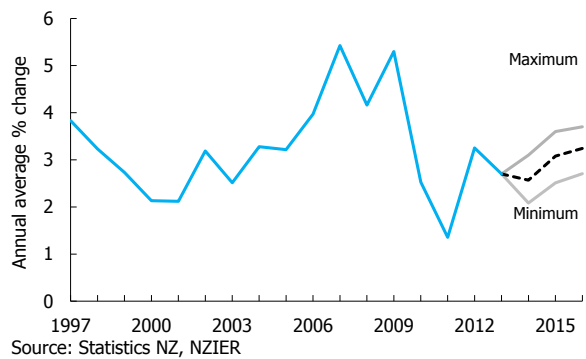
Employment Growth



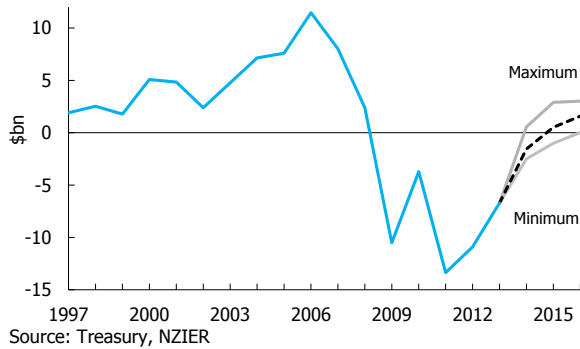
Unemployment Rate



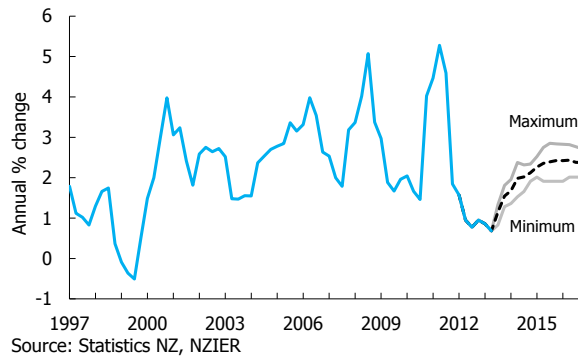
Private Sector Wage Inflation



Government Operating Surplus



Quarterly Consumer Price Inflation



Respondents

ANZ-National Bank
ASB Bank
Bank of New Zealand
Deutsche Bank
First NZ Capital
Goldman Sachs
New Zealand Institute of Economic Research
Reserve Bank of New Zealand
The Treasury
Westpac

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