

NZ Institute of Economic Research (Inc)  
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# Consensus Forecasts

## Growth expectations softening

The latest NZIER *Consensus Forecasts* shows forecasters have pared back growth expectations slightly since the March quarter survey. Activity indicators over the past quarter have been mixed, with global dairy prices continuing to fall but household spending remaining strong.

Despite the slightly weaker expectations for the New Zealand economy, growth is still expected to be fairly solid out to 2018. Forecasters expect growth of 3.3% in the March 2015 year, moderating to 2.8% and 2.7% in the following two years.

Strong residential construction was a key contributor to GDP growth over 2014, driven by house-building demand in Canterbury and Auckland. While forecasters have wound back the extent of residential construction growth expected over 2016 and 2017, the level of activity is still expected to be very elevated. A further ramp-up in house-building in Auckland will offset the reduced growth impetus as the Canterbury rebuild nears completion.

The labour market is one particularly positive story. Forecasters expect a further strengthening in employment demand to reduce the unemployment rate to close to 5% in 2017.

**Figure 1 Economic growth expected to soften slightly**



Source: Statistics NZ, NZIER

## Economic growth to ease slightly

*Consensus Forecasts* indicate economic growth will moderate over 2016 and 2017. Annual average economic growth is expected to ease slightly to 2.8% in 2016, 2.7% in 2017, and 2.4% in 2018.

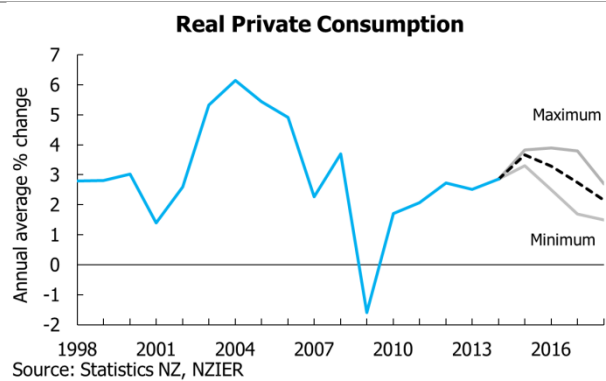
Forecasters expect 0.6% quarterly GDP growth in the March 2015 quarter, when the data is released on 18 June.



## Household spending solid

Improved household incomes, strong net migration and low interest rates remain the driving forces behind strong household spending.

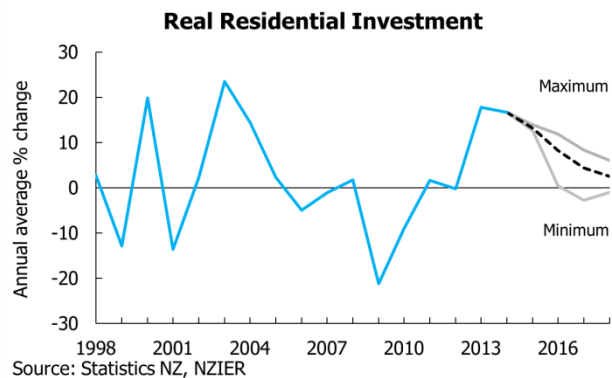
Although spending will remain solid, the rate of growth will moderate reflecting some degree of household caution.



## Residential construction activity elevated

Residential construction activity levels will remain high but the rate of growth will ease. That said, some forecasters have reduced residential construction expectations markedly – there is now more uncertainty over the degree to which residential construction will hold up.

Stronger house-building activity in Auckland should offset the reduced growth impetus from Canterbury as the earthquake rebuild nears completion.



## Export growth to lift from 2016

There is much more uncertainty over export volume growth. Average expectations are that export growth will pick up over 2016, but some expect very weak export growth over the next year.

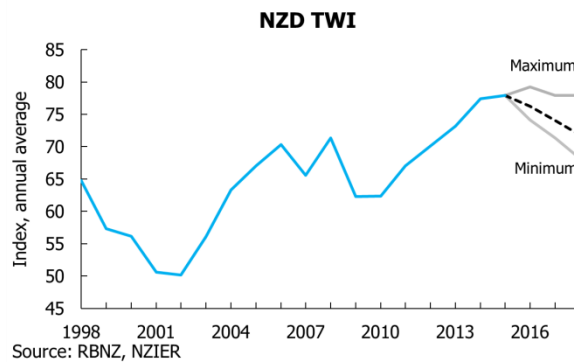
Slowing activity in our key trading partners, China and Australia, is a risk to the export outlook.



## Exchange rate to remain strong

The survey was taken prior to the RBNZ's surprise OCR cut at the June MPS, with the NZD TWI falling to 73 in the wake of the OCR announcement.

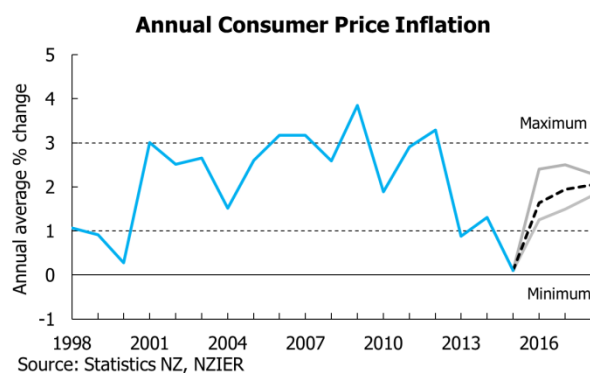
Forecasters had expected a TWI of around 76 for the year to March 2016. Beyond that, the TWI is expected to ease below 72 by March 2018. This is still above the average over the past two decades.



## Inflation to lift from low levels over 2016

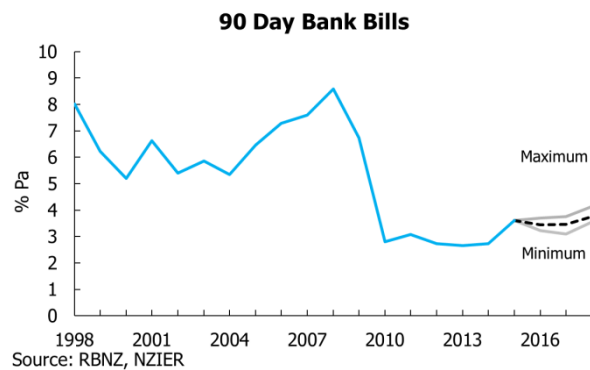
Consumer price inflation has been surprisingly weak over the past year, reflecting sharp declines in petrol prices and subdued domestic inflation pressures.

Domestic cost inflation will lift as capacity pressures build up over 2016 and 2017. However, inflation is not expected to reach the middle of the RBNZ's target band until the second half of 2017.



## Interest rates expected to remain on hold

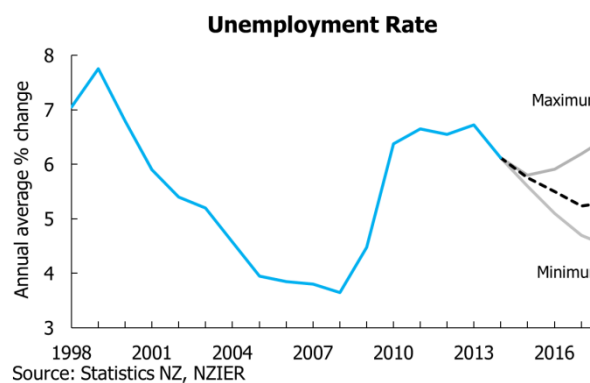
The survey was taken prior to the RBNZ's surprise OCR cut at the June MPS. 90 day bank bill forecasts indicate forecasters had expected interest rates to remain on hold over 2016 and 2017, with a lift in 2018.



## Labour market

There remains a wide divergence in views over the unemployment rate. Most forecasters expect continued employment growth to reduce the unemployment rate over 2016 and 2017. However, some expect a sharp lift in the unemployment rate due to strong migration expanding the labour force.

*Consensus Forecasts* points to wage growth remaining modest, despite the unemployment rate falling towards 5% in 2017.



**Table 1 Previous and latest *Consensus Forecasts***

aapc, March years	Jun-2015 survey				Mar-2015 survey			
	2014/15	2015/16	2016/17	2017/18	2014/15	2015/16	2016/17	2017/18
GDP	3.3 →	2.8 ↓	2.7 ↓	2.4 →	3.3	2.9	2.8	2.4
Private consumption	3.7 ↓	3.3 ↓	2.8 ↑	2.2 ↑	3.8	3.5	2.7	1.9
Public consumption	3.1 ↑	0.8 ↑	0.7 ↑	2.0 ↑	2.7	0.3	0.4	1.8
Fixed investment:								
Residential	13.2 ↓	8.2 ↓	4.4 ↓	2.5 ↑	14.0	11.4	5.6	-0.9
Other	5.9 ↓	4.8 ↓	4.2 ↓	2.4 ↓	6.8	5.4	5.1	3.3
Total	7.5 ↓	5.6 ↓	4.5 ↓	2.5 ↑	8.6	7.0	5.3	2.3
Exports, goods & services	2.8 ↑	3.6 ↑	3.2 ↓	3.2 ↑	-0.1	1.8	3.7	3.1
Imports, goods & services	7.4 ↑	3.9 ↑	3.3 ↓	2.4 ↑	6.9	3.4	3.6	2.1
Consumer price index (apc)	0.1 ↓	1.6 →	1.9 ↓	2.0 ↓	0.5	1.6	2.0	2.1
New Zealand TWI (ave yr to Mar)	79.0 ↑	76.2 ↑	74.0 ↑	71.8 ↑	78.4	74.9	73.5	71.6
90 day bank bill (ave yr to Mar)	3.5 ↓	3.4 ↓	3.5 ↓	3.8 ↓	3.6	3.7	4.0	4.5
10 year govt bond (ave yr to Mar)	4.0 →	3.6 ↓	3.9 ↓	3.9 ↓	4.0	3.7	4.1	4.4
Current account balance (NZ\$b; Mar yr)	-9.4 ↑	-12.6 ↑	-13.1 ↓	-13.6 ↓	-10.1	-12.8	-12.8	-11.7
Employment	3.2 ↑	2.3 ↑	1.8 ↑	1.1 ↑	2.9	2.1	1.4	0.9
Unemployment (% of labour force)	5.8 ↑	5.5 ↑	5.2 ↑	5.3 ↑	5.5	5.4	5.0	5.1
Wages (private sector avg hourly earnings)	2.8 ↓	2.6 ↓	3.0 ↓	3.0 ↓	3.0	3.3	3.4	3.3
Government operating balance (NZ\$b, June yr)	-0.3 ↓	0.5 ↓	1.8 ↓	2.4 ↓	0.2	1.4	3.2	4.3

**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**

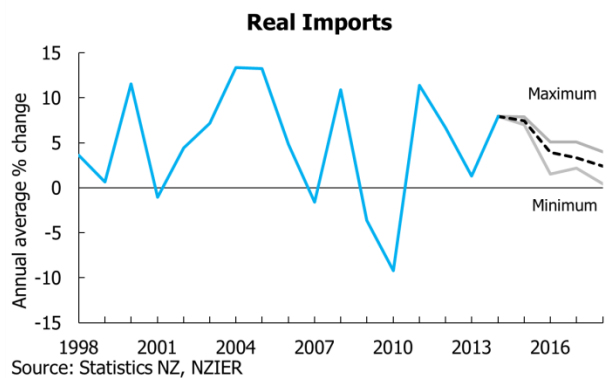
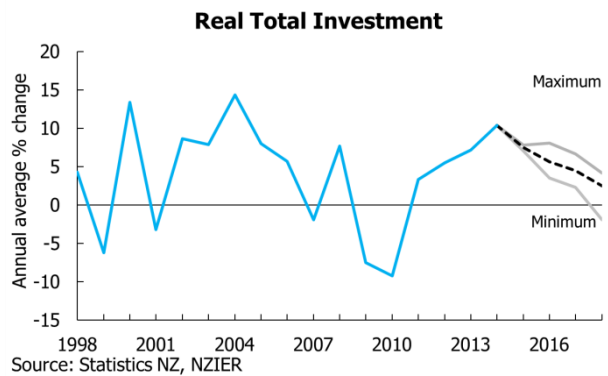
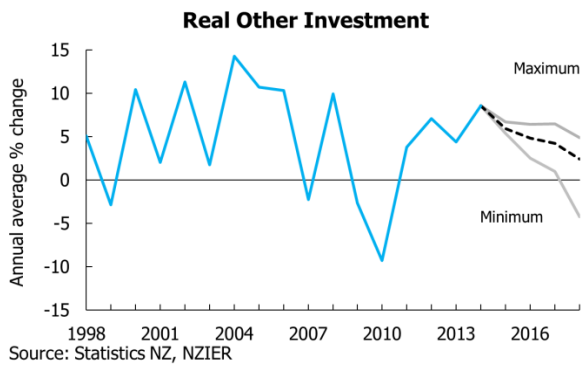
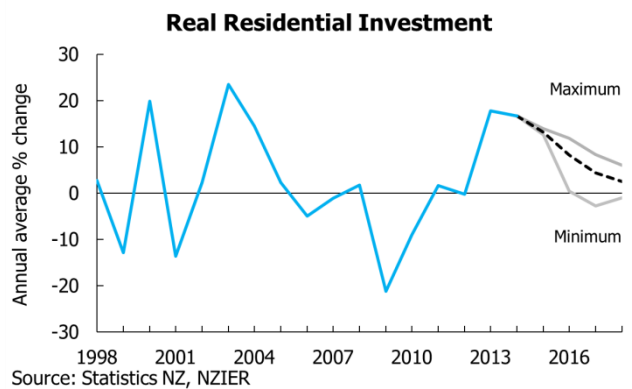
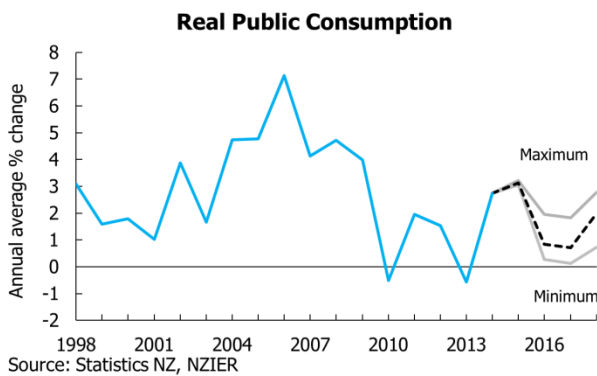
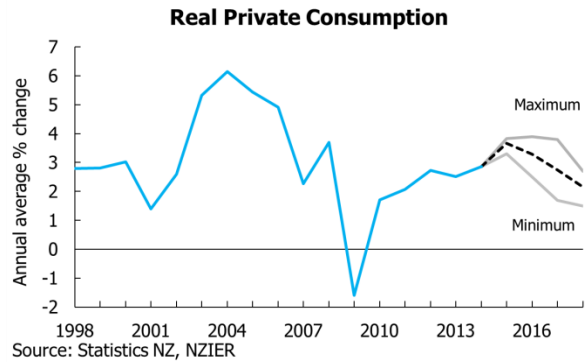
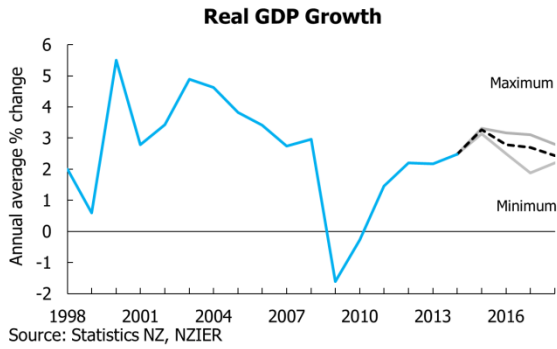
qpc, quarters	Mar-15 f			Jun-15 f			Sep-15 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.2	0.6	0.8	0.5	0.6	0.8	0.3	0.7	0.8			
CPI (qpc)	Jun-15 f			Sep-15 f			Dec-15 f					
	0.3	0.5	0.8	0.2	0.4	0.6	-0.1	0.1	0.3			
aapc, March years	2014/15 f			2015/16 f			2016/17 f			2017/18 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	3.1	3.3	3.3	2.5	2.8	3.2	1.9	2.7	3.1	2.2	2.4	2.8
Private consumption	3.3	3.7	3.8	2.5	3.3	3.9	1.7	2.8	3.8	1.5	2.2	2.7
Public consumption	3.1	3.1	3.2	0.3	0.8	2.0	0.1	0.7	1.8	0.7	2.0	2.8
Fixed investment												
- Residential	12.6	13.2	13.9	0.5	8.2	11.9	-2.7	4.4	8.4	-1.0	2.5	6.0
- Other	5.4	5.9	6.7	2.5	4.8	6.4	1.0	4.2	6.5	-4.2	2.4	4.9
- Total	7.1	7.5	7.8	3.5	5.6	8.1	2.3	4.5	6.7	-1.9	2.5	4.2
Exports, goods and services	2.2	2.8	3.6	0.5	3.6	5.6	2.5	3.2	4.1	1.9	3.2	3.8
Imports, goods and services	7.0	7.4	7.9	1.5	3.9	5.1	2.2	3.3	5.1	0.4	2.4	4.0
Consumer price index (apc)	0.1	0.1	0.1	1.3	1.6	2.4	1.5	1.9	2.5	1.8	2.0	2.3
New Zealand TWI (ave yr to Mar)	78.2	79.0	79.3	74.1	76.2	79.2	71.3	74.0	77.9	68.2	71.8	77.9
90 day bank bill (ave yr to Mar)	2.7	3.5	3.7	3.2	3.4	3.7	3.1	3.5	3.8	3.6	3.8	4.1
10 year government stock (ave yr to Mar)	3.9	4.0	4.0	3.2	3.6	3.9	3.4	3.9	4.2	3.5	3.9	4.3
Current account balance (NZ\$b; Mar yr)	-11.5	-9.4	-8.7	-16.5	-12.6	-10.2	-17.7	-13.1	-9.4	-17.6	-13.6	-9.3
Employment	3.0	3.2	3.4	1.3	2.3	3.1	1.0	1.8	3.4	0.4	1.1	1.3
Unemployment rate (% of labour force)	5.6	5.8	5.8	5.1	5.5	5.9	4.7	5.2	6.2	4.5	5.3	6.5
Wages (private sector avg hourly earnings)	2.4	2.8	3.0	2.3	2.6	2.9	2.5	3.0	3.4	2.5	3.0	3.5
Government operating balance (NZ\$m, June yr)	-0.8	-0.3	1.9	-0.4	0.5	3.1	0.6	1.8	4.0	0.7	2.4	5.3

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

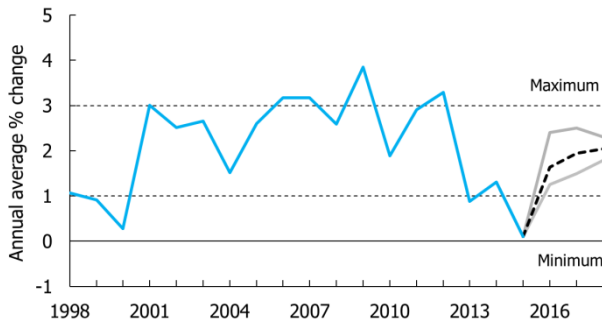
Source: NZIER

Note: qpc = quarterly percent change.

## Summary charts

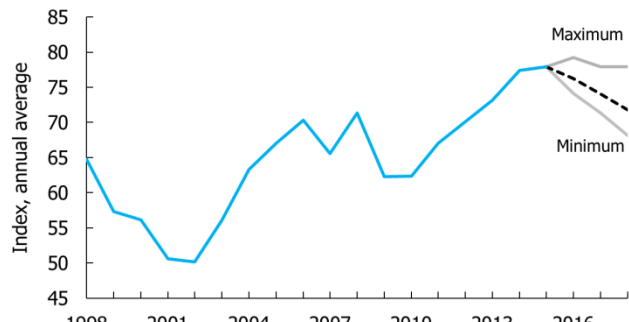


**Annual Consumer Price Inflation**



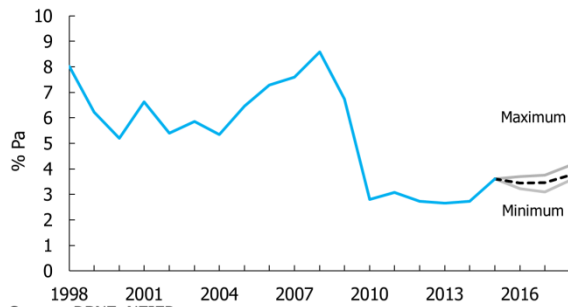
Source: Statistics NZ, NZIER

**NZD TWI**



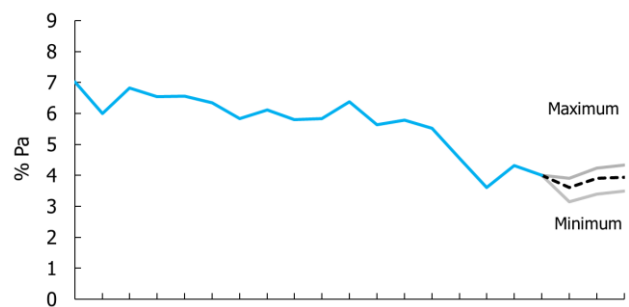
Source: RBNZ, NZIER

**90 Day Bank Bills**



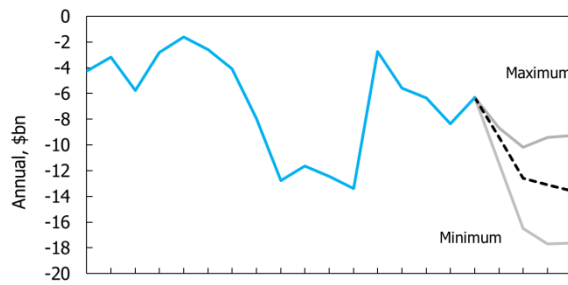
Source: RBNZ, NZIER

**10 Year Government Bond Yield**



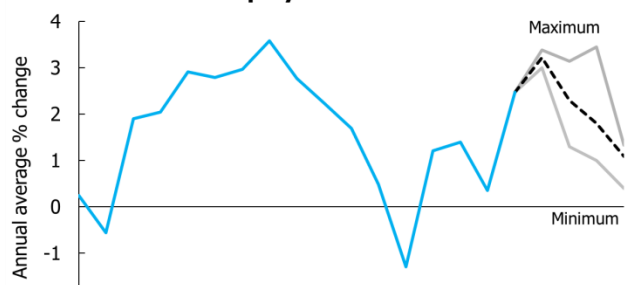
Source: RBNZ, NZIER

**Current Account Balance**



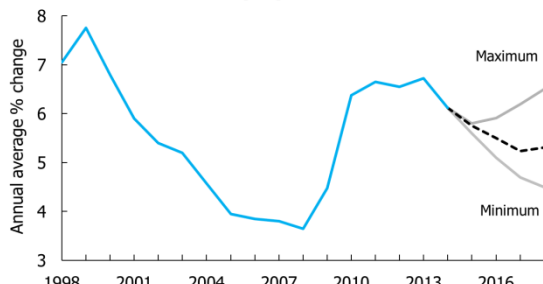
Source: RBNZ, NZIER

**Employment Growth**



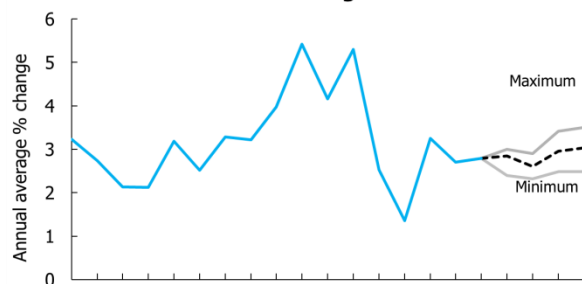
Source: Statistics NZ, NZIER

**Unemployment Rate**

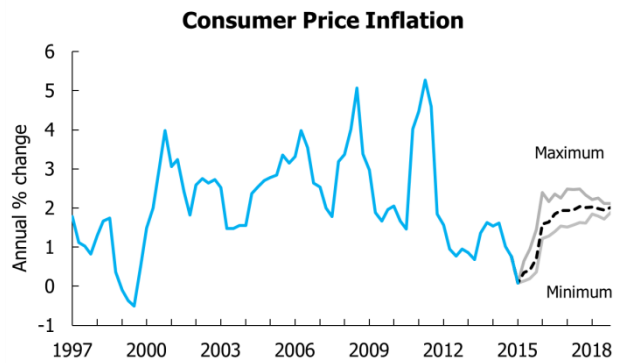
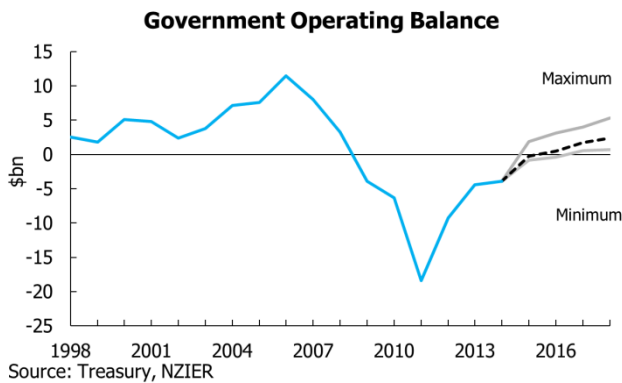


Source: Statistics NZ, NZIER

**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. 2015 refers to the year ended March 2015.*

## Respondents

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

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