

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

Stronger growth but weaker inflation outlook

The latest NZIER *Consensus Forecasts* shows forecasters have revised up expectations of growth and employment through to 2019. Despite the more favourable growth outlook, expectations for inflation and wage growth have been lowered.

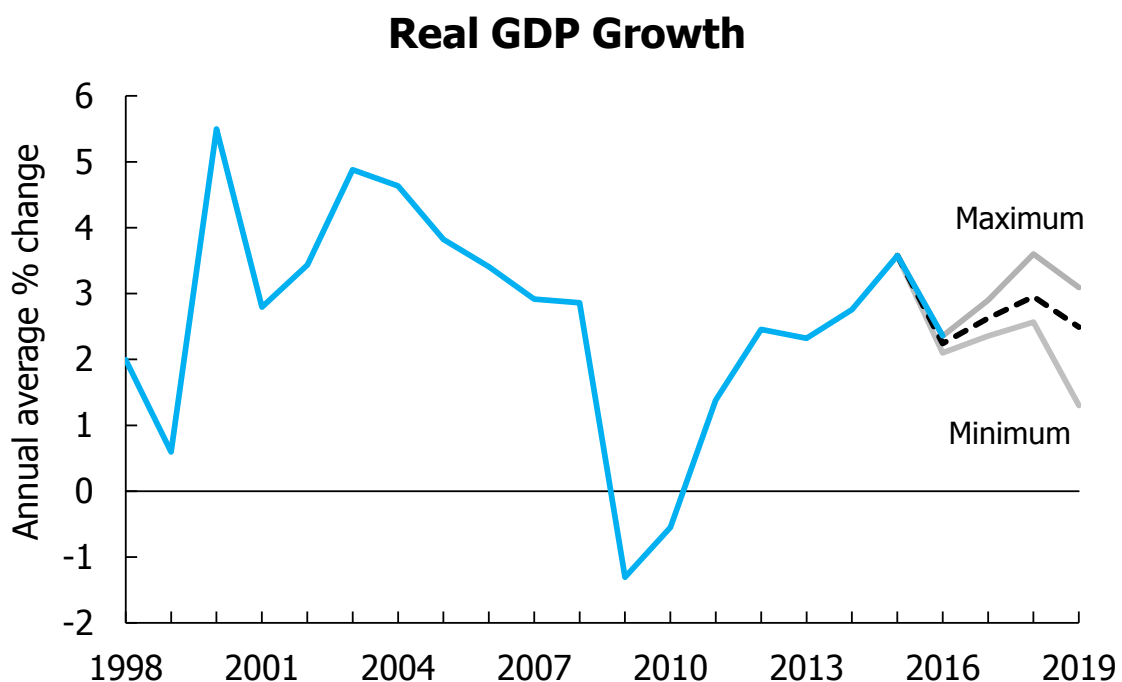
Forecasters have pushed back by around one year expectations of when headline inflation would get back within its 1-3% inflation target band. That said, the consensus is still for headline inflation to edge close to the 2% midpoint target from the second half of 2017.

Recent developments point to an improvement in economic activity, and the consensus is that this will flow through to stronger growth in the subsequent years.

In particular, expectations for household spending and residential construction have been revised up markedly beyond 2016. Strong migration-led population growth has boosted demand across many sectors, and lifted housing demand.

The labour market outlook is also more favourable, with expectations of stronger employment growth and a lower unemployment rate. The unemployment rate is now expected to ease to 5.1% by 2019. However, wage growth is expected to be more subdued, in line with the weaker inflation outlook.

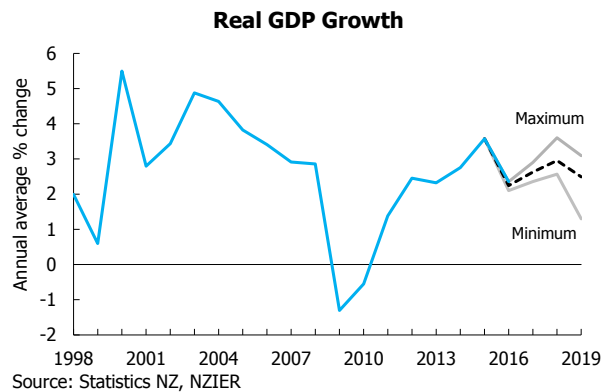
Figure 1 Economic growth expected to pick up over the next two years



Economic growth pick up beyond 2016

Consensus Forecasts indicates economic growth is expected to pick up to an annual average rate of 3% in 2018, before moderating to 2.5% in 2019. Although expectations of an improvement in growth over the next two years is widespread, growth prospects for 2019 are more uncertain, with annual average growth forecasts ranging from 1.3% to 3.1%.

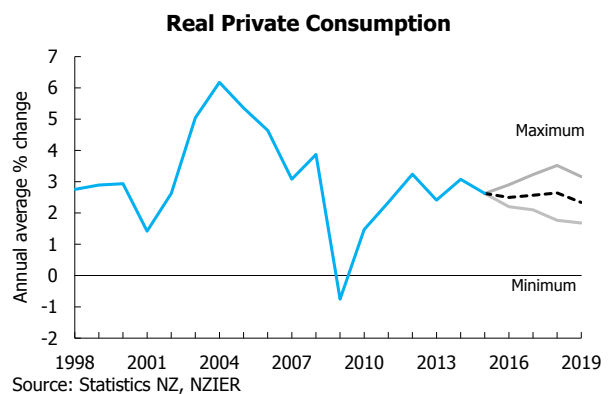
Forecasters expect 0.6% quarterly GDP growth in the December 2015 quarter, when the data is released on 17 March.



Household spending growth to hold up

Expectations of household spending beyond 2016 have been revised up. Relative to the previous quarter, there is more confidence amongst forecasters that spending will remain solid.

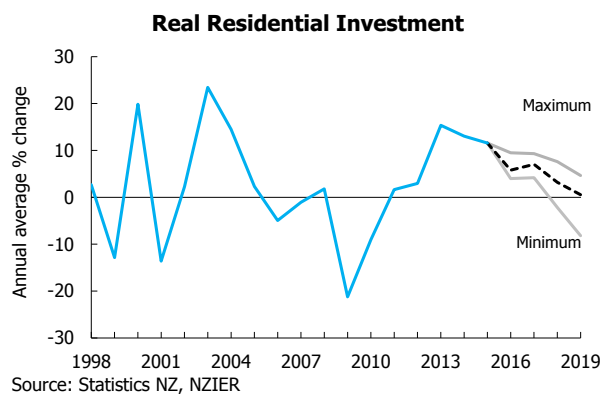
Continued strong migration-led population growth has boosted demand. The lift in consumer confidence is supporting spending on eating out, while households are also purchasing furniture and electronics to furnish their new homes.



Residential construction growth to ease

Forecasts of housing construction growth beyond 2016 have been revised higher, as strong population growth support increases housing demand.

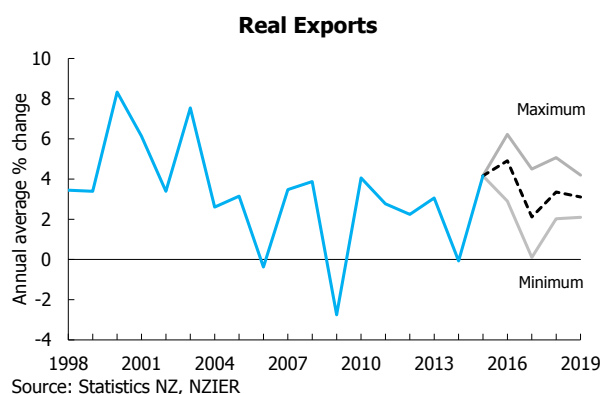
Nonetheless, expectations are still for a moderation in residential construction growth, with annual average growth in residential construction expected to ease to 0.5% by 2019.



Uncertainty over export outlook

The export outlook is mixed. Although the consensus is for further growth in exports, there is a fair degree of uncertainty over how strong this growth will be.

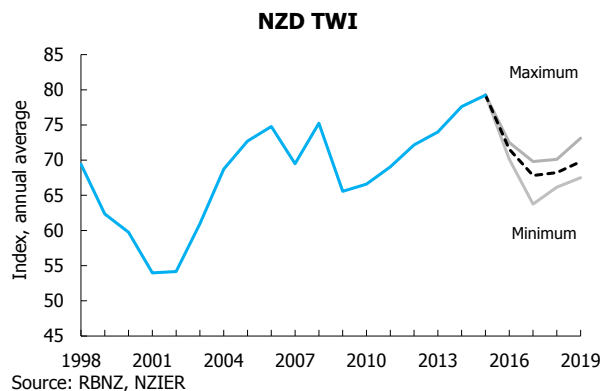
Increased global financial market volatility since the start of the new year has raised concerns about the flow-through effects to demand for New Zealand exports.



NZD expectations narrow

Expectations for the NZD were narrower than usual this quarter, suggesting reduced uncertainty over the exchange rate outlook. Overall, forecasts for the NZD through to 2019 have been revised higher.

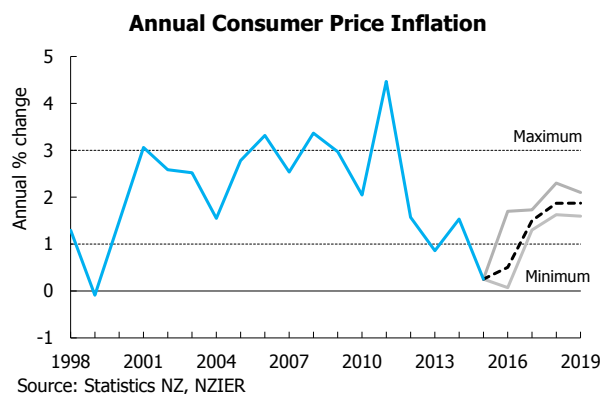
The consensus is for the NZD TWI to ease to an average of 67.8 in 2017 before lifting to 69.8 in 2019.



Inflation to lift back to target band in 2017

Although inflation forecasts have been revised lower, all forecasters expect inflation to be back within the Reserve Bank's 1-3 percent inflation target band by early 2017.

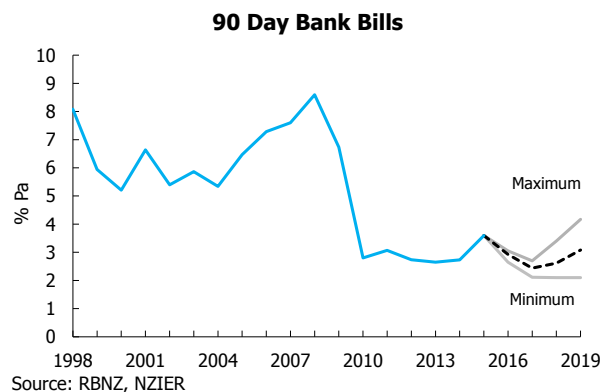
There is increased uncertainty about near-term inflation, with the weakest forecast being for annual inflation to remain at a low of 0.1% in March 2016.



Interest rates expectations revised lower

Forecasters have revised down expectations for interest rates through to 2019. The survey was taken before the RBNZ surprised markets with a 25bp OCR cut at its March Monetary Policy Statement, and signalled further easing is likely.

The consensus is for 90-day interest rates to average 2.4% for the year to March 2017, before lifting to 3.1% in 2019. Although expectations for interest rates for the next year are relatively narrow, there remains a large degree of uncertainty over what interest rates will be in 2019.



Labour market outlook more favourable

Forecasts for employment growth have been revised higher. Employment demand rebounded in Q4 2015, and more recent indicators point to solid momentum in the labour market.

In line with the improvement in the labour market outlook, expectations for the unemployment rate have been revised lower with the consensus being that the unemployment rate will ease to 5.1% in 2019.

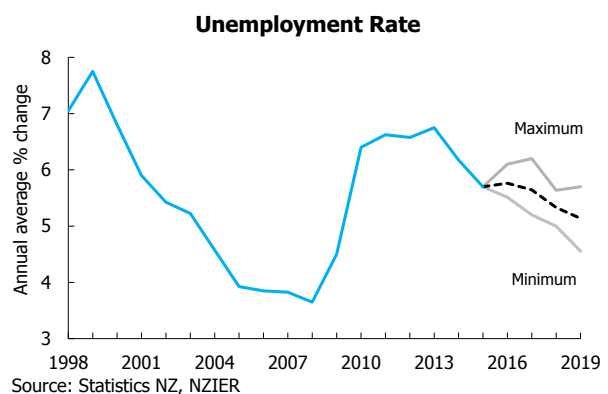


Table 1 Previous and latest *Consensus Forecasts*

aapc, March years	Mar-2016 survey				Dec-2015 survey			
	2015/16	2016/17	2017/18	2018/19	2015/16	2016/17	2017/18	2018/19
GDP	2.2 →	2.6 ↑	3.0 ↑	2.5 ↑	2.2	2.5	2.7	2.3
Private consumption	2.5 ↓	2.6 ↑	2.6 ↑	2.3 ↑	2.7	2.3	2.2	2.2
Public consumption	2.0 ↓	1.0 ↑	1.6 →	1.9 ↑	2.1	0.9	1.6	1.6
Fixed investment:								
Residential	5.8 ↓	7.0 ↑	3.2 ↑	0.5 ↑	6.2	4.6	2.4	-1.1
Other	2.7 ↑	3.3 ↑	4.5 ↓	3.5 ↑	1.4	3.1	4.7	2.9
Total	3.3 →	4.3 ↓	4.2 ↑	2.6 ↑	3.3	4.4	4.0	2.4
Exports, goods & services	4.9 ↑	2.1 ↓	3.4 ↑	3.1 ↓	3.9	2.6	3.3	3.2
Imports, goods & services	3.0 ↓	2.3 ↓	3.3 ↑	2.7 ↑	4.3	2.5	2.8	2.1
Consumer price index (apc)	0.4 ↓	1.6 ↓	1.9 ↓	1.9 →	1.3	1.9	2.0	1.9
New Zealand TWI (ave yr to Mar)	71.6 ↑	67.8 →	68.2 ↑	69.8 ↑	71.3	67.8	67.8	68.4
90 day bank bill (ave yr to Mar)	2.9 ↓	2.4 ↓	2.6 ↓	3.1 ↓	3.0	2.7	3.1	3.8
10 year govt bond (ave yr to Mar)	3.4 ↓	3.4 ↓	3.8 ↓	3.9 ↓	3.5	3.7	4.0	4.2
Current account balance (NZ\$b; Mar yr)	-8.8 ↑	-10.7 ↑	-10.9 ↑	-11.0 ↑	-10.7	-12.0	-11.6	-11.3
Employment	1.5 →	2.2 ↑	2.0 ↑	1.8 ↑	1.5	1.8	1.8	1.6
Unemployment (% of labour force)	5.8 ↓	5.6 ↓	5.3 ↓	5.1 ↓	6.1	6.0	5.8	5.6
Wages (private sector avg hourly earnings)	2.6 ↓	2.4 ↓	2.5 ↓	2.7 ↓	2.9	2.7	2.8	2.8
Government operating balance (NZ\$b, June yr)	-0.1 ↓	0.9 ↓	1.6 ↓	3.8 ↑	0.1	1.1	2.0	3.6

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	Dec-15 f			Mar-16 f			Jun-16 f					
	Low	Mean	High	Low	Mean	High	Low	Mean	High			
GDP (seasonally adjusted, qpc)	0.5	0.6	0.8	0.5	0.6	0.7	0.5	0.6	0.7			
CPI (qpc)	-0.1	0.2	0.6	0.2	0.5	0.8	0.3	0.5	0.7			
aapc, March years	2015/2016 f			2016/2017 f			2017/2018 f			2018/2019 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	2.1	2.2	2.4	2.4	2.6	2.9	2.6	3.0	3.6	1.3	2.5	3.1
Private consumption	2.2	2.5	2.9	2.1	2.6	3.2	1.8	2.6	3.5	1.7	2.3	3.2
Public consumption	1.7	2.0	3.0	0.1	1.0	2.6	0.6	1.6	2.4	0.7	1.9	2.6
Fixed investment												
- Residential	4.0	5.8	9.5	4.2	7.0	9.3	-2.2	3.2	7.6	-8.2	0.5	4.6
- Other	0.9	2.7	4.7	1.3	3.3	5.0	2.7	4.5	7.1	-1.0	3.5	6.3
- Total	2.7	3.3	4.0	3.0	4.3	5.0	2.2	4.2	5.9	-2.9	2.6	4.4
Exports, goods and services	2.9	4.9	6.2	0.1	2.1	4.5	2.0	3.4	5.1	2.1	3.1	4.2
Imports, goods and services	1.6	3.0	5.7	0.2	2.3	4.5	2.2	3.3	4.1	0.6	2.7	4.2
Consumer price index (apc)	0.2	0.4	0.8	1.3	1.6	2.1	1.5	1.9	2.3	1.6	1.9	2.1
New Zealand TWI (ave yr to Mar)	70.1	71.6	72.5	63.7	67.8	69.8	66.2	68.2	70.1	67.5	69.8	73.1
90 day bank bill (ave yr to Mar)	2.7	2.9	3.1	2.1	2.4	2.7	2.1	2.6	3.4	2.1	3.1	4.2
10 year government stock (ave yr to Mar)	3.3	3.4	3.4	3.1	3.4	3.8	3.4	3.8	4.0	3.3	3.9	4.5
Current account balance (NZ\$b; Mar yr)	-11.8	-8.8	-6.6	-14.7	-10.7	-5.1	-15.4	-10.9	-4.8	-15.3	-11.0	-4.7
Employment	0.7	1.5	2.8	1.6	2.2	2.9	1.2	2.0	2.7	0.6	1.8	3.1
Unemployment rate (% of labour force)	5.5	5.8	6.1	5.2	5.6	6.2	5.0	5.3	5.6	4.6	5.1	5.7
Wages (private sector avg hourly earnings)	1.8	2.6	2.9	2.0	2.4	2.8	1.7	2.5	2.8	2.2	2.7	3.0
Government operating balance (NZ\$m, June yr)	-1.3	-0.1	1.2	-0.3	0.9	2.7	0.9	1.6	3.4	2.6	3.8	6.0

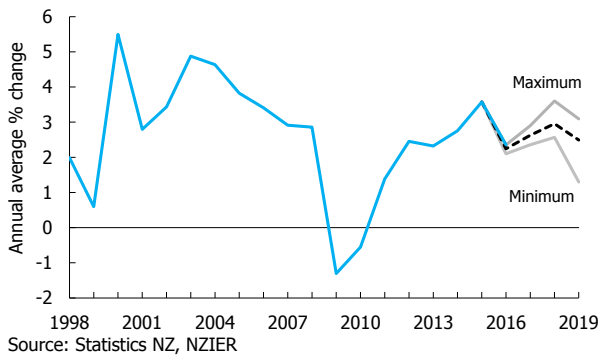
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

Source: NZIER

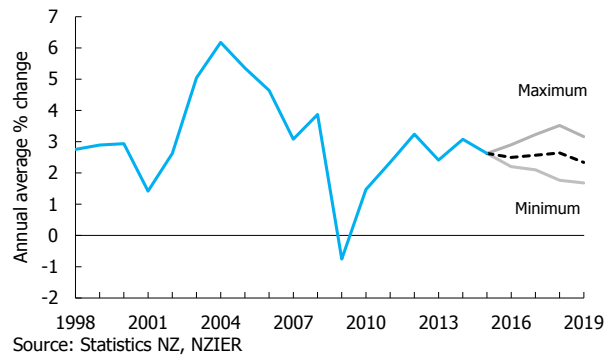
Note: qpc = quarterly percent change.

Summary charts

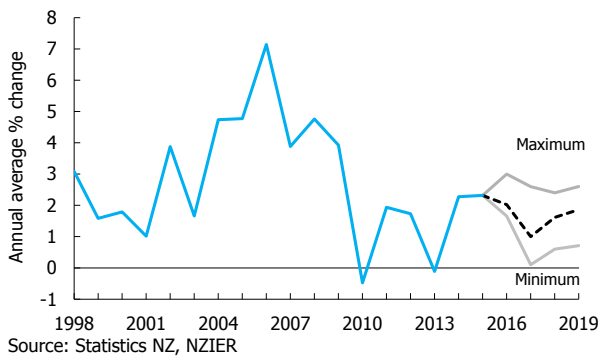
Real GDP Growth



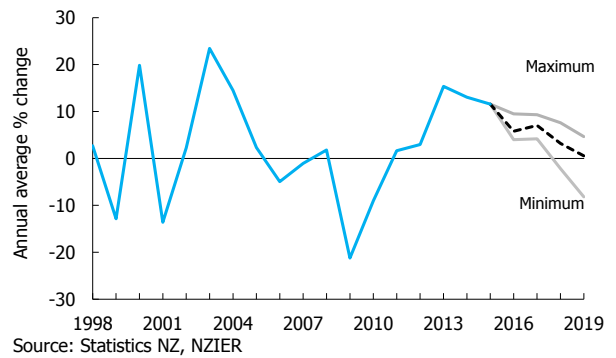
Real Private Consumption



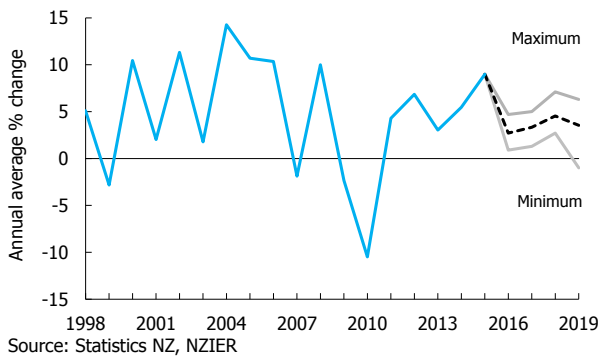
Real Public Consumption



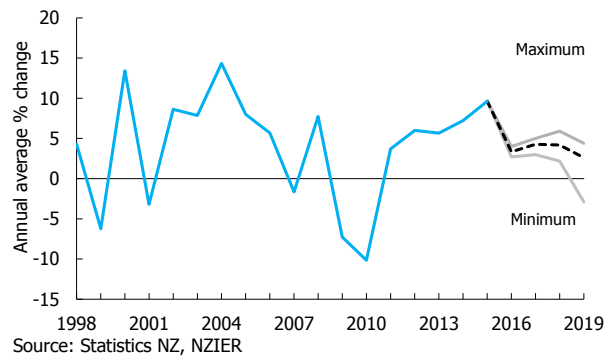
Real Residential Investment



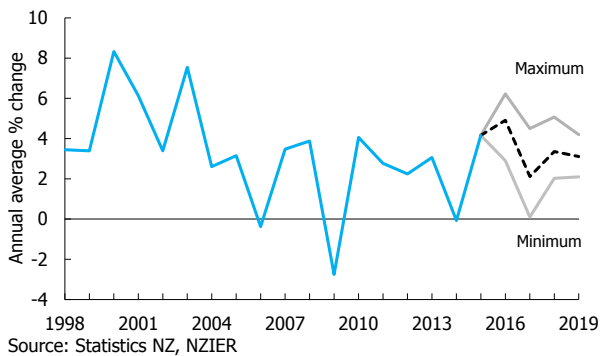
Real Other Investment



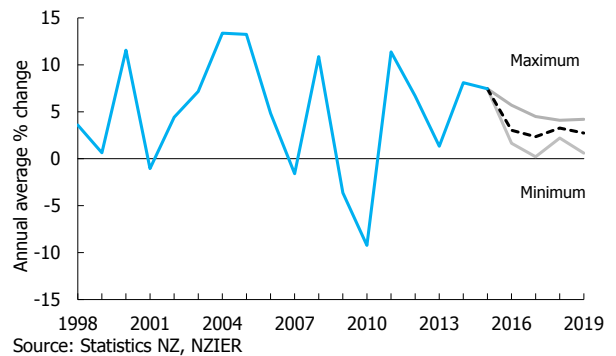
Real Total Investment



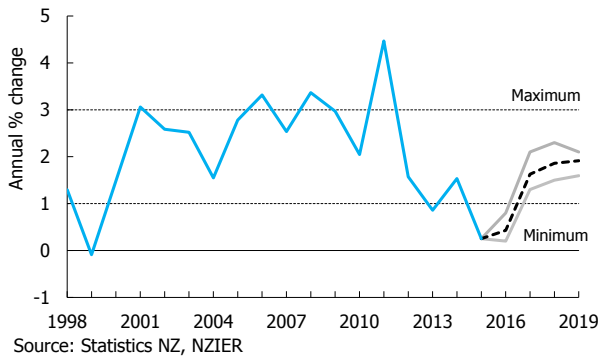
Real Exports



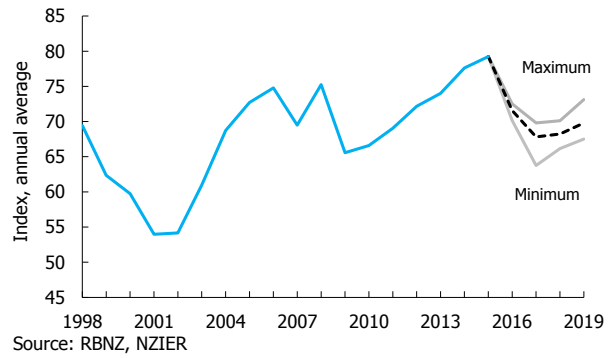
Real Imports



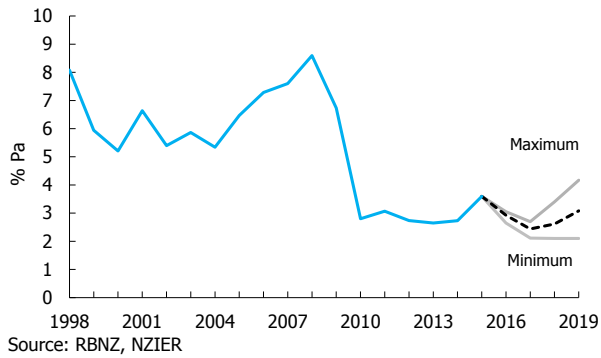
Annual Consumer Price Inflation



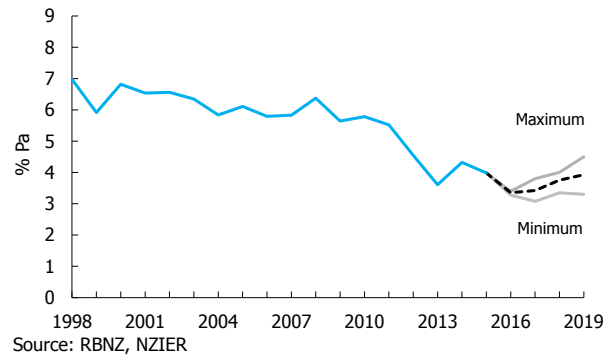
NZD TWI



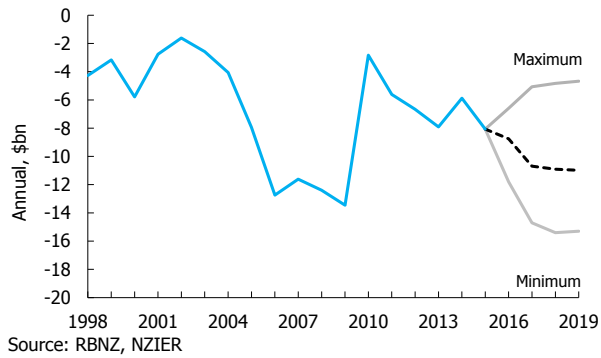
90 Day Bank Bills



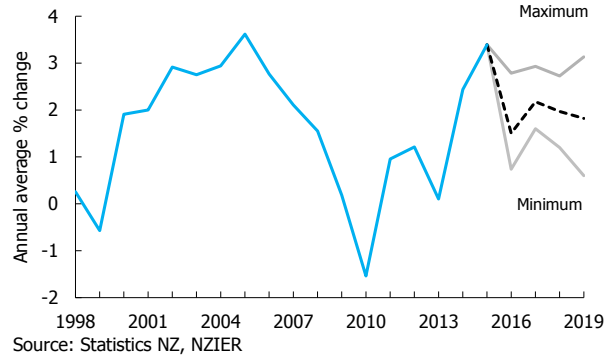
10 Year Government Bond Yield



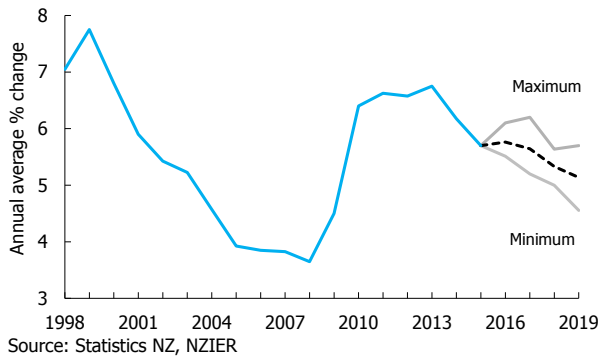
Current Account Balance



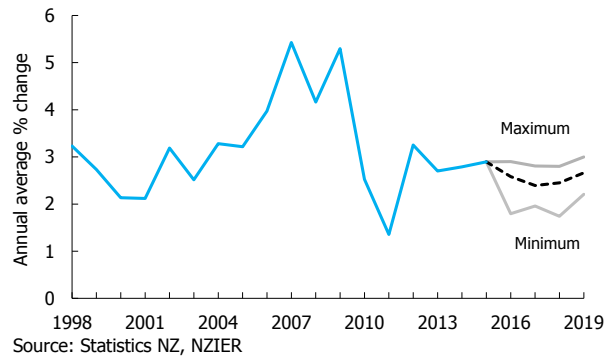
Employment Growth

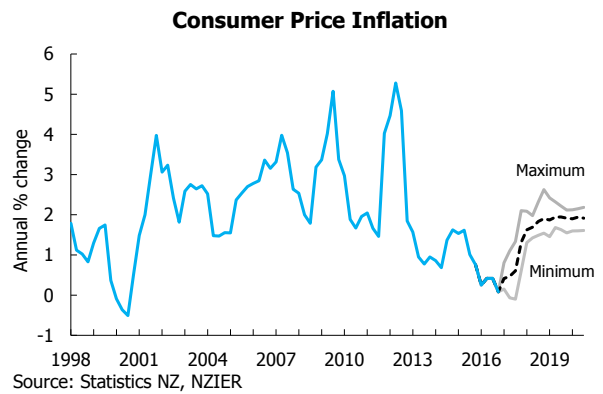
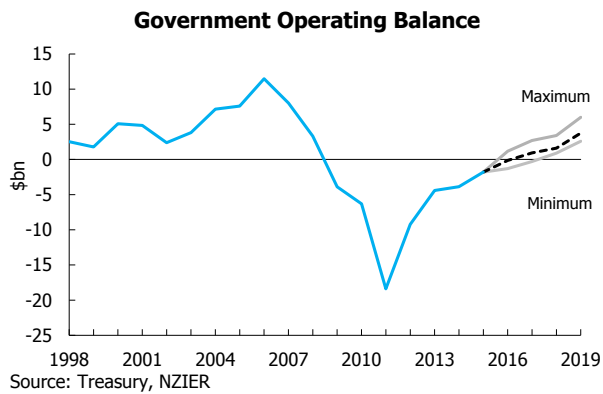


Unemployment Rate



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. 2016 refers to the year ended March 2016.

Respondents

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

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