

NZ Institute of Economic Research (Inc)  
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## Consensus Forecasts

### Further moderation in growth expected

The latest NZIER *Consensus Forecasts* shows forecasters have pared back growth expectations for the upcoming year. The downward revisions largely reflect expectations of weaker growth in investment.

Recent developments have been mainly positive, and point to economic activity picking up. Consumer and business confidence are also recovering. Nonetheless, expectations for annual average economic growth remain below 3% out to 2019. Forecasters expect growth to ease to 2.2% in the March 2016 year, before recovering to 2.7% by March 2018.

An expectation of softer business investment is the key driver behind the downward revision to the growth outlook. The level of housing construction is still expected to remain solid through to 2018, but forecasts of growth have been pared back. Meanwhile, the lower New Zealand dollar will weigh on business investment, given the higher costs of imported machinery.

Expectations for the unemployment rate have lifted slightly. The Q3 unemployment rate was higher than expected, reflecting a surprise contraction in employment in the quarter. Forecasters still expect further modest growth in employment over the next few years, with the unemployment rate expected to ease to 5.6% by 2019.

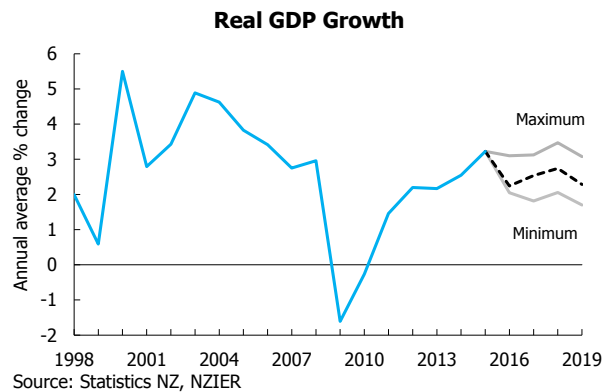
**Figure 1 Economic growth expected to soften slightly**



## Economic growth weaker in 2016

*Consensus Forecasts* indicates economic growth will soften further over 2016, before picking up in 2017. Annual average economic growth is expected to drop to 2.2% in 2016, and then lift to 2.5% in 2017 and 2.7% in 2018.

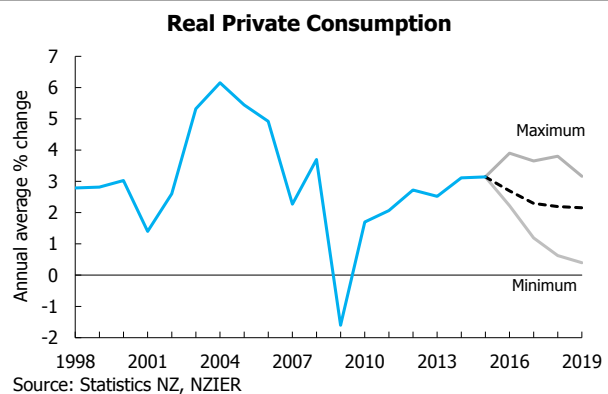
Forecasters expect 0.6% quarterly GDP growth in the September 2015 quarter, when the data is released on 17 December.



## Household spending growth to ease

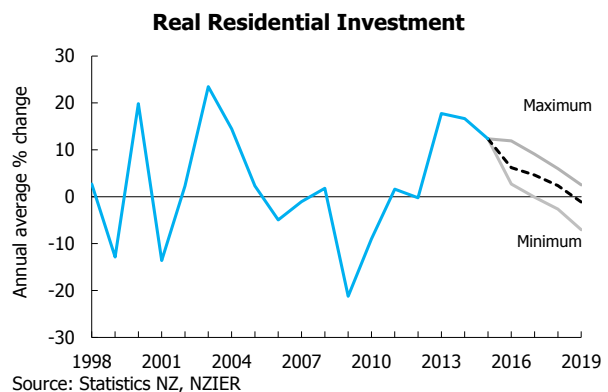
Expectations of household spending have been pared back slightly, despite strong net migration and low interest rates.

Consumer confidence has recovered in recent months, but with wage growth still subdued and imported goods to increase in price due to the weaker currency, a degree of caution remains amongst households.



## Residential construction growth to moderate

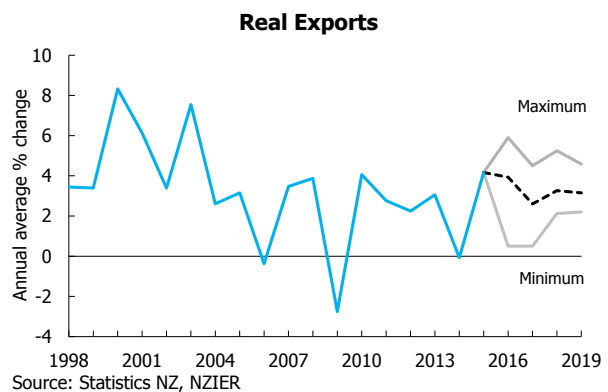
Forecasts of housing construction growth have again been pared back for the coming year. That said, the level of activity is expected to remain very high out to 2018. There is a solid pipeline of work, and the continued surge in net migration will provide a further boost to housing demand. This is particularly the case in Auckland, but there are signs demand is broadening across the regions.



## Export growth expectations ease slightly

There remains a large degree of uncertainty over the export growth outlook. Expectations for near-term export growth have been reduced slightly.

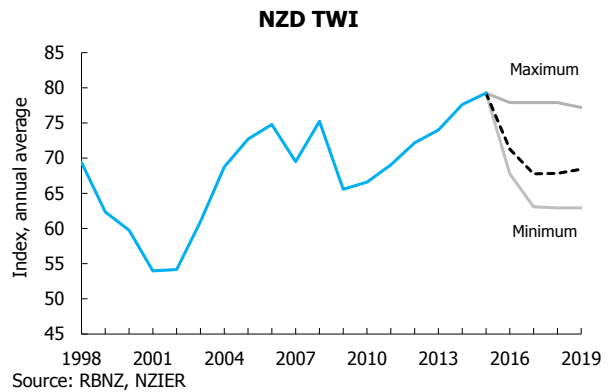
Beyond weaker dairy incomes, the lower NZD has provided a boost to many other export sectors. The tourism sector is a standout, and is boosting activity in many regions.



## Wide range of views on the NZD

Forecasters have revised down expectations for the NZD. A high degree of uncertainty remains over where the NZD will head over the next few years, but the consensus is the NZD will ease through to 2019.

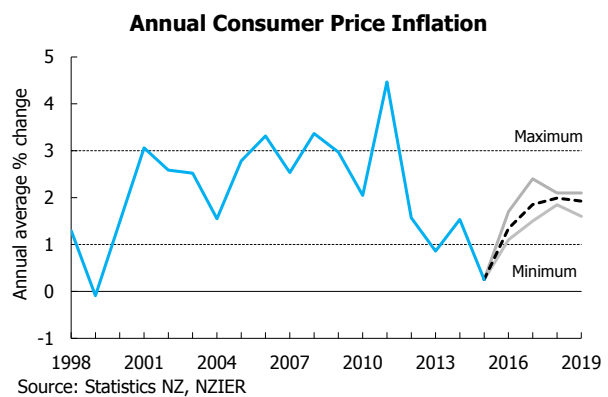
Forecasters expect the NZD TWI to average 71.3 for the year to March 2016, 67.8 for 2017 and 67.8 for 2018. Some expect the NZD TWI to fall below 63 by 2018.



## Inflation to lift from low levels over 2016

Near-term inflation expectations have eased slightly, but all expect annual inflation to lift back to the RBNZ's 1-3% target band next year. The consensus is for annual inflation of 1.3% next March.

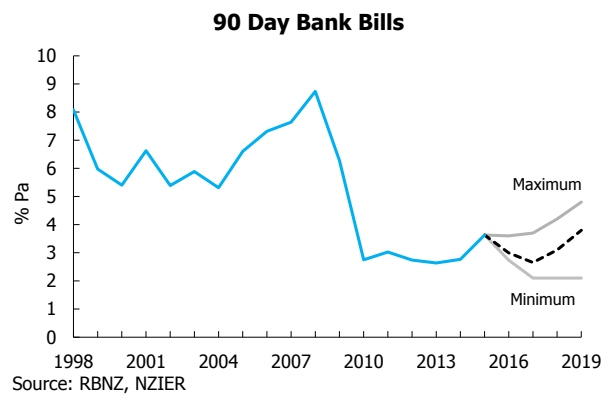
Inflation pressures remain subdued, with businesses finding it increasingly difficult to raise prices. The recent depreciation in the NZD should boost the price of imported goods over 2016.



## Interest rates revised lower

Forecasters have revised down expectations for interest rates over 2016 and 2017. There has been increasing speculation in recent months the RBNZ may take the OCR below 2.5%.

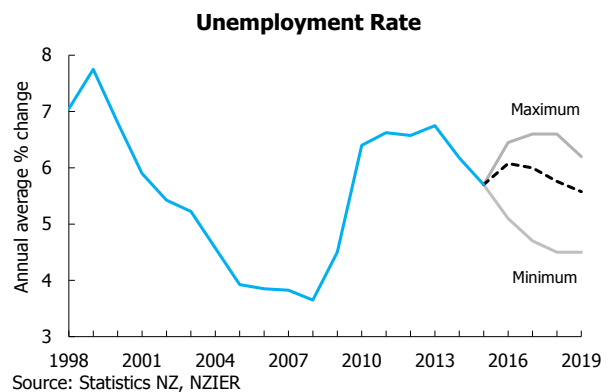
The consensus survey was taken before the RBNZ December *Monetary Policy Statement*, when the RBNZ cut the OCR to 2.5% and signalled it did not expect to cut further.



## Labour market to soften in short term

The surprise contraction in Q3 employment drove a lift in the unemployment rate. Average expectations for the unemployment rate have risen slightly relative to the previous quarter.

However, there remains a wide range of views over the labour market outlook. Some expect the unemployment rate to ease to 4.5% by 2018, while others expect it to reach as high as 6.6%.



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

aapc, March years	Dec-2015 survey				Sep-2015 survey			
	2015/16	2016/17	2017/18	2018/19	2015/16	2016/17	2017/18	2018/19
GDP	2.2 ↓	2.5 ↓	2.7 ↑	2.3 ↑	2.5	2.6	2.6	2.1
Private consumption	2.7 ↓	2.3 ↓	2.2 ↓	2.2 →	2.8	2.4	2.5	2.2
Public consumption	2.1 ↑	0.9 ↑	1.6 ↑	1.6 →	1.2	0.7	1.4	1.6
Fixed investment:								
Residential	6.2 ↓	4.6 ↓	2.4 ↑	-1.1 ↑	6.4	5.2	2.3	-1.8
Other	1.4 ↓	3.1 ↓	4.7 ↑	2.9 ↑	2.8	3.8	3.8	2.3
Total	3.3 ↓	4.4 ↓	4.0 ↑	2.4 ↑	3.6	4.8	3.2	1.4
Exports, goods & services	3.9 ↓	2.6 ↓	3.3 ↑	3.2 ↑	4.1	2.7	3.1	3.1
Imports, goods & services	4.3 ↑	2.5 ↓	2.8 →	2.1 ↓	4.0	2.7	2.8	2.4
Consumer price index (apc)	1.3 ↓	1.9 →	2.0 ↑	1.9 ↑	1.5	1.9	1.9	1.8
New Zealand TWI (ave yr to Mar)	71.3 ↓	67.8 ↓	67.8 ↓	68.4 ↓	71.5	69.6	70.0	70.2
90 day bank bill (ave yr to Mar)	3.0 →	2.7 ↓	3.1 ↓	3.8 →	3.0	2.8	3.2	3.8
10 year govt bond (ave yr to Mar)	3.5 →	3.7 →	4.0 →	4.2 →	3.5	3.7	4.0	4.2
Current account balance (NZ\$b; Mar yr)	-10.7 ↑	-12.0 ↑	-11.6 ↑	-11.3 ↑	-12.0	-13.1	-12.7	-11.8
Employment	1.5 ↓	1.8 ↑	1.8 ↑	1.6 ↑	1.7	1.7	1.5	1.5
Unemployment (% of labour force)	6.1 ↑	6.0 ↑	5.8 ↑	5.6 ↑	5.9	5.8	5.6	5.5
Wages (private sector avg hourly earnings)	2.9 →	2.7 ↓	2.8 ↓	2.8 ↑	2.9	2.9	2.9	2.7
Government operating balance (NZ\$b, June yr)	0.1 ↓	1.1 ↓	2.0 ↓	3.6 ↓	0.3	1.6	2.4	3.8

**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>Sep-15 f</b>			<b>Dec-15 f</b>			<b>Mar-16 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	0.6	0.7	0.5	0.6	0.8	0.2	0.5	0.8
CPI (qpc)	-0.2	0.0	0.2	0.5	0.6	0.8	0.2	0.5	0.7

<b>aapc, March years</b>	<b>2015/2016 f</b>			<b>2016/2017 f</b>			<b>2017/2018 f</b>			<b>2018/2019 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	2.0	2.2	3.1	1.8	2.5	3.1	2.1	2.7	3.5	1.7	2.3	3.1
Private consumption	2.2	2.7	3.9	1.2	2.3	3.7	0.6	2.2	3.8	0.4	2.2	3.2
Public consumption	0.6	2.1	3.0	0.3	0.9	2.6	0.4	1.6	2.5	0.4	1.6	2.6
Fixed investment												
- Residential	2.7	6.2	11.9	-0.1	4.6	9.1	-2.6	2.4	6.0	-7.1	-1.1	2.5
- Other	-2.3	1.4	5.4	0.3	3.1	5.1	2.2	4.7	8.1	0.5	2.9	7.3
- Total	1.3	3.3	8.1	3.1	4.4	5.4	2.1	4.0	6.9	-1.0	2.4	6.0
Exports, goods and services	0.5	3.9	5.9	0.5	2.6	4.5	2.1	3.3	5.2	2.2	3.2	4.6
Imports, goods and services	0.9	4.3	5.7	-1.3	2.5	5.5	0.8	2.8	4.9	0.2	2.1	4.0
Consumer price index (apc)	1.1	1.3	1.7	1.5	1.9	2.4	1.8	2.0	2.1	1.6	1.9	2.1
New Zealand TWI (ave yr to Mar)	67.8	71.3	77.9	63.1	67.8	77.9	62.9	67.8	77.9	62.9	68.4	77.2
90 day bank bill (ave yr to Mar)	2.7	3.0	3.6	2.1	2.7	3.7	2.1	3.1	4.2	2.1	3.8	4.8
10 year government stock (ave yr to Mar)	3.3	3.5	3.9	3.1	3.7	4.1	3.4	4.0	4.8	3.6	4.2	5.1
Current account balance (NZ\$b; Mar yr)	-14.6	-10.7	-8.6	-17.1	-12.0	-7.1	-15.0	-11.6	-6.5	-16.0	-11.3	-5.7
Employment	0.6	1.5	3.8	1.0	1.8	3.1	1.3	1.8	2.7	0.6	1.6	3.1
Unemployment rate (% of labour force)	5.1	6.1	6.5	4.7	6.0	6.6	4.5	5.8	6.6	4.5	5.6	6.2
Wages (private sector avg hourly earnings)	2.7	2.9	3.0	2.0	2.7	3.2	2.3	2.8	3.3	1.9	2.8	3.5
Government operating balance (NZ\$m, June yr)	-2.0	0.1	2.5	-1.0	1.1	3.0	0.0	2.0	4.0	2.4	3.6	5.0

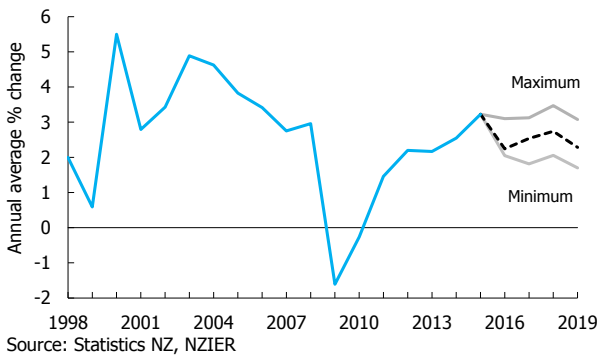
Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change  
 These results show only means; standard deviations are available on request

Source: NZIER

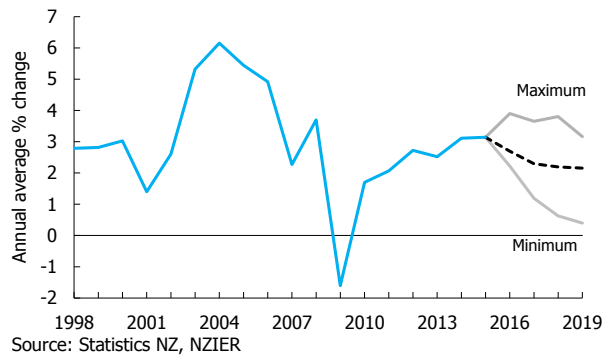
Note: qpc = quarterly percent change.

## Summary charts

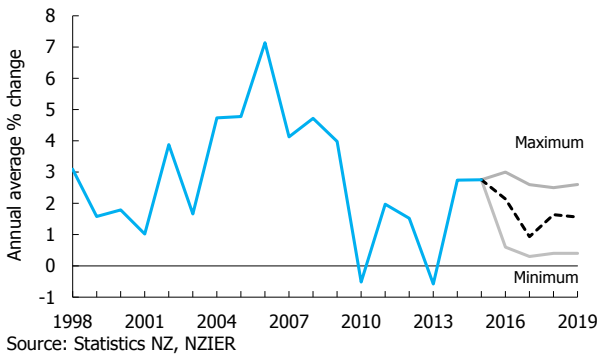
**Real GDP Growth**



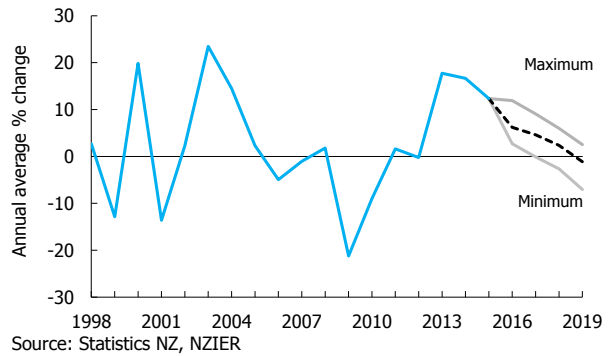
**Real Private Consumption**



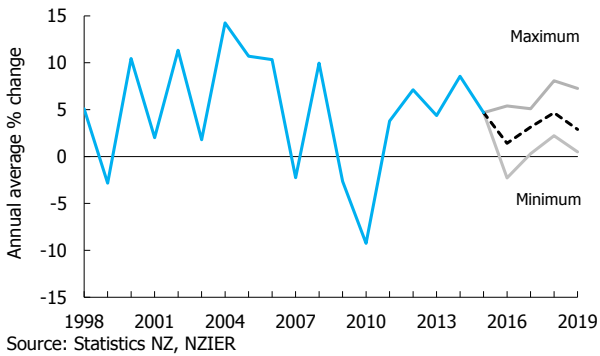
**Real Public Consumption**



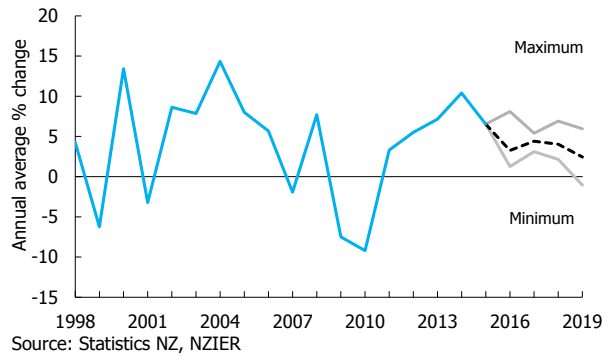
**Real Residential Investment**



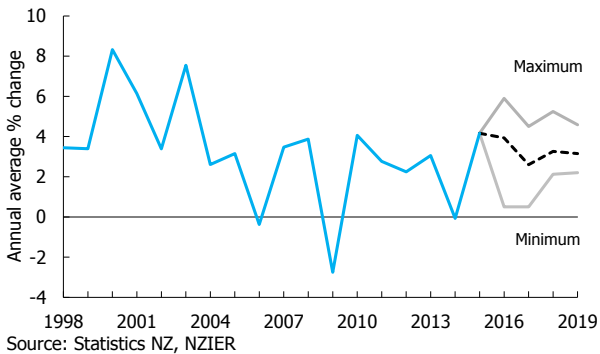
**Real Other Investment**



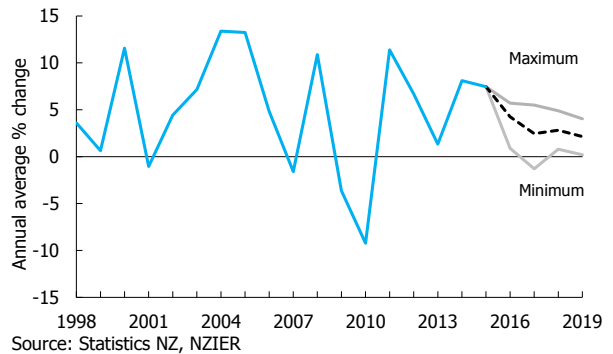
**Real Total Investment**

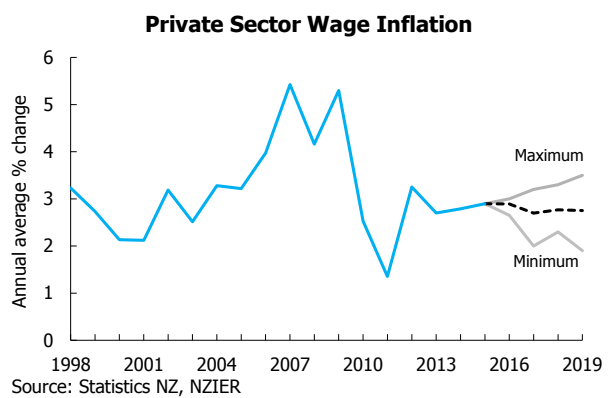
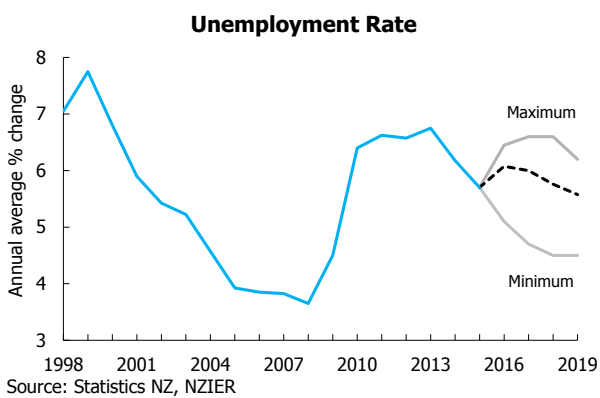
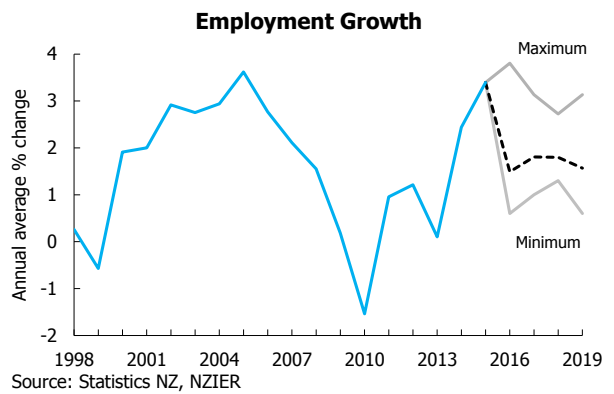
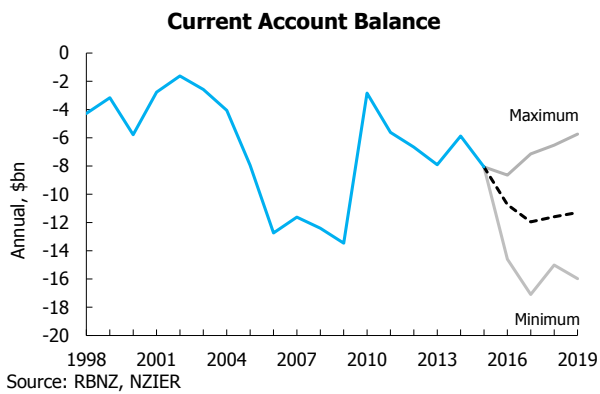
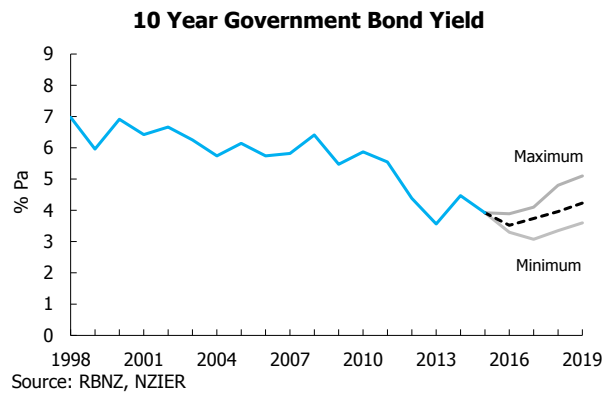
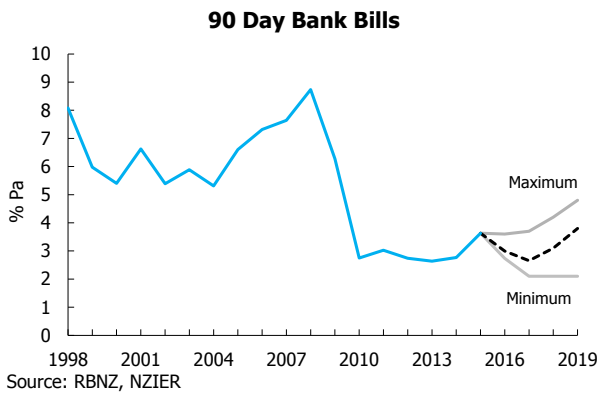
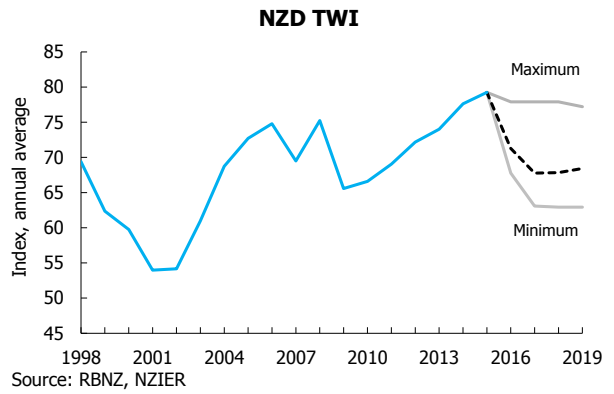
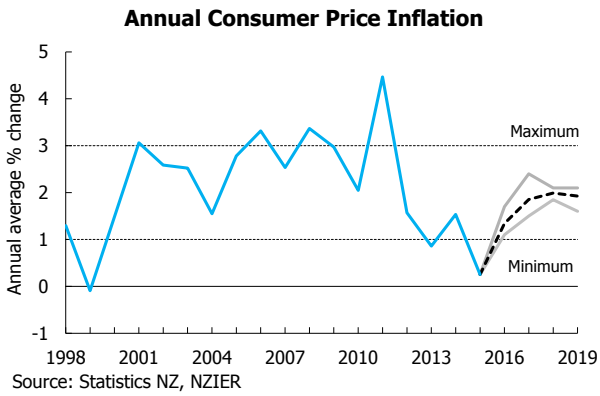


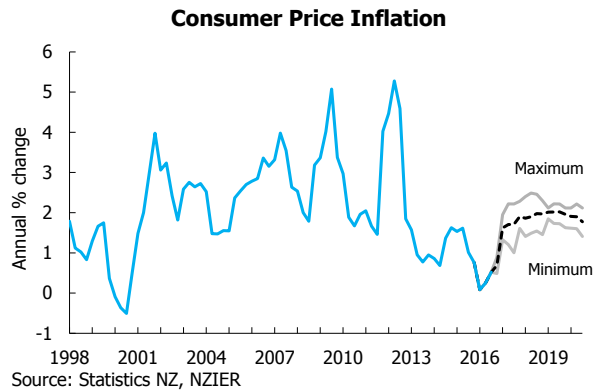
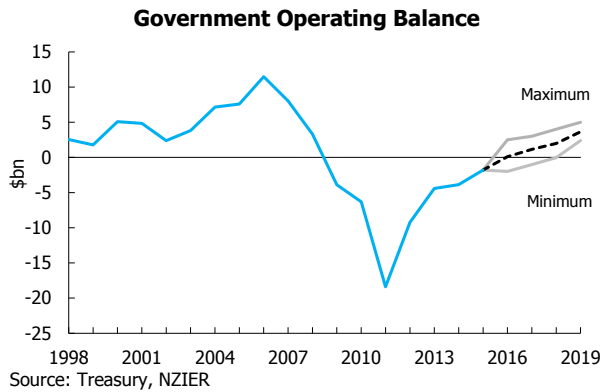
**Real Exports**



**Real Imports**







*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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