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New Zealand Business Forecast Report Q1 2015

https://marketpublishers.com/r/N85DE4EAFA7EN.html
Date: December 2014
Pages: 46
Price: US$ 1,195.00 (Single User License)
ID: N85DE4EAFA7EN

Abstracts

Core Views

The free trade agreement (FTA) between New Zealand and South Korea is set to be ratified by Q115, subject to parliamentary approval, and will provide significant benefits to New Zealand's meat and dairy exports. Additionally, recued import tariffs on consumer gods should support real incomes, helping to offset the impact of weakening terms of trade and a depreciating currency.

We are beginning to see signs of a slight slowdown in the New Zealand economy. The crucial agricultural sector is cooling, while the services and construction sectors are currently the only drivers of growth, leaving the economy susceptible to weakness in the New Zealand dollar and the property market.

Our contrarian view of a no further interest rate hikes by the Reserve Bank of New Zealand (RBNZ) until 2016 is gaining credence as consensus expectations continue to gradually decline while interest rate markets price out aggressive hikes. As real GDP growth weakens, and macro-prudential housing measures remain in place, inflationary pressures will remain benign.

The New Zealand government is set to run a small fiscal deficit in Fiscal Year 2014/15, but the overall trends of narrower deficits and falling spending relative to GDP remain in place. We forecast a deficit equivalent to 0.2% of GDP in FY2014/15, before flipping to a surplus of 0.3% of GDP in FY2015/16.

We forecast the NZD to average USD0.7400/NZD in 2015 and USD0.7000/NZD in 2016. The recent low of USD0.7700/NZD is a key technical support level, and a break below this would suggest a move down to USD0.7000/NZD and possibly below. Fundamentally, the Reserve Bank of New Zealand continues to talk down the currency,

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and widespread expectations of interest rate hikes are gradually being unwound, which will act as headwinds to the currency.

Major Forecast Changes

We have not made any significant revisions since our previous Business Forecast Report. We continue to see real GDP growth slowing in 2015 to 2.4% from an estimated 3.2% from 2014. We also expect the government to fail to achieve a fiscal surplus until Fiscal Year 2015/16. We also remain bearish on the New Zealand dollar, which, will continue to be undermined by weak commodity prices and a falling interest rate expectations.

Contents

Table: Economic Activity

Monetary Policy

Long Pause Call Gaining Credence

Our contrarian view of a no further interest rate hikes by the Reserve Bank of New Zealand until 2016 is gaining credence as consensus expectations continue to gradually decline while interest rate markets price out aggressive hikes. As real GDP growth weakens, and macro-prudential housing measures remain in place, inflationary pressures will remain benign.

Table: Monetary Policy

Fiscal Policy

Surplus Delayed But Outlook Still Positive

The New Zealand government is set to run a small fiscal deficit in Fiscal Year 2014/15, but the overall trends of narrower deficits and falling spending relative to GDP remain in place. We forecast a deficit equivalent to 0.2% of GDP in FY2014/15, before flipping to a surplus of 0.3% of GDP in FY2015/16.

Table: Fiscal Policy

Currency Forecast

NZD: Further Weakness Ahead

We forecast the NZD to average USD0.7400/NZD in 2015 and USD0.7000/NZD in 2016. The recent low of USD0.7700/NZD is a key technical support level, and a break below this would suggest a move down to USD0.7000/NZD and possibly below. Fundamentally, the Reserve Bank of New Zealand continues to talk down the currency, and widespread expectations of interest rate hikes are gradually being unwound, which will act as headwinds to the currency.

Table: Current Account

Table: BMI CURENCY FORECAST

CHAPTER 3: 10-YEAR FORECAST

The New Zealand Economy To 2023

Deleveraging Will Weigh On Growth

The main factors that contributed to New Zealand's solid real GDP growth outturn over the past decade will not be in play to the same degree over the next 10 years. Population growth will slow, terms of trade support will be hard to come by, and we expect New Zealand households will eventually experience protracted deleveraging cycle. These factors should see real GDP growth average 2.5% over the 2014-2023 period, below the 3.6% growth rate seen over the 1999-2007 boom years.

Table: Long-Term Macroeconomic Forecasts

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CHAPTER 4: OPERATIONAL RISK

SWOT Analysis
Operational Risk Index
Operational Risk
  Table: Developed States – Labour Market Risk
  Table: Developed States – Logistics Risk
  Table: Developed States – Crime & Security Risks
  Table: Developed States – Trade & Investment Risk

CHAPTER 5: KEY SECTORS

Infrastructure
  Table: Construction & Infrastructure Industry Data
  Table: Construction & Infrastructure Industry Data
Oil & Gas
  Table: Oil Production
  Table: Oil Production
  Table: Gas Production
  Table: Gas Production
Other Key Sectors
  Table: Pharma Sector Key Indicators
  Table: Telecoms Sector Key Indicators
  Table: Food & Drink Sector Key Indicators

CHAPTER 6: BMI GLOBAL ASSUMPTIONS

Global Outlook
Warning Signs Growing
  Table: Global Assumptions
  Table: Developed States, Real GDP GrowtH, %
  Table: BMI VERSUS BLOMBERG CONSENSUS REAL GDP GROWTH FORECASTS, %
  Table: Emerging Markets, Real GDP Growth, %

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