

Summary of Economic Forecasts

These forecasts update the September 1993 Economic Forecasts and the inflation projections published in the December 1993 Monetary Policy Statement. The forecasts of economic activity cover the period to March 1996, while the inflation projections cover the period to March 1997. The key aggregates discussed in this release are detailed in the summary table opposite. The forecasts incorporate material available up until 21 March.

Economic growth has accelerated over the past year

The pace of economic growth in the New Zealand economy has accelerated over the past year, mainly due to stronger growth in domestic demand from consumption and investment. After weakness during 1992/93, export volumes have also strengthened, with significant growth in manufactured exports and favourable climatic effects on the production of some agricultural commodities. In the year to March 1994, we expect the production-based Gross Domestic Product (GDP) measure¹ to have expanded by 5.3 percent. This is around twice the pace of growth expected in the September forecasts.

A moderation in the rate of GDP growth is likely over the next two years

As is usual following a sharp upturn in activity, the recent strong rates of GDP growth are likely to moderate over the forecast horizon. In part, the sharp rise in consumption has reflected both deferred consumption and anticipated future income growth. The influence of these factors on economic growth over the next two years is likely to reduce gradually. In addition, while the recovery in asset prices may be encouraging higher levels of spending, the impact on growth is likely to dissipate slowly over the forecast period. Investment spending in plant and machinery as a share of GDP has risen sharply in the last two years, helping to enhance New Zealand's economic growth prospects. However, with the share now at an historical high, stronger rates of economic growth appear to be sustainable over the next few years without the recent high rates of growth in investment. Finally, we do not expect the positive contribution of stockbuilding to GDP growth that has occurred over the past two years to continue over the forecast period.

Our outlook for GDP growth is stronger than in the September forecasts

While we expect some slowing in consumption and investment growth rates, our outlook for activity is stronger than in our September forecasts. Further increases in the level of consumption and investment and a solid export outlook should contribute to GDP growth of 3.7 percent in the year to March 1995, followed by 3.3 percent in the year to March 1996.

1 As in previous projections, the GDP statistics referred to in this release relate to the superior production-based measure of GDP.

Summary of Economic Forecasts

(Percentage changes of annual totals or averages)

March Years	Actual/Estimates	Forecasts		
	1993	1994	1995	1996
Real Expenditures on GDP				
Final Consumption Expenditure:				
- Private	1.4	4.2	4.5	3.5
(March qtr to March qtr)	(1.2)	(5.3)	(3.9)	(3.3)
- Public Authority	-0.5	0.5	0.9	-0.8
Total:	1.0	3.4	3.7	2.6
Gross Fixed Capital Formation:				
- Market Sector:				
- Residential	4.6	17.9	8.9	2.1
- Business	7.6	19.6	8.5	6.6
- Non-Market Government Sector	6.9	11.6	2.3	-3.5
Total:	7.0	18.5	7.9	4.8
Final Domestic Expenditure	2.4	6.9	4.8	3.2
Stockbuilding ¹	2.0	0.8	-0.4	0.0
GROSS NATIONAL EXPENDITURE	4.3	7.5	4.3	3.2
Exports of Goods and Services	0.3	5.4	5.7	5.6
Imports of Goods and Services	7.9	9.0	6.4	4.9
GDP (PRODUCTION BASED)	2.6	5.3	3.7	3.3
(GDP (Production based) March qtr to March qtr)	3.1	5.2	3.3	3.2
Government Accounts²				
Adjusted Financial Balance (\$m)	-1,820	-90	690	2,450
- As a % of GDP	-2.4	-0.1	0.8	2.7
External Accounts				
BOP Current Account Balance (\$m)	-1,398	-1,585	-1,825	-1,828
- As a % of GDP	-1.8	-1.9	-2.1	-2.0
Terms of Trade	2.4	1.8	0.9	1.1
Incomes				
Real Household Disposable Incomes	1.1	3.3	3.5	2.4
Inflation³				
Consumer Price Inflation	1.0	1.6	0.6	1.7
Underlying CPI Inflation	1.8	1.4	0.6	1.6
Labour Market				
Employment (000s)	1,475	1,529	1,569	1,599
Change in Employment (%)	1.0	3.6	2.7	1.9
Official Unemployment (000s)	168	154	141	139
Official Unemployment Rate (%) ⁴	9.9	8.9	7.9	7.7

1 Percentage point contribution to growth rate of GDP.

2 June years.

3 March quarter to March quarter % changes.

4 Seasonally adjusted series.

Our treatment of the nominal exchange rate has changed from that used in previous projections

Earlier projections have been based on the technical assumption that the nominal exchange rate will remain constant over the forecast horizon. In these projections, however, we have allowed for some upward movement in the Trade Weighted Index (TWI) to offset Consumer Price Index (CPI) inflation differentials between New Zealand and its trading partners. This approach is consistent with the TWI rising to around 59.2 by March 1997. For consistency, this exchange rate assumption also underlies our real economy outlook.

Underlying inflation to fall over coming year, but to rise in the year to March 1996

Underlying inflation is expected to fall to 0.6 percent in the year to March 1995, before strengthening to around 1.6 percent in the year to March 1996. Underlying inflation for the year to March 1997 is expected to remain at 1.6 percent.

The unemployment rate is expected to fall to 7.7 percent (seasonally adjusted) by March 1996

The strengthening in activity has led to a fall in the unemployment rate over the past year. A further rise in activity should result in employment growth averaging 2.3 percent per annum over the next two years. Natural increases in the labour force, net migration, and rising participation in the labour force will moderate the resulting fall in unemployment.

Government financial surpluses expected in both 1994/95 and 1995/96

In light of the fiscal results for the seven months to January 1994, and our outlook for the economy, we expect an adjusted financial deficit in the 1993/94 fiscal year of around \$90 million, followed by surpluses of \$690 million and \$2,450 million respectively, in the subsequent fiscal years. These forecasts assume no change in fiscal policy from that indicated in the October pre-election fiscal update.

Note on Revisions to GDP Statistics

The forecasts and projections presented in this release have been prepared on the basis of the current published GDP statistics, adjusted for revisions to both the production - and expenditure-based GDP series to reflect the recently revised retail trade statistics. Statistics New Zealand announced these GDP revisions on 21 March 1994.

