RESERVE BANK ECONOMIC FORECASTS[1]

This article summarises the economic forecasts prepared by the Economic Department for release on 6 April 1989

INTRODUCTION

These forecasts update those released in December 1988 and incorporate information from the economic announcement made by the Minister of Finance on 21 March 1989

The main assumptions underlying the forecasts relate to the exchange rate and government policy Specifically, the real exchange rate is assumed to remain constant, based on an average trade weighted index for the March 1989 quarter of 59 4 In addition, the forecasts assume that monetary policy will continue to be targeted at 0-2 per cent inflation by the early 1990s and that no further policy changes will occur beyond those announced on 21 March 1989

FORECAST SUMMARY

Gradual growth in real GDP

Real GDP is forecast to rise by 1 4 per cent in 1989/90 and 1 8 per cent in 1990/91 The growth in real GDP over 1989/90 is expected to be largely derived from the positive effect of retailers/wholesalers ceasing to run-down stock levels and beginning to reorder goods Export volumes also contribute to the growth in real GDP over 1989/90 Improvements in private consumption and exports, combined with some stockbuilding, are again the major contributors to growth in 1990/91, while private investment also begins to expand

Recovery in consumption

A downturn of 0 4 per cent in real private consumption is expected for the 1988/89 year overall, with a slight recovery projected for the two

[1] These forecasts are produced primarily for use within the Bank and do not represent official Reserve Bank forecasts

SUMMARY OF ECONOMIC FORECASTS

(Annual Percentage Changes Of Annual Totals Or Averages)

	ACTUALS		FORECASTS	
March years	1987/88	1988/89	1989/90	1990/91
Real Expenditures on GDP				
Final consumption				
– private	1 8	-0 4	1 0	1 4
– public authority	1 0	-2 5	-3 4	-0 4
– Total	1 6	-0 8	0 1	1 0
Gross fixed capital information				
– private residential	0 4	-1 5	4 6	1 4
business	16 2	-3 5	-1 7	3 1
– public authority	-8 3	0 1	3 6	1 7
– Total	6 6	-2 3	0 6	2 5
Final Domestic Expenditure	2 9	-1 2	0 2	1 4
Stockbuilding[1]	-2 0	-0 4	1 8	0 4
Gross National Expenditure	0 9	-1 4	2 0	1 7
Exports of goods and services	3 8	3 3	2 2	3 9
Imports of goods and services	12 9	-2 6	3 6	3 7
EXPENDITURE ON GDP	-2 4	0 9	1 4	1 8
Government Accounts				
Financial balance ($M)[2]	-1300	-1100	-900	0
as a % of GDP[2]	-2 2	-1 8	-1 3	0 0
Cyclically adjusted % of GDP[2]	-1 8	-0 9	-0 7	0 4
External Account				
BOP current account balance ($M)	-2340	-1190	-1640	-1440
as a % of GDP	-3 9	-1 9	-2 5	-2 1
Terms of trade	10 9	4 1	-1 1	-1 1
Incomes				
Real household disposable income	-0 2	1 3	1 1	1 3
Prices				
Consumer price inflation[3]	9 0	4 1	6 3	3 1
PPI inputs	5 8	5 4	3 8	2 6
Labour Market				
Total employment[3]	-1 6	-5 0	0 7	2 1
HLFS Jobseekers unemployment rate (%)[3]	6 2	8 1	8 0	7 3
HLFS Official unemployment rate (%)	5 0	6 7	6 9	6 0
Registered unemployed (000's)[3]	101 8	157 2	165 4	154 1

[1] Percentage point contribution to growth rate in GDP
[2] June years for 1989/90 and 1990/91
[3] March quarter to March quarter % changes or rate/level as at March quarter

forecast years This recovery is expected to emanate from moderate increases in real household disposable income in conjunction with a stable household savings rate

Investment to improve only slowly
After strong growth in 1987/88 was partially offset by a decline over 1988/89, private business investment is expected to fall by a further 1 7 per cent in 1989/90, before expanding by 3 1 per cent in 1990/91 The fall in 1989/90 reflects continued declines in commercial building activity, along with little change in investment in plant and machinery, and transport equipment Public investment is forecast to expand strongly in 1989/90, mainly due to sizeable investments planned by state owned corporations Residential investment is forecast to rise in both 1989/90 and 1990/91 as a result of continued increases in real personal disposable incomes and a declining trend in mortgage interest rates

Financial deficit of $900 million projected for 1989/90
The financial deficit for the 1988/89 March year is estimated to be $1 1 billion A potential deterioration in the fiscal position is averted by the 21 March package, which is expected to result in a financial deficit of $900 million for the June 1989/90 year, or 0 7 per cent of GDP in cyclically adjusted terms

Balance of payments deteriorates with stronger activity
The fall off in imports, and higher export returns, have combined to produce a much improved current account balance for 1988/89 However, imports are expected to increase as domestic activity picks up and, in combination with a slight decline in the terms of trade, this development is forecast to lead to a worsening in the current account balance in 1989/90 An expanding rate of export volume growth then contributes to an improvement in the 1990/91 year

Inflation rises to over 6 per cent with GST effect before falling back to 3 per cent by March 1991
The increase in GST to 12 5 per cent is expected to result in year-to-date CPI inflation of 6.3 per cent by December 1989, the GST increase is partially offset by cuts in excise taxes Once the GST effect passes through, and assuming monetary policy restricts any flow on into wages, inflation is forecast to return to its declining trend, reaching 3 1 per cent by March 1991

Unemployment expected to peak in late 1989
Total employment is forecast to rise slowly in response to real GDP growth in 1989/90, but not at a rate sufficient to offset the expected labour forecast growth Once employment growth picks up in late 1989, then unemployment is expected to peak and begin to decline through 1990/91