

ECONOMIC FORECASTS

MARCH 1991 EXECUTIVE SUMMARY

Introduction

These forecasts update those published in October 1990 and include information available up to 12 March. The forecasts cover the period to March 1993.

Forecast Summary

- *Activity stronger than expected over 1990/91; outlook is for steady growth*

The economy is expected to have grown by 0.9 per cent in the year to March 1991, compared to our October forecast of 0.4 per cent, as investment spending remained high. GDP growth is forecast to strengthen to 1.4 per cent in 1991/92 and 1.1 per cent over 1992/93. Strong export growth and a continuing high level of business investment are expected to underpin growth over the forecast horizon.

- *Consumption to decline*

Private consumption spending is expected to fall by 1.6 per cent in 1991/92 and by a further 1.2 per cent over 1992/93, as forecast real household incomes contract by 3.7 per cent and 0.7 per cent over the same period. Slow growth in wages, lower Government transfers, and reductions in effective disposable incomes, reflecting a partial 'user pays' system for social services, are expected to lead to real incomes falling over the forecast horizon. Public consumption is forecast to fall in 1991/92 and 1992/93 as the Government acts to reduce the deficit.

- *Business investment continues to grow from current high levels*

In 1990/91, business investment is estimated to have grown by 4.4 per cent from the high 1989/90 level. Over the forecast horizon, overall growth in business investment is expected to moderate slightly as transport investment slows and with the completion of Maui B. Underlying growth in plant and machinery investment is expected to remain high, however, through 1991/92 and 1992/93.

- *Higher fiscal deficit likely to require significant further savings to meet Government's target*

A financial deficit of around \$1,400 million is now expected for 1990/91. The Government is assumed to make further fiscal savings of around \$1,000 million in both 1991/92 and 1992/93 in order to achieve fiscal balance by 1993/94. These savings are expected to constrain the deficit to \$2 billion (2.6 per cent of GDP) in 1991/92, and \$1.25 billion (1.6 per cent of GDP) in 1992/93.

- *Strong exports growth forecast to continue*

Current strong growth in export volumes is expected to continue, with 6.9 per cent growth forecast in 1991/92 and 4.1 per cent in 1992/93. Together with flat imports, this is expected to result in a significant improvement in the trade

balance, despite further weakening in the terms of trade over 1991/92. However, continued deterioration in invisibles prevents a substantial improvement in the current account, with the deficit forecast to remain around \$4.9 billion (6.5 per cent of GDP) in 1991/92, before improving to \$4.4 billion (5.6 per cent of GDP) in 1992/93

- *Favourable outlook anticipated for inflation*

Recent inflation out-turns have indicated a weakening in inflationary pressures which, together with the resolution of the Gulf crisis, have improved the inflation outlook. While these forecasts are based on annual inflation of 3.8 per cent in December 1991, more favourable inflation out-turns over the year could lead to inflation falling as low as 3 per cent by the

end of the year. In March 1993, inflation is expected to have been reduced to 2.3 per cent, consistent with the December 1993 target of 0-2 per cent.

- *Strong labour force growth increases unemployment*

Unemployment is expected to stand at 9.5 per cent over the March quarter. Over the forecast period, employment growth is expected to be insufficient to offset a forecast expansion in the labour force. This expansion is driven partly by an increase in the number of people actively seeking work following the changes to benefit structures. As a result the measured official unemployment rate is forecast to rise to 10.9 per cent in March 1992 and 11.6 per cent by March 1993, although the 'jobless' rate is not expected to rise commensurately.

20 March 1991

SUMMARY OF ECONOMIC FORECASTS
(Annual percentage changes of annual totals of averages)

	Actual	Estimate	Forecasts	
March years	1990	1991	1992	1993
<i>Real Expenditure on GDP</i>				
Final Consumption				
- Private	0.9	-0.4	-1.6	-1.2
- Public authority	0.3	1.9	-1.6	-0.3
- TOTAL	0.8	0.1	-1.6	-1.0
Gross Fixed Capital Formation				
- Private - Residential	11.6	-1.2	-1.6	1.2
- Business	20.8	4.4	2.2	1.2
- Public authority	-2.7	2.2	-9.0	-2.0
- TOTAL	12.9	3.0	-1.0	0.5
Final Domestic Expenditure	3.8	0.9	-1.4	-0.6
Stockbuilding ¹	3.1	-1.2	0.4	0.4
Gross National Expenditure	6.7	-0.2	-1.1	-0.1
Export of goods and services	-3.4	7.0	6.9	4.1
Imports of goods and services	15.6	2.6	-0.5	0.5
EXPENDITURE ON GDP	-0.1	0.9	1.4	1.1
<i>Government Accounts²</i>				
Financial balance (\$m)	-940	-1400	-2000	-1250
as a % of GDP	1.3	-1.9	-2.6	-1.6
<i>External Account</i>				
BOP current account balance (\$M)	-4170	-4940	-4920	-4380
as a % of GDP	-6.0	-6.8	-6.5	-5.6
SNA Terms of trade	4.5	-3.7	-4.3	1.6
<i>Incomes</i>				
Real household disposable incomes	-1.2	-2.0	-3.7	-0.7
<i>Prices³</i>				
Consumer price inflation	7.0	5.2	3.1	2.3
Consumer price inflation excl. oil & GST	5.0	4.4	3.4	2.3
<i>Labour Market³</i>				
HLFS employment	0.4	0.4	0.2	0.6
Official HLFS unemployment ('000's)	115.7	152.9	180.5	193.2
Official HLFS unemployment rate (%)	7.3	9.5	10.9	11.6
1. Percentage point contribution to growth rate in GDP. 2. June years 3. March quarter to March quarter % changes or rate/level as at March quarter.				