

ECONOMIC FORECASTS

The following is a reproduction of the Executive Summary from the August 1991 forecasts, released by the Bank on 20 August 1991

August 1991 Executive Summary

Introduction

These forecasts update those published in March 1991 and cover the period to March 1993. Information available to 15 August is included.

Forecast Summary

- **Growth** expected to strengthen slowly

The economy is estimated to have grown by 1.1 per cent in the year to March 1991, as a result of strong growth in exports. As in our March forecasts, we expect GDP growth of around 1.5 per cent over 1991/92. Continuing strength in the external sector is forecast to offset weak domestic demand. The gradual strengthening in the economy should continue in 1992/93, with further export growth and strong plant and machinery investment underpinning growth of 2.1 per cent.

- **Consumption** spending forecast to decline

Consumption is expected to fall by 1.5 per cent in 1991/92 and by 1.1 per cent in 1992/93. Both private and public consumption spending are expected to contract, reflecting a continued decline in household incomes and the effects of fiscal restraint. Falling real wages, lower benefit incomes, reduced interest earnings, and depressed export prices are expected to lower real incomes by 1.0 per cent in 1991/92, with a smaller decline of 0.2 per cent in 1992/93.

- **Investment** in plant and machinery continues to grow

Aggregate investment is estimated to have increased by around 1.8 per cent in 1990/91, from an already high 1989/90 level. Investment is forecast to decline by 1.7 per cent over 1991/92, before recovering slightly in 1992/93. While plant and machinery investment is expected to remain strong, reflecting export-related investment spending, residential and commercial construction is forecast to fall over 1991/92, and to remain weak into 1993.

- **Lower fiscal deficits** expected following Budget

Based on announced Budget measures, we expect the financial deficit to be around \$1.7 billion (2.2 per cent of GDP) in 1991/92, and around \$0.6 billion (0.8 per cent of GDP) in 1992/93.

- **Current account deficit** forecast to fall further

The current strong growth in export volumes is expected to continue, with 7.4 per cent growth forecast in 1991/92 and 5.3 per cent in 1992/93. Together with an easing in import volumes, lower import prices, and a major Department of Statistics revision, these factors lower our current account deficit forecasts to around \$1.9 billion (2.5 per cent of GDP) in 1991/92, and \$0.8 billion (1 per cent of GDP) in 1992/93.

- *Lower **inflation** is temporarily lifted by Budget measures*

Recent inflation out-turns indicate inflationary pressures have eased. CPI inflation is forecast to fall to 2 per cent by December 1991, with underlying inflation remaining around 2.5 per cent. User charges and excise changes in the Budget are expected to increase prices by around 1.5 percentage points over the next two years. However, measured inflation is forecast to fall to 2.3 per cent by March 1993, with underlying inflation falling below 2 per cent.

- *Labour force growth continues to boost **unemployment***

After reaching 10.1 per cent in the June quarter 1991, unemployment is expected to increase over the forecast horizon. Employment growth is not expected to offset a predicted strong expansion in the workforce. This expansion is driven by natural labour force growth and higher participation following benefit reforms and changes to superannuation. As a result, official unemployment is forecast to rise to 12 per cent by March 1992, and 12.4 per cent in March 1993.

20 August 1991

SUMMARY OF RECENT ECONOMIC TRENDS
(Annual percentage changes of annual totals or averages)

March years	1985/86	1986/87	1987/88	1988/89
<i>Real Expenditure on GDP</i>				
Final Consumption:				
- Private	0.7	3.3	2.5	1.7
- Public Authority	1.3	2.0	0.8	0.9
- TOTAL	0.9	3.0	2.1	1.6
Gross Fixed Capital Formation:				
- Market Sector:				
- Residential	0.5	-3.8	1.8	6.0
- Business	5.8	-4.9	11.6	-5.6
- Non-Market Government Sector	22.6	-1.4	-6.5	9.4
- TOTAL	6.1	-4.4	8.2	-2.5
Final Domestic Expenditure	2.2	1.1	3.6	0.5
Stockbuilding ¹	-2.6	0.9	-1.8	-0.1
Gross National Expenditure	-0.4	2.0	1.8	0.5
Export of Goods and Services	1.2	4.5	5.2	2.3
Imports of Goods and Services	1.5	2.5	11.6	0.2
EXPENDITURE ON GDP	-0.6	2.6	-0.6	1.2
<i>Government Accounts</i>				
Financial Balance (\$m)	-1186	-1831	-1322	-954
as a % of GDP	-2.7	-3.4	-2.2	-1.5
Primary Balance as a % of GDP	2.4	1.9	3.6	3.9
<i>External Accounts</i>				
BOP Current Account Balance (\$m)	-4013	-2878	-2506	-707
as a % of GDP	-9.0	-5.3	-4.2	-1.1
SNA Terms of Trade	0.0	6.4	10.8	9.4
<i>Incomes</i>				
Real Household Disposable Incomes	0.7	2.7	0.1	1.8
Household Savings as % of Disposable Incomes	3.8	4.4	4.0	2.0
<i>Prices²</i>				
Consumer Price Inflation	13.0	18.3	9.0	4.0
<i>Labour Market²</i>				
HLFS Employment	0.2	0.8	-1.9	-4.1
Official HLFS Unemployment (000s)	67.6	66.9	80.6	116.3
Official HLFS Unemployment Rate (%)	4.2	4.1	5.0	7.4
1 Percentage point contribution to growth rate of GDP.				
2 March quarter to March quarter % changes or rate/level as at March quarter.				

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

	Actual	Estimate	Forecasts	
March years	1989/90	1990/91	1991/92	1992/93
<i>Real Expenditure on GDP</i>				
Final Consumption:				
- Private	0.9	-0.7	-1.1	-0.4
- Public Authority	0.3	1.0	-3.2	-3.6
- TOTAL	0.8	-0.4	-1.5	-1.1
Gross Fixed Capital Formation:				
- Market Sector:				
- Residential	9.1	0.9	-5.8	-0.2
- Business	13.8	2.4	-0.9	2.3
- Non-Market Government Sector	2.0	-2.4	-0.7	-6.2
- TOTAL	11.9	1.8	-1.7	1.2
Final Domestic Expenditure	3.5	0.2	-1.6	-0.5
Stockbuilding ¹	3.1	-1.0	-0.5	1.1
Gross National Expenditure	6.6	-0.7	-2.0	0.6
Export of Goods and Services	-3.0	7.5	7.4	5.3
Imports of Goods and Services	15.0	1.2	-2.7	1.0
EXPENDITURE ON GDP	0.0	1.1	1.5	2.1
<i>Government Accounts</i> ²				
Financial Balance (\$m)	-943	-2856 ³	-1690	-640
as a % of GDP	-1.3	-3.9 ³	-2.2	-0.8
Primary Balance as a % of GDP	4.4	1.6 ³	2.9	4.1
<i>External Accounts</i>				
BOP Current Account Balance (\$m)	-2195	-2725 ⁴	-1920	-795
as a % of GDP	-3.1	-3.7	-2.5	1.0
SNA Terms of Trade	4.3	-3.7	-2.2	1.7
<i>Incomes</i>				
Real Household Disposable Incomes	-1.9	-2.5	-1.0	-0.2
Household Savings as % of Disposable Incomes	-0.8	-2.9	-3.4	-2.6
<i>Prices</i> ⁵				
Consumer Price Inflation	7.0	4.5	2.1	2.3
<i>Labour Market</i> ⁵				
HLFS Employment	0.4	-0.5	-0.6	1.1
Official HLFS Unemployment (000s)	115.7	160.4	198.5	208.9
Official HLFS Unemployment Rate (%)	7.3	9.9	12.0	12.4
<p>1 Percentage point contribution to growth rate of GDP. 2 June years. 3 Excludes proceeds from the sale of Crown Forestry Assets. 4 RBNZ estimate; differs from official Department of Statistics estimate due to assumptions about investment income flows. 5 March quarter to March quarter % changes or rate/level as at March quarter.</p>				