# Economic Forecast Overview and Summary Table

*These forecasts update the full Economic Forecasts published in March 1993, and the inflation forecasts published in the Bank's June 1993 Monetary Policy Statement. The key aggregates discussed in this release are detailed in the summary table overleaf. The forecasts incorporate material available up to 9 September.*

## Overview

**Growth rates between 2.5 and 3.0 percent expected over the next two years.**
After picking up over the past year, the pace of economic recovery is expected to consolidate over the forecast horizon. Although growth over the March quarter was lower than anticipated, all indications are that the New Zealand economy will continue to grow at rates of between 2.5 and 3.0 percent over the next two years. While the outlook is marginally weaker than that presented in the March forecasts — due to a slightly weaker profile for manufactured exports and some components of investment — our general assessment of prospects for the New Zealand economy has remained unchanged.

**Economic activity in the March 1993 quarter weaker than anticipated.**
Over the March quarter, the production based GDP[1] measure registered a 0.6 percent seasonally adjusted increase relative to the December quarter 1992, somewhat less than assumed in our previous forecasts. However, for the full 1992/93 year, real GDP expanded by 2.8 percent, in line with our forecasts, reflecting some revisions to earlier periods. Consumption growth, which we had expected to slow following its strong increase late last year, and investment spending, were each a little weaker over the March quarter than we had anticipated. In addition, exports of non-commodity manufactures, the fastest-growing component of exports over 1992, fell unexpectedly over the quarter — the first decline, in seasonally adjusted terms, since 1990.

**Indications of stronger growth performance in the June quarter.**
Indicators available for the June quarter and beyond suggest a resumption of stronger growth in domestic activity. Notably, retail spending in the June quarter grew sharply, amid further improvements in consumer confidence. Imports of capital goods have increased over recent months, while indicators of business confidence remain at historically high levels. Finally, external trade data for the June quarter suggest that exports of manufactures have begun to grow again, although less vigorously than projected in our March forecasts.

1 In line with the practice we have adopted in recent forecasts, all GDP statistics discussed in this release refer to the production-based measure of GDP, which - as Statistics New Zealand have noted publicly - has proven to be superior to the expenditure-based measure as an indicator of short-term movements in economic activity.

# Summary of Economic Forecasts

(Annual percentage changes of annual totals or averages)

| March Years | Actual 1992 | Actual 1993 | Forecasts 1994 | Forecasts 1995 |
|---|---|---|---|---|
| ***Real Expenditures on GDP*** | | | | |
| Final Consumption Expenditure: | | | | |
| - Private | 0.3 | 1.9 | 2.9 | 2.4 |
| - Public Authority | -0.8 | -0.1 | -0.8 | -0.6 |
| **Total**: | 0.1 | 1.5 | 2.1 | 1.8 |
| Gross Fixed Capital Formation: | | | | |
| - Market Sector: | | | | |
| - Residential | -17.0 | 3.9 | 5.2 | 5.0 |
| - Business | -13.2 | 7.0 | 6.1 | 7.6 |
| - Non-Market Government Sector | -30.9 | 0.6 | 5.9 | 0.0 |
| **Total**: | -16.0 | 5.8 | 5.9 | 6.4 |
| Final Domestic Expenditure | -4.0 | 2.5 | 3.0 | 2.9 |
| Stockbuilding [1] | -1.8 | 2.3 | 0.3 | -0.2 |
| **GROSS NATIONAL EXPENDITURE** | -5.6 | 4.7 | 3.2 | 2.6 |
| Exports of Goods and Services | 5.0 | 0.1 | 4.2 | 6.3 |
| Imports of Goods and Services | -5.1 | 8.3 | 4.9 | 5.3 |
| **GDP (PRODUCTION BASED)** | -1.6 | 2.8 | 2.6 | 2.8 |
| (GDP (Production based) March qtr to March qtr) | 1.0 | 2.9 | 2.6 | 3.0 |
| ***Government Accounts*** [2] | | | | |
| Financial Balance ($m.) | -2449[3] | -2340 | -1720 | -1000 |
| - As a % of GDP | -3.3[3] | -3.1 | -2.2 | -1.2 |
| Primary Balance as a % of GDP | 1.6[3] | 1.5 | 1.8 | 2.8 |
| ***External Accounts*** | | | | |
| BOP Current Account Balance ($m.) | -1,085 | -928 | -745 | -466 |
| - As a % of GDP | -1.5 | -1.2 | -0.9 | -0.6 |
| Terms of Trade | -2.3 | 2.3 | 2.3 | 0.5 |
| ***Incomes*** | | | | |
| Real Household Disposable Incomes | 0.1 | 2.0 | 1.8 | 3.1 |
| ***Inflation*** [4] | | | | |
| Consumer Price Inflation | 0.8 | 1.0 | 1.5 | 1.2 |
| Underlying CPI Inflation | 1.3 | 1.8 | 1.1 | 1.2 |
| ***Labour Market*** | | | | |
| Employment[5] (000's) | 1459.9 | 1475.0 | 1501.0 | 1527.0 |
| Change in Employment[4] (%) | -0.8 | 1.0 | 1.8 | 1.7 |
| Official Unemployment[5] (000's) | 181.4 | 168.4 | 168.4 | 166.4 |
| Official Unemployment Rate[5] (%) | 11.1 | 10.2 | 10.1 | 9.8 |
| - Seasonally Adjusted [5,6] (%) | 10.7 | 9.9 | 9.8 | 9.5 |

1 Percentage point contribution to growth rate of GDP.
2 June years.
3 Excludes proceeds from the sale of Crown Forestry Assets, and the effect of currency revaluations on the value of Crown financial assets.
4 March quarter to March quarter % changes.
5 Rate/Level as at March quarter.
6 Reserve Bank seasonally adjusted series.

**Consumer spending expected to grow strongly, reflecting higher incomes and improved confidence.**
Our expectation of strengthening consumption growth over the next two years is essentially unchanged from the March forecasts. Further increases in household real incomes — due to higher economic activity, increases in employment and modest wage increases — are seen as the driving factor. Consistent with the recent buoyancy in consumer confidence, we expect a temporary fall in the household savings rate over the 1993/94 year.

**Higher activity and rising business profits underpin further investment spending.**
As in our March forecasts, we expect a sustained increase in investment spending over the forecast horizon, underpinned by the growth in economic activity, strong business confidence and rising profits. Supporting this outlook are the recent increases in measured capacity utilisation, buoyant survey responses on investment intentions, the recent growth in imports of capital goods, and our own discussions with businesses. The growth profile is dominated by higher spending on plant and machinery.

**More moderate growth in imports and stock-building after surge in 1992.**
Stock-building over 1992/93 made a significant contribution to domestic demand as manufacturers and distributors sought to increase stock levels in the face of strengthening economic activity. Consistent with our last forecasts, we expect stocks to increase at about the same rate as sales growth, thus exerting little independent influence on output. Imports, which grew strongly in late 1992, are expected to expand a little more rapidly than GDP, due to import-intensive investment activity and an expectation that manufacturing production will grow faster than other areas of economic activity.

**Manufactured export performance expected to strengthen again after pause in early 1993.**
In light of the weaker growth performance of non-commodity manufactured exports over early 1993, we project aggregate export volumes to expand somewhat less over 1993/94 and 1994/95 than assumed in our March forecasts. This expectation recognises the temporary dampening influence of the recent firming in the New Zealand dollar on price competitiveness, as well as the reduced incentives for export expansion during a period of strengthening domestic activity.

**GDP growth forecasts marginally lower than in March.**
We expect GDP to rise by 2.6 percent between March 1993 and March 1994 and by 3.0 percent between March 1994 and March 1995. These increases compare with respective growth projections of 2.5 and 3.2 percent in our March forecasts. In annual average terms, GDP is forecast to expand by 2.6 and 2.8 percent in 1993/94 and 1994/95 respectively.

**Current account deficit expected reduce over forecast horizon.**
Substantial revisions to balance of payments statistics, announced in May, led to a significant reduction in our estimate of the current account deficit in the year to March 1993. An unexpected strengthening in the terms of trade also contributed to the improvement. Although import volumes are forecast to grow faster than export volumes over the 1993/94 year, a further rise in the terms of trade will result in an increase in the merchandise trade surplus. This will more than offset the worsening of the invisibles

## CONTRIBUTIONS TO REAL GDP GROWTH

(Percentage point contribution to change in GDP)

| | Actual | | Forecasts | |
|---|---|---|---|---|
| **March Years** | **1992** | **1993** | **1994** | **1995** |
| Final Consumption: | | | | |
| - Private | 0.2 | 1.2 | 1.9 | 1.5 |
| - Public Authority | -0.1 | 0.0 | -0.1 | -0.1 |
| **Total**: | 0.1 | 1.2 | 1.7 | 1.4 |
| Gross Fixed Capital Formation: | | | | |
| - Market Sector Investment: | | | | |
| Residential | -0.9 | 0.2 | 0.2 | 0.2 |
| Business | -2.5 | 1.2 | 1.1 | 1.4 |
| - Non-Market Govt Investment | -1.0 | 0.0 | 0.1 | 0.0 |
| **Total**: | -4.3 | 1.3 | 1.4 | 1.6 |
| Stockbuilding | -1.8 | 2.3 | 0.3 | -0.2 |
| Gross National Expenditure | -6.1 | 4.9 | 3.5 | 2.8 |
| Exports of Goods and Services | 1.8 | 0.0 | 1.6 | 2.4 |
| Imports of Goods and Services | 2.3 | -3.5 | -2.2 | -2.5 |
| Gross Domestic Product (Expenditure) | -2.0 | 1.4 | 2.8 | 2.8 |
| Gross Domestic Product (Production) | -1.6 | 2.8 | 2.6 | 2.8 |

balance. Accordingly, the current accout deficit is expected to fall to $745 million (0.9 percent of GDP) over the 1993/94 year. A further improvement to $466 million (0.6 percent of GDP) is forecast for the year thereafter, mainly due to rising export volumes.

**Rate of unemployment to register only modest decline, despite strong employment growth.**

Whereas growth in employment in the year to March 1993 was marginally lower than estimated in our last forecasts, the Household Labour Force Survey (HLFS) measure of unemployment has indicated a sharper fall in unemployment over recent quarters than we expected. This has been due to a decline in labour force participation among those of school-leaving age and in the 'age 65 and over' group. Nevertheless, we expect overall participation in the labour force to rise gradually over the forecast horizon, encouraged by further employment growth. Thus, while employment is expected to expand by about 1.7 percent per annum, the unemployment rate is forecast to decline only gradually over the next two years, to around 9.8 percent by March 1995 — down from 10.2 percent (seasonally unadjusted) in March 1993.

**Significant improvement in government financial deficit.**
New information (a further decline in interest rates leading to lower debt servicing costs) and different macroeconomic assumptions (stronger growth in incomes and consumption leading to higher tax revenue) account for the difference between our fiscal deficit projections and those presented by the Government on Budget night. The net public debt to GDP ratio is expected to decline slightly over the forecast horizon.

**Underlying inflation to fall over the March 1994 year.**
The inflation forecasts cover the period to March 1996 and are based on the assumption of a trade-weighted exchange rate index (TWI) of 55.0 — about the average over the last three months. Underlying inflation is projected to fall from 1.6 percent in the year to June 1993 to 1.1 percent in the year to March 1994. Underlying inflation remains stable through to March 1995 before rising in the final forecast year in response to strengthening domestic and world economic activity.