INTRODUCTION AND SUMMARY

Real economic activity in the New Zealand economy declined in 1982/83. With no recovery in the international economy during the year (although some positive signs were emerging by year end), New Zealand was faced with a continued poor terms of trade position and weak demand for its exports. The international situation provided no support for the earlier domestically generated expansion so that automatic mechanisms forced the economy to contract. The cyclical downturn was widely anticipated by consumers and the business community but developments during the year had the effect of making the slowdown much sharper than expected.

Firstly, rates of growth of the main money and credit aggregates slowed rapidly in the second half of 1982. Credit extended to the private sector by the major financial institutions is provisionally estimated to have grown by only 2.8 per cent in the year to March 1983, compared with an increase of 30 per cent in the year to March 1982. The slowdown was partly attributable to a fall-off in demand for credit but financial institutions generally found that their positions deteriorated up to October, 1982, resulting in a subsequent reduction in the supply of credit.

Secondly, the wage controls, as part of the 22 June 1982 wage-price freeze, were associated with a significant drop in disposable incomes. The usual increase in nominal wages from a mid-year wage round did not occur. This in combination with the effect of high marginal tax rates on personal income through to October 1982 and increasing unemployment led to disposable salary and wage incomes growing at a slower rate than the rate of inflation in the year to March 1983. In addition, farm incomes were hit particularly severely by deteriorating world demand and even after allowing for substantial SMP payments they declined in real terms in 1982/83. Corporate profits also weakened.

The contraction in 1982/83 was not even throughout the year or across sectors. Despite strong contractionary income and monetary influences, activity in some industries continued at reasonable levels for several months into the year. In part, this was due to strongly held expectations of changes in some policy instruments, particularly sales tax, in the 1982 Budget. For example, demand held up for new cars and for a wide range of other retail commodities. The downturn in those industries associated with these products was therefore delayed but, when it came, was probably more severe than would otherwise have been the case. Falling real household disposable incomes combined with tighter credit conditions ultimately resulted in a substantial fall in real consumption spending in the latter part of 1982/83.

Total private investment spending grew in real terms in 1982/83 for the second consecutive year. This was solely attributable to capital formation associated with the major projects. Excluding the major project component, investment spending fell from the previous year's level, reflecting the decline in business confidence during the year. Building activity contracted over 1982/83 after holding up in the earlier part of the year. There was also a real decrease in machinery and transport equipment investment.

Associated with the sharp decline in economic activity has been a fall in capacity utilisation and an accompanying acceleration in the number of people unemployed. The relatively small impact that the more expansionary conditions of 1981/82 had in containing unemployment suggests that to actually improve employment prospects requires a fundamental shift in employers' perception of business conditions in the future.

In the latter part of 1981/82 the level of overall demand exceeded the productive ability of the New Zealand economy to meet that demand. As a consequence both the external accounts and the inflation rate deteriorated early in 1982/83. The current account widened from a deficit of $1,141 million in the year to March 1982 to $1,643 million in the year to March 1983, moving from 4 per cent of GDP to around 5.1 per cent. The deterioration was attributable to stagnant world demand, poor terms of trade, an expanding deficit on invisible transactions, and, initially, substantial growth in import volumes over and above imports associated with the major projects.

However, most of the deterioration in the external accounts occurred in the first half of 1982/83, with the current account balance on a flat or slightly improving trend in the second half of 1982/83. This movement reflects the recent decline in the volume growth of imports of goods and services and some recovery in the volume growth of exports. The recent beginnings of a modest international recovery, depressed domestic demand conditions and the devaluation of the New Zealand dollar against the basket of currencies on 8 March 1983 should further reinforce these trends as the current year progresses.

The increase in the Consumers Price Index also peaked at 17 per cent in the year to June 1982, at a time when inflation in most of our major trading partners was continuing to come down. Since then, the wage-price controls underpinned by slower monetary growth, have brought inflation down to 12.6 per cent for the year ended March 1983. (The March quarter 1983 was a very low 0.8 per cent.) By comparison, inflation for all OECD countries averaged 5.7 per cent for the year to February 1983 which suggests that from a trading point of view New Zealand's competitive position in the international economy probably slipped further in 1982/83 as a whole, although most recent domestic price trends imply some improvement in competitiveness.

The Government is committed to containing inflationary pressure in the economy. However, the unprecedented expansion in base liquidity, which can be illustrated by the rapid build-up in trading bank reserve assets from a low average holding of $835 million in October 1982 to an average holding of $2,546 million in March 1983 carried with it the potential for a strong credit expansion feeding through into prices. In order to forestall this and to set in place machinery to contain monetary growth, the Government has implemented a package of relatively firm monetary measures and has indicated that it is prepared to go further if necessary.

The measures implemented so far include a new debt instrument (Kiwi Savings Stock), increased yields on
Treasury bills and ordinary government securities and an increased government securities ratio on finance companies. Kiwi Savings Stock was introduced on 21 March 1983 and was aimed mainly at the retail sector offering highly attractive terms and conditions. The lending guideline advised to trading banks has also been clarified and tightened.

The success of these measures in containing monetary and credit growth will not be known for some months. However, the flow of funds into Kiwi Savings Stock in its first month and a half of issue was a very strong $508 million. Also, demand for credit remains slack and there is no evidence of an excessive expansion in credit at the present time.

**CONSUMPTION**

Largely in response to the reduction in real personal disposable incomes there has been a substantial slowing down in sales activity in the retail trade sector over the latter half of 1982. Retail trade turnover in the year ended December 1982 increased by only 11.2 per cent compared to a large 21.7 per cent increase over the year to December 1981. As the year has progressed the contraction has become more marked. Real, seasonally adjusted, retail sales fell by 4.5 per cent over the December quarter 1982 which followed quarterly declines of 1.8 and 2.9 per cent for the June and September quarters 1982 respectively. By February 1983 monthly retail turnover was only 1.7 per cent higher than twelve months earlier in nominal terms. Depressed activity in the automotive, fuels and repairs sub-group of the retail sector was, however, largely responsible for the sharp decline in the overall series. Excluding this sub-group, real retail sales (seasonally adjusted) fell by smaller rates of 0.5, 1.1 and 1.9 per cent in the June, September and December quarters of 1982 respectively.

Plant closures, layoffs and extended vacations for many workers in the automobile industry over the Christmas and New Year period highlighted the state of the automotive sector at the time. New car registrations for March month and February 1983 were well down on registrations for the same month a year earlier, with the largest annual decline of 28.9 per cent occurring in the month of October 1982. However, over recent months there has been a marked pick-up in the demand for new cars. New car registrations in the three month period ended March showed a seasonally adjusted monthly increase of 17.8 per cent, the fourth successive three month running total in which an increase occurred, and the number of registrations in March itself, at over 10,100, was the largest monthly figure since 1975. The devaluation of the New Zealand dollar on 8 March was the major factor behind the sales numbers in that month as car buyers attempted to beat the anticipated price rise. Registration numbers seem unlikely to remain at such a high level once stocks of new cars at pre-devaluation prices have been run down.

Total goods bought on hire purchase in the year ended December 1982 were valued at $838.2 million, an increase of 26.6 per cent over the previous year. This large increase was concentrated in the first two quarters of 1982 and supported the stronger growth in demand for consumption goods at that time. Growth in hire purchase finance in the latter two quarters of 1982 has eased.

Further evidence of the contraction in consumption spending is to be found in the NZIERs March 1983 Quarterly Survey of Business Opinion. Following four years of reported growth in sales, a net 21 per cent of surveyed merchants (retailers and wholesalers) reported a decline in sales over the first quarter of 1983. Of the respondents, 89 per cent cited demand as the principal constraint limiting turnover and a net 26 per cent (down from 51 per cent in the December survey) expected a further reduction in sales over the next six months.

In the manufacturing sector even sharper declines were recorded in domestic activity, and the NZIER commented that the deterioration in manufacturing orders, output and deliveries reported in the March 1983 survey "ranks as one of the most widespread declines in activity reported in the history of the survey". Around 95 per cent of those surveyed pointed to the level of orders and sales as their greatest constraint and a net 22 per cent (down from 60 per cent in December) expect a further deterioration in business conditions over the next six months.

**INVESTMENT**

The strong growth in investment spending observed across all categories during 1981/82 did not continue through 1982/83. Growth rates in all categories of investment, except major project related private and public capital formation, slowed in line with the contractionary income and monetary influences operating in the economy.

Residential capital formation contracted sharply in the second half of 1982. After a small seasonally adjusted increase of 0.6 per cent in the June quarter, the value of residential construction put in place over the September and December quarters declined by 6.6 per cent and 6 per cent respectively. Since then there have been some signs that the downturn could be starting to bottom out. Although the annual running total of building permits issued has fallen each month from 19,300 in May 1982 to an estimate of just under 16,000 in March 1983, the annual rate of decline in the monthly permit numbers has been reduced from around 30 per cent in September and October 1982 to an estimated 18 per cent in March 1983, and seasonally adjusted figures in recent months are showing some strengthening. This has yet to be clearly reflected in statistics of actual housing construction activity, as opposed to indicators of planned housing construction. In the month of February 1983, there were 1,200 new dwellings started and the same number completed, levels which are 26.3 per cent and 27.3 per cent lower respectively than in February 1982.

A similar, though less sharp, trend has been displayed in non-residential construction. The value of non-residential building work put in place during the December quarter 1982 was only 12.4 per cent higher than year earlier levels, compared to a peak annual increase of 33.1 per cent in the December quarter of 1981. The value of permits issued for non-residential buildings for the three months to February 1983 were down by 19.1 per cent on permits issued in the same period a year earlier. These trends suggest that activity in the construction industry will remain weak for some months to come.

The reductions in real personal disposable incomes, high nominal interest rates (which can add to repayment burdens in early years) and the slowdown in the availability of mortgages were the principal factors underlying the sharp slowdown in residential building
THE GOVERNMENT SECTOR

The fiscal deficit for the 1982/83 financial year was budgeted at $1,879 million, only 3.3 per cent higher than the actual deficit for 1981/82, and there have been suggestions that the out-turn for 1982/83 could be lower than this budgeted level. Partly reflecting the full year effect of the recent tax changes, weaker aggregate activity and increased transfer expenditure (including debt interest), the fiscal deficit is likely to expand in 1983/84. The NZIER, for example, forecast a deficit of almost $3,100 million (8.6 per cent of GDP) compared to their estimate of $2,100 million (6.5 per cent of GDP) for the actual fiscal deficit for 1982/83. A significantly expanded fiscal deficit would pose serious problems for monetary control. The Kiwi Savings Stock, in its first month and a half of issue, has already played an important role in preventing this.

INCOMES

Contributing strongly to the overall contraction has been the decline in real disposable income which occurred throughout the latter part of 1982, tax reductions notwithstanding. It is estimated that real personal disposable incomes fell by 4 per cent in the year ended March 1983, and this has had inevitable repercussions on consumption, investment, employment and the balance of payments.

The maintenance of controls on wages and prices has been largely responsible for this decline with nominal increases in salaries and wages being constrained more rapidly than movements in prices. According to the Department of Statistics' Real Disposable Income Index (which measures the changing level of after tax income in constant dollar terms) the real disposable income of salary and wage earners in the September quarter of 1982 was 6.7 per cent lower than in the same quarter of 1981. Prior to 1 October 1982 substantial fiscal drag had been operating on nominal incomes to reduce purchasing power, but the tax cuts from that date substantially lowered the marginal tax rates faced by most taxpayers. More importantly in the controlled wage environment, the tax changes partially alleviated the downward pressure on real disposable incomes. The Real Disposable Income Index for December 1982 showed some recovery in salary and wage earnings incomes in that quarter but this did not fully offset the declines in the previous quarters and the downward trend overall continues, though at a slower rate because of the deceleration in prices. In addition the tax reductions were unevenly distributed, as illustrated by the fact that the incomes of the lowest three fifths of salary and wage earners showed annual declines averaging 3.9 per cent in the December quarter while the upper two fifths showed annual increases averaging 4 per cent.

Other official wage statistics confirm the overall decline in income purchasing power. In the year ended December 1982, the average level of the award wage rate index (after adjustment for inflation but not tax), was 3.9 per cent lower than the average for the previous year, compared with an increase of 3.4 per cent between the years ended December 1981 and December 1980. The prevailing wage rate index has historically tended to increase slightly faster than the award wage rate index and this relationship has continued with slightly slower rates of decline in real terms than for the award wage rate index. The average level of the prevailing wage rate
index (adjusted for inflation) was 3.6 per cent lower in the year ended December 1982 than in the previous year. In addition, the November 1982 edition of the Quarterly Employment Survey conducted by the Labour Department estimated the average weekly wage including overtime in mid-November to be $287, a nominal increase of 10.7 per cent since November 1981. On the basis of the inflation rate for the year ended December 1982, this represents a real decline of 4.6 per cent.

In the latter stages of 1982 real operating surplus, including corporate profit and farm incomes, also weakened. Non-farm surplus is estimated in the New Zealand Institute of Economic Research’s March 1983 Quarterly Predictions to have risen by 11 per cent in nominal terms in the 1982/83 year and the December 1982 Quarterly Survey of Business Opinion reports a sharp deterioration in profitability in that quarter. Some recovery in non-farm surplus is expected for 1983/84 however, partly reflecting the effects of the March 1983 devaluation.

The value of agricultural operating surplus is estimated by the NZIER to have risen by 7.5 per cent in the year ended March 1983 but is forecast to increase by only 1 per cent during 1983/84. Both of these nominal increases imply substantial real declines. Estimates by the Agricultural Review Committee confirm that a contraction in real farm incomes has taken place in the past year. Average net incomes on sheep and beef farms are estimated to have declined by 8 per cent in nominal terms in 1982/83, and average net income on dairy farms is estimated to have risen by only 7 per cent in nominal terms. The real farm income decline in 1982/83 was the net result of a slow increase in farm receipts (a small overall volume increase combined with a small overall price increase) but a more rapid increase in farm costs (partly offset by a decline in the volume of farm inputs).

As a consequence of the 6 per cent devaluation of the NZ dollar on 8 March 1983, and the possibility of some improvement in the international economic climate, agricultural product prices may show some growth over 1983/84. However with the partially offsetting decline in Supplementary Minimum Price payments, a possible decline in the volume of farm production and continuing farm cost increases, albeit at a moderating rate, the net effect on farm incomes may only be a small nominal rise.

PRODUCTION

The volume of manufacturing production (excluding primary foods), as measured by an index derived from the Department of Statistics quarterly manufacturing survey, declined in the latter half of 1982 after increasing strongly during the year to March 1982. The index for the 1982 December quarter was 6 per cent lower than for the December quarter 1981. Manufacturing sales showed a similar pattern of growth and subsequent decline with sales in the December quarter 1982 increasing in nominal terms by only 2.4 per cent over the December quarter 1981 as compared with annual increases recorded in the September, June and March quarters 1982 of 11.9 per cent, 19.4 per cent and 26.9 per cent respectively.

As the growth in production in surveyed industries slowed so too did the growth in the number of hours worked. After four consecutive quarters in which positive annual growth in hours worked were recorded, in the September and December quarters of 1982 annual declines of 1.5 per cent and 3.8 per cent respectively were registered.

THE LABOUR MARKET

While the growth in output recorded in 1981 and early 1982 did not lead to a reduction in unemployment, the decline in economic activity more recently has affected jobs across the board. The Department of Labour’s November 1982 Quarterly Employment Survey showed only a 0.1 per cent increase in total employment to just under 1,120,000 in the year ended November 1982. Over the same period, registered unemployed plus those on special work increased from 70,400 to 89,500. The latter figure represents 6.7 per cent of the estimated total labour force at the end of last November, as compared with 5.3 per cent a year earlier.

At the end of March 1983 there were 72,800 persons registered as unemployed of whom 34 per cent had been registered for more than 13 weeks and 64.5 per cent were receiving the unemployment benefit. In addition to those registered in March 1983, there were 32,600 people employed under either public (18,000) or private sector (14,600) job creation schemes. While the number of those unemployed on such schemes peaked in December 1982 at 34,000, the March 1983 figure represents an increase of 13.4 per cent on that for March 1982. Overall, the total number of unemployed (registered plus assisted, excluding vacation workers) reached 105,400 in March 1983, giving an annual increase of 39.1 per cent.

MONETARY CONDITIONS

The rate of growth of the main monetary and credit aggregates slowed significantly during the June and September quarters of 1982. However, since October, there has been a substantial turnaround in monetary conditions. An increase of 6.2 per cent was recorded in M1 in the six months from October 1982 to March 1983 after allowing for usual seasonal factors (compared to a fall of 2.6 per cent in the first half of the fiscal year), while M3 grew by 7.4 per cent in the six months to March (compared to 2.9 per cent in the first half of the year).

This marked turnaround has resulted from several factors. Firstly, there has been a flattening in the current account deficit of the balance of payments, following the earlier deterioration. This has coincided with a rapidly increasing net private capital inflow. Secondly, the 1 October tax cuts implied a more expansionary fiscal policy which was reinforced by significantly lower sales levels of Inflation Adjusted Savings Bonds and Premium Stock. Net injections have been increased further by an expansion in Reserve Bank lending to the Producer Boards. These factors together have produced very rapid growth in trading bank reserve assets. For October, reserve asset holdings averaged $855 million, while in March they averaged $2,546 million.

Financial institutions have so far used this inflow of funds to restore their balance sheet positions; the trading banks’ lending to deposits ratio, for example, has fallen from a high 86 per cent in October 1982 to 72 per cent in March 1983 on a seasonally adjusted basis. This reduction in the lending to deposits ratio has also
been assisted by a reduction in the demand for credit, reflecting the decline in activity and in business confidence evident in recent months. In seasonally adjusted terms, private sector credit rose by an estimated 0.5 per cent in the first quarter of 1983 after falling by 1.2 per cent in December 1982, compared with growth of 1.6 per cent in the September quarter.

The rapid growth in liquidity, combined with slow growth in the demand for loans and moderated inflation expectations, has led to a significant easing of deposit interest rates in recent months. The weighted average of rates on trading banks' transferable certificates of deposits (6 months and under), for example, was 16.5 per cent at the end of October 1982 but had declined to 12.6 per cent by the end of March 1983. Lending interest rates have not, as yet, shown much sign of easing.

The recent rapid growth in the reserve base and the money supply has created the potential for a rapid expansion in private sector credit. Such an outcome would clearly be inconsistent with the Government's programme to reduce New Zealand's inflation rate permanently. As a result the Government has taken a number of steps recently to absorb part of the increase in reserves.

The measures introduced included a new advertising campaign for Inflation Adjusted Savings Bonds, and the introduction of an attractive new instrument, Kiwi Savings Stock, which is repayable on seven working days' notice, and pays 15 per cent per annum, reduced to 13 per cent on stock redeemed within twelve months. Subscriptions to Kiwi Savings Stock opened on 21 March 1983 and had reached $508 million by early May.

In addition, the Government increased the competitiveness of Treasury bills and Government securities, by raising the yield curve by up to 1.5 percentage points. To ensure that lending growth remains restrained, the Minister of Finance has indicated that the lending behaviour of all institutions will be monitored closely, and immediate steps, such as ratio increases, will be taken to counter any unwarranted increases in credit. Additionally, an increase in the ratio applying to finance companies has been announced. This group of institutions had previously had a comparatively low ratio and its lending growth in the previous year had been among the highest of all institutions.

**PRICES**

During 1982/83 Government economic policy was primarily directed towards reducing the rate of inflation. On 22 June 1982 regulations were introduced effecting a twelve month freeze on prices, interest rates, wages, rents, dividends and other forms of remuneration. These measures, underpinned by developments in the monetary sector and favourable price trends in our major trading partners' economies, have led to a substantial fall in the annual rate of inflation.

Strong quarterly rates of increase of 3.6 and 2.7 per cent in the Consumers Price Index were recorded in the September and December quarters 1982 respectively as increases in the pipeline when the freeze was imposed fed through. The March quarter 1983 index, however, was only 0.8 per cent, this being the smallest quarterly increase registered since the March quarter of 1968. This marked reduction in the latest quarter resulted in an inflation rate for the year ended March 1983 of 12.6 per cent. While still in excess of the average rate for the OECD countries, this is substantially less than the 15.3 per cent recorded for the year ended December 1982 and the 17 per cent recorded for June 1982. This trend can be expected to continue.

Movements in housing costs contributed one half of the total 0.8 per cent increase registered for the March quarter. Assessing the impact of price movements in this sub-group is complicated by the apparent lag in reporting of house prices. Nevertheless, recent figures indicate that a slowing in the rate of growth in housing costs has been occurring. The BIA Building Cost Index for new houses increased by only 0.7 per cent between the September and December quarters 1982, the smallest quarterly increase in five years, while the Urban House Property Price Index (which records the sale value of existing houses) rose by 4.6 per cent between June and December 1982, the smallest increase since December 1979. Slower growth in housing prices will mean a reduction in the housing group's contribution to overall movements in the Consumers Price Index in the next few quarters. Furthermore, upward pressure on the Consumers Price Index from another major sub-group, Transportation, is also expected to lessen following the March 1983 reduction in the OPEC reference price for oil by US$5 to US$29 per barrel, although the strength of the US$ is a possible offsetting factor.

Movements in the Food Price Index have also been encouraging with the annual increase in the index for March 1983 of 4.7 per cent being the sixth consecutive single digit increase recorded. In addition, movements in industry input and output prices and import prices in the latter half of 1982 were also moderate in size by recent standards. Industry input prices rose by 1 per cent between September and December 1982 and by 12.2 per cent between the December quarters 1981 and 1982, while industry output prices during the December quarter 1982 increased by 0.9 per cent over September 1982 levels, and by 11.4 per cent over the December quarter 1981 levels. Both annual increases are the smallest recorded since the December quarter 1978. Meanwhile import prices are estimated to have risen by 3.7 per cent between June and September 1982 and by 11.2 per cent between the September quarters 1982 and 1981, the latter increase being the smallest since June 1979.

Current trends on both the domestic and international front indicate that a further easing of the inflation rate will occur as the year progresses, particularly now that the Government has indicated that the freeze will be extended for a further six months.

**THE EXTERNAL SECTOR**

In the year ended March 1983 the OET current account deficit was $1,643 million as compared with $1,141 million a year earlier, which as a proportion of GDP represents an increase from 4 per cent to about 5.1 per cent. Most of this deterioration occurred in the first half of 1982/83.

The continued contraction in world demand during 1982 substantially affected New Zealand's ability to earn foreign exchange. The surplus on trade transactions for the year ended March 1983 was only $489 million compared with $668 million for the year
ended March 1982. Over the year to March 1983 export receipts grew by only 4 per cent overall — less than one-third the rate of increase which occurred over the previous twelve months. Contributing to the poor performance was the decline in receipts for meat and only small increases in receipts for wool and dairy products. Difficulties were experienced with both the volume of sales and prices received for meat and wool, particularly in a sluggish British market and in the Middle East. Although dairy prices (in New Zealand dollars) increased slightly during 1982, the annual increase in receipts for the year ended March 1983 was only 0.9 per cent, compared to an increase of 33 per cent in the previous March year when dairy prices increased much more rapidly. With the re-emergence of stockpiles in Europe and the United States, there is some uncertainty about the volume of future exports to these markets. Prices for forest products in the year to March 1983 were weak, and forestry receipts registered a 1.2 per cent annual decline. Over the March 1983 year receipts from other animal products increased by 15.4 per cent and receipts from other primary products increased by 14.4 per cent, while manufacturing exports showed the strongest growth with receipts up by 16 per cent.

The recessionary phase in the international economy has led to a growing trend towards protectionist policies in New Zealand’s major trading partners. Yet while the recession has been the main cause of difficulties experienced in export markets, the suspension of the crawling peg exchange rate regime further reduced the rate of increase of export prices in New Zealand dollar terms (significant movements have occurred against individual currencies although the exchange rate has been fixed relative to the basket of currencies of New Zealand’s main trading partners). The devaluation of 6 per cent on 8 March 1983 against the trade weighted basket will however have a compensating effect in this area.

The high level of domestic activity and expenditure in 1981 and the early part of 1982 also had a marked influence on the trade balance by stimulating strong growth in demand for imports through to mid-1982. In the latter half of the year, in response to tighter financial conditions the overall stagnation of domestic economic activity, and a decline in world inflation, the growth in import payments slowed significantly. Import payments in the year to March 1983 were 7.4 per cent higher than in the previous year compared to an increase of 19.6 per cent for the year to August 1982. The slowdown in import payments in the latter part of the year is now offsetting the impact of weak export earnings and has resulted in a slight improvement in the trade balance since November 1982.

The deficit on invisibles widened from $1,809 million in the year to March 1982 to $2,132 million in the year to March 1983. Invisible payments rose 17.8 per cent to $3,984 million in the year ended March 1983, and invisible receipts increased at the slightly lower rate of 17.6 per cent to reach $1,852 million. Over the year, receipts have been adversely affected by slower growth in travel earnings since August 1982 (the impact of the international recession and the real appreciation of the New Zealand dollar), while the main positive impetus has come from increases in the New Zealand expenses of overseas firms and in interest and investment income. The rate of growth in invisible payments has been influenced most by the growing value of overseas interest payments, and by the increase in overseas expenses of New Zealand firms.

In the year ended March 1983 a net capital inflow of $2,495 million was recorded, $1,015 million higher than in the previous year. This result mainly reflects increased private capital inflows from a net $143 million in the year to March 1982 to a net $1,284 million in the year to March 1983. This partly reflects short-term overseas borrowing by the New Zealand Meat Producers Board to finance the meat export trade in 1982/83, and also results from the need to finance on-site work on major projects, the tight domestic monetary conditions prevailing through most of 1982 and the impact of falling nominal interest rates overseas, which together offset expectations of any increase in costs arising from New Zealand exchange rate movements.

In the short term, improvement in New Zealand’s external position seems largely dependent upon a recovery in the international economy. The OECD recently forecast that positive GNP growth in the majority of OECD countries will average only 1.5 per cent during 1983, an insufficient increase to stimulate the New Zealand domestic economy strongly.

While the timing and size of the upturn is expected to vary across countries the recovery is expected to be mainly United States led. Leading indicators of the United States economy point to an onset of a growth phase since December 1982 breaking a year long pattern of stagnation. Internally generated growth of 2 per cent is forecast by the OECD for the US in 1983, with continuing reductions in nominal interest rate, some easing in demand management policy and scheduled tax cuts seen as important stimuli. Any strengthening of the United States economy is expected to benefit particularly Japan and Germany with slower responses anticipated from both the United Kingdom and Australia. Developments since these forecasts were made late last year suggest that the international recovery (and more particularly the recovery in the US) may be a little stronger than previously thought, but there remain doubts about the durability of the recovery.

Bearing in mind the uncertainty which still surrounds the international recovery predicted, there should be somewhat stronger export volume growth in 1983/84. The OECD predicts 4 per cent volume growth in New Zealand exports in 1983, while the NZIER predicts 7.5 per cent growth in the 1983/84 financial year. A slow improvement in the terms of trade is also forecast by the NZIER while import volumes are expected to decline by 0.5 per cent in the year to March 1984, largely in response to weak internal demand.

**CONCLUSION**

Following relatively buoyant conditions in 1981 and early 1982, the economy contracted sharply in 1982/83. The economic downturn is now being experienced in most sectors of the economy. Internally, a decline in real disposable incomes and a marked tightening of monetary conditions (in the first half of the year) affected domestic demand, reducing consumption and investment expenditure (excluding the major projects) and leading to an involuntary build up of stocks and higher levels of unemployment. Externally, poor export earnings together with increased payments for invisibles and strong growth in import payments in the first half of the year, led to a rapid deterioration in the external accounts. In the second half of 1982/83 import demand
Weakened, and the current account deficit flattened out. This, together with a strong private capital inflow and the more expansionary fiscal policy in the second half of the year, has resulted in a substantial easing of monetary conditions recently. Steps have consequently been taken to ensure that monetary and credit conditions remain firm during 1983, in line with the Government's aim to reduce permanently New Zealand's inflation rate.

Domestic developments in 1983/84 will of course depend critically on policy developments after the scheduled expiry of the freeze. While the growth in prices has slowed, the removal of the various controls would raise the possibility of renewed inflationary pressures from a number of sources. On the other hand, disposable incomes have already declined substantially (in spite of the tax reductions) and, depending on wage settings, could weaken further in 1983/84 with the consequence of further downward pressure on demand and prices.

Internationally, prospects are a little better, with increasingly encouraging signs that the elusive recovery in the US and in the international economy as a whole may be finally underway. But uncertainty remains about the durability of the international recovery, and in any event the recovery could be slow compared to previous recovery phases. Some improvement in New Zealand's terms of trade and export volume growth should eventuate later this year and into 1984, but overall the external sector cannot be expected to provide strong stimulus to New Zealand's domestic economy in the near future.

In summary, the prospects for strong growth in the immediate future remain poor. The NZIER for example has estimated zero growth in real GDP for the 1982/83 year and has predicted a decline in real GDP of 0.5 per cent for the 1983/84 year. The likely consequences for employment are obvious. While there may be some slight recovery late in the 1983/84 year if the decline in disposable incomes is halted, the prospects for more significant and sustainable economic growth in the longer term are largely dependent on the future path of inflation and the international recovery. Monetary conditions will need to remain firm if the gains of the wage/price freeze are to be retained and built upon.