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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

ECONOMIC POSITION, PROGRAM
AND
PROSPECTS OF NEW ZEALAND

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East Asia and Pacific Department

CURRENCY EQUIVALENTS

RNZ1	=	U. S. \$1.12
U. S. \$1	=	\$NZ0.89.3
\$NZ1,000,000	=	U. S. \$1,120,000
U. S. \$1,000,000	=	\$NZ892,850

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TABLE OF CONTENTS

<u>Chapter</u>		<u>Page No.</u>
	BASIC DATA	
	SUMMARY AND CONCLUSIONS	i - vi
1	<u>INTRODUCTION</u>	1
	Scope and Purpose	1
	Main Characteristics of the Economy and Its Administration	2
	Principal Recent Economic Developments and Outlook	4
2	<u>STRUCTURE AND EFFICIENCY OF THE ECONOMY</u>	8
	Sectoral Origin and Growth of GDP	8
	Productivity Per Worker	9
	Efficiency of the Use of Capital Resources	11
3	<u>THE SECTORS</u>	14
	Origin and Destination of Sectoral Output	14
	Relation of Export Expansion and Imports	17
	Agriculture	18
	Other Primary Products	20
	Fuel and Power	23
	Transport	24
	Manufacturing	25
	Other Sectors	32
	Summary of Projected Sectoral Performance	34
4	<u>BALANCE OF PAYMENTS AND DOMESTIC FINANCE</u>	37
	Balance of Payments	37
	Public Finance	48
	Monetary Policy	55
5	<u>PROSPECTS AND REQUIREMENTS FOR THE ACHIEVEMENT OF NEW ZEALAND'S ECONOMIC OBJECTIVES</u>	61
	Macro-Economic Targets of NDC	61
	Investment - Savings Gap	68
	External Resources Gap	73
	External Resources Needed	79
	Implications for Investment Strategy	81

TABLE OF CONTENTS (Cont'd)

<u>Annex</u>		<u>Page No.</u>
1	Manufacturing Industries	84
2	Transport Sector	103
3	Financial Institutions	107
4	Pastoral Export Targets	111
5	Import Estimates	115
	STATISTICAL APPENDIX	119
	MAP	

BASIC DATA^{1/}

Area (two main islands only) 102,000 square miles

Population--(December 1967) 2.76 million
Estimated annual growth rate, 1963/68 1.8%

Gross National Product - FY 1967/68 U.S.\$4,515.8 million
Per Capita U.S.\$1,638
Annual real growth rate: FY1962/63-FY1967/68 4.3%

<u>Sector Origin of GDP at Factor Cost</u>	<u>FY1967/68</u>	<u>FY1964/65</u>
Agriculture, Forestry, Fishing	20%	20%
Manufacturing, Mining, Public Utilities	22%	22%
Construction	7%	8%
All Services	51%	50%

<u>Percentage of GNP at Current Prices</u>	<u>FY1967/68</u>	<u>FY1962/63-FY1967/68</u>
Private Consumption	62%	62%
Public Consumption	15%	14%
Gross Investment	25%	25%
Gross Domestic Savings	24%	24%
Exports, f.o.b.	22%	21%
Imports, f.o.b.	21%	19%
Government Taxation Revenue	27%	26%

<u>Resource Gap</u>	<u>FY1967/68</u>	<u>FY1963/64-FY1967/68</u>
	8%	10-11%

<u>Money and Credit</u>	<u>December 1968</u> (U.S.\$ Mn.)	<u>Change Over</u> <u>December 1967</u> (%)
Total Money Supply	782	-0.4
Total Domestic Credit	872	-3.1

Price Increases C.O.L., FY 1963-FY1968 3.7% p.a.

<u>External Trade (\$NZ million)</u>	<u>FY 1967/68</u>	<u>Average Annual Change (%)</u> <u>FY1962/63-FY1967/68</u>
Exports, f.o.b.	746.0	5.0
Of which:		
Wool (18%)	137.5	-6.3
Meat (30%)	227.0	8.2
Dairy Products (29%)	218.7	8.6
Imports, c.d.v. <u>2/</u>	617.4	3.9 <u>3/</u>

<u>Balance of Payments</u>	<u>FY1967/68</u> <u>(\$NZ Mn.)</u>
Exports, f.o.b.	754
Imports, f.o.b.	-640
Net Invisibles	<u>-191 <u>4/</u></u>
Balance on Current Account	<u>-77</u>

International Reserve Position

As a percentage of imports, June 1967/68	25%
IMF Position, February 28, 1969 (U.S.\$ million)	
Quota	157
Drawings	60
Gross Fund Position	136
Credit Tranche - Standby	-
Credit Tranche - Other	136

<u>External Public Debt</u>	<u>March 31, 1969</u> <u>(U.S.\$ Mn.)</u>
Total Debt Outstanding	692.2
Net of Undisbursed	612.6
Debt Service Ratio, 1969	5 - 6%

-
- 1/ Fiscal years end March 31.
2/ As of year ended June.
3/ FY1959/60-FY1967/68.
4/ Includes transfers.

SUMMARY AND CONCLUSIONS

i. The last economic report on New Zealand ("Medium-Term Economic Policy and Development Strategy", AS-135b of April 14, 1968) was addressed principally to the Government and was advisory in purpose. While we hope that this report will be of value to the New Zealand authorities in connection with their medium and longer-range planning, it is directed primarily to the Bank. A key subject considered by both the last mission and this one is the orientation and efficiency of New Zealand's manufacturing sector and the bearing of this issue on the country's balance of payments stability and viability.

ii. Part of the guiding economic philosophy in the past has been a strong quest for economic security, full employment and stability of personal incomes even in the face of adverse external market forces beyond New Zealand's control. The result was the development of a comprehensive social security system. New Zealand's main agricultural price stabilization devices are used for maintenance of full employment and promotion of import substitution rather than export expansion into new fields in which New Zealand might have achieved a comparative advantage. The economic policies based on these principles, while making for agreeable living, have not produced a high rate of economic growth which has averaged about 4 percent a year. The full employment policy tended to stimulate excessive import demand when export prices fell, with a twofold impact on the balance of payments. Protection of the domestic market was partly responsible for the establishment of some high-cost, domestically oriented industries which have not used New Zealand's limited material and human resources to best advantage.

iii. Recurrent balance of payments crises, triggered by cyclical declines in the terms of trade for pastoral exports, forced the Government to adopt a stop-and-go policy (mainly through monetary devices) which caused variations in fixed capital formation.

iv. The principal impetus for economic growth has been superior technology and entrepreneurship in the pastoral sector. Part of the gains from the British preference have been transferred through the market mechanism to domestic manufacturing industries which have long enjoyed the shelter of quantitative import restrictions.

v. The rates of national savings and investment have been high. Net official capital inflow and private foreign investment have contributed 10 to 12 percent of total investment resources and more during recurrent periods of balance of payments stringency. There has been some transfer of labor from agriculture to industry, but technological improvements and heavy capital investment in agriculture (including processing of primary products) have enabled it to maintain its relative share of GDP over the last ten years.

Foreign and Domestic Financial Developments

vi. There has been quite a close correspondence between the growth of exports, imports, and GNP over a number of years. From 1962/63 to 1967/68 export growth in average annual terms grew by 5.0 percent, imports by 5.6 percent, and GNP 6.7 percent, all in current prices. However, New Zealand's

balance of payments is highly vulnerable to fluctuations in the prices of a few staple agricultural commodities, particularly wool, dairy products and meat, which constitute about 85 percent of her total exports. The balance of payments has suffered considerably from a decline in the terms of trade. From 1963 to 1968, while export prices in New Zealand currency rose about 8 percent, the prices of imports rose 24 percent. The major factors in the relatively poor showing of export prices was a decline of 17 percent in wool and 5 percent in butter. During the four years starting in 1964/65 up to 1968/69, she was running a heavy deficit on current account. In the financial year ending March 31, 1968, her deficit on current account of about \$77 million ^{1/} was more than compensated by net public long and short-term borrowings of \$92 million, and thus her international liquidity was maintained at a workable level. In FY 1969 her reserves were drawn down because of repayments of short-term obligations to the IMF and the Reserve Bank of Australia, and by her failure to secure refinancing for the long-term maturities falling due in the U.K. and the U.S. Since then they have increased and by July 1969 her net foreign exchange reserves amounted to about \$285 million or approximately three months' imports.

vii. Fortunately, the drying up of her traditional sources of long-term capital coincided with a substantial improvement in exports and thus her balance of payments on current account. For the year ending March 31, 1969 there was a surplus on current account of about \$20 million as compared with a deficit of \$77 million for the fiscal year 1968. A swing in the current account of \$200 million as between calendar 1967 and 1968 reflected an increase in receipts of \$294 million (exports increased nearly 30 percent) while current payments increased only \$92 million (imports increasing about 8 percent). This improvement in the trade balance reflects the increase that occurred in 1968 in the price of cross-bred wool and the consequences of the 19.5 percent devaluation of the New Zealand dollar in November 1967. Since prices of home produced goods increased by only 7.1 percent from the last quarter of 1967 to the last quarter of 1968, whereas export prices increased 18.7 percent over the same period, thus far New Zealand has been able to retain most of the benefits of the devaluation.

viii. In 1968/69, in sharp contrast to previous years, New Zealand became a net capital exporter to the extent of about US\$79 million. This consisted largely of the repayment of short-term obligations, of which US\$64.2 million was the repurchase of IMF drawings (leaving outstanding US\$60 million of drawings or 38 percent of quota) and a \$10.6 million repayment to the Reserve Bank of Australia. In 1968/69, the net long-term borrowing of the Central Government and local authorities was, perforce, negligible. As between 1967/68 and 1968/69, the amount of gross long-term borrowings decreased by about US\$35.5 million, which was about equivalent to a maturity that fell due in the London market in the fall of 1968, and which, up to now, New Zealand has not been able to refinance in that market at a rate that she considers acceptable. Repayments on account of long-term maturities approximately doubled as between

^{1/} Except where noted all dollar (\$) amounts are New Zealand dollars.

these two years because of debts falling due in the U.K. and U.S. markets. Borrowings in Euro-bonds (floated in Germany) increased at the same time from \$29 million to \$44 million.

ix. In fiscal affairs the performance of New Zealand has been good. Gross public savings have consistently amounted to 6-7 percent of GNP, financing 60 to 70 percent of the capital expenditure of the public sector. In tax revenue, though not among the highest for countries of similar per capita incomes, New Zealand collects a respectable 26 to 27 percent of GNP. Its heavy emphasis on the side of direct taxes (about 70 percent of tax revenues) is open to some criticism on grounds of producing disincentives to savings and investment. Monetary policy is fairly conservative and price movements moderate.

x. Among the comprehensive macro-variables, savings have been stable in the last three years at 23 to 24 percent of GNP. Variations in investment have been more responsive to cyclical swings ranging from 28 to 24 percent and producing an average resources gap of 2 to 3 percent of GNP. Past experience would indicate an overall gross capital/output ratio of over 5.5, with its relatively high level a result of the large element of infrastructural and housing investment in the composition of investment.

The Sectors

xi. Despite the predominance of the primary product sector on the export side, manufacturing is the most important sector in terms of contribution to GDP (see Basic Data). It is also the fastest growing sector but with by far the largest import dependency if we exclude the processing of primary products from the manufacturing sector. The increase in primary production has resulted from improved technology and increased investment, whereas the increase in secondary and tertiary production was due to these factors plus an increase in the labor force.

xii. National Development Conference Targets. The National Development Conference held in May of this year was the first attempt to secure agreement on a set of targets and guidelines for all the sectors in a coordinated way. The principal objectives were: (a) to make a thorough reappraisal of resources allocations, especially prospective investment opportunities, as among the various sectors; (b) to establish sector development targets and priorities; and (c) to design appropriate policies for their achievement.

xiii. The principal objectives of the plans prepared by the Targets Committee and accepted by the Conference are:

- (a) During the period 1967/68 to 1972/73, real GNP is to increase by 4.5 percent per annum. This compares with the mission's estimate of 3.1 percent from 1964/65 to 1967/68 and about 4 percent from 1959/60 through 1967/68. 4.5 percent per annum increase in GNP has been projected also for the period 1972/73 to 1978.

- (b) Exports (in constant prices) are to increase by 7.5 percent a year from 1967/68 to 1972/73 or from 21.2 percent to 23.9 percent of GNP. For the same period, imports are to increase about 5 percent annually. These targets, if achieved, will be a reversal of past trends.
- (c) Savings are to increase by about 2 percent of GNP (from 23.8 percent of GNP in 1967/68 to 25.8 percent in 1972/73) while investment increases by one percent of GNP (from 25.7 to 26.7 percent). Thus the resource gap is projected to decline from about 2 to one percent of GNP.
- (d) In the mission's view, the assumed foreign net capital inflow is very conservative, at about \$60 million a year by 1972/73, all of which will be for the private sector and the largest portion (about two-thirds) will be reinvested earnings.

xiv. A major problem in achieving the export targets is to reorient non-primary processing manufacturing from the domestic to the foreign market. Progress on this has been made since devaluation, but to continue the impetus will not be easy. About 19 percent of the increase in exports during the next five years are expected to come from this sector.

xv. The strong domestic orientation of manufacturing is illustrated by the fact that in 1964/65, only 1.9 percent of total output (or about 3 percent of the sector's contribution to GDP) was used for exports. The proportion of total output of manufacturing going to exports is expected to more than double by 1972/73. There is also expected to be some increase in the proportion of the output of the manufacturing sector going into capital formation as between the two periods.

xvi. However, there are important uncertainties in New Zealand's export prospects in addition to the outlook for primary products. The picture could change dramatically if oil is found in large quantities (an off-shore strike has been made, but the extent of the field has not been assessed). Eventually, the completion of a large aluminum project in the South Island may also provide a considerable boost to export growth. However, the net contribution to foreign exchange earnings of both this and the oil sector are not likely to be very large during the next five years.

xvii. Aside from the availability of foreign exchange discussed below, the two other major constraints on the internal side are likely to be the supply of labor and the increase in productivity. If New Zealand is to diversify her economy and particularly continue to reduce the dependence of export flows on a few primary products, she must rely on the growth of her skilled labor and professionally trained personnel. However, recent trends

in the labor force are not propitious. For the two years ending March 31, 1969 there was a net outflow amounting to 0.3 percent and 0.4 percent respectively of the population. There has been a net brain drain over the last few years as the largest proportion of the outflow has been among the professional, administrative and clerical groups.

Foreign Capital Requirements and Creditworthiness

xviii. The mission has reviewed the Targets Committee estimates of the resources gap both from the internal and external sides and concluded that they are somewhat on the low side. The net capital inflow projected for 1972/73 is based on recent experience and included, of course, the reinvestment of earnings by private investment in New Zealand, which has been about \$40 million per annum. The remaining \$20 million would consist of new private foreign investment with the result that no net capital inflow would be provided to the public sector. In our view, this is unrealistic and is not consistent with the public works program already projected and the likely rate of public savings.

xix. Even assuming that all long-term maturities for the next five years can be refinanced, which considering the present condition of the capital market is optimistic 1/, we estimate that New Zealand will require a net capital inflow for the public or quasi-public sector of at least \$40 million a year (see paragraph 200). This is in the light of optimistic analyses in respect of both the investment-savings and import-export gaps.

xx. As of December 31, 1969, New Zealand's total public and government-guaranteed disbursed debt was US\$ 630 million, of which US\$ 81 million was the disbursed and not repaid portion of IBRD loans. The debt service ratio was 4.9 percent of total current receipts in 1968. The debt service ratio in 1972 may increase to over 9 percent, but no further increase is anticipated thereafter. New Zealand's creditworthiness is not in question. New Zealand should have no difficulty in raising the internal resources required to service her foreign debt.

xxi. Power and transportation, the two fields in which the Bank has already made loans to New Zealand, will remain the most important sectors for public investment during the next five years. Industrial financing for the private sector possibly through a reorganized Development Finance Corporation may also be important, particularly if New Zealand revises

1/ New Zealand is considered a "good name" in the international capital markets, though at present, they do not seem to be in a position to absorb more than US\$40 million to US\$50 million a year of her public borrowings. This was the conclusion of the mission after discussions in London, Bonn and Frankfurt. Medium to long-term maturities from 1969/70 to 1973/74 will average about US\$70 million a year (see Appendix Table 27).

her industrial policy in the direction of encouraging more export orientation rather than import substitution. Agriculture is, of course, very highly developed in New Zealand, as is education, communications, etc. Forestry is one of the fastest growing industries. Forestry planting has been done largely by the Government but processing (notably pulp and paper) is largely in the private sector.

CHAPTER 1

INTRODUCTION

Scope and Purpose

1. This report appraises the efficiency and performance of New Zealand's economy in recent years with particular attention to the two fiscal years ending March 31, 1969 and prospects through 1972/73; examines the aspirations of the country up to 1972/73 (and with a broader brush to 1978/79); and evaluates the needs and prospects of the economy for net capital inflow, taking into account domestic savings and investment, the balance of payments outlook, and New Zealand's access to private foreign capital markets.

2. The last economic report issued in April 1968 was prepared with the possible entry of the U.K. into the European Common Market (E.E.C.) in mind. When that report was being prepared, a recession pervaded the economic scene in New Zealand, a reflection in part of measures taken to defend the balance of payments against the consequences of a sharp decline in cross-bred wool prices. The report was concerned mainly with longer-range policies and prospects. It contained, inter alia, a critical evaluation of the efficiency with which productive resources are used in New Zealand and suggested a substantial reorientation of resource utilization and related policies, with a view to achieving a greater diversification of exports rather than the past strong emphasis on high cost import substitution.

3. The 1967/68 mission was concerned that New Zealand might be facing a downtrend in prices and marketability for its traditional export items because of the competition of synthetics with New Zealand cross-bred wool used largely for carpet production, the dubious prospects for New Zealand's dairy products in the face of the propensity of the E.E.C. to produce surplus butter, and the agricultural protectionism in the U.S. and elsewhere. The mission recommended the reduction of the degree of protection for manufacturing industries supplying the domestic market, which could be accomplished by the replacement of New Zealand's thirty-year old system of quantitative import restrictions with tariffs. It felt that the domestic resources being expended to save a dollar of foreign exchange expenditure were too high in several instances, notably in the automobile industry. Thus, while proposing less concentration on pastoral exports, the mission was critical of diversification of domestic production regardless of cost if it had to be achieved under the shelter of quantitative trade barriers. The Government has been cognizant of these criticisms of past policies and has indicated its intention to proceed progressively towards the reduction of protection for domestically oriented industry and to diversify exports by providing greater incentives for new export production. Some success appears to have been achieved in this direction, although it is still early to tell what the ultimate result will be.

4. Since the advice of the previous mission has been generally recognized as valid in New Zealand, this report will not attempt to duplicate it. Many New Zealand manufacturing industries could increase their economic efficiency if they were not overprotected. This issue requires examination on a case-by-case basis. The previous report's conclusion that New Zealand's eco-

conomic policies gave rather too much weight to the full employment objective, perhaps at the expense of its balance of payments position, has been true in the past. However, the Government has recently taken effective monetary and fiscal measures to improve its current account position, and in future, the scarcity of labor rather than policies designed to achieve full employment would seem to be a more important constraint on New Zealand's economic growth. On the basis of the balance of payments outlook at the time, the previous mission estimated that New Zealand might have to borrow annually between \$100 million to \$150 million net by 1972. ^{1/} The program prepared for the National Development Conference (NDC) assumes the net capital inflow requirement at \$60 million by 1972, and the same figure for 1978/79. As will be developed below, this estimate appears low, but the requirement could be less than the higher figure assumed by the previous mission.

Main Characteristics of the Economy and Its Administration

5. New Zealand is a unitary state but with a large number of "local authorities", which consist of municipal governments and many autonomous or semi-autonomous agencies and authorities responsible for the operation of ports, public utilities and the like. Despite the strong role of the Central Government and its agencies, such as the Reserve Bank, the Treasury, the import control machinery and the social security system, the loci of control for both the semi-public and private sectors of the economy are rather decentralized. Organizations concerned with the interests of particular sectors or subsectors, and in which both the Government and the private sectors have varying degrees of influence, play an exceptionally important role. These include such organizations as Wool Board and Wool Commission, the Dairy Board, a Meat Board, manufacturers' association, and many cooperative organizations. New Zealand seems to have a high propensity to establish new council and committees. In the financial community, public, private and mixed institutions function alongside each other as do public and private industrial enterprises, although the latter are predominantly private, but in some important instances with minority government participation. In short, New Zealand's is a mixed economy with nongovernmental influences predominant in most matters with the exception of monetary, fiscal and foreign trade policy.

6. Up to the present time, New Zealand has had no central economic planning organization, though the Institute of Economic Research and the Monetary and Economic Council, both independent from but supported by the Government, have had a considerable influence on the formulation of economic policy. "Indicative", rather than government-directed plans are still the order of the day and will probably remain so. An Agricultural Production Council was set up in 1964 and an Agricultural Production Conference held in that year was the forerunner of the present National Development Conference (NDC). Preparation for

^{1/} Except where noted, all dollar (\$) amounts cited in this report are New Zealand dollars equivalent to U.S.\$1.12.

the NDC was done by sector committees organized by the Government and made up predominantly of private representatives, and by the Steering and Targets Committees on which government officials and academic bodies and individuals played leading roles. Although the Government's voice is important, its function is that of coordinator rather than formulator of the goals and programs for the productive sectors. Substantially, the NDC was expected to establish the general goals for economic development and recommend legislative and other action. It has resulted in the establishment of a permanent planning body (National Development Council) with perhaps increasing influence by government policy-makers. General elections are to be held in November so that the conclusions of the NDC will probably be debated extensively in coming months.

7. The principal policy issues upon which debate and decisions are likely to focus are:

- (a) The speed with which the switch-over is to be made from a closed to a relatively open economy insofar as the non-primary processing part of the manufacturing sector is concerned. The practical implementation of this will be by the removal of the import controls, which still apply to about 50 percent of New Zealand's imports, and their replacement with tariffs based on the effective rate of protection to industries related to their value added in New Zealand.
- (b) Freeing the domestic money market from controls which now apply to both the cost and supply of funds for public and some private purposes and which are somewhat apart from and extend beyond normal monetary and fiscal devices. Measures along this line are included in the 1969/70 Budget.
- (c) Changes in the present revenue structure which is considered to be rather over-weighted on the side of direct taxes (about 73 percent of total tax revenues).
- (d) The scale of the public investment program and its linkage with overseas borrowing and measures to increase public savings.
- (e) Constraints on the size of the technical labor force and how to reduce them.

8. New Zealand's population of about 2.7 million has been growing at about 1.8 percent or less per annum in recent years and per capita income at a little over 2 percent. Thus the economy's overall growth rate has been in the neighborhood of 4 percent but with marked year-to-year fluctuations which have been closely related to variations in export income, foreign capital inflow, and hence import availabilities.

9. She has achieved a relatively high per capita income, estimated at about U.S.\$1,640, with limited physical resources, by major reliance on highly developed and efficient pastoral industries buttressed by the preferred position for their products in the U.K. market. Exports contribute about 20 percent of GNP, a relationship that has remained quite stable over the last several years. Greater diversification in the export field and hence stabler terms of trade are probably a sine qua non for an acceptable rate of growth.

10. Her major exports (wool, butter, lamb and mutton) shipped with limited domestic processing have averaged about 60 percent of total exports. All agriculture-based, including processed, export products have been 80-90 percent of the total. However, the trend of export concentration has been downward. The four major items exported in unprocessed form have declined from 68.4 percent in 1962 to about 50 percent of total exports in 1968. The annual rate of increase of exports of manufactured goods has been 14 to 15 percent over the last six years, while the export value of the major items remained about stable, subject, of course, to year-to-year fluctuations reflecting price changes. The balance of payments and national income have suffered considerably from a decline in the terms of trade. From 1963 to 1968 while export prices in New Zealand currency rose about 8 percent, the prices of imports rose 24 percent.

11. Thus, in addition to her rather limited natural resource base and slowly increasing population, vulnerability to change in prices of pastoral products, particularly agricultural protectionism in the U.S. and Western Europe, has been the principal constraint on economic growth. Limited energy resources is another factor which she aims to overcome by heavy investments in electric power and, hopefully, by the development of recently prospected off-shore petroleum resources. New Zealand planners are projecting an increase of 92 percent in foreign exchange earnings from 1967/68 to 1978/79, but only a 74-percent increase in receipts from pastoral exports. The export of manufactured goods would have to expand by nearly 450 percent over the period to achieve this export target. The main problems in accomplishing this may be the limited labor force and the lack of availability of industrial finance, although at the present time, the latter does not seem to be an important constraint. Up to now, the export of manufactured goods other than primary processing industries constitutes less than 2 percent of the output of these industries.

Principal Recent Economic Events and Outlook

12. The most important recent economic event was the devaluation of the New Zealand dollar by 19.45 percent (about 5 percent more than sterling) in November 1967. This brought the New Zealand and Australian currencies into parity (U.S.\$1.12) and gave an advantage primarily to New Zealand's non-pastoral exports sold outside the U.K. Following the devaluation, prices of home produced goods increased by 7.1 percent as between the last quarters of 1967 and 1968, whereas export prices increased 18.7 percent over the same period. There was a swing in the current account of the balance of payments from a deficit of \$120 million for calendar 1967 to a surplus of \$73 million for

1968. The increase in exports was about 30 percent, while import payments increased about 8 percent. In addition to the increase in prices of some New Zealand's basic exports, particularly cross-bred wool, the most encouraging development in 1968 was the sharp increase of over 100 percent in overseas earnings for manufactured products.

13. Thus by June 1968, devaluation, together with a recovery in wool prices plus credit and fiscal restraints, had achieved their objective of approximately balancing New Zealand's overseas accounts. However, a general wage increase of 5 percent in August of that year plus rising export income, investment, and the prospect of increased government expenditures produced a stimulus which the Government had to restrain in December by additional monetary and fiscal measures.

14. For a number of years, New Zealand has been able to finance a deficit on current account with long-term government borrowing abroad and by private capital inflows. In the two fiscal years ending March 31, 1968, her net long-term borrowings amounted to U.S.\$135 million. Also in these two years, short-term capital inflows amounted to U.S.\$91.5 million, including U.S.\$54.3 million of drawings from the IMF. Thus total capital inflows were nearly U.S.\$227 million.

15. In 1968/69, however, mainly because of the condition of the U.S. and U.K. capital markets, there was a substantial drying up of her traditional sources of long-term capital from private foreign sources, concurrently with a repayment of maturing obligations, so that the total capital account reflected a deficit of nearly U.S.\$80 million or somewhat more than the surplus on current account that was earned in that year. Thus New Zealand's net foreign exchange reserves probably did not improve and now amount to about U.S.\$327 million (including the Treasury's holdings of foreign securities and the net foreign exchange assets of the commercial banks) or approximately three months' imports. She has short-term government obligations of about U.S.\$80 million maturing in the next two years.

16. Turning to other general indicators for the New Zealand economy, according to estimates made by the mission (Appendix Table 3), GDP in real terms increased by 4.6 percent per annum from 1959/60 to 1964/65, but by only 3.1 percent from 1964/65 to 1967/68. The high-water mark during this ten-year period was in 1965/66. Fluctuations in growth have naturally been strongly correlated with the buoyancy of markets for traditional exports. From 6.4 percent in 1963, when exports were high, growth in GNP fell to minus 0.6 percent in 1967 a year when exports declined by 6.3 percent. An exception to this relationship was in 1965/66 when exports declined by 6.3 percent but GDP increased by a comparable percentage. In that year, however, despite the decline in exports, imports increased by 8.5 percent financed by large foreign loans in 1965/66 and 1966/67.

17. Investment (including housing) has averaged about 25-26 percent of GNP over the last six years with a high of about 28 percent in 1966, rising from 23 percent in 1962. The ratio of gross investment to economic growth has

been in the neighborhood of six. The trend of investment in relation to GNP has been upward but with a relapse in 1968 to about 24 percent.

18. Savings have tended to be much more stable than investment at between 23 and 24 percent of GNP over the three years ending March 31, 1968, and net overseas borrowing plus private foreign investment between 2 and 3 percent of GNP. The composition of savings as between the public and the private sectors has also tended to be quite stable with the latter averaging slightly less than 7 percent of GNP.

19. While New Zealand collects 26 to 27 percent of GNP as tax revenue, this finances substantial social security payments as well as public current and investment expenditures. Tentative projections for the development program would indicate that the Government may have to finance the entire public sector program without net capital inflow from abroad directed to that sector. Indications are that the Government will look mainly to higher prices for services furnished by the Government and the control of current government expenditures as a means of achieving its public savings objectives, although changes along this line are not reflected in the 1969/70 budget.

20. The following table summarizes changes in the principal economic indicators during recent years.

Table 1

Principal Economic Indicators

(In Percent unless Otherwise Indicated)

	Actual	
	Period	Amount
GDP ^{1/} - Annual Growth	FY1960-68	4.0
Farming	"	1.9
Manufacturing ^{2/}	"	5.1
Per Capita	FY1967/68	U.S.\$1638
Price Increases - C.O.L. Annual	FY1964-68	4.0
Increase in Labor Force (Employed)	FY1963-68	2.1
Average National Savings of GNP	FY1964-68	23.8
Private	"	17
Public	"	7
Marginal National Savings	"	24
Investment Rate ^{3/}	"	25.7
Per Capita Consumption - Annual Growth ^{1/}	FY1964-67	1.0
Commodity Exports ^{1/}	FY1964-67	3.4
Pastoral	"	2.3
Other	"	16.7

^{1/} At constant market prices.

^{2/} Excluding processing of primary products.

^{3/} Gross capital formation and changes in stocks as percent of GNP.

Source: Appendix Table 3 and Table 28 in Chapter 5.

CHAPTER 2

STRUCTURE AND EFFICIENCY OF THE ECONOMY

Sectoral Origin and Growth of GDP

21. The New Zealand Government does not publish an estimate of the national product broken down by industrial origin. However, on the basis of official annual estimates of total expenditure on GNP (see Appendix Table 4) and using the primary input coefficients derived from a 1959/60 input-output table prepared by the Department of Statistics and modified by the Lincoln College Agricultural Economics Research Unit, it was possible to make a rough estimate of GDP by sectoral origin. 1/

22. This estimate in constant market prices (1967/68) is shown in Appendix Table 3. From 1959/60 to 1967/68, the share of the primary industries (farming, mining, hunting and fishing) declined from about 19 percent to about 16 percent of the total, whereas the industries processing primary products increased slightly from 4.5 percent to 4.7 percent. The share of farming in GDP declined by about 2.8 percent and no significant change occurred in other primary or primary processing activities, except that forestry and forest-based industries increased from about 3.2 to 3.8 percent of GDP. Manufacturing, apart from the processing of primary products, increased from 17.2 percent to 18.7 percent of GDP with construction averaging an 8-percent per annum increase, but with considerable year-to-year fluctuations. As might be expected in a fairly mature economy, services ranked high, their contribution increasing from about 50 to 53 percent of GDP over this ten-year period.

23. The comparative growth by broad sectors of the economy is shown in the following table, which also reflects the effects of the 1967/68 recession when real GNP fell by 2.1 percent.

1/ The accuracy of this estimate is limited, inter alia, by the assumption of fixed primary input coefficients.

Table 2

Average Annual Increases in Real Contribution to
GDP By Major Sectoral Groupings

(In Percent)

Industry Group	(1)	(2)	(3)
	1954/55-1961/62	1959/60-1964/65	1964/65-1967/68
Primary and Primary Processing	2.9	2.3	2.4
Secondary ^{1/}	5.1	5.8	2.1
Tertiary (Services)	4.5	4.8	4.1
Total	n.a.	4.6	3.1

^{1/} Including construction and power.

Sources: Column (1) Calculated from material in C.A. Blyth: Strategic Factors in New Zealand's Economic Growth 1965 to 1975. New Zealand Institute of Economic Research. Research Paper No. 8. Columns (2) and (3) from Appendix Table 3.

Productivity Per Worker in the Labor Force

24. A number of studies have been made by New Zealand economists, which have attempted to analyze the relative weights of the factors which have contributed to New Zealand's economic growth in recent years. The factors responsible for growth of production are the increase in the labor force and in productivity per labor unit which in turn depends on capital investment and technical progress.

25. During the period 1959 to 1968, when GDP increased at the average annual rate of 4 percent, the number in the labor force (Appendix Table 6) increased by 2.1 percent a year. While this is a crude statistic and requires amendment to adjust for overtime, sex composition, etc.,^{1/} the conclusion that

^{1/} The causes of the growth of the total labor force in New Zealand of about 2 percent per annum may be broken down as follows (Strategic Factors in New Zealand's Economic Growth, 1965-75, C.A. Blyth, New Zealand Institute of Economic Research):

Native born	29.6 percent
Immigration	35.9 percent
Increase in Part-time	8.0 percent
Overtime	17.0 percent
Participation of Married Women	<u>10.5 percent</u>
	101.0 (error of 1%)

The contribution of the native born is after taking account of the effect of younger retirement which had a negative effect of 32.4 percent.

about half the increase in real output is attributable to expansion of the labor force and half to the other factors mentioned above seems warranted. For the period 1954/55 to 1961/62, an estimate has been made that 47 percent of the increase in production was due to increase in labor force and 53 percent to a combination of increase in investment and "technical progress".^{1/}

26. While about half of New Zealand's recent economic growth may be explained by the expansion of the labor force, the relative effect of this factor, as compared with capital investment and technological improvement, differed among the sectors. The more detailed analysis of this imputation problem, which of course has an important bearing on our judgement regarding the efficiency of the sectors, is reserved for the sector-by-sector expositions below. However, the following comparison between real economic growth and utilization of the labor force presents the general picture.

Table 3
Annual Average Increase in Production Per Employee
(In Percent)

	(1) Number Employed	(2) Contribution to GDP	Productivity Per Employee (2) - (1)
Farming and Other Primary Industries	0.1 ^{1/}	2.4 ^{2/}	2.3
Manufacturing	3.8 ^{3/}	5.0 ^{2/}	1.2
Building and Construction	2.0 ^{3/}	2.8 ^{4/}	0.8
Trade	3.2 ^{3/}	4.3 ^{2/}	1.1
Other Services	3.0 ^{3/}	4.2 ^{2/}	1.2

^{1/} From April 1966 to April 1968.

^{2/} FY 1964/65 to FY 1967/68.

^{3/} April 1960 to April 1966.

^{4/} FY 1959/60 to FY 1967/68.

27. These comparisons of increase in productivity per worker can be viewed only as general orders of magnitude. The reservations expressed above regarding the sectoral distribution of GDP apply, and employment data were not

^{1/} Op. cit. NZIER, Research Paper No. 8.

available for the same time span as the calculated GDP data. However, though the improvement in productivity per worker is lower than a somewhat similar computation made for the decade ending 1959/60 1/ (partly explained by the recession of 1967/68), the primary industries dominated by farming again show a greater increase in output per unit of labor employed than the secondary and tertiary industries.

28. The general conclusion is that the increase in primary production in New Zealand has come almost entirely from increased investment and improved technology; the increase in production in secondary and tertiary industries was due both to these factors and also to the increase in labor force.

Efficiency in the Use of Capital Resources

29. As part of the preparatory work for the National Development Conference, statistical materials have been assembled which enabled the mission to arrive at some general conclusions regarding the efficiency with which capital equipment is now being utilized. We were able to use only a modest portion of this material because of its very tentative and confidential status.

30. In order to obtain a measure of the efficiency with which capital assets are utilized in the economy as a whole, the mission used data on the gross purchase of capital goods by ten sectors of the economy between 1959/60 and 1963/64, measured in 1964/65 prices, and we have related this to our own calculations of the increase in net output (GDP) as between 1959/60 and 1964/65, it being assumed that purchases of capital goods in the last year of this period would not affect current output in that year (one year lag). The results are in the following table.

1/ According to a study of the New Zealand Institute of Economic Research published in 1963 ("Output, Employment, and Productivity Growth in New Zealand Manufacturing Industries" by C.A. Blyth and P. Hamer), the per annum percentage change in productivity per person employed from 1940/50 to 1959/60 was as follows:

Farming	2.9
Manufacturing	2.6
Fuel and Power	4.0
Building and Construction	2.1
Transport and Communications	2.0
Other Services	0.5

Table 4

Capital/Output Ratios

(In millions of dollars - In 1964/65 prices)

Sector	(1)	(2)	(3)
	Gross Capital Formation 1959/60- 1963/64	Change in Net Output 1959/60- 1964/65	Gross Capital/ Output Ratio
1. Farming, Hunting, Fishing	461.2	75	6.1
2. Forestry and Logging	29.0	28	1.0
3. Mining	23.5	-4	5.9
4. Primary Product Processing	82.4	7	11.8
5. Other Manufacturing and Forestry Processing	424.1	206	2.1
6. Building and Construction	188.5	62	3.0
7. Public Utilities	422.9	29	14.6
8. Transport and Communications	374.8	34	11.0
9. Trade	259.0	93	2.8
10. Finance and Property	1054.2	133	7.9
11. Services	76.4	74 _{1/}	1.0
12. Government	<u>449.2</u>	<u>1/</u>	<u>-</u>
Average:	3845.5	745	5.2

1/ We have no separate estimate of GDP contributed by Government. This is distributed among such sectors as 6, 7, 8 and 11 in this table, thus reducing the ICOR for these sectors as compared with that shown in the table.

Source: Appendix Table 3 deflated to 1964/65 prices and T.W. Francis' "Sectoral Capital Formation in New Zealand, 1958-1965", Research Report No. 52 - Lincoln College Agricultural Economics Research Unit.

31. Thus the average of this historical incremental capital/output ratio was about 5.2. However, this does not include allowance for increases in stocks which might increase the capital requirements by \$150-\$200 million, and the capital/output ratio to about 5.6. This conforms fairly closely to the incremental capital/output ratio implied in the investment and growth projections for the National Development Conference, in which it is assumed that an investment rate of 27 percent will be required to produce 4.5 percent increase in GNP. However, the validity of using a historical incremental capital/output ratio for projection purposes depends on the composition of anticipated growth by the various sectors of the economy. This is emphasized by the variation of the ratio as among the different sectors for the 1959/60-1964/65 period, ranging from 2.2 for manufacturing to over 30 for public utilities. In other words, until the rates of growth for the different sectors have been determined, there is some risk in predicting the amount of investment required to achieve any

particular rate of growth. This problem is explored further in our discussion of the bases for the growth projections and investment target considered by the National Development Conference. Investment and consequently savings requirements per unit of additional output are, of course, quite sensitive to the sectors in which such output occurs. One analysis done in the Bank indicates that, if the capital/output ratios derived from 1959/60 - 1964/65 data obtain it would be possible to achieve a somewhat higher rate of growth from 1967/68 to 1972/73 than 4.5 percent per annum with an investment of about 26 percent of GNP.

CHAPTER 3

THE SECTORS

Origin and Destination of Sectoral Output

32. If we are to analyze (in Chapter 5) the net capital inflow required to achieve a given rate of economic growth, it is necessary first to examine the present structure and import dependency of the sectors of the economy. Table 5 shows the origin of total output in the New Zealand economy based on sectoral technical input coefficients^{1/} for 1964/65. While the average import dependency of the productive sectors is 7.6 percent of total output (about 13 percent of GDP), there is a wide variation as between 22.6 percent for manufacturing other than the processing of primary products (about 43 percent of its contribution to GDP) and the industries processing agricultural products in which only 1.9 percent of total output is derived from imports. The relatively low import component of agriculture of 4.7 percent of total output and about 7 percent of its contribution to GDP indicates the relative self-sufficient character of this industry in New Zealand in contrast with non-primary processing manufacturing.

33. Fifty-eight percent of the output of the economy as a whole consists of value added within the sectors. If we combine agriculture and primary processing (by eliminating inter-sectoral purchases between them), we have a value added component equal to 64 percent of total output. The corresponding figure for forestry and forest processing is 65 percent.

34. Table 6 which shows the destination of total output as between intermediate transactions and final demand has been calculated for 1964/65 and 1972/73. The similarity of the percentage distributions between the two years is because about the same economic structure (technical coefficients) were assumed, although consumption and its composition for 1972/73 was projected exogenously, using the basic rate of increase per capita of 2 percent per annum, and some of the pastoral exports were also based on exogenous projections. In comparing the portion that exports constitutes of total final demand (consumption, exports and capital formation), as one would expect, agriculture and the primary processing industries rank very high. Combining these two sectors, the proportion of exports to total final demand is about 22 percent in 1964/65 and 19 percent in 1972/73, and domestic consumption about 59 percent in 1964/65 and 57 percent in 1972/73. The strong domestic orientation of "other manufacturing" is illustrated by the fact that in 1964/65, only 1.9 percent of total output, or about 3 percent of the sector's contribution to GDP, was exported.

^{1/} Calculated by the Agricultural Economics Research Unit of Lincoln College. More highly aggregated projections for total output, investment and exports are given in Appendix Table 15.

Table 5

Origin of Sectoral Output
Excluding Intra-Industry Transactions
(1964/65 Coefficients)

(Percent)

	(1) Purchases from Other Sectors	(2) Imports	(3) Value Added (GDP)	(4) Total
1. Agriculture	27.7	4.7	67.6	100
2. Forestry	13.5	2.8	83.7	100
3. Forestry Processing	42.4 (26.6) ^{1/}	8.0	49.6	100
4. Hunting and Fishing	25.7	11.0	63.3	100
5. Mining	35.3	8.0	56.7	100
6. Primary Product Processing	85.0 (12.2) ^{2/}	1.9	13.1	100
7. Other Manufacturing	24.6	22.6	52.8	100
8. Building	47.3	5.2	47.5	100
9. Public Utilities	21.1	3.7	75.2	100
10. Transport and Communications	25.1	6.0	68.9	100
11. Wholesale and Retail Trade	28.4	2.1	69.5	100
12. Banking and Insurance	32.1	2.4	65.5	100
13. Services	30.5	3.5	66.0	100
14. Ownership of Property	19.1	0.6	80.3	100
Total:	35.1 (27.1) ^{3/}	7.6	58.3	100

^{1/} Excluding purchases from forestry.^{2/} Excluding purchases from agriculture.^{3/} Excluding purchases from forestry and agriculture by forestry processing and primary processing industries.

Table 6

Destination of Total Sectoral Output Excluding Intra-Sectoral Transactions

(In percent of Total Output)

	Sales to Other Sectors		Consumption		Exports		Capital Formation and Stock Changes		Total
	1964/65	1972/73	1964/65	1972/73	1964/65	1972/73	1964/65	1972/73	
1. Agriculture	62.5	62.4	7.7	7.7	27.2	26.6	2.6	3.4	100
2. Forestry	81.5	80.9	10.4	10.7	7.6	7.3	0.5	1.1	100
3. Forest Processing	82.4	78.4	3.5	3.6	10.1	14.5	4.0	3.5	100
4. Hunting and Fishing	16.5	13.3	41.1	36.9	41.0	49.8	1.4	-	100
5. Mining	83.6	81.2	16.2	18.2	0.2	0.3	-	0.3	100
6. Primary Product									
Processing	4.4	6.7	25.3	27.1	65.8	62.6	4.5	3.6	100
7. Other Manufacturing	31.5	31.5	51.9	48.4	1.9	4.0	14.7	16.1	100
8. Building and									
Construction	10.7	10.0	7.1	7.8	-	-	82.2	82.2	100
9. Public Utilities	54.0	55.9	44.2	43.0	1.1	1.1	-	-	100
10. Transport and									
Communications	55.2	52.0	24.8	23.4	14.7	19.1	5.3	5.5	100
11. Wholesale and									
Retail Trade	30.7	32.1	56.1	51.0	4.0	5.0	9.2	11.9	100
12. Banking and									
Insurance	52.9	52.5	42.0	41.0	5.1	6.5	-	-	100
13. Services	20.2	17.4	75.0	76.7	1.6	2.0	3.2	3.5	100
14. Ownership of									
Property	20.0	19.1	78.9	80.2	1.2	0.8	-	-	100
Total:	33.8	33.6	38.8	38.1	13.1	12.9	14.3	15.4	100

These percentages are to increase to 5.8 and 7.5 percent in 1972/73. The emphasis on increasing the exports of manufactured products, aside from those derived from the primary sector of the economy, is indicated by the fact that the proportion of total output of manufactured products going to exports is expected to more than double by 1972/73.

35. The small proportion of total output of the manufacturing sector (aside from the processing of primary products) that is sold abroad indicates the opportunity for expansion of exports of manufactured products providing adequate efficiencies and incentives can be developed. The opportunity to achieve economies of scale is quite limited if they concentrate, as at present, on the New Zealand market.

Relation of Export Expansion and Imports

36. The effect on New Zealand's imports of export expansion naturally depends upon the sectors in which the export expansion takes place. Based on import coefficients, shown above, and the transactions between sectors, it is possible to calculate the approximate net export effect of an increase of, say, \$100 in the gross exports of any particular commodity producing sector of the economy, assuming, of course, no radical changes in the origin of the incremental, as compared with the 1964/65 output. In the case of agriculture, as Table 6 indicates, the direct imports required to produce \$100 of additional exports would be \$4.7 if the exports were unprocessed items. However, since agriculture would have to purchase \$27.7 worth of goods and services from other sectors (see Table 5) in order to produce \$100 of additional output, by applying the appropriate inter-sectoral coefficients multiplied by the sectoral import dependency of these other sectors, the indirect import requirement for \$100 worth of agricultural products would be \$3.2, making a total of \$7.9 of imports to produce \$100 of additional product in the agricultural sector. Thus for agriculture, the net exports would be \$92.1, with an import dependency of only 7.9 percent. If, instead of exports of unprocessed agricultural products, processed agricultural products were exported, the direct import requirement would be \$1.9 and the indirect \$3.5, making a total of \$5.4 of import requirements per \$100 of increased exports, and the net exports of processed agricultural products per \$100 of gross would be \$94.6 or an import dependency of 5.4 percent.

37. In the case of other manufacturing, we find that the direct imports required per \$100 of exports is \$22.6. To this has to be added the imports required for the intermediate products purchased by the manufacturing sector, which would amount to \$0.9, making a total of \$23.5 of imports per \$100 of gross exports of manufactured items. Thus the net exports that could be obtained by expanding the export of manufactured products by \$100 would be \$76.5 or \$15.6 less than in the case of agriculture and \$18.1 less than for exports of the primary processing industries.1/

1/ These estimates are made without regard to the secondary, tertiary, etc. effects of expanding the other sectors (which would be calculated by successive iterations), but this would not change the results very substantially.

38. The conclusion is that export expansion is most economical in terms of imports by exporting more processed agricultural products; slightly less so by exporting agricultural products without further processing; but substantially less by expanding manufacturing industries. This does not mean, of course (particularly in view of foreign market problems), that New Zealand should not try to expand her manufacturing sector in order to improve her balance of payments position but simply that total output in the sector must expand proportionately more than in agriculture or primary processing industries in order to obtain the same net balance of payments effects. The results of this exercise are used, in combination with the capital/output ratio discussed in paragraph 30 above, in our discussion in Chapter 5 of New Zealand's ex ante external and internal resources gaps.

Agriculture

39. The most impressive feature of New Zealand's farming sector has been its ability to expand output at a modest but steady pace, in the face of adverse terms of trade and while losing workers to manufacturing and to other less efficient sectors of the economy. Between 1959/60 and 1967/68, the average annual increase in real output for the agricultural sector was about 3 percent. In terms of physical output the best performance was in cereal (mainly wheat production) and in beef, with dairy products showing less than the average performance for the sector as a whole (Appendix Table 12). The two major export items, namely, wool and lamb, increased in physical output by about the average for the sector, namely 2.9 and 2.6 percent per annum. 1/

40. From 1959/60 to 1967/68 the number employed in farming decreased from about 126,000 to 110,000 or about 13 percent, while the sector's contribution to GDP increased by close to 22 percent. Thus, all the increase in production in this sector were due to increases in productivity which amounted to 35 per-

1/ The absolute changes in the livestock population have been as follows:

	<u>1959</u> (million)	<u>1967</u> (million)	<u>Percent Increase</u>
Dairy Cows	1.89	2.13	13
Total Cattle	5.97	7.75	30
Sheep	46.88	60.03	38
Pigs	0.69	0.60	-13

These are about 2.8 bovines and 22 sheep per capita in New Zealand.

cent over the eight-year period or nearly 4 percent a year.^{1/} This is in contrast to the manufacturing sector, where about half of the increase in production can be attributed to the increase in the labor force. However, agriculture in New Zealand is capital intensive as the ratio between gross purchase of capital equipment and increase in output has been in the order of 6.1:1, whereas for manufacturing industry this ratio is between 2 and 3 to one.

41. The increase in productivity in the farming sector has been going on for a long time. From 1954/55 to 1961/62, real product in farming increased by 26.6 percent. At the same time, the labor force declined to an extent that would have reduced output by about 5.8 percent, had there been no change in investment or technical progress. Thus 105.8 percent must be explained by the latter two factors. A study of the New Zealand Institute of Economic Research^{2/} concluded that 42 percent was attributable to capital investment per head and 63.8 percent to technical progress. In the case of manufacturing, where a similar analytical technique was applied, 45 percent of the increase in output was attributed to the increase in the labor force, 24.8 percent to increase in investment per head and 30.2 percent to technical progress.^{3/}

42. As for the future, the overall growth rate for farm production has been estimated at 3.6 percent per annum (Appendix Table 3). Gross capital

^{1/} Professor Philpott - Productivity Planning and the Price Mechanism in New Zealand Manufacturing Industry - found an increase of 4.5 percent a year in productivity for the agricultural sector for the period 1954/55 to 1964/65. He diagnosed the increase in productivity in the total economy as 2.1 percent and for manufacturing 2.7 percent. Of the 4.5 percent increase in productivity for agriculture, 2.1 percent was attributed to an increase in capital investment and 2.4 percent to "greater efficiency". For the total economy, 1.1 percent of the (2.1 percent) increase in productivity is attributed to capital and 0.8 percent to greater efficiency which presumably includes technical change. For manufacturing, Prof. Philpott found that 1.2 percent of the increase in productivity was due to capital investment and 1.5 percent to technical change.

^{2/} C.A. Blyth, op. cit. NZIER Research Paper #8.

^{3/} The technique of distributing growth in output between capital per head and technical progress assumes a linear and homogeneous production function, and constant marginal productivity for capital and labor over time. Any increase in output not explained by the increments to capital and labor are attributed to technical progress, which, of course, in this sense includes improvement in the quality of labor, administration, etc., as well as innovations in the production process. In short, the contribution of technical progress explains the additional increase in production over the increase that would have occurred because of increase in capital and labor performing with the same efficiency in terms of output as in the base period.

formation in the agricultural sector is expected to remain at about \$140 million a year. An estimate has been made by the New Zealand authorities that farm labor requirements may have to increase by 1 to 2 percent between 1967/68 and 1972/73, although, if the increases in productivity that occurred in the early part of this decade is sustained, the production goals of the agricultural sector might be achieved without any increase in the labor force.

43. Although the proportion of exports of agricultural origin to the total is expected to decline from 79 percent in 1967/68 to 73 percent in 1972/73 and 67 percent in 1967/69, the share of agriculture in the total increase in exports is expected to remain well above 50 percent throughout the decade ending in 1978/79. Thus the balance of payments viability of New Zealand will continue to depend very largely on the growth of pastoral exports, although their relative importance may diminish. A good deal of the effort by the organized agricultural industry in New Zealand is expected to concern itself with improving the quality and diversity of foreign markets, particularly for meat and dairy products. This is discussed in greater detail in connection with our analysis of New Zealand's export prospects in Chapter 5.

Other Primary Products

44. Forestry. Forestry in New Zealand has been perhaps the most efficient and profitable sector of the economy. The principal products range from paper through sawn timber and panel products, to export pulp logs and waste products. The timber products are derived from both native and imported species, with the latter far outstripping the former in relative importance. Existing forests comprise 1.3 million acres of merchantable indigenous forest and 1.3 million acres of exotic production area. The total potential land area for forest production has been estimated by the Forestry Development Conference at in excess of 3 million acres. A planting program (excluding restocking) of 52,000 acres a year has been recommended. This is a continuation of the level reached in 1968/69. The export of forest products increased from just over \$1 million in 1947/48 to \$14.2 million in 1957/58 and \$41.2 million in 1967/68. Forest products provide the raw materials for about 12 percent of New Zealand's industrial production and produce 4 percent of total exports.

45. The following table shows the increase in production of various forestry products over the last ten years and a projection for 1972/73.

Table 7

Volume of Production of Forest Products

	<u>1957/58</u>	<u>1967/68</u>	<u>1972/73</u>
Newsprint ('000 long tons)	64.7	195.5	203
Other Paper ('000 long tons)	66.3	188.1	287
Panel Products (mn. sq.ft.)	121.6	155.0	253
Sawn Timber (mn. board ft.)	597	675	881
Export Logs (mn. cu.ft.)	n.a.	38.4	50
Export Pulp ('000 long tons)	n.a.	85.8	133
Export Wood Chips (mn. cu.ft.)	-	-	10

Source: Forestry Committee Report (draft) for NDC.

46. Australia, which admits some New Zealand forestry products free of duty under the Australia-New Zealand Trade Agreement, and Japan are likely to be the most important markets for future export expansion.

47. According to the Forestry Development Conference, forestry generally is profitable at rates of interests ranging from 7 to 11 percent. In terms of net foreign exchange earnings, the export oriented forestry industries can produce over 2 dollars of net foreign exchange earnings for each dollar of domestic expenditures. In national income terms, the capital requirements for the forestry industry from 1968 to 1973 (excluding the purchase of land, housing, planting, tending etc.) is estimated at \$203 million, broken down as follows:

Table 8

Capital Requirements

(\$ Million, 1967/68 Prices)

	<u>1968-73</u>	<u>1973-79</u>	<u>1968-79</u>
Forest development	8	11	19
Sawmilling and processing	23	37	60
Panel products	9	10	19
Pulp, paper, and paperboard	101	71	172
Packaging	10	12	22
Logging	52	52	104
	<u>203</u>	<u>193</u>	<u>396</u>

Source: Forestry Committee Report for NDC.

48. Fishing. New Zealand does not produce the principal varieties of fish sold in world markets such as tuna, cod, herring, halibut, etc., and the industry is contributing an insignificant portion of GDP. However, the production of wet fish (non-shell) increased by 4 percent a year from 1960 to 1967. The fisheries report of the National Development Conference has established export targets for the fishing industry of \$13.5 million for 1973 and \$25 million for 1978. This compares with exports of about \$7 million in 1966 and \$9 million in 1967/68. This would mean an expansion of exports of roughly 8.5 percent annually. These estimates appear to be based mostly on the absorption of New Zealand fish in the Australian market, which now takes about 80 percent of total fish exports. Japan and the U.S. are also considered promising markets for certain types. The Fisheries Committee did not make an overall estimate of the capital requirements for the industry but pointed out that, given adequate research and credit facilities, the capital/output ratio for the fishing industry should be relatively low.

49. A great deal of emphasis was placed on improved research and laboratory facilities and also exploration to determine the location of fish supplies in adjacent waters. Other measures recommended include modification of tariffs and taxes that affect the importation of equipment for the fishing industry and better credit facilities through the State Loan Scheme so as to increase the debt/equity ratio for the purchase of boats and other equipment.

50. Mining. Aside from coal which is discussed in the next section very small amounts of gold, copper, iron and tungsten are produced in New Zealand. New Zealand's minerals are all non-metallic, the most important being building materials.

51. In 1959/60 mining produced about one percent of GDP and this has been declining in relative and absolute terms in recent years. However, according to some estimates, mineral production could triple present output of about \$60 million during the next ten years. Recent off-shore oil finds, which are not yet proven, could conceivably produce an equivalent amount of, or more of, gross value. The following information on the future production potential and capital requirements has been published by the Minerals Committee of the National Development Conference. As the table below shows the major metals and minerals at present produced in New Zealand are coal and sand, rock and gravel for building and construction. Production of coal has been static for many years (and has indeed declined over the past two years). It will, however, increase with new demands from the iron and steel industry (beginning in 1969) and electricity generation (with the 600MW New Plymouth thermal station planned to begin operating in 1973). Coal provides some 25 per cent of New Zealand's total primary energy requirements (including transport). Current developments which assure an increased contribution to the economy from the minerals sector are: the exploitation of natural gas and condensate from the Kapuni field (to begin in early 1970); the first production this year from the steel mill near Auckland which will process iron sands from North Island beaches; exports of lead and zinc concentrate from Te Aroha; the discovery of significant sulphur deposits at Rotokawa; the commencement of the production of high quality bentonite in Canterbury; and a project for the possible export of halloysite from Northland. Apart from

providing raw materials for the iron and steel industry New Zealand beach sands contain substantial quantities of ilmenite. There is considerable interest in the development of export industries based on these beach sands. Further development of Scheelite deposits is also considered possible.

Table 8

	Production (Processed)			Capital Requirements	
	1967/68	1972/73	1978/79	1968-73	1973-79
(\$ Million)					
Minerals (non-fuels)	43	70	117	98.4	123.4
Minerals (probable)	-	-	20	20.0	36.6
Coal	18	25	34	50.9	43.0
Oil (Off-shore)	-	-	0 - 65	80.3	93.0
Total:	61	95	171 - 236	257.1	296.0

Fuel and Power

52. During the period 1950/52 to 1957/59, while GNP increased about 4 percent per annum, the demand for energy increased by 3.2 percent a year. However, this gap narrowed during the next eight years when the growth in the demand for energy was about 4.2 percent per annum, or roughly equivalent to the growth of GNP. The output and capacity of the electric power industry projected through 1977/78 is shown in Appendix Table 13.

53. The Fuel and Power Committee of the National Development Conference has estimated the increase in energy consumption as follows:

Table 9

Annual Growth in Consumption of Energy

(In Percent)

	Coal	Elec.	Oil	Gas	Total Energy	GNP
1950-52 to 1957-59	nil	8.2	5.1	1.0	3.2	4.0
1957-59 to 1965-67	-1.9	8.3	6.4	1.0	4.2	4.5

54. These trends are expected to continue, the demand for oil and electric power growing at a faster rate than the requirements for other types of energy. At present, some surplus capacity exists for coal and gas and some of the coal mines have been shut down.

55. The fuel and power industry has forecast that from 1967 to 1978 energy will increase faster than GNP, namely by 4.9 percent per annum. While this forecast is on the past trend line (3.2 percent increasing to 4.2 percent a year), it may be somewhat high, which, however, may be necessary in order to provide for variations in the annual growth of GNP. In other words, assuming a trend growth of GNP of 4.5 percent, in some years the growth may be considerably higher so that, to meet peak demands, the growth in energy supplies of over 5 percent may be necessary. The Committee of the NDC has not attempted a firm forecast of energy demand and recommends a continuing study of the problem, particularly as between the different types of energy required.

56. The estimated capital requirement, excluding the oil sector which cannot be accurately forecast at the present time, is for an investment of about \$860 million during the five years 1967/68 to 1972/73, and increasing slightly to \$880 million during the period 1972/73 to 1978/79. Eighty-seven percent of this, or about \$750 million, would be the requirement for the generation and distribution of electric power during the first five-year period (1967/68-1972/73). The capital expenditure for fuel and power is forecast to rise from 2.6 percent to 3.2 percent of GNP during the next ten years. However, the Electricity Department, which is meeting 30 percent of its capital requirements from its revenues at the present time, plans to increase this to 50 percent by 1972/73 and to 80 percent by 1978/79.

Transport

57. Rail and air transportation in New Zealand are in the public sector, with road and sea transport mainly in the private sector. The somewhat difficult terrain has made the cost of transport facilities rather high. Overinvestment in railways occurred in the 19th century and the difficulty of land transport resulted in an excessive number of ocean ports. While there are many rivers necessitating heavy investment in bridge construction, none are navigable for purposes of low-cost internal transportation. With the more rapid industrial development in the North Island and the heavier concentration of population there, some of the transport facilities in the South Island have become redundant.

58. Government departments in New Zealand tend to operate as well as supervise the operation of transportation facilities. There are Departments of Civil Aviation, Railways, Transport, and Marine. Expenditures on roads are quite high and are made in part from the highway fund under the National Roads Fund, which has its own sources of revenue from taxes on road users which amounts to about \$60-70 million a year. The Transport Committee of the NDC believes that there is need for further consolidation of government agencies concerned with transportation under the Ministry of Transport; and the development of a national transportation policy. The ingredients of the latter are not spelled out in the Committee report.

59. The following table summarizes the salient points on the transport industry. See Annex 2 for details.

Table 10
(1967/68)

Mode	Annual Capital Expend- iture	Annual Cost of Operations	Number Employed	Net Ton Miles	Passenger Miles
	(- €---\$ Million-----)			(- €---Million-----)	
Road	238.0	863.0	92,000	2803.1	11,940.0
Rail	20.9	71.9	22,558	1405.1	363.8
Air	24.6	74.5	6,045	10.2	310.6
Sea	n.a.	n.a.	25,000	1829.1	82.7
Total:	283.5	1009.4	145,603	6047.5	12,697.1

60. Based on the fact that there are 58,000 miles of road in New Zealand (March 31, 1968), this would mean that the annual utilization would be about 48,000 ton/miles of freight and about 200,000 passenger/miles per mile of road. This does not seem like a very high utilization but only about 23,000 miles of the roads are sealed.

61. Other transport facilities (as of March 31, 1968) were 3,107 miles of railway and 67 ships of New Zealand registry. The number of civil aircraft was 1,052 but only 48 were providing scheduled public services. There are 44 airfields. Because of seasonal and other factors, there is a substantial under-utilization of transport capacity in New Zealand, which of course adds to cost. The Committee estimates that for all modes of transport, there is 51 percent unused capacity at various times during the year.

62. Of the total investment of \$595 million proposed for the transportation sector for the five years ending 1972/73, 43.5 percent would be for roads, 27.7 percent for air, 16.8 percent for shipping, and 12.9 percent for the railways. However, the transportation sector as defined in the Committee report excludes road construction and maintenance which is included in the building and construction sector.

Manufacturing

63. Manufacturing in New Zealand originally consisted almost entirely of the processing of primary (chiefly agricultural and forestry) products. This was followed by the establishment of small units for the production of

goods for domestic consumption in a protected market. Before World War II, tariffs on manufactured items were moderate, and only a few consumer goods industries producing such items as shoes, cheaper grades of clothing and beer were set up. The assembly of automobiles was also emerging. With the advent of exchange and import controls and the cut-off of supplies from overseas as a result of the war, New Zealand's manufacturing sector was increasingly oriented towards the domestic market and grew rapidly. The value of production (in current prices) of main groups of manufacturing industries is shown in Appendix Table 14.

64. Since New Zealand has retained quantitative import restrictions, the customs tariff has been relatively unimportant, both for revenue and protection. One of the objectives of current policy is to develop a tariff structure that will give protection to potentially economically viable manufacturing industries, while reducing the degree of protection afforded by import controls.

65. In view of the reliance being placed on manufactured products for the expansion of New Zealand's exports, the long period of protection by import controls, and the concern expressed in the last Bank report that New Zealand was paying too much in terms of domestic resources per unit of foreign exchange saved by promoting import substitution industries, this mission attempted to make what tests it could of the efficiency of non-primary producing manufacturing establishments. The details are in Annex 1.

66. We realize, of course, that this is a task fraught with many conceptual and practical difficulties. One would expect (*ceteris paribus*) prices of industrial products, and hence value added per unit of labor input, to be relatively higher in protected than in non-protected industries. Also, factor blends are bound to differ as among plants of different sizes in different countries. Therefore, value added per unit of labor (even assuming the latter to be homogeneous as between countries) may not be a reasonably good guide to relative efficiencies. Therefore, we have attempted to measure relative changes in efficiency over the time rather than in an absolute sense which can scarcely be done by using monetary measurements. This assumes, as seems admissible, that the relation between prices (and therefore, value added) and between factor blends are unlikely to change in a comparatively short time of ten years or so, which was the period of our study.

67. Before summarizing the results of these international comparisons, we will examine the change in real net output per worker from 1959 to 1965 by broad groups of manufacturing industries (Table 11). From 1959 to 1965, the real net output per man in manufacturing increased from \$2,910 to \$3,860, or at a compound annual rate of about 5.0 percent per annum. Thus the 30-percent increase in the number employed in manufacturing industry over this period produced an increase in the sector's contribution to GDP of 62 percent. As might be expected for a study over a comparatively short period, a great variation exists, ranging from negative changes in productivity per worker in food 1/ and

1/ We are not certain of this relatively poor showing for the food industry, as it seems to conflict with evidence based on current rather than constant prices.

Table 11

Value Added Per Man

(1964 Prices)

Industry	Value Added	Value Added	Percentage Change 1959 to 1965		
	Per Man in 1959 (\$'000)	Per Man in 1965 (\$'000)	Number Employed	Value Added	Value Added/ Man
Food	4.11	3.92	16.2	10.9	-4.6
Beverages	5.79	6.52	20.0	35.0	12.6
Textiles	1.17	2.63	35.2	202.5	124.8
Footwear, other wearing apparel, and made-up textile goods	1.55	1.85	11.9	33.7	19.4
Wood and cork products (except furniture)	3.18	2.92	12.0	3.0	-8.2
Furniture and fixtures	2.15	2.90	17.9	58.7	34.9
Paper and paper products	3.77	5.76	39.8	113.6	52.8
Printing, publishing, etc.	2.73	3.48	27.8	62.7	27.5
Leather and leather pro- ducts (except footwear apparel)	1.77	2.58	22.8	78.8	45.8
Rubber products	3.06	5.21	24.6	111.7	70.3
Chemical and chemical products	2.86	4.88	16.4	98.9	70.6
Petroleum and coal products	3.81	17.85	67.2	685.0	368.5
Non-metallic mineral products	3.38	4.24	24.7	56.5	25.4
Basic metal manufacture	2.93	3.97	37.8	87.0	35.5
Metal products (except machinery and transport equipment)	2.75	3.72	61.1	118.1	35.3
Machinery (except electrical)	2.43	3.24	57.8	110.5	33.3
Electrical machinery and appliances	2.55	3.56	96.4	174.0	39.6
Transport equipment	2.22	2.83	36.4	74.2	27.5
Miscellaneous products	2.39	3.47	84.4	167.9	45.2
Total (Weighted by Value Added in 1965)	<u>2.91</u>	<u>3.86</u>	<u>29.6</u>	<u>62.0</u>	<u>32.4</u>

Source: Calculated from data obtained from Lincoln College and Department of Statistics.

wood products, to over a threefold increase in petroleum and coal products. In about half the industry groups, the net output per man increased faster than the increase in the number employed.

68. The increase of 5.0 percent in annual net output per worker does not take account of a possible change in the skill-composition of the labor force or in the number of hours worked per year. A study of an earlier period (1953/54-1959/60) by the New Zealand Institute of Economic Research 1/ concluded that real net output per labor hour for manufacturing industries as a whole had increased 2.4 percent per annum. However, this study did not include engineering, and vehicle repair and assembly.

69. A significant fact emerging from that study was that, of the six industries where productivity per labor hour increased by more than 10 percent per annum, five of these industries were based on local raw materials and they include, besides the pulp and paper industry, grain milling 23.5 percent, hosiery and other knitting mills 23.0 percent, rubber 12.8 percent, milk products other than butter and cheese 11.9 percent, wood containers 11.6 percent. The authors concluded that, while it is very difficult to draw conclusions from their study owing to the extensive year-to-year variations among the different industrial groups, it appears that investment is not being concentrated to the extent desirable in industries with the best record for utilizing their labor force. This observation seems also valid for the period 1959 to 1965. The correlation between increase in number employed and output per man was not significant (only 0.24), even after eliminating the obviously atypical tobacco and petroleum industries.

70. It would be interesting to ascertain, to what extent the increase in net output per worker was due to an increase in investment per worker; and to what extent it was because of technical improvements. Unfortunately, the mission did not have the time for such a task. However, we compared value added with aggregate capital investment in 1959 with 1964. The results of this comparison are in Table 12. 2/ In all except two of the industry groups, the net output per unit of aggregate capital employed increased, and the overall weighted average increase was 11 percent. This compares with an average increase in net output per man of about 32 percent (Table 11). Thus there was a significant increase in output, both in relation to labor and capital employed during this period. Again, the variations between the different industries in respect of increase in output per unit of capital employed were large. We found, however, a high correlation (excluding the very atypical petroleum industry) of 0.9 between the increase in output per man and increase in output

1/ C.A. Blyth and P. Hamer - "Output, Employment, and Productivity Growth in New Zealand Manufacturing Industries", Research Paper No. 4.

2/ Because of the obvious problems in measuring aggregate capital employed, we do not consider the absolute values very significant. However, the changes over time should be of interest in measuring the efficiency of capital utilization.

Table 12

Value Added Per Unit of Aggregate Capital Investment, 1959-1964

(1964 Prices)

<u>Industry</u>	<u>1959^{1/}</u> <u>(1)</u>	<u>1964^{1/}</u> <u>(2)</u>	<u>% Change</u> <u>1959-1964</u> <u>(2)/(1)</u>
1. Food	0.735	0.538	-26.8
2. Beverages	0.498	0.541	8.6
3. Tobacco manufactures	0.431	0.962	123.1
4. Textiles	0.433	0.855	97.4
5. Footwear, other wearing apparel, and made-up textile goods	1.176	1.205	2.4
6. Wood and cork products (except furniture)	0.826	0.870	5.2
7. Furniture and fixtures	0.971	1.042	7.3
8. Paper and paper products	0.341	0.407	19.1
9. Printing, publishing, etc.	0.781	0.855	9.4
10. Leather and leather products (except footwear apparel)	0.741	1.031	39.2
11. Rubber products	0.543	0.840	54.6
12. Chemical and chemical products	0.331	0.526	59.0
13. Petroleum and coal products	0.562	0.398	-29.1
14. Non-metallic mineral products n.e.s.	0.488	0.556	13.9
15. Basic metal manufacture	0.752	0.862	14.7
16. Metal products (except machinery and transport equipment)	0.893	0.820	-8.2
17. Machinery (except electrical)	0.926	1.053	13.7
18. Electrical machinery and appliances	1.124	1.316	17.1
19. Transport equipment	0.800	0.962	20.2
20. Miscellaneous products	0.862	0.943	9.4
Total (weighted by value added in 1965)			<u>11.0</u>

^{1/} Reciprocal of the aggregate capital/output ratio (ACOR).
Source: Calculated from data obtained from Lincoln College.

per unit of aggregate capital employed over the period 1959 to 1965. This would indicate that a reasonably efficient balance was maintained in the blend of labor and capital.

71. The mission did not have the capacity to study the industrial groups on this list with sufficient care to justify policy recommendations. However, it would seem desirable for New Zealand authorities and research organizations to pursue this subject further with a view to identifying those industries which are utilizing their primary inputs most effectively, as evidenced by improvement in high output/capital and output/labor ratios. These factors have, of course, to be considered in the light of the real protection the particular industry has been receiving while evidencing improvements. Otherwise an industry that looks good on these grounds may still require overly high protection for its survival and growth and cannot aspire to penetrate foreign markets.

72. Based on these observations supported with the international comparisons made in Annex 1, the mission concluded that:

1. There is no conclusive evidence that most New Zealand manufacturing industries have failed to improve their efficiency less than plants in certain North European countries that were used for comparison. Our comparisons show that both changes in the value added per person employed and changes in unit labor cost and labor productivity over a recent span of years appear to have been comparable to similar changes in the countries used for comparison.
2. Even in relation to the very large and highly efficient U.S. industries, certain New Zealand manufactures, like fertilizer production, pulp and paper, and forestry products compare favorably in capital/output and labor/output ratios and in recent improvements in labor productivity.
3. Although there is a need for improvement in the efficiency of New Zealand's manufacturing industries in the mission's view, their cost structures have not been the most important factors in inhibiting their penetration of foreign markets.

73. Contrary to the situation in most other advanced economies, a large share of New Zealand's manufacturing industries is owned by families and individuals, who in general, have been getting a comfortable return on their investments and, protected by import controls and high tariffs, have not had great difficulty in selling their products in the domestic market at satisfactory profits. In several instances they have enjoyed a quasi-monopolistic position. Under such conditions, internal competition has not been as strong as in more export-minded countries with a comparable manufacturing sector. Professional management, divorced from ownership, may be more alert to new developments. New Zealand's foreign-owned establishments managed by professionals seem to be more efficient than purely domestic establishments.

74. There is evidence that a considerable portion of New Zealand's manufacturing industries are capable of exporting on a competitive basis. With the aid of devaluation and of export incentives, the manufacturing sector responded admirably in 1968, when manufactured exports increased very sharply. The mission feels that this new, and apparently suddenly realized export capability can be partly attributed to changing attitudes. If this is a valid assessment, it follows that exports can be stimulated further by the introduction of additional programs and policies which will reinforce these new attitudes and make them more widely acceptable by industrial management.

75. For long-term improvements in the competitiveness of New Zealand's manufacturing industries and for stimulating faster growth of exports, other measures will be needed. In the mission's view, the following arrangements deserve attention:

1. Establishing a Center for productivity measurement and analysis. A special unit for this purpose should be organized. The New Zealand Department of Statistics published sufficient data for a continuous and systematic analysis of productivity trends in individual industries. Current work being done along this line at Lincoln College and Victoria University could form the basis for such a Center. By regularly publishing labor and capital productivity indices in different manufacturing industries and through the use of U.N. and other data, comparing these with industries in Australia and similar countries, such publications would stimulate management to compare their own progress with the accomplishments of their competitors abroad. Because of the isolation of New Zealand industries and infrequent contacts with similar industries in the U.S. and in Europe, it is difficult to keep abreast of new technologies and managerial developments which could be helpful towards achieving greater efficiency. To meet the needs of smaller manufacturers even in the U.S. it was found necessary to establish such centers (by means of the 1965 State Technical Assistance Act) to disseminate scientific and managerial knowledge by supplying literature, arranging industry seminars, conferences, etc. One such center might be established in each of the three major industrial areas (Auckland, Wellington and Christchurch). Greater participation of college graduates in the work of such centers would also tend to stimulate their interest in manufacturing industries.
2. Incentives for Plant Modernization. In visits to different manufacturing establishments and discussions with their managers, the mission found evidence supporting a recent consultant's findings that, while well maintained, much of the equipment is old and thus the firm was at a disadvantage in competing with modern plants. To encourage manufacturers to replace such equipment, certain financial incentives are needed either in the form of low interest loans, import liberalization or tax measures which would stimulate plant modernization. At present a special tax incentive for incremental exports is provided but it is not of great longer run value to firms that would be obliged to incur considerable risks to develop export markets.

3. Training. One of the more serious problems which will hinder faster growth and improved efficiency of manufacturing industries is the lack of trained manpower. This lack is especially evident in higher-skill areas, such as machinists, tool and die makers, and other occupations required by industries using high precision technologies. The present apprenticeship system, even if expanded, is probably too slow to achieve the desirable results, and it will be necessary to develop adult vocational study programs to train and up-grade the needed skills. The mission agrees with the prevalent view expressed by manufacturers that even this will not assure an adequate labor supply, and drastic liberalization policies may be needed to encourage an inflow of new migrants.

76. In considering the export potential of New Zealand industries, it is the mission's view that three merit special attention: primary processing; forest products manufactures; and the precision tool industries. The potential of the first two is well recognized, and the large spurt in exports by the manufacturing sector in 1968 was to a considerable extent due to the increase in food and forest products exports. New Zealand's comparative advantage in the growth of these industries is well known. Because of climatic conditions, the yield of pulp wood by local forests is nearly twice as large as anywhere else in the world, and year-round operations offer additional advantages. Considerable attention is also being given to further processing of meats and dairy products in order to upgrade their export value. New fruit and vegetable freezing and canning factories being planned in the Christchurch area are another recognition of the export potential of these industries. Because the growing season in New Zealand is the reverse of the Northern Hemisphere, it offers substantial advantages for these industries in the U.K. and other North European markets.

77. The development of precision tool industries has not been given sufficient attention, although in the mission's view their export potential is quite large. A major shift in emphasis is needed for their development. With a well educated labor force, highly developed government research laboratories, and a tradition for using sophisticated technologies, New Zealand possesses important comparative advantages in the export of these products. With relatively low labor cost, their tool and die plants should be competitive in foreign markets. Instrument-making is also promising. In such skill-intensive, but small-scale industries, New Zealand could compete successfully in foreign markets with the growth of low-cost air freight service.

Other Sectors

78. Education. In order to achieve the 2 percent annual increase in per capita consumption from 1967 to 1973, the Education Committee of the NDC estimated that the efficiency of the labor force would have to improve by one percent, assuming that the remainder of the increase in consumption would be made possible by an increase in capital investment.

79. The projected percentage increase in enrollment of students in New Zealand is as follows:

	<u>1963/64-</u> <u>1967/68</u>	<u>1967/68-</u> <u>1972/73</u>	<u>1972/73-</u> <u>1978/79</u>
Primary	13.5	7.5	9.9
Secondary	13.4	24.2	22.4
Universities	43.7	42.4	35.6
Technical Institutes	77.2	97.5	100.0
Teacher Training	13.7	85.4	22.7

80. The stress on vocational training is obvious. The correction of the principal shortcoming of education in New Zealand, which is the lack of technicians and more emphasis on vocational training at the secondary and higher levels, is the principal recommendation of the report.

81. Labor. The Labor Committee recommends that the salaries in New Zealand should move towards parity with those in Australia in order to retain technicians and administrators in New Zealand. The Committee is very much aware of the need for New Zealand to compete for labor supply from abroad. The needed manpower resources for a fully employed economy would be a 40-percent rise in the New Zealand labor force in the next 20 years or by 1.7 percent a year. The overall increase over the last 20 years has been 45 percent. This breaks down 38 percent for males and 69 percent for females. New Zealand must continue to depend for a major increase in labor supply on the increase of female employment.

82. The Committee places heavy responsibility on the Government to maintain full employment by preparing in advance a list of labor-intensive projects which could be implemented on short notice to cope with local unemployment. The principal problems in the past as far as the labor market is concerned are: (a) inflationary conditions that led to a rapid turnover of labor force; (b) lack of technical training and obsolescence in terms of skills; (c) an excess in labor turnover because of lack of guidance to employees prior to their acceptance of employment; (d) the relatively lower salaries in New Zealand than in Australia which has resulted in net outflow of skilled workers.

83. If New Zealand is to diversify her economy and particularly continue to reduce the dependence of export flows on a few primary products, she must rely on the growth of her skilled labor and professionally trained personnel. However, recent trends in the labor force are not propitious.

84. Research. According to the National Research Advisory Council, expenditure on scientific research (not defined) increased from 0.34 percent of GNP in 1967 to 0.53 percent in 1968. This excludes the construction of buildings for research purposes. The target proposed would be a 7 to 7½-percent increase each year in the manpower devoted to research. This would raise

the proportion of GNP spent on research to 0.72 percent by 1978. The Committee recommends a 5-percent per annum increase in research manpower.

85. Distribution. The Distribution Committee recommends a fast removal of import controls simultaneously with a revision of the customs classification and improvement of customs administration, particularly in order to have more uniformity in classification and valuation. It points out that the system of distributing import licenses on a historical basis does not take account of the dynamic changes in the economy. Smallness, both among importers and in the distribution sector generally, is a serious cause of inefficiency in New Zealand. The Committee suggests, for example, that minimum sizes for retail units might be established, depending on the type of business.

86. While the general conclusion of the Committee is that New Zealand's grading and marketing techniques in the meat industry are generally very good, there is room for improvement in this and other exports. Like many other of the Committees preparing reports for the National Development Conference, the Distribution Committee recommends the establishment of a new coordinating body called the National Distribution Council.

87. Tourism. New Zealand has many attractions for the tourist and hopes to increase her income from this source from \$19 million in 1967/68 to about double this in 1972/73. An annual growth of 16 percent in tourists from overseas is envisaged for the next 10 years, rising to 586,000 by 1978/79. The foreign exchange earnings are projected to increase fourfold from \$19 to \$73 million.

88. The capital expenditures connected with the tourist industry would be about \$62 million up to 1972/73. The foreign exchange outlay in connection with the tourist industry might be about \$7 million from 1967/68 to 1972/73.

Summary of Projected Sectoral Performance

89. Table 13 indicates in capsule form the expectations which the Targets Committee of the NDC have for the main sector groups during the next five years. The high hopes held for the "other manufacturing" sector is obvious, both in terms of contribution to increased GDP and to total output (for the latter nearly a third of the aggregate increase) and to increased exports. The latter is more striking than the former. The share of "other manufacturing" in GDP is expected to increase only from about 18.7 to 21.6 percent as between 1967/68 and 1972/73 (see Appendix Table 3). The annual percentage increase in exports for that sector is expected to increase by 14.2 percent per annum (over twice as fast as total exports at constant prices) and, while producing only 9.4 percent of the exports of New Zealand as between 1967/68 and 1972/73, it is to produce just about twice that percentage in terms of increased exports.

90. As will be suggested at the end of this report, if there is such potential in "other manufacturing", perhaps it can be carried even a bit further and help to reduce the external resources gap to more manageable dimensions.

The comparatively low capital/output ratio for "other manufacturing," as indicated by the relation between Columns (1a) and (3) further supports the evidence presented on this subject in paragraph 30 above.

Table 13

Projected Sectoral Growth, Investment and Exports

(1967/68 Prices)

Sectors	(1a)	(1b)	(2)	(3)	(4)	(5)	(6)
	Annual Percent increase in Total Output ^{1/}	Annual Percent increase in Total Output ^{1/}	Proportion of increase in Total Output	Proportion of Total Investment	Annual % increase of Exports	Proportion of Exports	Proportion of increase in Exports
	1967/68- 1972/73	1972/73- 1978/79	1967/68- 1972/73	1972/73	1967/68- 1972/73	1967/68- 1972/73	1967/68- 1972/73
Agriculture, Processing and Fishing	4.0	3.9	17.9	13.8	5.9	66.8	58.3
Forest Products	5.4	6.2	4.7	2.1	9.4	3.9	5.2
Mining	5.4	5.8	0.7	0.7	-	-	-
Other Manufacturing	6.0	6.8	32.0	8.3	14.2	9.4	18.7
Transport	5.0	5.5	7.7	10.4	6.1	11.3	10.2
Construction	6.4	6.0	12.7	7.3	-	-	-
Services and Utilities except Transport	3.9	5.2	24.3	57.4	5.9	8.6	7.6
Total:	4.9	5.6	100.0	100.0	6.8	100.0	100.0

1/ Including inter-sectoral transactions.

Source: Appendix Table 15.

CHAPTER 4

BALANCE OF PAYMENTS AND DOMESTIC FINANCE

Balance of Payments

91. New Zealand's balance of payments for the last ten years is shown in Appendix Tables 16 and 17 and summarized in the following tables 14, 15 and 16 below. While the trade balance has consistently been active under the regime of import controls, large net service payments have produced current account deficits averaging about U.S.\$120 million over the last eight years. The impact of a slack in world trade in late 1966 and in early 1967 was superimposed on the sharp deterioration in New Zealand's terms of trade, particularly for wool and dairy products. This, combined with a continuing brisk demand for imports through most of 1966/67, resulted in the balance of payments crisis outlined in Chapter 1, which caused the current deficit to rise to an average of about \$170 million in 1965/66 and 1966/67.

92. As a result of the constriction of internal demand through fiscal and monetary policies and by the currency devaluation of November 1967, and the improved export performance, a \$20 million balance on current account was achieved in 1968/69. Also, the debt service burden arising out of the short-term borrowings to meet the extraordinary drains on liquidity in 1965/66 and 1966/67, and long-term maturities after 1971 will necessitate a roll-over of short-term obligations and substantial refinancing of long-term debt if New Zealand is to avoid being a net capital exporter during the next five years.

Table 14

Analytical Balance of Payments Tables, 1962-1968

(In millions of NZ dollars)

	1962/ 1963	1963/ 1964	1964/ 1965	1965/ 1966	1966/ 1967	1967/ 1968	1968/ 1969
Exports (f.o.b.)	606	718	765	748	788	754	947
Imports (f.o.b.)	<u>509</u>	<u>601</u>	<u>615</u>	<u>721</u>	<u>723</u>	<u>640</u>	<u>729</u>
Balance	97	118	150	27	66	114	218
Invisibles (net)	-126	-132	-168	-183	-204	-171	-185
(Investment Income, net)	(- 46)	(- 42)	(- 59)	(- 54)	(- 67)	(- 51)	(NA)
Transfers (net)	<u>- 13</u>	<u>- 13</u>	<u>- 15</u>	<u>- 23</u>	<u>- 23</u>	<u>- 20</u>	<u>- 14</u>
Balance on Current Account	- 42	- 27	- 32	-178	-161	- 77	20
Private Long-term Capital (net)	59	42	65	76	42	44	NA
Public Long-term Capital (net) ^{1/}	34	7	5	18	56	84	NA
(Gross Government Borrowing)	(38)	(27)	(20)	(58)	(82)	(85)	(54)
(Debt Repayment)	(3)	(16)	(3)	(38)	(17)	(25)	(52)
Short-term Capital and Errors and Omissions	<u>10</u>	<u>- 13</u>	<u>- 39</u>	<u>- 12</u>	<u>13</u>	<u>12</u>	<u>NA</u>
Overall Balance	61	9	- 1	- 96	- 50	63	48
IMF Drawings (net)	-	-	-	45	-	36	- 64
Other Borrowings (net) ^{2/}	-	-	-	-	46	- 12	- 14
External Reserves (increase -) ^{3/}	-61	- 9	1	51	4	- 87	30

^{1/} Excludes changes in Government's long-term assets and transfers of public debt from U.K. to N.Z. register. Includes local authority net borrowings and suppliers' credits.

^{2/} Borrowings from BIS and the Reserve Bank of Australia.

^{3/} Includes changes in net assets of Government, N.Z. Wool Commission and the banking sector.

Table 15

Macro Economic Targets - External Accounts in Current Prices

(In current \$NZ million)

	Actuals		Projected	
	1962/63	1967/68	1972/73	1978/79
Exports (f.o.b.)	606	754	1125	1495
Imports (f.o.b.)	<u>-509</u>	<u>-640</u>	<u>-940</u>	<u>-1240</u>
Balance	97	114	185	255
Net Invisibles ^{1/}	-81	-120	-145	-185
(Payments)	(-144)	(-204)	(-280)	(-380)
(Receipts)	(63)	(84)	(135)	(195)
Net Factor Income				
Payment	-46	-51	-75	-100
Transfers	<u>-13</u>	<u>-20</u>	<u>-25</u>	<u>- 30</u>
Current Balance	<u>-43^{2/}</u>	<u>-77</u>	<u>-60</u>	<u>- 60</u>

^{1/} Does not include factor income payments and receipts.

^{2/} Differs slightly from Appendix Table 16 because of rounding.

Sources: Actuals - Appendix Table 16; Projections - Targets Committee Report.

Table 16

Foreign Transactions as Percent of GNP

	Actuals		Projected	
	1962/63	1967/68	1972/73	1978/79
Imports of Goods and Services	21.6	21.4	22.0	22.4
Exports of Goods and Services	23.7	21.2	23.9	24.7
Factor Income Payment (net)	1.5	1.3	1.5	1.5
(Marginal Import Rate)	(-)	(20.4)	(24.4)	(24.4)
(Marginal Export Rate)	(-)	(17.3)	(34.8)	(27.2)

Note: As this table is concerned with resource allocation rather than the balance of payments, all variables are measured in constant prices (1967/68 prices) using appropriate deflators.

Exports

93. Since the beginning of the 1960's, the value of New Zealand's merchandise exports increased at an average annual rate of 3.8 percent, with export volume rising a little faster. During this period, as Appendix Tables 18 and 19 show, the share of meat exports rose considerably, favored by a rising price trend, while the weakness in wool prices brought about declining earnings from the wool trade. The growth of exports of dairy produce was at an average annual rate of over 4 percent. A significant feature of the export performance in the period was a rise of non-pastoral exports by an average rate of 17½ percent a year. Notable among the non-pastoral exports were forest products, including pulp and paper and other manufactured goods. As a result, New Zealand's heavy dependence on pastoral products (including processed products) declined from 91 percent of total commodity exports in 1960 to about 86 percent in 1967/68.

94. The price decline in pastoral exports which began in 1966 continued into 1968 and, despite the devaluation, recovery did not come until late in that year. A substantial increase was realized in export volume and the export value in domestic currency (partly as a result of devaluation) increased by about 10 percent over 1966/67. Most of the gains in 1967/68 came from increased meat exports and "other" minor exports, indicating a desirable diversification. An impressive performance was shown in 1967/68 by logs and manufactured forestry products. 1967/68 was also one of the more successful years for New Zealand's meat exports. Higher prices in overseas markets and the devaluation encouraged increased slaughterings in New Zealand. Diversification of market outlets continued, and exports to the U.S. and Japan increased appreciably. Exports of dairy produce remained more or less unchanged in 1967/68 from 1966/67. As most of these exports were directed to the U.K. market, price increases due to the devaluation were marginal and were mostly offset by declines in export volume.

95. The most alarming feature in 1967/68 was the further sharp decline in wool prices. The average auction price in New Zealand hit a low of \$0.229 per pound, the lowest level since 1948/49. The increased clip only partially offset the price decline and the export value decreased by about 10 percent. In 1968/69 fortunately, wool prices have recovered to around \$0.28, still about 20 percent below former levels. However, the outlook for dairy products is not reassuring.

96. While New Zealand's problem of slow export growth is the result of its heavy dependence on a small number of primary products for which world demand is sluggish, it is also associated with its major reliance on the markets of the United Kingdom. Appendix Table 20 indicates that the growth of New Zealand's exports to the U.K. has been at an annual rate of less than 2 percent in New Zealand currency. Thus only 15 percent of the increase in New Zealand's sales during the last decade was in the U.K. market. The main contributors to her export expansion were a steady growth of beef export to the U.S., a rapid growth of mutton, wool, cheese and other exports to the rapidly growing Japanese market and a doubling of the exports of manufactured goods, aside from processed primary products. However, the latter still account for less than 10 percent

of commodity exports. The Australian market also grew at a fast pace in 1963-1968, partly aided by the limited implementation of the New Zealand-Australia Free Trade Agreement. The 1967 devaluation of the British pound and the New Zealand dollar tended to attract New Zealand's exports to markets other than the U.K. Thus, although the overall picture is overshadowed by the slow growth of exports to the U.K., the continuing diversification of market outlet for pastoral and other products offers some encouragement. The 1969 Budget announced a proposal to encourage the diversification of part of the increasing productive capacity of the dairy industry into beef production by the payment of a special diversification grant of \$10 per head and the provision of advances to dairy factory suppliers at a concessional interest rate of 3 percent to assist them over the period when there is some loss of income from milk and their immediate income from the beef animals.

Imports

97. In both real terms and in current prices, there seems to have been a tendency for imports to rise faster than GNP from 1962/63 through 1966/67, though to what extent this reflects an income elasticity of demand for imports higher than unity (in real terms, apparently about 1.37) or liberalization of import restrictions is difficult to say. In any case, as Table 18 shows, until disinflationary fiscal and monetary policy and the tightening of the foreign exchange budget caused a sharp decline of imports in 1967/68, imports were rising somewhat faster than GNP.

98. Direct imports restrictions now apply to about 50 percent of total imports. The long-term effect of the use of quantitative import control has, of course, been to induce import substitution in the manufacturing industries. Control also means that the establishment and expansion of domestic industries can be regulated by the Government through the licensing of equipment and machinery imports as well as imports of industrial raw materials. Imports of machinery and equipment generally require prior permission, while industrial raw materials are imported according to yearly quota allocations. In the short-run, downward adjustment of the foreign exchange budget has had its incidence mostly on imports of capital goods. For example, in 1968 about three-quarters of the reduction in imports was absorbed by decreasing imports of machinery and equipment. Not all of this, of course, was a function of direct controls, since monetary and fiscal measures must have dampened investment demand. The recovery of machinery imports late in 1968 undoubtedly reflected the improved business outlook as well as import policy. In fact, Table 19 shows that capital goods were the fastest growing class of imports from 1959/60 to 1967/68, followed by industrial materials. Besides, in manufactured goods, import substitution also took place in food and sources of energy. In more specific terms, imports of motor spirits and distillate fuels were substituted since 1964 by imports of crude or only partly refined petroleum. The import substitution took place also on the domestic production of pig iron and ingot, iron/steel wire and wire products, paper and pulp products, and some domestic appliances.

Table 17

Direction of Exports^{1/}

	<u>Percentage Composition</u>			<u>Growth Rates (% p.a.)</u>	
	<u>1958</u>	<u>1963</u>	<u>1968</u>	<u>1958-63</u>	<u>1963-68</u>
United Kingdom	57.5	47.8	39.5	1.6	1.9
United States	16.2	18.3	20.3	8.1	8.0
E.E.C.	12.9	16.8	11.6	11.2	-1.8
Australia	3.9	4.6	7.2	8.8	15.6
Others	<u>7.3</u>	<u>9.1</u>	<u>11.7</u>	<u>5.6</u>	<u>15.9</u>
Total:	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>5.4</u>	<u>5.8</u>

^{1/} On Calendar Year basis; in terms of export receipts.

Source: Statistical Abstract.

Table 18

Import Trends^{1/}

	1962/ 1963	1963/ 1964	1964/ 1965	1965/ 1966	1966/ 1967	1967/ 1968
A. <u>In Current Prices</u> (In millions of NZ dollars)						
Imports	576	694	724	792	813	669
GNP	2921	3197	3487	3744	3911	4032
Imports Ratio	(19.7)	(20.3)	(20.8)	(21.2)	(20.1)	(16.6)
B. <u>In 1967/68 Constant Prices</u>						
Imports	639	760	791	858	851	669
GNP	3266	3474	3673	3906	4057	4032
Import Ratio	(19.6)	(21.9)	(21.5)	(22.0)	(21.0)	(16.6)

^{1/} Refers to merchandise trade.

Source: Department of Statistics.

Table 19

Commodity Composition of Imports

(In millions of NZ dollars)

	<u>1959/60</u>		<u>1967/68</u>		Change 1959/60 to 1967/68 In % of Total Imports
	Value	% Compo- sition	Value	% Compo- sition	
Food	42.2	9.7	40.9	5.4	-4.3
Industrial Imports					
Crude Materials	18.9	4.3	36.7	4.9	+0.6
Mineral Fuels, etc.	40.4	9.3	44.9	6.0	-3.3
Chemicals	37.3	8.6	77.7	10.3	+1.7
Manufactured Imports					
Manufactured goods	169.7	40.5	257.3	34.2	-6.3
Machinery and equipment	118.1	27.2	290.9	38.8	+11.6
Others	1.9	0.4	3.9	0.5	
Total: ^{1/}	<u>434.5</u> (489.3)	<u>100.0</u>	<u>752.2</u> (813.2)	<u>100.0</u>	

^{1/} Expressed in terms of current domestic values. Values in c.i.f. are given in the brackets.

Source: Department of Statistics.

Summary of the Impact of Devaluation

99. The devaluation of the New Zealand dollar has changed her external trade less than would have occurred if so much of her trade were not with the U.K., which devalued by three-quarters as much as did New Zealand. New Zealand devalued by 19.45 percent (making the U.S. dollar more expensive by 24.14 percent) in November 1967, following the devaluation of Sterling by 14.3 percent. Thus the devaluation of the New Zealand dollar vis-a-vis Sterling amounted to 6.03 percent. The devaluation was essentially of a "defensive" nature in response to two external forces. The weakening price trends of dairy produce and wool since 1966 were judged to be more structural and permanent than cyclical, and an adjustment of the exchange rate was called for to assist the pastoral sector.

100. Since New Zealand's external trade relations are characterized by various artificial barriers, the net result of the devaluation is difficult to measure. As regards the traditional pastoral exports, butter exports to the U.K. and meat exports to the U.S. markets are bound by quota arrangements. The major impact of the devaluation should be an improvement of the internal terms of trade in favor of the pastoral sector.

101. On the export side, minor manufacture exports have benefited from the devaluation, and this favorable effect is likely to be limited. On the import side, about one-half of imports originate in the U.K. and little impact from the devaluation will be felt as far as these imports are concerned. Also, the fastest growing import goods are capital goods and intermediate industrial goods for which only limited substitutability exists between domestic and foreign supplies. Moreover, consumer goods are mostly under import control. The increases in prices of imported goods, however, should facilitate the intended transition from quantitative import controls to tariff protection, and would thus be able to contribute to the desired rationalization of New Zealand's balance of payments and industrial protective structure.

102. The immediate impact on the relative prices seems to have already worked itself out. Since the devaluation, the import price index has risen by 21 percent (as of January 1969) and no further substantial increase due to devaluation is anticipated. The increases in wholesale^{1/} and consumer price levels were respectively 8 and 6 percent, so that the effect of the devaluation should be substantial in sales in markets other than the U.K.

^{1/} The wholesale price index of domestically produced goods. If imported goods are included, the rise amounted to 11 percent.

Terms of Trade and Its Impact on Income

103. As stated above, the adverse movement of the terms of trade was responsible in part for the balance of payments crisis in 1966/67, the action taken to cope with it, and the subsequent recession. In fact, from 1964/65 to 1967/68 (Appendix Table 28) the terms of trade index declined by about 18 percent, not much less than the amount of the devaluation of the New Zealand dollar in 1967. Only very recently, the terms of trade began to show some sign of improvement. In the two-year period 1966/67-1967/68, the loss of real income due to the decline in the terms of trade amounted to about \$100 million, equivalent to about 3 percent of GNP (see Table 20).

Table 20

Terms of Trade and Impact

	Terms of Trade (Index, 1960=100)	Effect of Terms of Trade on GNP (in 1960 constant \$NZ mn.) ^{1/}
1962/63	104	-
1963/64	115	+81
1964/65	113	-14
1965/66	111	-10
1966/67	106	-36
1967/68	95	-66
1968 ^{2/}	93	-9

^{1/} Year-to-year loss or gains.

^{2/} Calendar Year 1968.

Capital Movements

104. New Zealand looked to three principal types of foreign capital to cover her current account deficits, which averaged about \$140 million a year from 1965/66 through 1967/68. The first two, namely, net long-term private investment and net long-term public borrowings, which made up over three-quarters of the total, are normal sources of external resources for a country at New Zealand's stage of economic development. The former consisted, in large part of reinvested earnings and, over the years since 1962/63, has only exceeded investment income payments abroad, exclusive of interest on public debt, by \$123 million or about \$20 million a year. However, as Appendix Table 29 shows, net public borrowing was sharply increased in 1966/67, mainly in the London market and by disbursement of IBRD loans and in 1967/68 by sales of Zealand paper in the Eurobond, particularly the German market. The purpose of these latter borrowings was more to cover an involuntary balance of payments deficit than to finance a specific capital investment program. The

third type of finance that met the remaining 25 percent of the current deficit was short or medium-term borrowings from the IMF (\$50.3 million), the Reserve Bank of Australia (\$24.0 million), and the Bank for International Settlements (\$21.6 million). Furthermore, the external reserves were drawn down to the extent of \$55 million - roughly equivalent to 20 percent of the total reserve at the end of 1964/65. In 1967/68 the vigorous efforts of the Government in long-term market borrowings, coupled with some additional use of IMF compensatory finance, a stand-by credit, and a further drawdown of BIS credit, enabled New Zealand to build up external reserves by nearly \$90 million.

105. Developments on capital account were not favorable in 1968/69 as gross borrowing of the Government in the international capital markets declined sharply from the level attained in the previous two years, mainly due to the tightness of the London and New York markets, while at the same time the redemption of maturing issues was heavy. Also, repayment obligations to the IMF had already started in 1967/68. Thus a reversal of capital flows occurred, and New Zealand was a net capital exporter on public account of about \$65 million in 1968/69.

106. Fortunately, a small surplus of \$20 million was achieved in the current account in 1968/69, thanks to the effect of devaluation and improvement of export prices against the background of a continued relatively low level of imports.

107. Another hump in long-term maturities will occur in 1971/72-1973/74, and the total repayment obligations of the public sector will average about U.S.\$80 million over the next five years, of which about U.S.\$46 million will be for long-term maturities.

108. The total external reserves of the country at the end of February 1969 stood at about \$250 million, equivalent to roughly one-third of annual merchandise imports.

Public Finance

109. Fiscal Operations, 1967/68. In 1967/68 the New Zealand Government employed fiscal restraint as well as monetary policy to contain excessive demand for imports. With the external situation deteriorating, expenditures of the public sector were held to 4.1 percent above the 1966/67 level despite the cost-raising effects of devaluation and increases in indirect taxes and in some charges by public authorities. At the same time, receipts increased by 5.2 percent (as compared with 8.1 percent in 1966/67) so that the deficit in the overall government budget was \$129 million as compared with \$141 million in the previous year (see Tables 21 and 22). \$36 million of the 1967/68 deficit was covered by external borrowings and the Central Government's net indebtedness to the Reserve Bank decreased by \$21 million.

110. For fiscal year 1968/69, the Government pledged to continue its policy of fiscal restraint. However, with price increases since devaluation well below expectations and the balance of payments showing considerable improvement, the Government felt it could loosen fiscal restrictions a little.

Table 21

Consolidated Public Sector Account 1963/64 to 1969/70

(In millions of NZ dollars)

	A c t u a l						Budget
	1963/ 1964	1964/ 1965	1965/ 1966	1966/ 1967	1967/ 1968	1968/ 1969	Estimate 1969/ 1970
Tax Revenues							
Direct Taxes <u>1/</u>	542	629	691	756	768	790	870
Indirect Taxes	224	241	250	262	296	326	344
Public Authority Trading Income	123	136	147	149	163	174	186
<u>Total Revenue</u>	<u>889</u>	<u>1,006</u>	<u>1,088</u>	<u>1,167</u>	<u>1,227</u>	<u>1,290</u>	<u>1,400</u>
Current Expenditure	417	460	516	566	591	639	680
Transfer payments in New Zealand	318	329	346	365	390	408	436
Net transfers to the rest of the world	5	5	6	6	6	6	6
<u>Total Current Expenditure</u>	<u>740</u>	<u>794</u>	<u>868</u>	<u>937</u>	<u>987</u>	<u>1,053</u>	<u>1,122</u>
Capital Expenditure <u>2/</u>	286	312	342	371	369	376	406
<u>Total Expenditure</u>	<u>1,026</u>	<u>1,106</u>	<u>1,210</u>	<u>1,308</u>	<u>1,356</u>	<u>1,429</u>	<u>1,528</u>
Deficit to be financed by net borrowing	<u>137</u>	<u>100</u>	<u>122</u>	<u>141</u>	<u>129</u>	<u>139</u>	<u>128</u>
Public Savings	149	212	220	230	240	237	278

1/ Excludes direct taxes paid by public authority trading undertakings.2/ Taken from the National Account Series Table.

Source: New Zealand Government sources.

Table 22

Central Government Revenue, Expenditure, and Net Borrowing

(Years ended March)

(In millions of NZ dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	Total of 10 years	Budget Estimate 1969/70
Expenditure	810	874	900	934	1,002	1,082	1,169	1,272	1,288	1,346	10,677	1,449
Revenue	<u>716</u>	<u>794</u>	<u>834</u>	<u>814</u>	<u>894</u>	<u>992</u>	<u>1,055</u>	<u>1,138</u>	<u>1,178</u>	<u>1,237</u>	<u>9,652</u>	<u>1,313</u>
Deficit	-94	-80	-66	-120	-108	-90	-114	-134	-110	-109	-1,025	136
Net Borrowing												
New Zealand	66	88	32	106	112	158	93	89	95	121	960	n.a.
Overseas	-40	-	34	32	20	-14	23	68	36	-2.5	156	n.a.
Reserve Bank <u>1/</u>	68	- 8	-	-18	-24	-54	- 2	-23	-21	-9.5	73	n.a.

1/ Includes changes in government cash balances held at the Reserve Bank and changes in the Bank's holdings of government securities.

Source: The Treasury - Public Accounts Budget Statement.

In 1968/69, it permitted expenditures, mainly current account items, to rise by 5.4 percent, but 2 percent of the increase was due to cost increases from devaluation. The 1969/70 Central Government budget contains an increase in expenditures of 7.6 percent over actual outlays in 1968/69 and in revenues by 6.1 percent. However, for the public sector as a whole revenues are expected to increase by 8.6 percent and expenditures by about 7.0 percent. No important tax changes are included in the new budget.

111. However, on the basis of preliminary actual returns, the increase in expenditures in FY 1968/69 is expected to be below the budget limit. Government borrowing requirements were also less than anticipated with some increase in domestic borrowing and a decline in borrowing overseas.

112. Public Revenue and Taxation. Public sector current revenue (comprising the Central Government and local authorities) has, on average, been increasing by about 6 percent per year over the past five years, approximately corresponding to the average growth of the nominal GNP. Current revenue has been about 30 percent of the national product. Almost 90 percent of public revenue is derived from tax revenue, the remainder being income from government enterprises. Currently, New Zealand collects 26 to 27 percent of GNP as tax revenues, including social security taxes and the taxes levied by local authorities that account for about 10 percent of total tax revenue. Total government revenue is 30-31 percent of GNP. However, compared with other countries with high per capita incomes, New Zealand's taxation burden does not appear to be excessive. Comparable percentages of tax revenue to GNP are 28.2 percent for the U.S. and Canada and 31.3 percent for the United Kingdom. However, in rapidly developing countries such as Australia and Japan, the percentage of tax revenue to GNP are 23.5 and 19.2 percent respectively.^{1/}

113. At present, about 72 percent of tax revenue is derived from direct taxation. The share of direct taxation has been increasing slowly during the past decade. In her reliance on direct taxation, New Zealand exceeds all major developed countries.

^{1/} Including social security payments.
Source: United Nations Yearbook of National Accounts Statistics, 1967,
and IBRD World Tables.

Table 23

Percentage of Tax Revenue From Direct and Indirect Taxes,
All Levels of Government

	1966	
	Direct	Indirect
New Zealand ^{1/}	71.8	28.2
Netherlands	70.9	29.1
United States	68.5	31.5
Sweden	65.5	34.5
Germany, Federal Republic of	59.3	40.7
Norway	57.4	42.6
Italy	56.7	43.3
France	54.1	45.9
United Kingdom	52.4	47.6
Australia	51.7	48.3
Canada	48.5	51.5

^{1/} FY 1966/67.

Source: IBRD World Tables.

114. New Zealand's tax system has been criticized on this score as a disincentive to investment. It also has a relatively high tax on corporate incomes in which respect it ranks highest among the group of countries in Table 23, with the Government absorbing 6.8 percent of GNP through this channel. ^{1/}

115. In 1966 a Taxation Review Committee (Ross Committee) was established by the Government to appraise the rates, structure, and incidence of Central Government taxes. In its report published in October 1967, the Committee recommended, inter alia, a reduction in rates of direct taxation, especially easing some of the pressure on medium incomes, and the introduction of an 8 percent sales tax on all goods and services. The Government, however, considered such a basic shift in tax policy inappropriate at the present time. It did accept the Ross Committee proposal to introduce a single progressive tax on personal income combining the existing income tax and the 7½ flat social security tax. The amalgamation went into effect as of FY 1969/70.

116. New Zealand provides a tax incentive for exports. At present, 15 percent of the value of exports in excess of the average of three of the pre-

^{1/} The net incomes of companies not incorporated in New Zealand are taxed at a 5 percent higher rate than the 50 percent applicable to New Zealand corporations. This is to compensate for the fact that dividends paid by such companies are not taxed in New Zealand.

ceding five years may be deducted from income for tax purposes.^{1/} For a company in the 50-percent tax bracket this provides a 7½-percent export bonus on such incremental exports. This applies to all non-pastoral exports (excluding paper) and is an attempt to stimulate increased manufactured exports. Of course, the incentive declines to zero as export growth levels off.

117. Public Expenditures. The current expenditures of the Central Government (see Appendix Table 32) are heavily concentrated on welfare objective. Social security, education and housing account for well over half with 35, 12 and 7 percent, respectively, of total current expenditures in 1967/68. Defense claims a moderate portion at 6.8 percent of the total (about 2.2 percent of GNP).

118. Social security payments, which, with the amalgamation of the 7½-percent social security tax and the general income tax, will be met from general tax revenues from 1969/70 on, having long equalled 11 to 12 percent of GNP. The breakdown of New Zealand's comprehensive system of old age, health, unemployment and other benefits is shown in Appendix Table 33. Education is free at all levels.

119. Local government expenditures have increased substantially in recent years and amount now to roughly 20-25 percent of Central Government spending. About half of their revenue is derived from local taxation and trading income; the balance is financed from large Central Government transfers. Such transfers - on a national accounts basis - were \$33 million in FY1967/68.

120. Public Capital Expenditure Program. Appendix Table 37 gives estimates of public sector capital outlays on a national accounts basis (at current prices) from 1963/64 through 1972/73. ^{2/}

121. Total public sector investments are expected to be 31 percent higher during FY's 1968/69-1972/73 as compared to FY's 1963/64-1967/68. This will be mainly due to 38 percent growth in local government investments, while Central Government outlays will rise by a rather conservative 26 percent. This will raise the share of local investment in total public investment from 36 to 38

^{1/} A provision has been made in the 1969/70 budget to provide greater stability under this scheme so that (in approximate terms) there would be a year's lag between the year of leveling off of exports and the reduction of the incentive per unit of exports. The exporter is assured the same incentive per dollar of exports as he earned in the previous year.

^{2/} The estimates for Central Government investment broken down by sectors are based on official forecasts. The figures on total public sector investments for the earlier years are based on NZIER estimates; for FY1972/73 they are derived from the estimates made by the National Development Conference's Targets Committee reflecting the outcome of a capital survey. Interpolations were made for intermediate years. Local authorities' investments were subsequently estimated as a residual.

percent. Considering recent price increases and the 19.5 percent devaluation in 1967, the public sector investment program seems rather modest, reflecting the Government's expectation that the main growth impetus will come from private sector investment.

122. The sectoral pattern of Central Government capital expenditure is to change somewhat, with less emphasis on transportation, communications, housing and land conservation and development. Considerable investments have been made in these sectors in the past. Power will remain the most important sector of Central Government investment accounting for one-third of Central Government outlays. Significant increases in investment are planned for forestry, a sector with very good development prospects, and for education, namely, by 53 and 45 percent respectively over the preceding five-year period.

123. No breakdown of local investments is given; but it is assumed that investment will follow a pattern similar to that of the past with probably more emphasis on urban planning and public utilities. For comparison, during the FY 1965/66-1967/68 period, 22 percent of the amount of loans taken up by local authorities for new works was for hospitals and related facilities, 15 percent for power supply systems, and 10 percent each for local roads (including bridges) and waterworks. 7 percent was for housing.

Table 24

<u>Gross Fixed Capital Formation</u> (at Current Prices)						
(FY = April 1-March 31)						
	<u>1967/68</u>	<u>% of</u> <u>GNP</u>	<u>1972/73</u>	<u>% of</u> <u>GNP</u>	<u>1978/79</u>	<u>% of</u> <u>GNP</u>
Central Government	245	6.1	299	5.7	413	5.8
Local Government	<u>130</u>	<u>3.2</u>	<u>196</u>	<u>3.8</u>	<u>285</u>	<u>4.0</u>
Sub-total:	375	9.3	495	9.5	698	9.8
Private	<u>540</u>	<u>13.4</u>	<u>787</u>	<u>15.1</u>	<u>1,048</u>	<u>14.2</u>
Total Gross Fixed Capital Formation	915	22.7	1,282	24.6	1,746	24.5

124. This table shows the role projected for public and private gross fixed capital formation up to FY 1978/79 on the basis of the Targets Committee Report to the National Development Conference. The ratio of local to Central Government investment is to increase further. The private fixed investment rate to GNP would decline to 14.7 percent in FY 1978/79 after an increase to 15.1 percent in FY 1972/73 from 13.4 percent in FY 1967/68. However, such long-range forecasting is prone to a wide margin of error.

Monetary Policy

125. Two noteworthy features of New Zealand's monetary/fiscal performance during the last five years have been (a) the supply of money per se in the hands of the public has been static while the public's total holdings of liquid assets held in financial institutions has increased about one-third (Appendix Table 34) and (b) while domestic Central Government borrowing net of repayments to the Reserve Bank has totalled \$423 million, the effect of government borrowing on the money supply through 1968 was negative by about \$19 million. The reasons for these features and the policies responsible for them are subjects of debate in New Zealand. They are said to be related to the rather strict controls maintained by the Reserve Bank over trading (commercial) bank advances and to the "captive" market enforced by the Government for the sale of its bonds. The very large "other demand deposits" held outside the trading banks which amount to about half of institution-held domestic liquidity are alleged by some critics to have been attracted away from the trading banks by the interest rate ceilings on the trading banks' deposits. They also question the efficacy of orthodox credit control devices that apply only or largely to the trading banks.

126. Quantitative controls on trading bank advances have been enforced through reserve ratio requirements and selective credit limits. Excluding the trading banks controls on deposit interest rates and capital issues had been removed in 1962 after having proved unsuccessful in diverting funds to the public sector from depository institutions and private lenders. Control on hire purchases, another instrument of monetary policy still in force, has been mainly used to reduce foreign exchange spending on automobiles and durable consumer goods in periods of balance of payments difficulties.

127. The Reserve Bank's discount rate has remained unchanged at 7 percent since 1961 1/, reflecting the strong official reluctance to use interest rates as an instrument of monetary policy. Apart from political objections to higher rates, the Government has held that flexible interest rates, particularly small changes in the rates, would have little or no direct effect on savings and investments while raising the cost of public borrowing. The Reserve Bank is sympathetic to an active interest rate policy, and feels that the past system has produced some distortion in the system of rates. There have not been any open market operations of importance in the past.

128. It is difficult to assess how effective these controls have been since monetary policy in New Zealand cannot be isolated from other factors, particularly balance of payments developments. Periods when severe credit restraints were imposed naturally coincided with serious balance of payments deficits also causing an acute shortage of funds and reducing private sector expenditure. It is our impression that the curb on domestic demand has probably resulted to a large extent from overseas deficits rather than monetary policy.

1/ Official maximum average rate for trading banks' overdrafts is 6 percent.

Table 25

Changes in Money Supply and in factors affecting Money Supply

(In millions of NZ dollars)

	1962	1963	Calendar Year			1967	1968
			1964	1965	1966		
Money Supply	-2.6	21.2	49.2	-12.1	9.5	-13.5	-3.1
<u>Factors affecting Money Supply</u>							
Foreign assets (net)	28.2	-3.2	7.0	-48.0	-58.2	-80.7	91.9
Domestic Credit							
Claims on Government (net)	14.8	8.2	10.0	-0.2	6.0	67.5	-102.0
Claims on Private Sector	-38.6	22.6	12.0	64.1	33.7	6.1	74.6
Quasi-money (increase)	-2.6	1.2	-8.8	-13.9	-13.9	-4.0	-28.0
Other items (net)	-4.4	-7.6	29.0	-10.1	22.9	-24.6	-33.4

Source: IMF, International Financial Statistics.

129. After a 6.5 percent increase in 1964, money supply declined in 1965, although credit to the private sector expanded by 13 percent. The main contractive factor was the decline in net foreign assets by \$48 million following the fall in wool prices. There was also a substantial rise in time and fixed deposits. In 1966 money supply expanded as a result of the further increase of borrowing by the private sector; the increase in private credit, however, was only half the 1965 amount, reflecting the internal impact of the further worsening in New Zealand's terms of trade. Net foreign assets declined by another \$58 million, while time deposits continued to increase.

130. At the beginning of 1967, a considerable reduction in consumption and investment had become inevitable to ease the pressure on the balance of payments. Along with a tighter budget, credit ceilings were reduced and reserve requirements for trading banks were tightened. It was not until mid-1967 that the combined fiscal and monetary measures showed effects, when the continued depressed outlook for wool began to affect overall business confidence and demand for private credit declined. Trading bank lending fell sharply in the second half of calendar 1967 from a peak (seasonally adjusted) of \$524 million in March 1967 to a low of \$484 million in December. Overall claims on the private sector during 1967 increased by only \$6 million. Further deterioration of the overseas balance is reflected in the \$81 million decline in net foreign assets. The expansion of net claims on the Government was due to large-scale lending by the Reserve Bank to the Wool Commission and the Dairy Board for their price support operations.

131. The decline in trading bank lending to non-export borrowers continued into early 1968, offsetting the rising advances to exporters and farmers. However, since the second quarter of 1968, trading bank lending rebounded sharply despite further tightening of credit restrictions and reserve requirements in the autumn of 1968, with advances increasing from \$482 million in March to \$546 million by December. By mid-January 1969, advances were 11 percent larger than at the same time in 1968. With the expansion continuing, the reserve requirements were tightened again in February 1969. At the same time, expansionary pressure came from the recovery in the external balance during 1968 after devaluation, resulting in a fast replenishment of net foreign assets (by \$92 million). A principal contractive factor on the money supply was the sharp decline in net government borrowing and a sharp rise in trading bank time deposits. So far in 1969, the very tight lending policy by the trading bank has curbed the rising tendency of non-preferred advances, but because of rising levels of business activity advances remain above the official targets.

132. Prices and money wages have increased slowly but steadily over the past five years at 2 to 3 percent annually except for sharp increases in nominal wages and in the cost of living of 5.2 and about 6 percent respectively in 1966/67 (Appendix Table 36). A sharp increase in wholesale prices occurred in 1968, probably reflecting the devaluation.

133. Differences of view between the Government (including the Reserve Bank) and financial institutions (including government-owned ones) may not be more pronounced in New Zealand than in other countries, but they do seem to be

more vocal. Monetary policy has been criticized for its emphasis on controlling trading banks and reflecting a bias against trading banks in general. Trading banks are said to be considered the main potential source of inflation and also to some extent are viewed as potential instruments of foreign domination since four of the five trading banks are foreign controlled.

134. A more fundamental criticism argues that since New Zealand's financial system is becoming more complex with new financial institutions, new forms of credit, and changes in the relative importance of established financial practices, a basic reform of present methods of monetary policy and public debt management is necessary. It is maintained that restrictions have caused a decline of the trading banks' role in private lending, diverted borrowers to other lending institutions and encouraged the development of other forms of non-institutional lending. The extent of this diversion is discussed in Annex 3. Since such forms of lending are difficult to control and to influence by direct administration control, a monetary policy system where emphasis is on inducement rather than on control has been recommended. This would require a flexible interest rate policy, although some of the existing controls would be retained. 1/ On the other hand, there is a real question whether providing cheap credit (3 percent) for some types of housing has not unduly favored this use of resources which has a comparatively low economic (as against social) return.

135. The "captive" market for government debt has been alluded to above. Because of its reluctance to pay higher interest rates, the Government has had difficulty in creating a free market for its securities. On the contrary, it has had to rely almost entirely on financial sources reserved for the Government by statutory investment requirements and other regulations and agreements by which financial institutions are persuaded to invest a large amount of their assets in government securities beyond their statutory or contractual requirements. The 1969/70 budget provides some additional inducement for savers to buy government bonds. The yield will be about 6 percent (with a tax exempt feature) on bonds held to maturity. Prizes are to be given to lucky holders of small bonds.

1/ Outlined in Monetary and Economic Council Report No. 10, March 1966, "The New Zealand Financial System."

Table 26

Changes in Holdings of Government Securities

(\$NZ million)

	<u>Fiscal Years Ending March</u>	
	<u>1955-61</u>	<u>1961-67</u>
Post Office Saving Bank	+167	+150
Trustee Savings Bank	+ 37	+124
Trading Bank Savings Banks	--	+155
Money Market	--	+ 35
National Provident Fund	+ 32	+ 28
Government Superannuation Fund	+ 35	+ 44
Earthquake and War Damage Fund	+ 18	+ 40
Government Departments	--	- 16
Farm Reserve Funds	- 27	- 11
Life Assurances	+ 9	+ 98
Trading Banks	- 2	+ 22
Other Investors	+ 60	- 48
	+325	+320

Source: Monetary Council Report.

136. Table 26 showing the changes in holdings of government securities between FY's 1955-61 and FY's 1961-67 indicates that the flow of funds into government loans has been almost entirely determined by the inflow of funds into savings banks and certain other deposit and contractual intermediaries (e.g., life assurance companies). The table in particular reveals the importance of the Post Office Savings Bank as a source of government finance. Like other government controlled institutions (such as the Superannuation Fund, the National Provident Fund, and the Earthquake and War Damage Fund) it is required to invest all new investable funds in government securities. It had been the Government's largest source of loan finance until 1965. Thereafter, with more institutions competing for savings deposits, the Government was eager to keep interest rates low and to force the savings banks (other than the post office) to invest a substantial part of their assets in government securities. At present, Trustee Savings Banks have to invest 50 percent or more, depending on the size of the bank, of new funds from ordinary accounts in Central Government securities and another 20 percent in local government stock or housing. Trading Bank Savings Banks - admitted to business only in 1964 - have to invest 70 percent of new funds from ordinary accounts in Central Government securities and 10 percent in local government stock or housing funds. Funds deposited in investment accounts (one-year time deposits) have to be wholly placed in government securities. The increase in life assurance holdings of securities reflects an agreement with the Government to invest 20 percent of new funds in government stock.

137. Thus the "captive" market for government securities provides most of the organized money market and accounts for the fact that the Government has been able to finance its deficits without "overt" inflationary consequences.

138. Besides the general financial institutions referred to above, New Zealand has a variety of specialized credit institutions, notably the State Advances Corporation and the Development Finance Corporation. A recommendation is being made to the NDC for the reorganization and expansion of the latter institution. The mission agrees in principle with this recommendation. We discuss the capital market on an institutional basis in Annex 3.

CHAPTER 5

PROSPECTS AND REQUIREMENTS FOR THE ACHIEVEMENT OF
NEW ZEALAND'S ECONOMIC OBJECTIVES

139. To view New Zealand's economic goals in perspective, a brief review of recent magnitudes is useful. As we have seen, over the decade of the 1960's New Zealand has had an average annual growth rate of about 4 percent with exports growing at a little lower rate than GNP. The causes of major fluctuations in the economy have been mainly of external origin. Domestic investment has been 24 to 28 percent of GNP and domestic savings have increased roughly in step with investment. Net capital inflow averaging 2 to 3 percent of GNP has been of moderate importance in maintaining the high investment rate. On the average, about 10 percent of investment expenditures have been financed with foreign capital. Foreign public loans have been important, however, in reducing the impact that slumps in exports would otherwise have had on international liquidity investment and consumption.

Macro-Economic Targets of NDC

140. Macro-economic targets for the next ten years have been formulated by the Targets Committee of the NDC. These are summarized in Table 27 and specified in greater detail in Appendix Tables 40 and 41. Taking into account the fact that the base year, 1967/68, was a recession year (in which the real output declined by 0.6 percent), the growth rate of 4.5 percent a year in the coming ten years would mean only a modest acceleration of the past trend. The increase in exports in real terms from less than 4 percent to 7.5 percent per annum (while GNP only is assumed to increase from 4.3 to 4.5 percent) is perhaps the most difficult goal of the program.

Table 27

Macro-Economic Targets

(Average annual rate of growth in percent)

	Actuals	Projected	
	1962/63- 1967/68	1967/68- 1972/73	1972/73- 1978/79
G.N.P. ^{1/}	4.30	4.50	4.50
Exports (in constant prices)	3.40	7.50	5.00
Exports (in current prices) ^{2/}	5.00	8.50	5.00
Consumption ^{3/}	3.70	3.70	4.40
Population	1.80	1.65	1.85
Per Capita GNP	2.50	2.75	2.65
Per Capita Consumption	1.90	2.00	2.50
Labor Productivity ^{4/}	2.10	2.60	2.50

^{1/} In constant market prices of 1967/68.

^{2/} Adjusted for relative price changes of exports.

^{3/} Includes private and public consumption.

Source: Draft Targets Committee Report.

141. The available labor force is expected to increase by 1.9-2.0 percent a year and the projected increase in labor productivity of 2.5-2.6 percent a year also means maintenance of the past trend. The population is expected to increase at an annual rate of 1.75 percent and per capita GNP would rise at around 2.75 percent a year, reaching \$1,980 (U.S.\$2,220) in 1978/79 at 1967/68 prices.

142. Since New Zealand's planning is "indicative", some minor differences in estimates are permissible. Table 28 summarizes projections made by the two principal organizations which are advising the Government on the macro-economic aspects of the work on the National Development Conference. The principal developments on which they agree are: (a) the rate of total investment will be 1½ to 2 percent higher in 1972/73 than in 1967/68, but the net capital inflow is assumed to be lower so that national savings must increase by about .3 percent of GNP; (b) exports will increase more rapidly than heretofore, while consumption per capita will also increase by 2 percent annually or slightly more than in the previous "good" years of this decade. Thus the juxtaposition

of a considerable increase in savings, consumption and exports, with only a modest increase in economic growth, presents the main problem for New Zealand's economic planners.

143. Returning to the more official Targets Committee estimates, for the achievement of a 4.5-percent growth, the overall investment (fixed only) needed is calculated to rise from 22.7 percent of GNP in 1967/68 to over 24.3 percent in 1972/73. Private fixed investment is expected to rise from 13.4 percent of GNP in the base year to close to 14.7 percent and public from 8.3 to 9.6 percent. In past years of cyclical upswings, such ratios have been attained but with considerably more foreign borrowing than is now envisaged.

Table 28

Projected Changes in Composition of GNP and Rates of Investment
1967/68 - 1972/73

(1967-68 Prices)

(In Percent of GNP)

	Lincoln Model			NZIER Model		
	1967/ ^{1/} 1968	1972/ 1973	Real Average Annual Change	1967/ ^{1/} 1968	1972/ 1973	Real Average Annual Change
(1) GNP	100.0	100.0	4.5	100.0	100.0	4.5
(2) Consumption	74.4	71.4	3.7	75.8	72.8	3.7
(3) National Savings	25.6	28.6	6.9	24.2	27.2	6.9
(4) Imports (including factor payments)	21.9	22.4	5.0	22.2	23.5	5.7
(5) Exports	20.2	22.1	6.5	20.8	23.9	7.5
(6) New Capital Inflow	1.7	0.3	neg.	1.4	-	neg.
(7) Investment and Changes in Stocks (3)+(6)	27.3	28.9	5.6	25.6	26.8	5.3

^{1/} The differences in GNP breakdown for 1967/68 as between the two models is because the Lincoln model estimates are based on input-output coefficients whereas the NZIER uses official national accounts data.

Sources: Agricultural Research Unit, Lincoln College, University of Canterbury and the New Zealand Institute of Economic Research.

144. The distribution of investment as between public and private sectors is not expected to change substantially. In 1968 the division was approximately 60 percent in the private sector and 40 percent in the public, with roughly a third of the latter being made by the local authorities and two-thirds by the Central Government. The program envisages that the share of the private sector will be increased slightly to 61.4 percent by 1973 but that the participation of local authorities will rise to about 13.9 percent of the total in 1973 and to 16.3 percent by 1979. However, these estimates are not basic to the structure of the program and may be revised as sector programs emerge from the National Development Conference.

145. Since the share of consumption in GNP would decline only by about 3 percent of GNP, the issue is not so much the austerity implied in the program targets; certainly for a country of New Zealand's per capita income it is not severe. Rather, the questions are: (a) whether the foreign exchange constraint will not prevent the economy from growing as fast as its rate of domestic savings would justify; and (b) whether a proper policy framework has been prepared to achieve a marginal savings rate well above previous achievements. These issues are discussed below.

146. A third question has to do with the availability of labor. Over the last thirteen years New Zealand's labor force has been growing at a fairly steady rate at about 2 percent per annum, and over the last eight years GDP in real terms has grown by an average of about 4 percent. Thus the productivity per man has increased by about 2 percent a year. Since there does not appear to be much real prospect of increasing the rate of growth of the labor force (except by the possible fuller participation of women) 1/ in order to achieve the 4.5 percent growth rate in the program, productivity will have to increase by 2.5 percent per annum or about 25 percent more than in recent years.

147. The labor force in agriculture and other primary industries actually declined by 1.3 percent from 1955 to 1968 and now constitutes only 13.7 percent of the total labor force as compared with the 16 percent contribution of these sectors to GDP. On the other hand, employment in manufacturing was increasing at about 2.6 percent per annum. This sector now employs 26.4 percent of the labor force while producing about 23.7 percent of GDP. This indicates the high productivity of labor in agriculture in New Zealand as compared with manufacturing industry, and, of course, is in sharp contrast to similar comparisons for less developed countries.

148. As part of the national planning exercise, various forecasts have been made of labor requirements up to 1972/73. The results of one study are

1/ According to an estimate of the NZIER, between 1958 and 1963, 29.6 percent of the increase in the labor force came from the native born and 35.9 percent from net immigration. The remaining 35 percent was largely in response to a tight labor market which attracted more married women into the labor force and which increased overtime work. Probably the importance of these two factors was roughly in the ratio of 1:2, although precise data on this point are lacking.

summarized in Appendix Table 42, which shows that, given a continuing growth of the labor force of about 2 percent per annum, and if labor productivity in the economy as a whole increases as rapidly in the future as in 1959/60 to 1964/65, there will be a more than adequate labor supply to meet the production targets of the program. On the other hand, if productivity only increases at around 2 percent per annum, there would be a labor shortage equal to about 7 percent of the labor force in 1972/73. This might increase to about 18 percent of the labor force in 1978/79. This, of course, assumes that the recent absolute decline in the labor force is temporary and that the trend rate of increase of about 2 percent will be resumed. The program target assumes a net immigration of 5,000 per annum and an increase in the participation of female labor.

Feasibility of the Macro-Economic Targets

149. A GNP growth target of 4.5 percent a year from the year of the trough of a cyclical down-swing seems feasible, even in an economy where a possible labor constraint on expansion exists. However, as we noted above, in order to achieve a real rate of growth of 4.5 percent, the Targets Committee estimates that investment will have to increase to about 27 percent of GNP, implying an incremental capital/output ratio of approximately six, which agrees substantially with the estimates that the mission has made for the capital/output ratio in the past (paragraph 30).

150. It is in respect of the external balance and perhaps domestic savings that the principal difficulties may arise. The growth rate projected for the next five years is higher than recent growth rates that were achieved when the internal resources gap of 2-3 percent of GNP was being financed in large part by public sector net capital inflows. Although in 1968/69, New Zealand paid off about half (U.S.\$75 million) of the net short-term borrowings made in the years of large current account deficits (1965-1967), the remaining portion of these short-term borrowings, together with longer-term maturities and government guaranteed loans, will result in a gross capital outflow of about U.S. \$412 million during the next five years. Even if one takes an optimistic view about the recovery of international capital markets, it seems evident that New Zealand will have difficulty in avoiding a net capital outflow on public account over this period without access to other sources of financing.

151. Looking at the situation from the standpoint of the internal resources gap, the planning models that have been developed for the National Development Conference have assumed a net capital inflow of \$60 million by 1972/73 but most of this would be the reinvestment of earnings on existing foreign investment, with the result that practically no net capital inflow would be provided to the public sector. The policy measures by which New Zealand could increase domestic public savings sufficiently to carry out her public sector investment program without some net capital inflow for that sector have not yet been formulated.

152. The rate of savings in New Zealand has been remarkably constant over the last few years. This is illustrated by the following comparison between public and private savings in relation to GNP:

Table 29

Composition of Domestic Savings

(% of GNP)

	<u>1965/66</u>	<u>1966/67</u>	<u>1967/68</u>
Private	16.4	16.9	17.0
Public	<u>6.9</u>	<u>7.0</u>	<u>6.8</u>
	23.3	23.9	23.8

153. The program is expected to be carried out under conditions of reasonable financial stability. Domestic prices are projected to increase 5 percent or one percent a year during the next five years, whereas import prices and net factor payments are to increase by 2 percent a year. Since no increase in export prices is envisaged, a modest decline in the terms of trade is implicit in the program projections.

154. With the GNP growth target of 4.5 percent and with the same rate of import substitution or export orientation as in the past, New Zealand is likely to find itself with larger current deficits than envisaged in the macro-economic targets of the NDC. This likelihood is further reinforced by the stipulated rise in the investment ratio, which would tend to raise the marginal import ratio because of the import-intensive character of investment in New Zealand.^{1/}

155. The import dependency of the general manufacturing sector (ratio of imports to value added) is about 23 percent, and about 32 percent of the total economic growth from 1967/68 to 1972/73 is expected to occur in that sector. However, the export growth and net capital inflow referred to above is expected to permit no increase in the overall import dependency of the economy.

156. Although the program is not an austere one, the marginal savings target appears ambitious. National savings as percent of GNP is to increase to about 26 percent in 1972/73 from below 24 percent in 1967/68, with an implied marginal national savings rate of 33.2 percent. If account is taken of factor payments abroad, the marginal rate of domestic savings is about 39 percent.

157. The targets stipulate that both public and private savings be raised. In New Zealand, the propensity to save out of the net disposable private in-

^{1/} This tendency is evidenced by a study on sectoral capital formation in New Zealand. See T.W. Francis, "Sectoral Capital Formation in New Zealand, 1958-65" (Research Report No. 52, 1968, Agricultural Economics Research Unit, Lincoln College).

come has been remarkably stable in the medium-run, with short-term fluctuations caused by changes in export prices. The pattern of income distribution appears to have been stable with an exception that the share of farming income has been growing more slowly than the others. Financial institutions for mobilization of private savings are well developed. Under such circumstances, whatever policy instruments are available, whether interest rate policy or taxation policy (less progressivity in tax schedules with more emphasis on indirect taxation), are notoriously ineffectual in influencing the savings behavior of private individuals. Much of the burden of increased savings thus has to be shouldered by increased public savings. This would mean that the current fiscal restraint should be sustained in the medium-run - an environment which is not particularly amenable to increased private investment activities.

158. The marginal savings rate mentioned above means that in 1967/68-1972/73, only 61.5 percent of incremental GNP is expected to be consumed, compared with 66.7 percent in 1962/63-1967/68. The portion of incremental GNP devoted to private fixed capital formation is to increase from 14.1 percent in 1962/63-1967/68 to 21.1 percent in 1967/68-1972/73.

159. These general considerations indicate that the NDC macro-economic targets underestimate the magnitude of external finance needed to supplement national savings if the growth and investment targets are to be met. The amounts involved will now be examined.

160. Public Savings. The tentative plans now being discussed call for an increase of private savings as a percentage of GNP by about 1.3 percent. The problem of increasing public savings at the same time is formidable because of the tax structure and the stability of the total propensity to save in New Zealand. The stability of income distribution and the comprehensive social security system have probably been important factors in stabilizing the rates of savings; the only changes in policy now contemplated is to increase the proportion of indirect to direct taxes, possibly some adjustment of interest rates, charging higher prices for services furnished by the Government and reducing the advantages of priority sectors, such as housing, in the distribution of savings.

161. Figures for FY 1968/69 indicate that the public sector's revenue surplus at current prices was \$247 million as compared with \$240 million in FY 1968/69. This would mean a small decline in public savings in relation to GNP.

162. For FY 1969/70 the estimate is for public savings of \$278 million. Despite the fact that tax revenues are expected to rise in 1969/70 following the recent upswing in the economy, expenditures of the Central Government will rise faster.

163. The Targets Committee report to the National Development Conference forecasts a revenue surplus of \$322 million for FY 1972/73 or 34 percent higher than 1967/68. If achieved, this would mean an increase in the revenue surplus from 5.4 percent of GNP in 1967/68 to 6.1 percent in 1972/73.

164. On the basis of the present tax system and rates, the mission feels that it will be difficult to raise the ratio of tax revenues to GNP beyond 27 percent by FY 1972/73 or beyond the percentage achieved in FY 1968/69. Accepting the Targets Committee's GNP target for FY 1972/73, total tax revenues would therefore amount to \$1,410 million. With no substantial changes in non-tax revenue in sight, the mission expects current revenue to rise, at most by about 7 percent per annum between FY 1969/70 and FY 1972/73. On the expenditure side, the mission would expect the past pattern with an average annual growth rate of about 6.0 percent to continue. This estimate assumes continued restraint on government spending, in view of the fact that current public expenditure increased at a much faster rate in the past (7 percent a year between FY 1963/64 and FY 1967/68) while nominal GNP rose by 6 percent per annum. Thus our estimate of the revenue surplus is about \$320 million in 1972/73 even assuming the growth rate is on target and the economy is in good shape. Estimating depreciation to be around \$60 million, gross public saving in 1972/73 would be around \$60 million, gross public saving in 1972/73 would be around \$350 million or 6.7 percent of GNP, about the same as in 1967/68 (Table 29).

165. As mentioned above, New Zealand envisages public capital formation totalling \$2,200 million during the FY 1968/69-1972/73 period. According to our calculations, only around \$1,400 million will be raised by public saving, leaving a saving gap of \$800 million or roughly one-third of the investment figure. If all this is raised from domestic non-inflationary sources, it would be about 30 percent of private net savings (before depreciation).

166. The Investment - Savings Gap. During the last five years, New Zealand's national savings have ranged from 23 to 25 percent of GNP, being in the upper portion of the range when exports were good, and in the lower when export prices and/or volume fell off. Of the total, slightly less than one-half were net private savings, and less than one-third depreciation allowances.

167. Depreciation allowances as a percentage of GNP are unlikely to change over a comparatively short period. However, if there is a relatively higher level of investment in manufacturing plant and equipment, the economic lives of which are generally shorter than public utilities or buildings, depreciation allowances might be expected to rise from 7.3 percent of GNP in 1967/68 to, say, 7.6 percent in 1972/73 and to 7.9 percent in 1978/79.^{1/}

^{1/} The past relationship can be described by the following:

$$D = -0.4901 + 0.862 \text{ GNP}$$

$$\bar{R}^2 = 0.962$$

Both, depreciation, D, and GNP, are in constant 1967/68 prices. The regression was obtained on the basis of observations for the period 1950/51-1966/67.

168. The projection of net private savings is more difficult. In the post-War period, private savings in New Zealand fluctuated from year to year around the trend value of about 14.7 percent of private disposable income (in constant prices). The short-term fluctuations in the savings levels seem to have been caused by changes in the terms of trade for the pastoral sector.

169. The fact that the average savings rate (in relation to private disposable income) has been fairly stable does not necessarily lead to a conclusion that the marginal savings rate will continue to be about equal to the average rate if the sectoral composition of GNP changes and if per capita income increases. In a period of almost two decades, farming (mainly pastoral) income increased at a rate less than half of that of GNP.^{1/} This is partly because of the natural process of diversification of the economy, but also, and perhaps more importantly, due to the fact that the terms of trade for the pastoral sector (both in relation to domestic and import price levels) have been deteriorating. A comparison of the movements of export prices and the GNP deflator reveals that the relative price of pastoral exports was about 40 percent higher twelve years ago. If this downward trend were to be halted, in view of the observed sensitivity of savings to the terms of trade in the pastoral sector, it is possible that the marginal savings would exceed the average rate as assumed in the Targets Committee projections for the NDC.

170. In estimating national savings in Table 30, two different assumptions have been made. For estimate I, we assumed that the average saving rate of 14.7 percent of private disposable income will continue to be valid in the coming decade.^{2/} In estimate II, a very high marginal savings rate of 26 percent (out of private disposable income) was assumed, together with a further

^{1/} In current prices, farming income grew by 2.75 percent a year in 1951/52-1966/67, while GNP increased at 6.8 percent a year.

^{2/} This is based on the observations of 1950/51-1966/67.

assumption that a one-percent deterioration in the terms of trade for the pastoral sector (vis-a-vis the other domestic sector) will cause a reduction of private savings by about \$34 million.^{1/}

^{1/} These assumptions are based on the following observations for 1950/51-1966/67. All values are measured in 1967/68 constant prices.

$$SP = -667.32 + 0.2605 YPD = 344.96 PX$$

$$(\bar{R}^2 = 0.571)$$

While SP = private savings, YPD = private disposable income, PX = export price deflated by GNP deflator. \bar{R}^2 is low, owing partly to the fact of the upward deviation of SP in years of good export prices and downward deviation in years of lower export prices. These short-term fluctuations cancel out in the medium run. The lower \bar{R}^2 is also due to a possibility of non-linear relationships and also to the fact that, because the GNP deflator is affected by export prices, PX under-estimates short-term fluctuations of export prices. The reduction of \$34 million in private savings per one percent decline in the terms of trade for the pastoral sector represents an elasticity of 1.14 at the mean estimated value of pastoral exports. In estimating this variant of private savings, it was assumed that New Zealand's external terms of trade will not deteriorate in 1967/68 to 1972/73 due to the recent devaluation but that there will be a 5-percent deterioration in the subsequent 6 years.

Table 30

Savings Estimates

(In millions of NZ dollars)

	Actuals			Mission Projection	
	1962/63	1966/67	1967/68	1972/73	1978/79
Private Savings					
I)		429	438	510	659
II)	299			540	769
Depreciation	219	282	295	385	514
Public Savings	<u>155</u>	<u>230</u>	<u>228</u>	<u>300</u>	<u>441</u>
National Savings					
I)		940	963	1195	1614
II)	633			1234	1724
(GNP)	(2924)	(3911)	(4032)	(5031)	(6537)
(As Percent of GNP)					
Private Savings					
I)		11.0	10.9	10.1	10.1
II)	10.3			11.6	11.8
Depreciation	7.5	7.2	7.3	7.6	7.9
Public Savings	<u>3.9</u>	<u>5.9</u>	<u>5.7</u>	<u>5.9</u>	<u>6.7</u>
National Savings					
I)		24.0	23.8	23.7	25.0
II)	21.7			25.1	26.4

Note: All in constant prices of 1967/68.

171. The first estimate of private savings shows a slightly declining trend as percent of GNP because of the fact that private disposable income grows at a pace slower than GNP,^{1/} but using the second estimate, private

^{1/} The latter fact is due, in turn, to the fact that tax revenues, depreciation allowances increase faster than GNP, while social security receipts increase less fast than GNP.

savings are projected to reach 11.6 percent of GNP in 1972/73, compared with 10.3 percent in 1950/51-1966/67. It should be noted that either of these estimates is lower than the Targets Committee projection of 12.2 percent of GNP for 1972/73.

172. Summing up the three elements of national savings, Table 31 indicates that, even with rather optimistic estimates, about 23.2-24.0 percent of GNP is likely to be saved in 1972/73, compared with 25.8 percent estimated by the Targets Committee. The projections for 1978/79 are much closer to each other. These estimates of national savings compared with the investment targets of the Targets Committee are as follows:

Table 31

Savings, Investment and Resource Gap

(\$NZ million)

	Actual			Projected	
	1962/63	1966/67	1967/68	1972/73	1978/79
National Savings					
Estimate I)	633	940	963	(1168	(1614
Estimate II)				(1207	(1724
Investment	677	1101	1039	1343	1745
Resource Gap					
Estimate I)	-44	-161	-76	(-175	-131
Estimate II)				(-136	- 21

Note: All projections are in constant 1967/68 prices.

173. Thus the GNP growth rate of 4.5 percent a year and a high investment rate of about 27 percent of GNP in 1967/68-1972/73 seem to imply a resource gap ranging from \$136-\$175 million a year by 1972/73.

174. One implication of this analysis is clear. If 30 percent of net private savings has to be diverted to the public sector (paragraph 165) to carry out the public investment program without any net capital inflow for that sector, this will leave only about \$850 million (including \$60 million of net capital inflow) available for gross investment in the private sector. A growth of 4.5 percent per annum would, by 1972/73, imply an increment to GNP originating in the private sector of about \$180 million, or (ignoring lags), a gross capital/output ratio of 4.7. This compares with the capital/output ratio of 6 assumed in the Targets Committee projections and supported

by our analysis in Chapter 2. While it is possible, by a judicious distribution of investments to achieve this degree of improvement in the efficiency of investment,^{1/} it will involve a larger portion of investment in the relatively higher yielding sectors, such as manufacturing, and less in agriculture and primary processing industries, upon which New Zealand's exports will continue to chiefly depend.

Balance of Payments - External Resources Gap

175. The recovery of the economy is expected to continue in 1969/70 with a consonant increase in imports, while export prospects appear to be somewhat improved from 1968/69. It is probable that the small surplus on the current account in 1968/69 may turn to a deficit in 1969/70, albeit a manageable one.^{2/}

176. The Institute of Economic Research and the Monetary and Economic Council have projected that the value of imports is likely to increase by 6-7 percent in 1969/70, with a general rise in import prices by 1-2 percent. The 6-7 percent may be the minimum consistent with GNP growth of about 5½ percent in that year. Assuming a rise in GNP (in current prices) of that percentage, the import/GNP ratio would increase from about 16.6 percent in 1967/68 and 1968/69 to a more normal 20-21 percent in 1969/70. In view of the devaluation, which, of course, had more effect on import prices than on GNP, this would still be a lower import ratio than in any year in the 1960's.

177. The import license schedule covering July 1969-June 1970, provides for a 5-percent increase (in value) over 1968/69 in imports of industrial raw materials and other "basic items". It also provides a further exemption of certain goods from import control amounting to about \$10 million. Unlicensed imports would therefore increase by 7 to 9 percent, which is not unreasonable in the recovery phase of the cycle.

178. Exports are expected to increase at 5-6 percent in 1969/70 now that the devaluation impact seems to have worked itself out, and since not much export price fluctuation is anticipated. The wool clip and drawdown of the wool stockpile during the 1969/70 season will most likely increase, but the improvement in prices of cross-bred wool from the low point of 1967/68 (¢NZ 22.9 per lb.) seems to have already come to a halt at the level of \$NZ 0.296 as of January 1969. Given a rather firm price trend, the meat exports will forge ahead, although the ultimate outcome will depend on the U.S. quota still to be negotiated. The prospects for dairy produce are not good, with an accumulation of an enormous amount of butter stock (estimated to amount 300,000

^{1/} The gains in terms of investments required might be offset, in whole or in part, by the need for increased investment in the capital-intensive power sector.

^{2/} Dominion (May 23, 1969) reports in the year ending April 30, 1969, that exports were up 17.5 percent to \$977.2 million, and imports up 15.1 percent to \$756.9 million.

tons in butter fat equivalent in April 1969) in the EEC countries. The recently concluded quota agreement with the U.K. meant some slight drop in exports to that market, allowing for an increase in U.K. production. Thus, again in 1969/70, the main contributions to increased exports may come from meat exports as well as from increases in forestry products and other manufactures.

179. On the bases of these export and import trends, a current account deficit of \$ 50-60 million is likely to emerge. The repayment for maturing long-term issues is fortunately only about \$15 million in 1969/70 but short-term credits falling due amount to about \$36 million. Thus, New Zealand may require new or refinanced foreign borrowing of close to \$100 million on public account in 1969/70 in order to keep the level of external reserves intact.

180. Longer-Term Prospects. The following analysis is based on the assumption that, apart from some residual benefits to manufactured exports, the export effects of the devaluation have already worked themselves out, or were "defensive" in character, being an offset to the devaluation of Sterling and the pre-devaluation deterioration in New Zealand's export prices.

181. The export targets by sector established by the Targets Committee are summarized in Table 32 below, and the mission, while viewing them as optimistic, has no firm basis for general disagreement. The target implies that commodity exports will increase by about 8.5 percent a year between 1967/68-1972/73 in current prices or by 7.5 percent in 1967/68 prices. If the base year is changed to the more normal year, 1966/67, the annual increase to 1972/73 would be 6.7 percent in current prices. As pastoral exports (including processed products) still account for about 87 percent of exports and as the devaluation raised the pastoral export price level in New Zealand currency by only 6 percent or so for sales to the U.K., the growth rate projected for 1967/68-1972/73 would mean a considerable rise in export production over past trends.

182. Annex 4 discusses prospects for pastoral exports in some detail, since of additional exports in the coming five years, over 60 percent is expected to be in pastoral exports. For the rest, the largest contributions are to be made by exports of forestry products (10 percent) and by manufactured exports other than pastoral and forestry processed items (16 percent), although on an annual growth basis, the last-mentioned category is projected to increase by 28 percent a year to 1972/73 and by nearly 19 percent during the subsequent five years.

183. The pastoral exports are expected to increase by about 7 percent a year from 1967/68 to 1972/73 as compared with 6.4 percent as between 1962/63-1966/67. However, pastoral exports are very likely to encounter market difficulties of varying degrees of severity.

184. Dairy products may be in the worst position. Recent reports have indicated that some special measures may be adopted by the Government to encourage dairy exports but no decision as to method has been announced. If the U.K. joins the E.E.C. and adopts the restrictive Common Market agricultural

import policies, this would more than offset the advantages that New Zealand may obtain from the diversification of export outlets for dairy products in Asia, especially in Japan.

Table 32

Sectoral Export Targets

(In millions of NZ dollars)

(Fiscal Year)	Actuals			Projected	
	1962/63	1966/67	1967/68	1972/73	1978/79
Pastoral Products ^{1/}	530.0	683.0	644.5	889	1075
Other Agriculture ^{2/}	13.1	16.0	15.6	34	56
Forestry ^{3/}	15.8	24.7	34.8	73	96
Fisheries ^{4/}	3.2	6.1	8.8	13	25
Minerals	0.2	0.2	0.2	3	10
Other Manufacturing	4.9	18.4	25.5	88	208
Miscellaneous ^{5/}	9.0	12.6	16.5	25	25
Total:	<u>575.9</u>	<u>760.9</u>	<u>746.0</u>	<u>1125</u>	<u>1495</u>

^{1/} Includes by-products.

^{2/} , Mainly seeds and horticulture products.

^{3/} Includes manufactured goods such as newsprint.

^{4/} Includes processed fish.

^{5/} Mainly re-exports.

185. The most promising pastoral export is meat, but in the medium-term, the slow-growing demand in the U.K. market for lamb and the quantitative import controls over beef imports into the U.S. could still present marketing problems.

186. The keen competition with synthetic fibers has resulted in the stagnation of wool exports in the recent years. While there have been some firming up of wool prices and demand in recent months, the future of cross-bred wool remains uncertain. In 1967/68 New Zealand held about 21 percent of the world export market for wool. If the targets are realized, New Zealand's

share must increase to roughly 27 percent in 1975.^{1/} In the past ten years (1957-1967) world consumption of wool increased by less than one percent a year, while consumption of total apparel fibers increased at an annual rate of 3.5 percent. Non-cellulose man-made fibers made an enormous inroad as its consumption increased over 7 times.^{2/} This tendency is most likely to continue in the future, though recent exports are more encouraging for cross-bred wool consumption for imports in the U.S. However, for New Zealand to increase its share of the market under such circumstances will entail difficulties. In any event, it is unlikely that the price of New Zealand wool will recover to its former level.^{3/}

187. With these prospects, a question arises whether it is worthwhile to induce the farming sector to increase sheep and dairy production. Assuming that a major part of farm inputs are domestically produced, the terms of trade for the pastoral sector may be measured in terms of the movement of the export price index relative to the GNP deflator. This ratio moved downward continually in the post-War period. Since the beginning of the 1950's (excepting the Korean War boom), it declined by about 2 percent or so per annum. While in this period the productivity of the farming sector per unit of labor employed increased by about 4.5 percent, the total productivity (taking into account non-labor input) must have risen slightly over 2 percent.^{4/} This implies that the net profit position of the farmers improved little over a period of one and a half decades. Differentials, of course, exist as among various types of farmings, of which dairy-beef farming appears most remunerative at present.

^{1/} Based on an FAO projection of world demand.

^{2/} Source: Commonwealth Secretariat - Wool Intelligence and Fibers, Supplement.

^{3/} Expressed in U.S. cents, the average cross-bred auction price in New Zealand broke sharply from U.S. 47.2 cents per lb. in 1966 to U.S. 28.5 cents per lb. in 1968 (see Table 33). Although the price in 1968 was strongly affected by cyclical factors, a change of a permanent structural nature in the price relationship between coarse wool mainly used for carpet and synthetic fiber may have occurred.

^{4/} B.P. Philpott, "Estimates of Farm Income and Productivity in New Zealand, 1921-65", Agricultural Economic Research Unit, Lincoln College.

Table 33

Export Prices

(In U.S. dollars)

	1961	1962	1963	1964	1965	1966	1967	1968	1969*
Wool	46.7	45.6	56.2	59.3	47.6	47.2	34.1	28.5	29.4 (f)**
Butter	32.0	37.5	40.9	42.4	41.7	37.7	36.6	32.1	32.1 (m)**
Lamb	25.5	28.1	28.8	32.7	33.6	32.6	30.1	29.0	31.8 (j)**
Beef	32.6	33.2	31.1	28.7	29.6	35.7	35.7	36.0	36.9 (f)**

Beef - U.S.(N.Y.) Utility grade: Mid-month. Price per 100 lb.
 Lamb - N.Z. First quality, 28 lb. or under. London, end month. Price per 100 lb.
 Wool - Large sample of selected grade at auctions. N.Z. Price per 100 lb. (greasy).
 Butter - N.Z. best quality; London Provision Exchange. Monthly average of daily quotation. Price per 100 lb.

* Latest month.

** (j) = January
 (f) = February
 (m) = March

Source: IFS.

188. Exports of the manufacturing sector and of forestry products should continue to benefit from the effects of devaluation. Besides, the demand prospects of forestry products in the world market are good. Especially encouraging is the expansion of the Japanese timber and pulp markets and of forestry exports to Australia. The prospects of manufacturing products were considerably brightened in the period immediately after the devaluation. These export targets seem feasible. A big question mark is the prospects for mineral exports. Much exploration work has been started, and some promising results have recently been obtained in oil, and iron ore. Should extraction of oil become feasible on a large commercial scale, the export targets would be easily affected by a margin of 10 percent or more. Otherwise, the full realization of the export targets may prove difficult. Shortfalls by around 5 percent are as likely as not, and they would necessitate additional external finance of \$50-55 million in 1972/73, ceteris paribus, to achieve the investment levels contemplated by the Targets Committee.

Import Requirement

189. Imports of goods and services^{1/} in the past two decades or so averaged about 23 percent of GNP (1967/68 prices). Because of the progress made in import substitution, there seems to have been a gradual decline in the import ratio, so that a one-percent increase in GNP was associated with an increase in the import level of about 0.925 percent.^{2/} As between goods and services, the latter rose at a faster pace than GNP so that the relative reduction of commodity imports was greater than this ratio would imply. Short-term deviations, upward or downward, from the trend were mostly due to fluctuations in the level of capital formation. Thus the rather rapid rise of investment since the beginning of the 1960's has tended to slow down or reverse the declining ratio of imports to GNP.

190. The commodity composition of imports in the recent past has been already discussed (paragraph 98). The projection of composition of goods imports for the coming ten years presents several difficulties. The trade classification used by the New Zealand Government was changed in 1958 and the trade data prior to that year are not comparable with the later series. The classification of imports by end-use was started only in 1965. It was basically because of the discontinuity of the import data and its change in classification that the mission prepared two projections of import requirements to 1972/73 and 1978/79. The methodology used and results are in Annex 4. Estimate I appears to have a downward, and Estimate II an upward, bias for the reasons explained in the Annex. Estimate I implies that the import of goods and services will be around 20.7 percent of GNP (in constant 1967/68 prices) in 1972/73. Estimate II, perhaps a more realistic estimate, indicates that this ratio will be 23.3 percent in 1972/73, compared with the Targets Committee estimate of 22 percent.

191. The import projection used in estimating the external finance gap in Table 34 below was a compromise between our two estimates.

^{1/} This section does not cover imports of factor services. All figures referred to as "goods and services imports" are defined as exclusive of factor income payments.

^{2/} The elasticity was calculated at the mean value.

$$M(g+s) = 50.99 + 0.2133 \text{ GNP}$$

$$(\bar{R}^2 = 0.768)$$

while $M(g+s)$ = imports of goods and services deflated by the import price index. The regression was obtained for 1950/51-1966/67.

Trade Gap and External Finance Needed

192. The estimate of the trade gap in Table 34 accepts the NDC export targets. Our own forecast is 5 percent or so lower. On the import side, the estimate for 1972/73 reflects the rise in the rate of investment contained in the Targets Committee proposals.

193. A major part of factor income payments abroad consists of profits accruing to foreign direct investments. Such profits are expected to increase over time, because of a likely expansion of foreign investment (including re-invested profits). In addition, interest payments for public external debts will continue its rising trend. Such payments amounted to \$13 million in 1962/63, but they are likely to increase to over \$30 million by 1972/73 after taking into account likely public borrowings from 1969/70 onward. Some increase of transfer payments also have to be considered.

194. The gap which emerges from the projections is around \$175 million for 1972/73. It also is considerably larger than the internal resources gap of \$109 to \$148 million shown in Table 31 above. Thus the external gap is the most likely constraint on the expansion of the New Zealand economy, and the attainment of the 4.5 percent per annum rate of growth.

Table 34

Estimate of Trade Gap

(In millions of NZ dollars)

	Actuals			Mission Estimate	
	1962/63	1966/67	1967/68	1972/73	1978/79
<u>Exports</u>	<u>669</u>	<u>883</u>	<u>838</u>	<u>1,260</u>	<u>1,690</u>
Goods (f.o.b.)	606	788	754	1,125	1,495
Services	63	75	84	135	195
<u>Imports</u>	<u>-653</u>	<u>-955</u>	<u>-844</u>	<u>-1,320</u>	<u>-1,716</u>
Goods (f.o.b.)	-509	-723	-640	-1,026	-1,314
Services	-144	-232	-204	294	- 402
Balance	16	- 72	- 6	- 60	- 26
Net Factor Income					
Payment Abroad	- 46	- 64	- 51	- 90	- 150
Transfers	13	- 23	- 20	- 25	- 30
Current Balance	<u>- 43</u>	<u>-160</u>	<u>- 77</u>	<u>- 175</u>	<u>- 206</u>

Note: All projected values are expressed in 1967/68 prices, after adjustment of terms of trade changes anticipated. All historical values are in Current prices.

195. The financing of an external gap of .175 million would obviously present difficulties. Private capital inflows representing reinvested profits are likely to increase to about \$70 million by 1972/73. Given the current government policy regarding foreign direct investments which require permissions on several levels of the Government 1/ and which also encourage (for tax reasons - see Paragraph 116) more than 50 percent domestic participation in equity capital, new direct investment is likely to be limited. With an expected rise in manufacturing activities \$20 million a year may be realistic. This would still leave about \$85 million in 1972/73 to be financed on public account in addition to the amortization payments of about US\$70 million

1/ This function is now being consolidated in the Reserve Bank.

(appendix table 29) a year over the next five years due on existing medium and long-term debts, making a total gross public capital inflow of \$155 million annually.

196. The New Zealand Government is regarded as a "good" risk in the international capital markets, and actually it has been raising about \$70 - \$80 million gross on the average over the past four years in the private market. However, because of the recent unusual tightness of the markets (with the exception of the German market where foreign exchange risk is considerable due to a possibility of revaluation of Deutsche Mark), the New Zealand Government does not appear to have a reasonable prospect of borrowing more than about \$50 million gross a year. With a return to a more normal situation by the early 1970's and assuming New Zealand can roll over her short-term debt (\$20 to \$30 million a year coming due in the early 1970's), her external longer term capital requirements would still probably exceed availabilities from the private market by \$75 to \$85 million a year. Although our estimates of New Zealand's potential resources are, as all such calculations, prone to a considerable margin of error, the mission believes that a sizeable net capital inflow on public account will be needed to enable her to achieve her growth targets.

197. Debt Ratio. New Zealand's external public debts stood at around US\$693 million at the end of 1968, of which 72 percent is accounted for by public issues and 13 percent by IBRD loans. The debt service ratio was 4.9 percent of total current receipts in 1968. There is a hump in the public debt service stream in the next five years averaging about \$93 million a year (Appendix Table 29). The debt service ratio in 1972 may, therefore, increase to over 9 percent, but no further increase is anticipated thereafter. Creditworthiness does not seem to be a constraint on New Zealand's foreign borrowing.

Implications for Investment Strategy

198. The "two-gap analysis" above indicates that the major constraint on investment and economic growth in New Zealand will probably be her foreign exchange position rather than a short-fall in domestic savings as compared with investment. For 1972/73 we have projected a foreign exchange gap of about \$175 million. In respect of the "internal" gap, namely, the difference between domestic investment and savings, while our analysis indicates a range of \$109 million to \$148 million, or an average of about \$130 million, this might be reduced by about \$30 million a year through liquidity expansion. This would leave a residual internal gap of roughly \$100 million. Therefore, the major emphasis of policy measures might be directed towards reducing imports by import substitution or increasing exports or both, even at the expense of some increase in investment.

199. However, a combination of inelastic foreign demand for pastoral exports and the need for further liberalizing imports in order to permit market forces to operate in the economy limits the freedom of choice. It is our conclusion, as it seems to be that of the New Zealand Government, that the best

approach is to lend every effort to increase and diversify exports, particularly in the manufacturing sector. We think that it is through the still greater (than is now contemplated) expansion of manufactured exports that New Zealand's external resource gap may be reduced to manageable proportions. The figures in the next paragraph are illustrative of how this might be done.

200. In paragraph 36 we concluded that, to produce \$100 worth of additional manufactured products, the import component would be about \$24, resulting in net export balance of \$76. This, of course, was for the "other manufacturing" sector as a whole and would differ substantially among various industries. We also calculated (Table 4) that, in order to produce \$100 of additional product by the end of the five-year period 1959/60 - 1964/65 required gross capital formation of \$210 for this sector over the five-year period. In other words \$210 of investment would be required to produce net exports of \$76. If we take the lower figure of \$75 million of additional foreign exchange requirements mentioned in para. 196 (calculated after allowing for private foreign investment and private market public sector borrowings) we see that to achieve this increase in exports will require just over \$200 million of investment over 5 years or about \$40 million a year. This would appear to be the order of magnitude of the additional foreign capital New Zealand requires to close her foreign exchange gap and carry out her program. This may be presented in tabular form as follows:

	<u>1972/73</u>
<u>Requirements</u>	<u>Million \$</u>
Original external gap (Table 34)	175
Increase in exports (net of direct import content)	-75
Increase in imports (for investment)	40
New external gap	<u>140</u>
Debt repayment	<u>70</u>
Total	210
 <u>Financing</u>	
Private foreign investment	90
Private market borrowings	80
Other external financing	<u>40</u>
Total	<u>210</u>

201. The ex ante internal and external resources gap would be equated at about \$140 million after these adjustments. The original external gap would be reduced from \$175 million by the difference between \$75 million of additional exports and \$40 million of additional imports or \$35 million and the internal gap increased by the \$40 million of additional investment or from \$100 million (see para. 198) to \$140 million.

202. Of course, to achieve this export expansion of \$75 million over and above the sharp increase in the export of manufactured products already built into the program will require more by way of incentives and inducement to private foreign investment than have thus far been provided.

ANNEX I

MANUFACTURING INDUSTRIES

1. New Zealand's manufacturing industries have been described as operating at "high cost and small scale" and thus unable to compete in world markets. To test this hypothesis, comparisons were made between industries located in New Zealand and similar industries located in other countries. Differences in product mix tend to affect these comparisons, although every effort was made to select the industries with as nearly comparable product mixes as possible.

2. The efficiency, as defined here, is measured by the productivity of labor and capital and changes in such productivity over time. Comparisons of cost structure and of trends in labor and material components were other indices of efficiency considered.

Sector as a Whole

3. A large share of New Zealand's manufacturing is owned by individuals and families. About 70 percent of all establishments which produced in 1965/66 more than 57 percent of all manufactured products in the country were owned by privately registered companies. In that year, such companies employed 141,500 persons out of total manufacturing employment of 223,000. Publicly registered companies operated less than 10 percent of New Zealand's manufacturing establishments, but produced over 30 percent of total output.

4. Foreign-owned establishments represented only about 5 percent of all plants in New Zealand but in 1963/64 they employed nearly 20 percent of all people engaged in producing manufactured products. The number, employment offered, and value added of foreign-owned and total establishments are shown in Table 1. It illustrates the relatively larger size of foreign-owned establishments and that the productivity per worker in such establishments appears to have been increasing somewhat faster than for all establishments.

Table 1

Comparison of Foreign-Owned Manufacturing Establishments
With All New Zealand Establishments, 1955/56 and 1963/64
(In Current Prices)

	Total		Foreign-owned		Percent Foreign-owned of Total	
	1955/56	1963/64	1955/56	1963/64	1955/56	1963/64
Number of Establishments	8,515	9,365	268	489	3.1	5.2
Employment ('000)	158.1	199.3	22.9	39.6	14.5	19.8
Employees per Establishment	19.0	21.0	86.0	81.0	350.0	286.0
Value of Output	1,168.1	1,924.1	239.2	494.8	20.5	25.7
Value Added (\$ million)	402.3	763.4	74.0	199.2	18.4	26.1
Value Added Per Person Employed (dollars)	2,550	3,830	3,230	5,030	126.5	131.5

Source: Foreign Investments in New Zealand Manufacturing Industries,
R.S. Deane - Doctoral Dissertation, November 1967, Victoria
University, Wellington, Table 3-1, p. 47.

Labor Productivity

5. Because of economies of scale, value of output per person employed is considerably greater in the larger establishments (Table 2). In factories which in 1963/64 produced \$5 million or above, value of output per person employed was more than three times greater than in establishments with an annual output of \$40,000 to \$99,000.

Table 2

Comparison of Value of Output (in dollars at current prices)
Per Person Employed by Size of Establishment (1963/64)

<u>Range in Value of Output</u> <u>Per Establishment</u> <u>(\$ '000)</u>	<u>Value of Output</u> <u>Per Person</u> <u>(dollars)</u>
40 - 99	5,492
100 - 199	6,302
200 - 499	7,987
500 - 999	9,463
1000 - 1999	10,677
2000 - 4999	14,737
5000 and over	17,511

Source: Compiled from Foreign Investments in New Zealand
Manufacturing Industries, R.S. Deane - Doctoral
Dissertation, November 1967, Victoria University,
Wellington, Table A.10-12, p. 497.

6. Net output (in current prices) per person employed has increased in each industry in the period between 1951 and 1966 (Table 3). In the entire manufacturing sector, exclusive of petroleum and coal products, net output per worker rose from \$1,522 in 1951 to \$3,233 in 1966. The very large differences in the growth rates cannot be readily explained, but in addition to more efficient utilization of labor they are, no doubt, due to different price movements. With a few exceptions, the sharpest growth was experienced in the 1956-61 period, in which net value added per person employed rose by 31.1 percent as against 26 and 29 percent, respectively, for the preceding and following five-year periods. Between 1961 and 1966 the outstanding progress was made by beverage, tobacco, chemicals, pulp and paper, and furniture industries.

Table 3

Productivity Trends in Manufacturing Industries, 1951-1966

(Net Output - in current prices per person employed)

(In \$NZ)

	1951/ 1952	1956/ 1957	Percent Growth	1961/ 1962	Percent Growth	1966/ 1967	Percent Growth
Food	1837	2073	12.8	2843	37.1	3269	15.0
Beverages	1919	2941	53.3	4553	54.8	6987	53.5
Tobacco Manufactures	2006	2254	12.4	3024	34.2	5270	74.3
Textiles	1272	1486	16.8	2134	43.6	2569	20.4
Footwear, Other Wearing Apparel, etc.	977	1186	21.4	1506	27.0	1798	19.4
Wood and Cork Products (except furniture)	1710	1979	15.7	2496	26.1	3218	29.0
Furniture and Fixtures	1301	1704	31.0	2164	27.0	2914	34.7
Paper and Paper Products	2142	2353	10.0	3934	67.2	5311	35.0
Printing and Publish- ing, etc.	1619	2108	30.2	2637	25.1	3216	22.0
Leather and Leather Products	1410	1598	13.3	2325	45.5	2576	10.8
Rubber Products	1892	2522	33.3	3334	32.2	4088	22.6
Chemicals and Chemical Products	2068	2698	30.5	3475	28.8	4864	40.0
Non-metallic Mineral Products, n.e.i.	1630	2348	44.0	2760	17.5	3639	31.8
Basic Metal Manufactures	1843	2398	30.1	2985	24.5	3971	33.0
Metal Products (except machinery, etc.)	1739	2168	24.7	2780	28.2	3576	28.6
Machinery (except electrical)	1591	2042	28.3	2509	22.9	3370	34.3
Electrical Machinery and Appliances	1289	1808	40.3	2419	33.8	3004	24.1
Transport Equipment	1431	1918	34.0	2264	18.0	2864	26.5
Miscellaneous Products	1255	1646	31.2	2379	44.5	3596	51.2
All Industries	1522	1916	25.9	2511	31.1	3233	28.8

Source: N.Z. Department of Statistics - Special Tabulation March 1969.

Some International Comparisons

7. Between 1953 and 1965, the growth in labor productivity in New Zealand's manufacturing sector as a whole compared reasonably well with that in Sweden, Finland and The Netherlands (Table 4).

Table 4

Comparison of Labor Productivity Trends
in Manufacturing Industries

(Indices 1963=100)

<u>Years</u>	<u>New Zealand</u>	<u>Netherlands</u>	<u>Sweden</u>	<u>Finland</u>
1953	74	64	64	57
1958	86	78	76	72
1960	91	92	85	84
1961	93	93	90	89
1962	95	95	93	93
1963	100	100	100	100
1964	109	107	106	103
1965	111	114	113	106

Source: Statistical Yearbook 1967, United Nations - Tables 22 and 50.

8. More specifically, the growth trends in labor productivity in textiles, chemicals, and metal industries (Table 5) compared favorably with Sweden and The Netherlands. Also, a comparison of recent trends in value added per person employed between New Zealand and Finland indicates that New Zealand industries are in some cases more efficient than those in Finland. The paper industry, for instance, appears to be more efficient in New Zealand than in Finland, although there is a similarity in resources and in products between the two countries (Table 6).

9. However, similar comparisons in growth in labor productivity between foreign-owned and domestic establishments in a sample of industries indicate that value added per employee is generally higher in foreign-owned establishments in New Zealand and has increased more rapidly in recent years. For all the industries listed (Table 7), the value added per person employed in 1963/64 was \$5,000 in foreign-owned establishments and \$3,800 in all establishments. Moreover, between 1955/56 and 1963/64, this ratio increased by 56 percent in the former and less than 51 percent in the latter. In all industries, except machinery and electrical machinery, labor productivity increased more rapidly in foreign-owned establishments.

10. In comparison with the U.S.A., New Zealand's industries are a good deal less efficient in terms of labor productivity but this is understandable considering the scale of operation and differences in product mix.

Table 5

Comparison of Labor Productivity Trends
In Selected Manufacturing Industries, 1958 to 1966

(Indices 1963 = 100)

Year	Textiles			Chemicals, Coal and Petroleum Products			Metal Products	
	New Zealand	The Netherlands	Sweden	New Zealand	The Netherlands	Sweden	New Zealand	Sweden ^{1/}
1958	80	74 ^{2/}	72	73	74 ^{2/}	76	79	78
1960	84	87	83	80	88	86	82	79
1961	93	89	88	85	90	89	87	82
1962	97	91	91	90	97	93	85	93
1963	100	100	100	100	100	100	100	100
1964	116	107	103	105	114	108	111	99
1965	116	108	112	108	126	118	106	107
1966	125 ^{3/}	118	117	171 ^{3/}	142	126	122 ^{3/}	111

1/ Includes foundries and rough castings.

2/ Data for 1959.

3/ Estimated.

Sources: Statistical Yearbook 1967 - United Nations, Table 50, and
Yearbook of Labor Statistics 1968 - ILO, Table 6.

Table 6

Comparisons of Value Added (current prices)
Per Person Employed in Selected Industries
1962 to 1966

(\$U.S.)

Industry	1962		1963		1964		1965		1966		1962 to 1966	
	New Zealand	Finland	New Zealand (Percent Change)	Finland								
Food	3900	4000	4450	4500	4000	5000	4800	5300	4550	5600	16.5	40.0
Clothing and Footwear	2120	2500	2300	2600	2320	2700	2460	3000	2700	2700	28.0	27.5
Textiles	2870	2600	3000	2600	3140	3000	3500	3000	3570	3500	24.5	34.5
Metals (basic)	4420	4000	4980	4800	5410	4800	5150	4700	5500	4700	24.0	17.5
Metal Products	3750	3100	4200	3200	4600	3600	4820	3800	4970	4200	33.0	35.5
Paper and Paper Products	5750	4700	6250	5400	6670	5900	7000	5800	7360	5900	28.0	25.2
Printing and Publishing	3820	3800	4160	4400	4200	4800	4380	5700	4460	5500	17.0	44.5
Electrical Machinery	3500	3600	4170	3600	4480	4100	4000	4900	4160	4800	18.5	33.2
Machinery (except electrical)	3460	3600	3880	3800	4120	4100	4370	4300	4680	4400	35.0	22.5

Source: For New Zealand: N.Z. Department of Statistics - Special Tabulation, March 1969; \$NZ=\$U.S. 1.39.
 For Finland: Current Economic Position and Prospects of Finland, IBRD Report No. EMA-1, Table 6.

Table 7

Comparisons of Value Added (in current prices)
Per Employee in Foreign-Owned and In All New Zealand Establishments
In Selected Industries, 1955/56; 1963/64

(Dollars Value Added Per Employee)

Industry	Foreign-owned Establishments		All New Zealand Establishments		Percent Change	
	1955/56	1963/64	1955/56	1963/64	1955/56 to 1963/64	Foreign-owned Total
Meat Freezing	2834	4079	2925	4127	43.9	41.1
Other Food	2645	4827	2876	4691	82.5	63.1
Beverages and Tobacco	3078	5221	3976	6776	69.6	70.4
Textiles	3774	3581	2091	3003	94.9	43.6
Wearing Apparel	1582	2295	1368	1990	45.1	45.5
Paper	4700	9557	4433	7577	103.3	73.9
Chemicals and Rubber	3527	6294	3583	5716	78.5	59.5
Minerals	4496	7279	3710	5290	61.9	42.6
Metals	3072	4853	2749	4039	58.0	46.9
Machinery	3307	3769	2525	3513	44.0	39.1
Electrical Machinery	2620	4211	2287	3831	60.7	67.5
Vehicle Assembly and Parts	4887	6886	3956	4998	40.9	26.3
Other	2886	4561	2345	3332	58.0	42.1
Total:	3230	5030	2544	3831	56.0	50.6

Source: Compiled from Foreign Investments in New Zealand Manufacturing Industries, R.S. Deane
- Doctoral Dissertation, November 1967, Victoria University, Wellington, Table 3-5,
A10-1 and A10-3.

In some industries, labor productivity, however, is nearly comparable. In paper and allied products, chemical fertilizers and cement, in 1965 U.S. productivity was less than 20 percent higher than in New Zealand (Table 8). These are the industries with nearly comparable scales of operation. The most pronounced differences between the two countries are found in groups of industries producing non-durable consumer products and in metal fabricating and farm machinery manufacturing enterprises.

Table 8

Comparisons of Value Added Per Person
Employed in Selected Industries - 1965

(In U.S. dollars)

<u>Industry</u>	<u>United States</u>	<u>New Zealand</u>	<u>Percent U.S. Above N.Z.</u>
Ice-cream production	16,500	13,000	26.7
Butter, cheese and other milk products	13,350	9,600	39.0
Bread and related products	10,750	7,940	36.5
Biscuits	15,850	5,350	196.0
Brewing and malting	22,500	7,830	187.0
Tobacco manufactures	23,500	8,500	180.0
Knitting mills	7,200	4,450	61.5
Sawmills and planing	7,080	5,230	35.0
Furniture and fixtures	8,920	4,850	85.0
Paper and allied products	13,850	11,600	19.5
Printing and publishing	12,300	6,750	82.0
Chemical fertilizers (mixing only)	13,800	12,300	12.0
Cement	24,200	20,500	18.0
Fabricated metal products, n.e.c.	14,300	6,250	128.0
Farm machinery and equipment	13,600	5,800	135.0

Source: For U.S. - Annual Survey of Manufactures, 1966.
For N.Z. - Industrial Production, 1965/66.

11. In a randomly selected sample of six manufacturing industries producing comparable products, between 1961 and 1965 value added per person has increased in both countries (Table 9). But except in fruit and vegetable canning and biscuits industries the increase was considerably smaller in New Zealand.

Table 9

Growth (in percent) in Value Added per Person in
Selected Industries Between 1961 and 1965

<u>Industry</u>	<u>United States</u>	<u>New Zealand</u>
Fruit and vegetable canning	23.5	28.2
Bread bakeries	19.5	12.2
Biscuits	14.4	13.2
Men's and boys' outer-wear	27.3	11.0
Corsets and allied garments	28.5	11.0
Men's dress shirts and nightwear	16.5	6.5

Source: For U.S. - Industry Profiles 1958-1965, U.S. Department of Commerce.
For N.Z. - Industrial Production, 1965/66, New Zealand Department
of Statistics.

Comparisons of Capital/Output Coefficients

12. Lack of readily available data for other countries precludes the type of comparisons that were made of labor productivity. But in relation to the U.S.A., aggregate capital/total output coefficients of New Zealand industries, with few exceptions, are much lower (Table 10). When considering that U.S. coefficients are based on 100-percent capacity utilization, while those for New Zealand represent average annual output, such differences are even more pronounced. In both countries the ratio is aggregate book value of capital assets to total (not net) output.

13. In some industries, capital intensity and efficiency of capital utilization is fairly close in both countries. With large plants using modern technology and full utilization of capacity, pulp and paper industries exhibit similar capital productivity in monetary terms. Footwear and electronic industries on the other hand appear to be more capital-intensive in New Zealand, but this is not likely to be due to more advanced technology but probably to much lower capacity utilization rates.

Table 10

Comparisons of Aggregate Capital Total Output Coefficients
in Selected Industries

<u>Industry</u>	<u>United States</u> 1958 <u>1/</u>	<u>New Zealand</u> 1963	<u>Percent U.S.</u> <u>Above N.Z.</u>
Farm equipment	0.359	0.234	53.0
Chemical fertilizers	0.353	0.345	2.5
Radio and T.V. sets	0.138	0.165	-19.5
Soap and detergents	0.562	0.478	18.0
Paint and varnish	0.368	0.377	-2.5
Structural clay products	0.886	0.590	50.0
Pottery, china and earthenware	0.758	0.335	126.0
Cement	1.463	0.928	58.0
Glass and glassware	0.691	0.485	43.0
Concrete products	0.718	0.442	62.5
Footwear (except rubber)	0.179	0.444	-148.0
Sawmills and planing mills	0.664	0.340	96.0
Pulp, paper and paperboard mills	1.150	1.101	8.5
Printing and publishing	0.490	0.455	7.8

1/ In 1963 prices at 100-percent capacity utilization.

Sources: For New Zealand: Computed from Industrial Production, N.Z. Department of Statistics.
For United States: From Capacity Expansion Planning Factors, National Planning Association, April 1966, pp. 1-2-6 and 1-2-7.

Cost Structure of New Zealand Industries

14. In nine of the twenty manufacturing industry groups, labor cost as a percent of value of output has declined in the period from 1951/52 to 1966/67 (Table 11). Due largely to the starting up of a large oil refinery in 1964/65, the greatest drop (over 200 percent) was experienced in the petroleum and coal products group. Sharpest rise in such share occurred in the food and rubber products groups of 41 and 38 percent respectively. For the entire manufacturing sector, labor cost increased from 17.4 percent of value of production in 1951/52 to 19.8 percent sixteen years later. Such changes in labor component could be due to a variety of factors. Improved labor productivity was no doubt one of these factors, but more rapid price rises in relation to wage and salary increases could have contributed to these trends.

15. Material cost as a share of value of output has declined for the entire manufacturing sector by 14.4 percent or from 67.5 percent in 1951/52 to 59 percent in 1966/67. Only wood and transport equipment industries experienced an increase in material costs. Beverage, rubber products and

Table 11

Salaries and Wages as Percentage of Value of Production
in each Manufacturing Industry Group 1951/52 to 1966/67

<u>Industry Group</u>	<u>1951/52</u>	<u>1956/57</u>	<u>1961/62</u>	<u>1966/67</u>	<u>% Change 1951/52 to 1966/67</u>
Food	8.7	9.7	12.3	12.3	41.0
Beverages	18.5	17.5	15.2	14.1	-31.0
Tobacco manufactures	9.5	10.6	10.8	10.0	5.0
Textiles	17.4	16.5	18.4	19.0	9.0
Footwear, other wearing apparel, etc.	27.4	30.8	30.5	30.8	12.2
Wood and cork products (except furniture)	25.2	25.5	23.5	23.5	-7.5
Furniture and fixtures	32.9	32.1	31.1	29.7	-10.5
Paper and paper products	15.0	15.8	16.3	16.3	8.5
Printing, publishing, etc.	33.8	34.5	34.3	34.9	3.1
Leather and leather products	19.3	23.9	22.3	23.3	20.5
Rubber products	17.9	22.9	24.0	24.7	38.0
Chemicals and chemical products	11.9	13.8	14.0	12.5	5.0
Petroleum and coal products	10.7	11.2	9.4	3.5	-207.0
Non-metallic mineral products n.e.i.	28.3	25.7	26.3	26.2	-8.0
Basic metal manufactures	16.8	20.7	22.0	19.3	15.0
Metal products(except machinery etc.)	26.0	27.8	25.4	25.5	-2.0
Machinery (except electrical)	25.4	25.9	27.9	29.2	15.0
Electrical machinery and appliances	26.8	24.4	22.2	22.4	-19.5
Transport equipment	26.5	25.5	25.2	24.4	-8.5
Miscellaneous products	<u>30.2</u>	<u>29.2</u>	<u>26.7</u>	<u>25.3</u>	<u>-19.5</u>
All Industries	17.4	18.4	20.0	19.8	13.6

Source: New Zealand Department of Statistics - Special Tabulation March 1969.

Table 12

Cost of Materials as Percentage of Value of Production
in Manufacturing Industry Groups 1951/52 to 1966/67

<u>Industry Group</u>	<u>1951/52</u>	<u>1956/57</u>	<u>1961/62</u>	<u>1966/67</u>	<u>% Change 1951/52 to 1966/67</u>
Food	82.3	81.7	75.4	75.8	-8.5
Beverages	54.6	52.1	47.1	44.7	-22.0
Tobacco manufactures	70.2	72.4	71.6	65.7	-3.6
Textiles	68.6	71.6	64.4	64.1	-7.0
Footwear, other wearing apparel, etc.	60.4	56.5	54.2	52.5	-15.0
Wood and cork products (except furniture)	50.5	52.4	54.2	53.1	5.2
Furniture and fixtures	50.5	52.0	52.5	50.5	0.0
Paper and paper products	61.0	46.5	46.7	45.7	-33.0
Printing, publishing, etc.	36.1	36.2	34.4	33.5	-7.8
Leather and leather products	67.9	63.1	60.2	59.7	-13.2
Rubber products	59.3	52.4	45.9	42.3	-40.0
Chemicals and chemical products	69.8	64.9	61.2	60.6	-15.2
Petroleum and coal products	73.2	68.9	71.5	72.0	-1.3
Non-metallic mineral products n.e.i.	37.0	35.2	36.2	32.2	-14.7
Basic metal manufactures	64.9	60.7	57.5	58.3	-11.1
Metal products (except machinery etc.)	52.5	51.4	51.4	49.4	-6.2
Machinery (except electrical)	57.1	57.3	52.9	48.1	-18.5
Electrical machinery and appliances	57.2	57.6	57.8	55.9	-2.3
Transport equipment	56.4	58.6	58.0	57.8	2.3
Miscellaneous products	<u>49.2</u>	<u>49.3</u>	<u>46.7</u>	<u>41.9</u>	<u>-17.6</u>
All Industries	67.5	65.6	60.6	59.0	-14.4

Source: New Zealand Department of Statistics - Special Tabulation March 1969.

paper industries experienced sharpest decline (Table 12). Since in many industrial groups both labor and material costs have declined, this means that such "other costs" consisting principally of energy, repair and maintenance, insurance, interest, depreciation and profits have increased.

Comparisons with Other Countries

16. Changes in unit labor cost in New Zealand manufacturing industries in the period 1951 to 1964 have not differed markedly from those in other countries. Between 1957 and 1964, in fact, New Zealand costs have risen slightly less rapidly than in Canada and considerably less than those in The Netherlands, Sweden, and the United Kingdom (Table 13). This would seem to indicate that in this respect the competitive position of New Zealand industries in comparison with those in other countries has improved.

17. A comparison in material cost component between New Zealand and U.S. industries shows that in six out of fifteen manufacturing industries, these are lower in the United States (Table 14). Relative to value of output, material costs in New Zealand were higher in butter, cheese and milk products industry, biscuits, tobacco, fertilizers, fabricated metal products and farm machinery. In the ice-cream industry, printing and publishing and cement, they were appreciably lower. Labor costs were considerably lower in New Zealand than in the U.S.A. in butter, cheese and other milk products industries, ice-cream manufacture, brewing and malting, sawmills and planing mills, paper and cement. In nine industries, the combined cost of material and labor was lower in the U.S. than in New Zealand, which means that "other costs" were higher. Since the cost of energy is lower in New Zealand, such differences could be attributed to depreciation, interest and profit policies and to tax and insurance costs.

New Industrial Enterprises

18. In addition to the planned large-scale expansion of the food processing industry in the Canterbury area and other smaller enterprises in many other locations, two major new industrial projects are now under construction. Both are based on indigenous natural resources. The New Zealand Steel Ltd. has nearly completed its facilities to convert the iron-rich magnetite sand deposits located in the Waiuku area beaches near Auckland into iron and steel products, and the hydroelectric power plant in the Manapuri area on the South Island to provide electricity for a large aluminum smelter is also nearing completion. When operating at capacity, these two enterprises will make a significant contribution to saving and earning foreign exchange.

19. Aluminum. As of now, the aluminum smelter is entirely foreign owned but as its capacity expands, it is expected that local equity participation will be encouraged. The smelter is owned by New Zealand Aluminum Smelter Limited in which Comalco Industries Pty. Ltd. of Australia has a 50 percent interest and two Japanese companies (Sumitamo Chemical and Showa Denko) share the other 50 percent. It is being built near Invercargill on the southern tip of the country and will operate on alumina imported from Australia. Initially, the smelter will have a

Table 13

Comparisons of Trends in Unit Labor Cost in Manufacturing 1951-1964
Index 1957 = 100

<u>Country</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
National Currency Basis														
New Zealand <u>1/</u>	94	87	94	96	99	99	100	105	104	107	108	109	104	102
Canada	84	90	92	94	91	93	100	101	101	104	103	102	103	103
Netherlands	78	81	78	81	85	92	100	103	98	100	108	111	119	126
Sweden <u>2/</u>	69	83	85	89	92	97	100	102	101	102	106	110	112	110
United Kingdom	74	83	84	85	88	96	100	105	104	105	113	117	116	117

1/ Not strictly comparable with other countries; represents changes in wages and salary cost to value of output.

2/ Includes mining.

Sources: For New Zealand: New Zealand Department of Statistics - special tabulation March 1969.
For other countries: Unit Labor Cost in Manufacturing - Trends in nine countries 1950-65 U.S. Department of Labor Bureau of Labor Statistics Bulletin No. 1518 June 1966. For these countries unit labor cost is defined as a ratio of labor expenditure to production. Includes all payments to "labor, consisting of wages, salaries, and other direct payments and legally required and voluntary supplements paid to employees or into special employee funds." Production refers to total physical output of the manufacturing sector.

Table 14

Comparisons of Material and Labor Cost (salaries and wages)
as a Percent of Value of Output - Selected Industries - 1965

	<u>Material</u>		<u>Labor</u>		<u>Labor & Material</u>	
	<u>U.S.</u>	<u>N.Z.</u>	<u>U.S.</u>	<u>N.Z.</u>	<u>U.S.</u>	<u>N.Z.</u>
Ice cream production	60.4	45.2	14.3	10.8	74.3	66.0
Butter, cheese and other milk products	71.5	87.7	12.5	4.1	84.0	91.8
Bread and related products	47.0	39.3	28.8	25.1	75.8	64.4
Biscuits	45.6	50.5	17.8	21.3	63.4	71.8
Brewing and malting	45.8	43.0	19.5	12.8	65.3	55.8
Tobacco manufactures	62.1	66.6	7.5	9.9	69.6	76.5
Knitting mills	59.0	52.5	22.6	24.0	81.6	76.5
Sawmills and planing mills	55.7	52.8	26.5	20.8	82.2	73.6
Furniture and fixtures	47.8	45.8	28.3	26.1	76.1	71.9
Paper and allied products	55.2	45.6	21.1	15.8	76.3	61.4
Printing and publishing	35.5	28.3	33.8	34.0	69.3	62.3
Chemical fertilizers (mixing only)	66.4	70.2	10.7	9.3	77.1	79.5
Cement	32.5	15.7	19.5	14.4	52.0	30.1
Fabricated metal products n.e.c.	45.0	48.6	27.2	25.5	72.2	74.1
Farm machinery and equipment	53.0	65.2	23.2	17.2	76.2	82.4

Source: For U.S. - Annual Survey of Manufactures 1966
For N.Z. - Industrial Production 1965-66.

capacity of 105,000 tons of ingots per year and is expected to come on stream in 1972. Since nearly all the metal will be exported, at current prices of 27 cents per pound, this would produce annual gross foreign exchange earnings of about U.S.\$54 million (about \$10 million net in its early years). By 1975 the smelter capacity is planned to reach 200,000 tons with exports growing to double this figure. If, as seems likely, in the second phase of this development a part of the ingot is locally fabricated into a variety of intermediate products, foreign exchange earnings could be greater.

20. This new enterprise will use one of the few remaining low-cost hydro sites in the world and is expected to be competitive in international trade. With the projected growth of world aluminum demand and a rapidly shrinking number of low-cost hydro sites, it appears likely that export outlets will be available, since they have a contractual basis.

21. Steel. The steel plant being built at Glenbrook by the New Zealand Steel Ltd. is a public corporation in which the Government owns 35 percent of equity. Eighteen percent of the shares are held overseas. At present, the section of the plant that is completed is importing steel and producing corrugated galvanized sheets at an annual rate of 80,000 tons, which is reported to be sufficient to satisfy domestic requirements.

22. This enterprise is already saving New Zealand about U.S.\$2.8 million of foreign exchange per year, by converting imported raw steel into corrugated galvanized sheets at a domestic cost of about \$NZ 1.6 million. ^{1/} Ultimate capacity of the galvanized steel department is expected to reach 150,000 tons per year which is nearly the projected 1978 demand for this product in New Zealand and any surpluses will be exported to neighboring Pacific Islands.

^{1/} Based on a differential of \$60 per ton prevailing in the U.S. between the price of cold rolled imported steel and finished corrugated sheets.

	<u>\$NZ'000</u>
a. Foreign Exchange Savings between importing corrugated galvanized sheet steel and cold rolled strip at \$NZ 60/ton (80,000 tons at \$NZ 60 per ton)	4,800
b. Imported Zinc (10,000 tons at \$NZ 200/ton)	<u>2,000</u>
Net Foreign Exchange Savings	2,800
c. Domestic Cost:	
(1) Direct Labor, 85 workers at \$2,500/yr.	210
(2) Overhead at 130% direct labor	250
(3) Consumable Supplies at \$1.6/tcn	130
(4) Maintenance Supplies and Energy at \$2/ton	160
(5) Interest and Depreciation on \$NZ 7.2 mn. Investment at 12% (7% interest and 5% depreciation)	<u>840</u>
	1,590
<u>or</u> Domestic Cost per dollar of foreign exchange saved	<u>1,580</u> =\$NZ 0.56
	2,800

23. A large furnace which will convert the iron sands into sponge iron has already been constructed and will be put into operation as soon as the steel furnaces are completed. With the nearly completed continuous billet casting facilities capable of producing initially about 130,000 tons per year, this will be one of the most modern small steel mills in the world. At an assumed billet price of \$NZ 80/ton when completed, this plant will enable New Zealand to save some \$NZ 10.4 million of foreign exchange annually at a domestic cost of roughly \$NZ 4.6 million. ^{1/} Estimated foreign exchange investment in mining and in iron and steel furnaces, together with the billet casting equipment, comes to about \$NZ 10.0 million.

24. In the second stage of its development, New Zealand Steel Ltd. plans to add a welded pipe mill, which will use imported steel and fabricate it into pipe of 1/2 to 4" diameter. Government has recently approved this project and construction is expected to get under way shortly. After this expansion, the final step in the completion of a fully integrated steel mill will be the installation of a Planetary Rolling Mill which will make flat products. Based on consultants reports, recent market for such products has been growing at 5 to 7 percent per year.

25. Thus, as reported by the mill management, the basic products of New Zealand Steel Ltd. when completed will consist of:

- (a) Galvanized corrugated steel sheets, based on imported cold rolled carbon steel, with a current annual output of about 80,000 tons and ultimate capacity of 150,000 tons.
- (b) A billet casting capacity of 130,000 tons initially per year producing standard sizes of 3½ and 5" shapes.
- (c) Welded pipe of 1/2" to 4" diameter produced from imported steel with projected output of about 25,000 tons per year.
- (d) A projected annual output of about 500,000 tons of flat products up to 48" wide.

^{1/} On the basis of initial program of 130,000 tons of billets per year derived as follows: (Based on consultants' estimates)

	<u>\$NZ '000</u>
a. <u>Domestic Cost</u>	
(1) Interest (7 percent) and Depreciation (5 percent) on a total of 12 percent on about \$NZ 10.0 million Investment	1,200
(2) Mining and Concentration (210,000 tons of concentrates)	290
(3) Pelletizing and Reduction (150,000 tons of sponge iron)	833
(4) Steel-making and billet casting (Total annual output of 130,000 tons)	<u>2,273</u>
	4,596
b. Foreign Exchange Savings if 130,000 tons of billets are imported at \$NZ 80/ton	10,400
c. Domestic Cost per dollar in foreign exchange saved = 4,596/10,400	0.44

26. In the mission's view, this is a feasible production program, and if carried out, this small mill can become a successful and economically viable enterprise. When viewed in the light of recent technological developments in the steel industry which have significantly reduced the advantages of large steel mills, such a plant should be able to compete with imports. New technologies like continuous casting have permitted drastic reduction in plant investment per ton of capacity and at the same time increased the flexibility in changing to small runs without having to pay the penalty of high production cost.

27. There are dozens of comparable small mills producing billets, bars, wire, nails and similar products and successfully competing with the giant enterprises. In the United States alone, some 35 such mills are now in operation.

ANNEX 2

TRANSPORT SECTOR

1. In 1967 New Zealand's transport sector employed some 146,000 people who moved over 6 billion net ton-miles of freight. Of this total freight movement, road transport accounted for 46 percent, sea transport, 30 percent and railroads contributed about 23 percent; the remaining one percent was hauled by aircraft. This sector also provided about 12.7 billion passenger-miles of service, of which 94 percent was supplied by buses and private cars, some 2.8 percent by rail transport facilities and nearly 2.5 percent by scheduled air lines. Excluding sea transport, total estimated investment in this sector was \$2.65 billion.

Rail Transport

2. In comparison with other means, rail transport employed less than 16 percent of total labor force in the entire transportation sector and moved 23 percent of all net ton-miles carried.

3. The accompanying chart indicates performance trends of New Zealand Railways in the period 1946 to 1968. During this interval, farm products declined from 44 to 30 percent of total tonnage carried, while the share of manufactured products transported by rail increased from 23 to 35 percent. Petroleum tonnage hauled remained stable at about 4 percent of total but since the construction of a new refinery in 1965 it is trending upwards. As a share of total freight hauled, coal tonnage declined sharply while timber increased from about 9 percent of total in 1954 to 16 percent in 1968.

4. Manufacturing industries' contribution to total revenue earned by railroads, as well as to total net ton-miles carried, rose sharply. The revenue earned from manufactured products carried climbed from 33 to 54 percent of the total as between 1946 and 1968. The proportion of total revenues earned by railroads from services supplied to the manufacturing sector was greater than the relative growth of that sector.

5. Coal and timber industries appear to have been the principal beneficiaries. In these two industries the proportion of ton-mileage carried was greater than the revenue earned by railroads from this source. In 1968 coal mining and timber-cutting enterprises each contributed about 10 percent of total revenue received but obtained a higher proportion of services rendered, while these two industries continue to pay lower freight bills in comparison with the others. In recent years their apparent subsidies were not as high as they had been two

decades earlier. In 1946 the gap between services rendered and freight paid was considerably greater than in 1968. In the earlier period coal haulage represented 24 percent of total ton-miles carried by railroads while the revenue from these services amounted to nearly 15 percent. The corresponding figures for the timber industry were 10 and 8 percent respectively.

6. Cost Comparisons. Rail transport costs vary widely between individual commodities and geographic areas. Comparisons of such costs between North and South Islands as well as between New Zealand and the United States indicate that the costs per ton-mile are much higher in New Zealand than in the U.S. and that North Island shippers generally enjoy slight advantages over their South Island counterparts.

7. In comparison with the United States, the transport cost differential is greatest in agricultural products. The cost of shipping logs is, however, nearly comparable in the two countries. Shorter hauls, more frequent reloading, and the use of ferries to connect the two islands are, no doubt, important factors contributing to the large cost differential between the two countries. But considering much lower labor costs in New Zealand, there must be other reasons for this disparity.

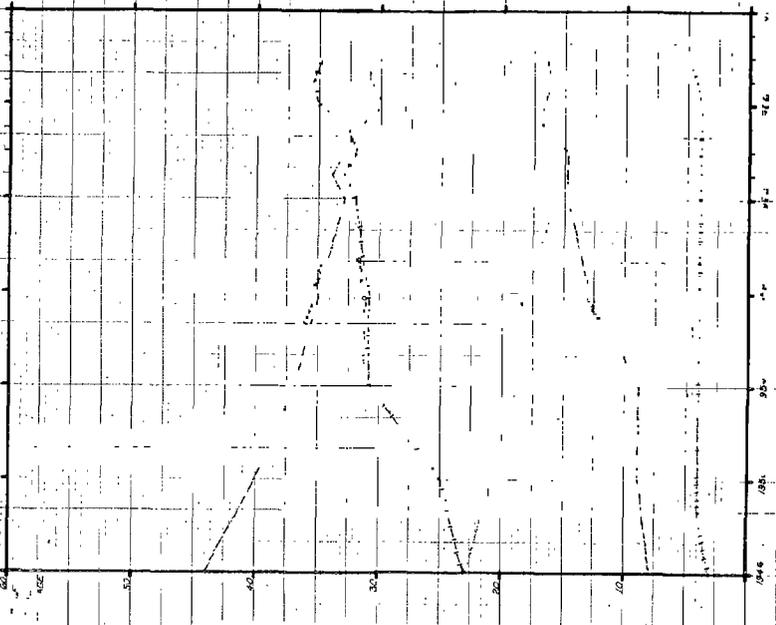
8. High transport costs will tend to hinder faster growth and improved efficiency of manufacturing industries and others also impede expansion of exports. From visits to different manufacturing enterprises and discussions with their managers, the mission was impressed with the need to alleviate the situation. Requests from such enterprises located in the Hutt Valley area seem to indicate that zoning and similar institutional constraints prevent large manufacturing establishments from building their own rail sidings. Several such enterprises have indicated that they must truck their products 4-5 miles to a railroad siding away from their plants, which adds substantially to transport costs.

Table 1
Rail Transport Cost Comparisons
(Selected Commodities)

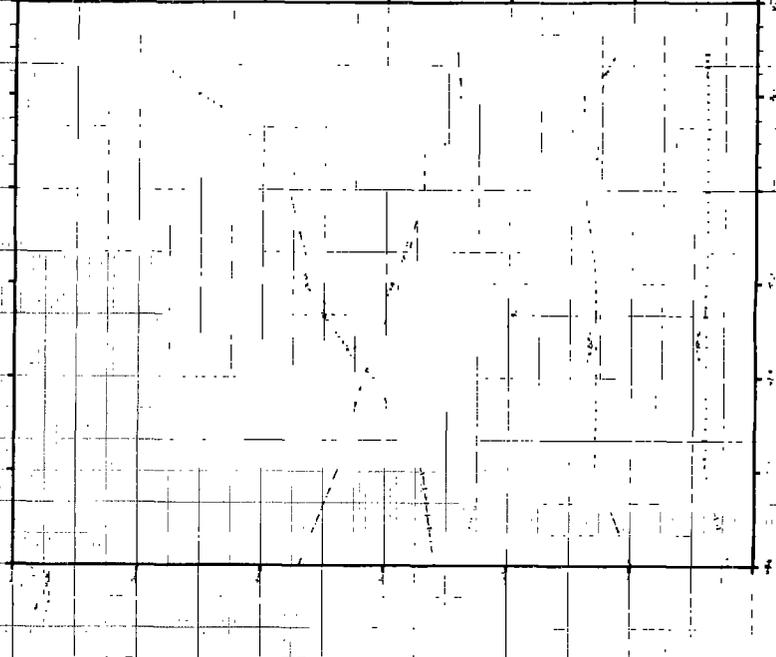
Commodity	Revenue per Ton-mile in Cents		
	North Island	South Island	New Zealand
Grains	3.01	4.60	3.66
Meat	9.61	11.11	10.13
Dairy Products	5.78	5.65	5.85
Agricultural Lime	3.09	2.96	3.04
Coal	2.72	2.89	2.76
Pulp and Paper	3.69	3.04	3.66
Logs	2.22	-	2.22
Petroleum	4.79	5.10	4.82
Cement	3.46	3.45	3.46
Fertilizer	3.64	4.04	4.01

Source: New Zealand: Special Tabulation furnished by Rail Transport Department. Data apply to year ending March 31, 1968.

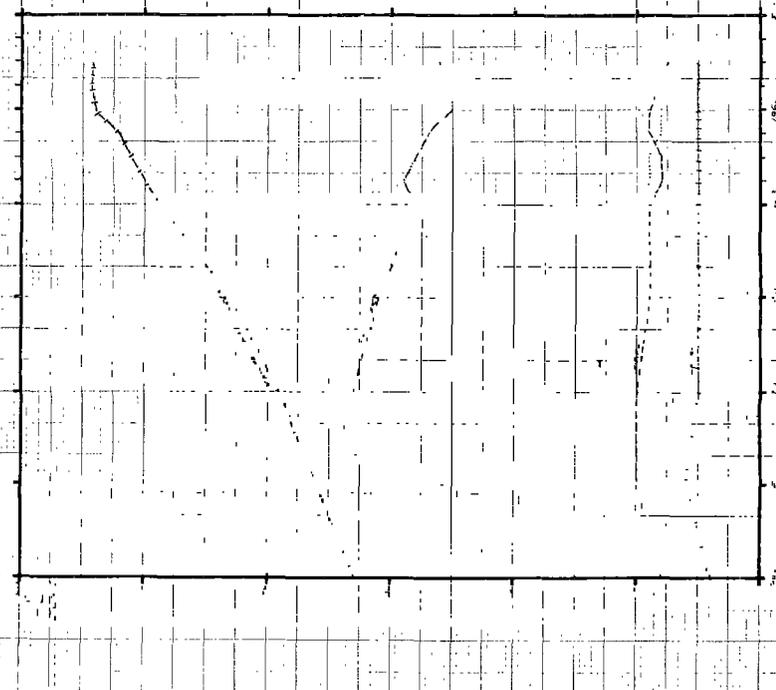
RAIL TRANSPORT TRENDS
1946 - 1968



TONS



NET TON MILES



REVENUE

FINANCIAL INSTITUTIONSTrading (Commercial) Banks

1. While New Zealand's five trading banks^{1/} still remain the principal source of short-term credit to the private sector, over the past decade the importance of their lending has declined in relation to that of other institutional and non-institutional lenders. Expressed as a percentage of national income, trading bank claims on the private sector decreased from 21 percent in 1955 to 13 percent in 1967, and is currently among the lowest such ratio for any country. Over the 1955-65 period, total credit provided by trading banks expanded by 33 percent while total credit extended by non-banking financial institutions increased by nearly 150 percent.^{2/} This decline in the relative importance of trading bank lending has tended to reduce government and Reserve Bank control over the money market.

2. Appendix Table 34 confirms the fact that the expansion of liquidity during the last four years has been mostly in the form of secondary liquidity such as demand and other deposits with savings institutions, with finance companies, and with stock and station agents. While money supply has had a declining tendency since 1966, secondary liquidity rose at an annual rate of 4.5 percent between 1964 and 1968.

3. Appendix Table 35 reveals the relatively stable sectoral pattern of trading bank advances since 1962. Trading bank lending to agriculture increased in volume less than the growth in farm output and incomes. In manufacturing, on the other hand, the considerable rise in lending to the meat industry reflects this sector's favorable export trends. Trading bank overdrafts supplied only about 4 percent of total funds available to public companies in the year ending June 1968. The proportion is probably higher for private companies but trading bank advances were still not a major source of funds for such enterprises, showing the importance of other means of financing such as retained profits, overseas borrowing, and trade credits.

1/ With business mostly in New Zealand:

Bank of New Zealand (nationalized)
National Bank of New Zealand (London)

With New Zealand operations only smaller part of business:

Australia and New Zealand Bank (London)
Bank of New South Wales (Sydney)
Commercial Bank of Australia (Melbourne)

2/ Monetary and Economic Council, "The New Zealand Financial System", Wellington, March 1966.

4. The Government, becoming increasingly aware of the lack of control of the non-bank sector, in 1966 introduced, and has since extended, a series of controls over the non-banking sector and at the same time amended some of the restrictions affecting the trading banks' competitiveness.

Savings Banks

5. Until 1964, savings deposits were virtually a monopoly of the Post Office Savings Bank. Now trading bank's savings affiliates (legalized in 1964) and trustee savings banks (permitted to operate nationally in 1968) are competing for depositors. Between 1964 and 1968, demand deposits of savings banks increased by 30 percent and their time and fixed term deposits by 130 percent. By the end of 1968, 56 percent of total savings deposits of \$1.6 billion was at the Post Office Savings Bank, 25 percent with trustee savings banks, and the rest with private savings banks.

6. In March 1968, the requirement that trustee and trading bank savings affiliates purchase government securities was reduced with the proviso that the funds so released were to be invested in mortgage finance for house construction and local governments with the main aim of boosting the country's building industry.

Finance Companies

7. Finance companies' loans to the private sector totalled \$112 million in September 1968, an expansion by one-third since 1965. In order to curb their lending, the control of capital issues was imposed in February 1967, after previous voluntary agreements with the Government proved inadequate. In the period since 1962, finance companies have expanded their deposits from \$23 million to \$64 million. Other main sources of funds for finance companies have come from shareholders' funds, advances from associate companies, debentures and notes. About 70 percent of total finance companies' advances are for hire purchase of cars and durable consumer goods, the rest being for plant, machinery, and other advances. Curbs on hire purchases have had a contracting effect on their operations.

Mortgage Finance

8. Mortgage finance has been the most important form of debt for the agricultural sector and for house financing. It has also been significant in manufacturing finance. The high proportion of home ownership in New Zealand and the restriction on trading bank overdrafts have contributed to this situation. Main institutions have been the trustee savings banks, insurance offices, and most important, the Government State Advances Corporation.

9. State Advances Corporation. After the Post Office Savings Bank, New Zealand's largest financial institution is the State Advances Corporation. It derives all its incremental loan funds directly from the government

budget through the National Development Account. The Corporation is legally bound to implement government policy in carrying out its business. Aside from the insurance companies, it has been the principal source of long-term finance for the rural sector and the major source for financing urban housing. It also extends loans to local authorities for housing projects and to rural credit intermediaries. Lately, the Corporation lent also to other projects which the Government considered worthy of promotion, including the tourist industry, the National Airways Corporation, fisheries, and to New Zealand Steel and Comalco Aluminum Smelters for employees' housing. Assets administered by the Corporation totalled \$1.14 billion in March 1968 involving over 200,000 clients. By comparison, the insurance companies' investments in long-term mortgages approximate \$400 million. The growth of the Corporation's business has been as follows:

Lending Operations of State Advances Corporation
(Authorizations)

(In millions of dollars)

	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>1966/67</u>	<u>1967/68</u>	Mar.-Dec. <u>1968</u>
Rural	17.8	29.2	41.8	40.0	44.3	23.7	20.3
Urban	56.0	53.0	60.2	57.6	55.0	51.0	51.2
Other	-	-	-	-	5.7	0.6	1.1
Total:	73.8	82.2	102.0	97.6	105.0	75.3	72.6

10. The drop in rural lending in FY1967/68 and the restraint in the other sectors reflect the reduction in budget appropriations to the Corporation as a result of fiscal austerity measures.

11. The Corporation applies a wide range of interest rates, usually 1-1½ percent lower than those of competing institutions, reflecting both security ratings and also social concessions. At present, its interest rates are as follows:

Rural Credits

Farm purchase, refinance and development	5½ percent
Second mortgage	6 percent
Rural intermediate credit	5-5½ percent

Urban Housing

Housing	5-5½ percent
---------	--------------

If the applicant's annual income does not exceed a stated limit (\$NZ2,280 plus children allowance), the rate may be reduced to 3 percent.

Fisheries	6 percent
Tourism	6½ percent
Other	6-7 percent

12. Development Finance Corporation (DFC). Established in 1964 with the aim of providing medium- and long-term finance to small and medium-scale industries, the DFC has so far failed to play a significant role in New Zealand's industrial development. Seventy percent of its equity is held by the trading banks and insurance companies who are represented on its Board, and 30 percent by the Reserve Bank of New Zealand. Out of the \$4 million authorized capital, only \$2 million have been issued, of which only \$0.5 million have been called. Other sources of funds have been a \$1 million government interest-free loan and \$1.5 million borrowed from the public.

13. The Corporation usually lends at the relatively high rate of 8 percent that is above the 7-7½ percent rate for first-class industrial mortgages. Only 25 percent of its lending has been to new enterprises. The Board of Directors are said to have discouraged borrowers if any other sources of capital are available.

14. The mission endorses recommendations that have been made to the National Development Conference aimed at expanding the Corporation's activities and making it no longer a lender of last resort as it seems to be at present. The Corporation should compete more actively with other institutions, and for that purpose seek more publicity. This will, of course, require a considerable increase of the presently very small staff, together with a complete reorganization of the institution.

Developments in the 1969 Budget

15. A number of significant changes in controls of financial institutions were included in the 1969/70 Budget message. The general purpose of these changes was to apply more uniform rules to the different types of institutions in respect of their investment in government securities and at the same time to generally free up the institutional interest rate structure. The controls of the capital issues of the finance companies referred to in paragraph 7 are to be abolished and be replaced with a requirement that these companies hold a ratio (initially 10 percent) of their borrowed funds in government securities. Since this ratio can be varied from time to time it can act as a brake on the expansionary effect of finance company lending. In respect of the trading banks, which have been drained of cash by the controls imposed on them, they are to be free to compete for deposits (subject to interest rate limitations on smaller deposits) and to invest in the newly created treasury bills and other government securities subject to their maintaining minimum cash balances and their arranging their lending to meet seasonal fluctuations in their liquidity requirements.

ANNEX 4

MISSION'S PASTORAL EXPORT PROJECTIONS

1. The mission's estimates are in Table 1.

Table 1

Mission's Export Projections

(In \$NZ million)

	<u>1967/68</u> ^{1/}	<u>1972/73</u> ^{2/}	<u>1978/79</u> ^{2/}
Wool	155	239	269
Meat	250	311	406
Butter	112	104	115
Cheese	46	41	46
Meat By-products	55	91	110
Milk and other dairy products	<u>61</u>	<u>61</u>	<u>74</u>
Total:	679	847	1,020
NDC Targets	(679)	(889)	(1,075)
Difference - Expected shortfall	-	(42)	(55)

^{1/} June year.

^{2/} Fiscal year.

Wool

2. The estimate of wool exports was based on an aggregate world model where demand was expressed as a function of real income in twenty-one countries. Adjustment was also made for expected changes in the prices of synthetic fibers. Our price forecast was 28 cents to 30 cents a pound for the next decade. This compares with about 23 cents per pound last year, and the average price for the current year is expected to be 27 cents to 30 cents a pound. This is considered to be favorable in view of the substantial reduction of stocks by New Zealand during this year.

3. The increase in volume is less than the past trend of 3.9 percent in 1957/58-1967/68, and should not present any serious problems. The profitability of sheep farms depends also on meat production, of which wool is becoming more of a by-product and also because the natural conditions in New Zealand are not suitable for fine wool except in limited semi-arid areas on

the South Island. Only 3 percent of New Zealand sheep are of the merino type that produce fine wool. In the process of gradually restructuring the pastoral sector towards more meat production, farmers are unlikely to radically change their stocks from cross-bred to merino type, as this would decrease meat production. The recent price break induced farmers to cut down expenditure on development work, repairs and maintenance in sharp contrast to the high investment in recent years. This may have some effect on future production and is another reason for a slight slowdown in anticipated production increases.

4. In the past, about 95-97 percent of production was exported. The full realization of the Government's export targets may not be achieved.

5. As for increased processing of wool in New Zealand, in order to increase export income, one way of achieving this would be by increasing the scouring of wool in New Zealand. However, this has to be done to specifications. Twenty percent of exports of wool now go out as scoured wool.

6. A group of New Zealand processors has gotten together to put up an economically viable unit to card wool. However, important diseconomies exist. These include (1) low access to the re-use of by-products because of the small size of the New Zealand industry, and (2) the blending required to produce high-grade yarn.

7. There seems little prospect of increasing exports of wool yarn and wool tops because these products are based on large-scale industry and New Zealand has a small-scale processing industry. Besides, foreign tariff barriers against wool yarns are high. Australia, however, is a potential market for yarn for blending. Nor is there much prospect for increasing the production of cloth in New Zealand because of the small size of the local market and the lack of incentive to export because of the highly protected New Zealand clothing industry. The export of processed wool products may increase to 5 million pounds by 1973 as compared with 2 million pounds at the present time. New Zealand is trying to develop industries to utilize New Zealand wool in Taiwan and Korea.

8. The main job of the Wool Commission is to implement the floor price scheme. The Wool Board has a dominant voice in the decisions of the Commission as well as in connection with the promotion of sales. New Zealand contributed \$8 million a year to the IWS, which is used for research and development in the marketing of wool. The Commission, in its procurement operations, tends to charge a bigger discount for poorer performance than the trade. Price stabilization would be desirable from the standpoint of suppliers, but buyers would probably resist. In the opinion of the Wool Commission, a 27¢ to 29¢ range as a price forecast would be reasonable.

Meat

9. The export of beef is expected to increase faster at an annual rate of 6.5 percent up to 1972/73 and at a decelerated rate of 4.1 percent thereafter. This represents a rate of increase roughly twice as fast as

in the recent past. The past growth of beef production was rather sluggish, due mainly to more emphasis on dairy and sheep farmings. Also, about one-half of beef production was consumed in the domestic market, and the future availability of beef for export partly depends on the consumption trend in New Zealand. Although a full realization of the estimate may be difficult due to needed time to build up the herd, the comparative advantage of dairy beef farms vis-a-vis the other type of farms (as evidenced by the gross margin study of the Meat and Wool Economic Service) and the bright price prospects, at a time of gloomy market prospects for wool and dairy produce, would be sufficient inducement for rapid production increases, especially if appropriate government incentives are given as provided in the 1969/70 budget. Some production increase can be realized at the expense of dairy farming.

10. The price prospects for meat are good as compared with the other pastoral exports. With the exception of lamb, whose main market is the U.K., meat export is in a position to benefit from the devaluation. In spite of the fact that there exist various trade barriers in the international meat trade, the fact that income elasticity of demand for meat is generally high gives meat industries brighter prospects for the future. Lamb export market in the U.K. may be constrained by a slow-growing demand in that country. For example, despite the devaluation of sterling, the lamb price in the London market expressed in U.S. dollars fell only from U.S. 30.1 cents per lb. to U.S. 29.0 cents per lb. Some decline from the price level in 1967/68 is likely to ensue, but no sharp break is anticipated. By comparison with lamb, mutton export is still small in terms of tonnage and export value. But the market prospects in Japan are regarded as good, and, with strengthened marketing efforts, the marketing of the targeted mutton export should be possible. Mutton prices are expected also to decline somewhat from the level of 1967/68.

11. Among various types of meat, beef has the brightest prospects. In recent years, it was a booming commodity with expanding markets in the U.S.A., Western Europe and Japan. As most of New Zealand's beef is exported to the U.S. market, the U.S. quantitative restriction on beef imports (quota allocation) determines the actual outcome. But both FAO and OECD project a substantial rise of imports by the U.S. in the coming decade or so, and the basic excess demand situation is likely to keep the export price as high as in 1967/68. The 1967/68 price was affected strongly by the reduced export volume from Argentina.

Dairy Products

12. Partly due to favorable weather conditions and in part due to the favorable price trend, butterfat production expanded at a fast rate of 5.2 percent a year in 1963/64-1965/66. Since 1965/66, butterfat production has been stagnant.

13. The demand factor, however, presents greater difficulties than the supply. The market and price prospects of dairy produce are the least bright of all pastoral products. In spite of the fact that the market outlets for

New Zealand's dairy produce are being diversified (the biggest expansion taking place in the Japanese market), exports are still heavily dependent on the U.K. market. In 1967/68, 92 percent of total butter export and 86 percent of total cheese export went to that market. The dollar earnings of dairy exports thus incurred a loss due to the sterling devaluation. The recent demand projection by the U.K. Milk Marketing Board indicates that the U.K. import demand for dairy produce may remain stagnant for several years to come, which suggests that very little additional export to the U.K. can be expected. This prospect does not take into account a possibility of the U.K. joining the E.E.C. Should this happen, the outlook might change radically. A recent EEC mission to New Zealand is reported to have made it clear that any special arrangement between New Zealand and the E.E.C. would be only temporary for a transitional period. The estimated butter stock in the E.E.C. as of April 1969 amounted to 300,000 metric tons, and the prospects are that the surplus will grow annually by 50,000 metric tons.

14. The mission feels that the attainment of export growth of butter and cheese by more than 4.5 percent a year in 1967/68-1972/73 will require intensive marketing efforts in the Asian markets, primarily in Japan, Korea and Taiwan.

Summary

15. A summation of how the factors discussed above might affect pastoral exports is given in Table 1. It is very likely that the actual exports would fall short of the NDC estimates by 5 percent or so, even under a set of fairly optimistic assumptions. However, the projections of exports have to be interpreted with caution, as slight export price changes can lead to radical changes in export performance of New Zealand's pastoral sector.

ANNEX 5

IMPORT ESTIMATES

1. The table below provides two import projections. The first estimate, the lower one, is a projection of the import of goods and services from 1950/51 to 1966/67, and tends to under-estimate the import requirement as it does not take into account the higher investment rate expected in the future. The second estimate is based on more disaggregated import data for 1958/59 to 1966/67, and may have some upward bias, since the level of import in the base period (1958/59) was abnormally low. These two estimates were then adjusted for the effect of the devaluation and associated price changes. The results of this exercise and the regression equations used in making the two estimates are in the explanatory note following the table.

Import Estimates

(In millions of NZ dollars)

	Actuals			Mission Projection		
	1962/63	1966/67	1967/68	1972/73	1978/79	
	(In constant 1967/68 prices)					
<u>Estimate I</u>						
Imports - Goods	533	746	640	851	1073	
Imports - Services ^{1/}	149	223	221	276	378	
Total	682	979	861	1127	1451	
<u>Estimate II</u>						
Consumer Goods	258	312	270	373	469	
Industrial Goods	120	164	156	222	306	
Capital Goods	167	300	191	425	610	
Adjustment ^{2/}	-12	-30	+23	-31	-42	
Sub-total	533	746	640	989	1343	
Imports - Services ^{1/}	149	223	221	276	378	
Total	682	979	861	1265	1721	
<u>Downward Adjustment for Devaluation</u>						
Estimate I				1042	1342	
Estimate II				1170	1591	
<u>Upward Adjustment for Price Changes^{3/} (In current prices)</u>						
Estimate I)	651	939	861	(1219	1570
Estimate II)				(1369	1861

^{1/} Excludes factor income payment.^{2/} Adjustment for conversion into f.o.b. from c.d.v.^{3/} Due to devaluation.

Explanatory Note:

Estimate I

Based on the following regression equations obtained from observations of 1950/51-1966/67:

$$M(g) = 111.27 + .1471 \text{ GNP}$$
$$(\bar{R}^2 = 0.702)$$

$$M(s) = -65.95 + .0679 \text{ GNP}$$
$$(\bar{R}^2 = 0.908)$$

when $M(g)$ = goods imports (f.o.b.) and $M(s)$ = service imports, both deflated by the import price index.

Estimate II

Imports of goods are classified into three categories as follows:

<u>Symbol</u>	<u>Category</u>	<u>SITC Group</u>
M(c)	Consumer goods	0, 1, 4, 6, 8 and 9.
M(m)	Industrial or intermediate	2, 3, 4 and 5.
M(i)	Capital goods	7

Projections are based on the following regression equations obtained for 1958/59-1966/67.

$$M(c) = 47.58 + .0889C (\bar{R}^2 = 0.627)$$
$$M(m) = -57.74 + .0556 \text{ GNP} (\bar{R}^2 = 0.977)$$
$$M(i) = -180.62 + .4955 \text{ IF} (\bar{R}^2 = 0.944)$$

when C = consumption expenditure, and IF = fixed capital formation. To convert c.d.v. into f.o.b. values, the relationship prevailing in recent years was used.

2. Adjustment for the Devaluation Effect. The above estimates are all expressed in terms of 1967/68 constant prices and reflect the relationships prevailing prior to the devaluation. Since the devaluation, the import price index has risen by 21 percent (as of January 1969) and no further significant increase due to the devaluation is anticipated. In the meantime, the domestic price level increased by 6-7 percent. The net relative price change between imported and domestically produced goods is thus far about 15 percent.

3. The impact of this relative price change on imports is difficult to quantify, and it also depends on the policy measures the Government takes (e.g., liberalization of import licensing requirements). The assumption used here is a rather optimistic one in that the price elasticity of imports is assumed to be -0.5, applied to the 15-percent greater increase in import than domestic prices. This optimistic assumption may cancel out the upward bias of Estimate II referred to in the text, but is in line with a study of New Zealand's import behavior as well as with the measured import elasticities of other developed countries.^{1/}

4. Adjustment for Price Changes. Only one-third of 1967/68 was affected by the devaluation. Assuming that the import price rise due to devaluation would amount to 21 percent overall and only a 4-percent rise was realized in 1967/68, the future import price level will be about 17 percent higher than 1967/68 prices. This rate of price change was used to convert the estimates in 1967/68 prices into current prices.

5. The import estimates made above do not take into account the possible effects on import levels of the removal of the quantitative restrictions that continue to apply to about 50 percent of New Zealand's imports. Or, to put it another way, they assume that the effect of such decontrol on import levels will be countered by tariffs. The mission, of course, is in no position to say whether this assumption is valid. The Government's tariff cum import licensing policy is now under review, and only the most general policies designed to replace direct controls with tariffs have been indicated. Up to now, tariff rates seem to have been arrived at on an ad hoc basis.

6. The rates of duty applied under the tariff may be grouped under three major categories: (a) raw materials, plant and machinery are either free of duty or subject to the lowest tariffs; (b) semi-manufactured articles that require additional processing are dutiable at the next level; and (c) highest rates are applied to completely manufactured products or components.

7. To provide a certain amount of flexibility, tariff regulations contain several concessions which are operated by means of administrative approvals. The principal concessions are granted to assist industries in their efforts to become more competitive. This normally applies to certain materials, machinery and plant which would otherwise be subject to higher rates, but can be admitted either free of duty or at concessionary rates at the discretion of the responsible minister.

8. The mission was told that a study is now to be undertaken to establish the principles that should guide the evolution of the tariff, so that appropriate effective rates of duty can be applied. It will probably take some time for this study and its consequences to reach fruition.

^{1/} See Stephen J. Turnovsky, "International Trading Relationships for a Small Country: The Case of New Zealand" (Canadian Journal of Economics, November 1968).

9. Meanwhile, in October 1968, the Government introduced an export incentive plan which, in addition to special tax concessions to exporters,^{1/} effectively freed them from import restrictions on materials, plant and equipment.

^{1/} An additional 50 percent deduction for income tax purposes over and above the 100-percent deduction ordinarily available is permitted on: Expenses for market research and advertising; expenses in providing samples or technical information to potential overseas buyers, preparing proposals, salary and travel expenses of executives travelling abroad with trade missions or for the purpose of soliciting business or for bringing potential buyers to New Zealand. Such incentives also cover costs of establishing and maintaining permanent overseas sales representatives as well as expenditures directly attributable to research into methods of packaging goods for export.

STATISTICAL APPENDIX

Table No.

General

External Debt	1
External Debt Service	2
Estimated GDP by Industrial Origin, 1959/60-1978/79	3
Expenditure on Gross National Product, 1959/60-1969/70	4
Gross Savings and Investment	5

Population and Labor Force

Population, Labor Force and Migration, 1959-1985	6
The Labor Market, 1959-1968	7
Distribution of the Labor Force, 1955-1968	8
Number Employed by Industry, 1959/60-1965/66	9
Sectoral Labor Force Requirements, 1959/60-1978/79	10

The Sectors

Index of Capacity Utilization in Manufacturing Industries	11
Production of Principal Agricultural Products	12
Output and Capacity of New Zealand's Electric Power Industry, 1963-1969 and Projections to 1978	13
Value of Production by Manufacturing Industries, 1960-1966	14
Projected Growth by Sectors, 1967/68-1978/79	15

Balance of Payments

Balance of Payments, 1959/60-1969/70	16
Overseas Exchange Transactions and Assets	17
New Zealand - International Transactions	18
Volume of Major Commodities Exports	19
Export Receipts by Countries of Destination	20
Foreign Exchange Reserves, 1958-1968	21
External Loans Raised Since 1950	22
Exports of New Zealand Manufactures	23
Value of Exports (f.o.b.) by Commodity Groups	24
Major Exports, 1962/63-1967/68	25
Economic End-Use Classification of Imports	26
Imports by Commodity Classes, 1960-1968	27
Export and Import Prices and Terms of Trade, 1957-1968	28
Total Foreign Borrowing by Public Sector	29

Table No.

Public Finance

Consolidated Revenue and Expenditure Accounts, 1958/59-1968/69	30
Central Government Revenues	31
Central Government Finances, 1957/58-1967/68	32
Central Government Social Security Benefits, Health Benefits, and War Pensions	33

Money and Prices

Money Supply and Selected Liquid Assets of the Public	34
Classification of Trading Bank Advances	35
Prices and Wages, 1953-1968	36

Development Program

Public Capital Expenditures (National Accounts Series)	37
Central Government Works Program Expenditure by Sector (Capital Formation and Maintenance)	38
Value of Building Work Done, 1966-1968	39
Macro-Economic Targets - Expenditure	40
Macro-Economic Targets - Savings and Investments	41
Labor Force Estimates	42
Public Sector Revenue, Expenditure, and Saving	43
Savings Targets	44
Analysis of Projected Expenditure Pattern	45

Table 1: NEW ZEALAND - EXTERNAL PUBLIC DEBT OUTSTANDING AS OF DECEMBER 31, 1968 ^{/1}

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Source	Debt Outstanding December 31, 1968	
	Disbursed only	Including undisbursed
TOTAL EXTERNAL PUBLIC DEBT	<u>630,433</u>	<u>693,277</u>
Privately-held debt	<u>525,028</u>	<u>525,028</u>
Publicly-issued bonds ^{/2}	<u>505,121</u>	<u>505,121</u>
Suppliers - United States	617	617
Financial institutions - United States	19,290	19,290
Loans from international organizations - IBRD	<u>81,403</u>	<u>94,699</u>
Loans from governments - United States	<u>24,002</u>	<u>73,550</u>

/1 Debt with an original or extended maturity of over one year.

/2 Net of accumulated sinking funds of \$520,000.

Statistical Services Division
Economics Department
June 16, 1969

Table 2: NEW ZEALAND - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Page 1

YEAR	DEBT OUTST (BEGIN OF PERIOD)		PAYMENTS DURING PERIOD		TOTAL
	INCLUDING UNDISBURSED	AMORTI- ZATION	INTEREST		
TOTAL EXTERNAL PUBLIC DEBT					
1969	693,277	19,369	37,681		57,050
1970	673,909	26,160	38,115		64,275
1971	647,749	62,405	37,513		99,918
1972	585,344	80,431	33,690		114,122
1973	504,912	56,924	28,875		85,799
1974	447,988	69,311	24,842		94,154
1975	378,676	32,706	21,851		54,556
1976	345,970	55,790	19,144		74,934
1977	290,181	42,489	16,245		58,733
1978	247,692	46,223	14,467		60,690
1979	201,468	14,290	12,146		26,436
1980	187,178	60,842	9,782		70,624
1981	126,336	6,014	7,637		13,652
1982	120,321	18,166	7,276		25,442
1983	102,155	5,004	6,321		11,325

Note: Includes service on all debt listed in Table 1 prepared June 16, 1969.

Table 2: NEW ZEALAND - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Page 2

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI- ZATION	INTEREST	TOTAL
PRIVATELY-HELD DEBT				
1969	525,028	12,944	30,584	43,528
1970	512,084	16,953	29,770	46,723
1971	495,131	50,563	28,776	79,339
1972	444,568	64,573	25,689	90,262
1973	379,994	38,341	21,818	60,160
1974	341,653	50,341	18,835	69,177
1975	291,312	14,239	16,904	31,142
1976	277,073	40,689	15,246	55,935
1977	236,384	30,739	13,140	43,878
1978	205,646	35,379	12,089	47,468
1979	170,266	5,270	10,401	15,671
1980	164,996	51,270	8,618	59,888
1981	113,726	3,270	6,970	10,241
1982	110,455	15,270	6,763	22,033
1983	95,185	1,941	5,970	7,911
PUBLICLY-ISSUED BONDS				
1969	505,121	8,581	29,543	38,124
1970	496,540	12,010	28,978	40,989
1971	484,530	45,120	28,264	73,385
1972	439,409	59,620	25,478	85,099
1973	379,789	38,239	21,808	60,047
1974	341,550	50,239	18,831	69,070
1975	291,312	14,239	16,904	31,142
1976	277,073	40,689	15,246	55,935
1977	236,384	30,739	13,140	43,878
1978	205,646	35,379	12,089	47,468
1979	170,266	5,270	10,401	15,671
1980	164,996	51,270	8,618	59,888
1981	113,726	3,270	6,970	10,241
1982	110,455	15,270	6,763	22,033
1983	95,185	1,941	5,970	7,911

Table 2: NEW ZEALAND - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Page 3

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI- ZATION	INTEREST	TOTAL
PRIVATELY-HELD DEBT				
SUPPLIERS				
UNITED STATES				
1969	617	103	33	135
1970	514	103	27	130
1971	411	103	21	124
1972	309	103	16	118
1973	206	103	10	113
1974	103	103	4	107
FINANCIAL INSTITUTIONS				
UNITED STATES				
1969	19,290	4,260	1,009	5,269
1970	15,030	4,840	765	5,605
1971	10,190	5,340	490	5,830
1972	4,850	4,850	195	5,045

Table 2: NEW ZEALAND - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1968 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Page 4

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI- ZATION	INTEREST	TOTAL
LOANS FROM INTERNATIONAL ORGANIZATIONS				
IBRD				
1969	94,699	2,499	5,487	7,986
1970	92,200	5,281	5,682	10,963
1971	86,919	5,616	5,340	10,956
1972	81,303	5,929	4,981	10,910
1973	75,374	6,308	4,597	10,905
1974	69,066	6,695	4,189	10,884
1975	62,371	7,118	3,758	10,876
1976	55,253	7,552	3,300	10,852
1977	47,701	8,001	2,813	10,814
1978	39,700	8,498	2,297	10,795
1979	31,202	9,020	1,745	10,765
1980	22,182	9,572	1,164	10,736
1981	12,610	2,744	667	3,411
1982	9,866	2,896	513	3,409
1983	6,970	3,063	351	3,414

LOANS FROM GOVERNMENTS

UNITED STATES

1969	73,550	3,926	1,611	5,536
1970	69,624	3,926	2,663	6,588
1971	65,699	6,226	3,398	9,623
1972	59,473	9,929	3,021	12,950
1973	49,544	12,275	2,460	14,735
1974	37,269	12,275	1,818	14,093
1975	24,994	11,349	1,189	12,538
1976	13,644	7,549	598	8,147
1977	6,095	3,749	292	4,041
1978	2,346	2,346	81	2,427

Table 3

Estimated GDP (1967/68 Market Prices) By Industrial Origin, 1959/60-1978/79

(\$NZ Million)

Sectors	Estimated by Mission						Projections				Annual Average Growth	
	1959/ 1960	%	1964/ 1965	%	1967/ 1968	%	1972/ 1973	%	1978/ 1979	%	1959/60- 1967/68	1967/68- 1978/79
1. Farming	510	15.7	592	14.6	622	14.0	783	14.1	920	12.8	2.5	3.6
2. Primary Produce Processing	78	2.4	85	2.1	93	2.1	118	2.1	142	2.0	2.2	4.0
3. Forestry	37	1.1	45	1.1	53	1.2	56	1.0	71	1.0	4.6	2.7
4. Forestry Processing	68	2.1	97	2.4	115	2.6	166	3.0	226	3.1	6.8	6.4
5. Hunting and Fishing	7	0.2	8	0.2	9	0.2	13	0.2	21	0.3	3.2	8.0
6. Mining	34	1.0	32	0.8	29	0.7	39	0.7	51	0.7	(-)2.0	5.3
7. Other Manufacturing	558	17.2	761	18.8	831	18.7	1200	21.6	1753	24.3	5.1	7.0
8. Building and Construction	262	8.1	336	8.3	327	7.4	464	8.4	595	8.3	2.8	5.6
9. Public Utilities	82	2.5	97	2.4	111	2.5	138	2.5	180	2.5	3.9	4.5
10. Transport and Communications	306	9.4	344	8.5	377	8.5	508	9.1	663	9.2	2.6	5.3
11. Wholesale and Retail Trade	527	16.2	631	15.6	715	16.1	820	14.8	1076	14.9	3.9	3.8
12. Banking and Insurance	88	2.7	105	2.6	124	2.8	150	2.7	191	2.7	4.4	4.0
13. Services	464	14.3	547	13.5	622	14.0	650	11.6	822	11.4	4.7	2.6
14. Ownership of Property	229	6.0	370	9.1	418	9.4	450	8.2	494	6.8	7.9	1.5
GDP	3250	100.0	4050	100.0	4446	100.0	5555	100.0	7205	100.0	4.0	4.5
Annual Average Growth												
			1959/60- 1964/65		1964/65- 1967/68		1967/68- 1972/73		1972/73- 1978/79			
			4.6		3.1		4.5		4.5			

Note: 1959/60 - GDP obtained by regrouping 110-sector New Zealand Department of Statistics input/output table for 1959/60 into 14 sectors, totalling primary inputs less imports, and inflating with sector price indices (Table 84 - Monthly Abstract of Statistics for commodity producing sectors and utilities; Table 83 for construction and transport; and consumer price indices for other services).

1964/65 - GDP obtained from Lincoln College 14-sector input/output table (primary inputs less imports) inflated to 1967/68 prices with price indices referred to above.

1967/68 - 1959/60 Technical coefficients for primary inputs less imports from 1964/65 input/output table multiplied by total output estimates for 1967/68.

1972/73 and 1978/79 - Lincoln College projections of total output for 1972/73 and 1978/79 at 1967/68 prices multiplied by 1964/65 technical coefficients (adjusted for assumed 5 percent import substitution) for primary inputs less imports.

Source: Data obtained from Lincoln College and Government authorities.

Table 4

Expenditure on Gross National Product 1959/60 - 1969/70

(In millions of NZ dollars)

Fiscal Year	1959/ 60	1960/ 61	1961/ 62	1962/ 63	1963/ 64	1964/ 65	1965/ 66	1966/ 67	1967/ 68	1968/ 69	1969/ 70 ^{1/}
<u>Consumption</u>											
Private	1,464	1,723	1,794	1,880	1,997	2,132	2,333	2,381	2,476	2,610	2,795
Public	324	346	363	394	417	460	516	566	591	640	685
<u>Gross Fixed Capital Formation</u>											
Private	297	366	393	387	423	500	566	592	540	555	595
Public	226	233	241	255	286	312	342	371	369	380	405
Change in Stocks	26	45	24	35	86	97	142	138	124	60	80
Net Factor Income											
Payments Abroad	-19	-37	-31	-46	-42	-59	-54	-66	-51	-61	(
Exports of Goods & Services	671	630	634	670	787	838	832	884	855	1,071	(-10
Imports of Goods & Services	-555	-683	-695	-654	-759	-793	-933	-955	-861	977	(
Gross National Product	<u>2,434</u>	<u>2,623</u>	<u>2,723</u>	<u>2,921</u>	<u>3,197</u>	<u>3,487</u>	<u>3,744</u>	<u>3,911</u>	<u>4,043</u>	<u>4,278</u>	<u>4,550</u>
Annual % Change	7.2	7.8	3.8	7.3	9.4	9.1	7.4	4.5	3.4	6.0	6.5
GNP at Constant 1954/55 Prices	<u>2,213</u>	<u>2,334</u>	<u>2,418</u>	<u>2,482</u>	<u>2,640</u>	<u>2,791</u>	<u>2,968</u>	<u>3,083</u>	<u>3,064</u>	n.a.	n.a.
Annual % Change	4.2	5.5	3.6	2.6	6.4	5.7	6.3	3.9	-0.6	2.0 ^{2/}	3.4

^{1/} Based on NZIER forecasts.^{2/} Tentative.Note: Data may not add up due to rounding.Source: Data at constant prices supplied by the Department of Statistics.

Table 5

Gross Savings and Investment

(In millions of NZ dollars)

	1958/ 1959	1959/ 1960	1960/ 1961	1961/ 1962	1962/ 1963	1963/ 1964	1964/ 1965	1965/ 1966	1966/ 1967	1967/ 1968
<u>Private Sector</u>										
Gross Private Savings	302	503	360	345	486	584	633	614	668	670
Of which Depreciation	<u>141</u>	<u>141</u>	<u>155</u>	<u>174</u>	<u>186</u>	<u>197</u>	<u>213</u>	<u>226</u>	<u>239</u>	<u>248</u>
Gross Private Investment	321	323	411	417	422	509	597	708	730	664
Building	<u>166</u>	<u>181</u>	<u>209</u>	<u>208</u>	<u>202</u>	<u>243</u>	<u>274</u>	<u>299</u>	<u>306</u>	<u>265</u>
Other	124	116	157	185	185	180	226	267	286	275
Change in Stocks	31	26	45	24	35	86	97	142	138	124
<u>Balance (Deficit -)</u>	-19	180	-51	-72	64	75	36	-94	-62	+6
<u>Public Sector</u>										
Gross Public Savings	<u>199</u>	<u>135</u>	<u>182</u>	<u>208</u>	<u>148</u>	<u>183</u>	<u>248</u>	<u>258</u>	<u>273</u>	<u>286</u>
Revenue Balances of Public Authorities	174	108	152	178	115	149	212	220	230	239
Depreciation ^{1/}	25	27	30	30	33	34	36	38	43	47
Gross Public Investment	<u>214</u>	<u>226</u>	<u>233</u>	<u>241</u>	<u>255</u>	<u>286</u>	<u>312</u>	<u>343</u>	<u>371</u>	<u>369</u>
Government	<u>137</u>	<u>142</u>	<u>149</u>	<u>147</u>	<u>153</u>	<u>180</u>	<u>196</u>	<u>218</u>	<u>242</u>	<u>244</u>
Local Authorities	77	84	84	94	102	106	116	125	129	125
<u>Balance (Deficit -)</u>	-15	-91	-51	-33	-107	-103	-64	-85	-98	-83
Gross National Savings	501	638	542	553	634	767	881	872	941	956
Gross Domestic Investment	<u>535</u>	<u>549</u>	<u>644</u>	<u>658</u>	<u>677</u>	<u>795</u>	<u>909</u>	<u>1051</u>	<u>1101</u>	<u>1013</u>
<u>Overall Balance (Deficit-)</u>	-34	89	-102	-105	-43	-28	-28	-179	-160	-77
	<u>Percentage of GNP</u>									
Gross National Savings	22.1	26.2	20.7	20.3	21.7	24.0	25.3	23.3	24.1	23.6
Gross Domestic Investment	<u>23.6</u>	<u>22.6</u>	<u>24.6</u>	<u>24.2</u>	<u>23.2</u>	<u>24.9</u>	<u>26.1</u>	<u>28.1</u>	<u>28.2</u>	<u>25.1</u>
<u>Overall Balance</u>	-1.5	-3.6	-3.9	-3.9	-1.5	-0.9	-0.8	-4.8	-4.1	-1.9

^{1/} Relates to Government and Local Authority Trading Undertakings.

Note: Figures may not add up due to rounding.

Source: New Zealand Department of Statistics.

Table 6

Population, Labor Force And Migration, 1959-1985

(In thousands)

Calendar Year	(1) Population	(2) Labor Force	(3) Immigrants	(4) Emigrants
1959	2,360	861.8	24.8	11.0
1960	2,404	875.6	20.3	13.4
1961	2,461	895.3	21.4	14.8
1962	2,515	911.4	32.8	12.7
1963	2,567	929.7	32.6	14.6
1964	2,617	956.5	34.2	14.9
1965	2,664	988.7	35.4	18.2
1966	2,712	1,021.8	35.3	18.6
1967	2,747	1,046.9	39.0	21.1
1968	2,757	1,043.4	30.7	28.5
	(1)	(2)	(1)	(2)
1969*	2,827	2,836	1,072	1,077
1970*	2,869	2,884	1,089	1,096
1975*	3,104	3,146	1,187	1,206
1980*	3,380	3,452	1,290	1,322
1985*	3,690	3,795	1,377	1,423

*Projections assuming net migration of: (1) Zero
(2) 5,000 inflow annually

Source: New Zealand Department of Statistics

Table 7

The Labor Market, 1959-1968

End of Calendar Year	Vacancies ^{1/2/}	Placements ^{2/}	Unemployed ^{2/}	Industrial Stoppages		
				Number of workers involved	Average days lost per worker involved	Working days lost
1959	5,300	1,414	1,188	18,762	1.58	29,651
1960	6,764	1,122	633	14,305	2.49	35,683
1961	9,196	931	376	16,626	2.30	38,185
1962	6,843	1,205	1,040	39,921	2.33	93,157
1963	5,731	1,173	849	14,911	3.65	54,490
1964	6,613	1,180	650	34,779	1.92	66,834
1965	7,936	1,101	513	15,267	1.43	21,814
1966	7,753	1,011	463	33,132	2.99	99,095
1967	4,127	1,783	3,852	28,490	4.90	139,490
1968	2,680	2,363	6,880	n.a.	n.a.	n.a.

^{1/} Only vacancies notified to Department of Labor in its capacity as a placement service.

^{2/} Average for calendar year, based on monthly data.

Source: New Zealand Department of Statistics.

Table 8

Distribution of the Labor Force, 1955-1968^{1/}

Industry	Thousand of Employees					Percentage Distribution				
	April 1955	April 1960	April 1966	April 1967	April 1968	April 1955	April 1960	April 1966	April 1967	April 1968
Agriculture (including other primary industries)	144.6	139.8	141.5	142.7	142.7	18.1	16.0	13.8	13.6	13.7
Manufacturing	198.9	222.8	278.4	288.2	275.9	24.9	25.4	27.1	27.4	26.4
Food, drink and tobacco	38.9	46.0	52.8	57.6	59.2	4.9	5.2	5.1	5.5	5.7
Textiles, clothing and leather	40.4	41.1	47.5	48.0	43.3	5.0	4.7	4.6	4.5	4.1
Building materials and furnishings	30.6	32.6	37.6	37.5	34.8	3.8	3.7	3.7	3.6	3.3
Engineering and metal working	61.3	68.4	95.0	98.0	92.7	7.7	7.8	9.3	9.3	8.9
Miscellaneous manufacturing	27.7	34.7	45.5	47.1	45.9	3.5	4.0	4.4	4.5	4.4
Building and Construction	73.5	81.1	91.0	91.1	84.4	9.2	9.2	8.9	8.6	8.1
Commerce	133.2	149.4	180.0	184.3	182.2	16.6	17.1	17.5	17.5	17.5
Administration and Professional	106.1	128.6	160.7	169.1	172.2	13.2	14.7	15.7	16.1	16.5
Other Industry and Services	133.5	142.8	162.6	165.3	165.5	16.7	16.3	15.8	15.7	15.8
Sub-total:	789.8	864.4	1014.2	1040.7	1022.9	96.7	96.7	98.8	98.9	98.0
Armed Forces	10.5	10.6	11.4	10.8	12.0	1.3	1.2	1.1	1.0	1.2
Unemployed	-	0.6	0.4	1.0	8.5	...	0.1	0.1	0.1	0.8
Total Labor Force:	800.3	875.6	1026.0	1052.5	1043.4	100.0	100.0	100.0	100.0	100.0

^{1/} Figures adjusted to 1966 census data.

Source: New Zealand Department of Statistics.

Table 9

Number Employed by Industry

<u>Industry</u>	<u>1959/60</u>	<u>1965/66</u>	<u>% Increase</u>
1. Food	31,184	36,250	16.2
2. Beverages	2,099	2,520	20.0
3. Tobacco manufactures	1,244	1,134	-8.8
4. Textiles	9,914	13,404	35.2
5. Footwear, other wearing apparel, and made-up textile goods	25,089	28,073	11.9
6. Wood and cork products (except furniture)	13,179	14,756	12.0
7. Furniture and fixtures	4,960	5,850	17.9
8. Paper and paper products	5,353	7,485	39.8
9. Printing, publishing, etc.	10,832	13,846	27.8
10. Leather and leather products (except footwear apparel)	1,567	1,924	22.8
11. Rubber products	2,872	3,578	24.6
12. Chemical and chemical products	5,596	6,516	16.4
13. Petroleum and coal products	421	704	67.2
14. Non-metallic mineral products	7,181	8,958	24.7
15. Basic metal manufacture	1,020	1,406	37.8
16. Metal products (except machinery and transport equipment)	8,858	14,275	61.1
17. Machinery (except electrical)	9,869	15,577	57.8
18. Electrical machinery and appliances	4,711	9,252	96.4
19. Transport equipment	22,199	30,289	36.4
20. Miscellaneous products	3,825	7,054	84.4
	<hr/>	<hr/>	<hr/>
Total:	171,973	222,851	29.6

Source: Department of Statistics.

Table 10

Sectoral Labor Force Requirements 1959/60-1978/79

(In thousands)

Fiscal Years

Sector	1959/60	1964/65	1972/73		1978/79	
			Assumption A ^{1/}	Assumption B ^{2/}	Assumption A	Assumption B
Agriculture	125.6	119.3	116.2	169.1	106.5	205.3
Forestry	5.4	6.4	9.2	9.2	11.8	11.8
Forest Processing	20.8	24.0	24.6	34.4	25.9	46.7
Hunting and Fishing	3.9	4.1	5.9	6.4	8.8	10.3
Mining	6.1	5.3	5.2	7.4	5.2	9.9
Primary Produce Processing	25.5	29.1	38.1	38.1	45.8	45.8
Other Manufacturing	169.6	204.7	202.2	289.8	216.3	406.0
Building and Construction	80.5	86.0	99.5	116.8	118.3	156.1
Public Utilities	12.7	14.1	11.9	68.3	11.3	23.9
Transport	90.6	98.1	98.1	141.7	97.3	185.0
Trade	124.6	144.8	149.1	187.4	159.8	238.4
Banking and Insurance	22.5	26.6	9.6	9.6	11.1	11.1
Services	181.1	210.5	264.2	264.2	326.2	326.2
Ownership of Property	-	-	7.7	7.7	9.7	9.7
<u>Total Requirement</u>	<u>868.9</u>	<u>973.0</u>	<u>1041.5</u>	<u>1350.1</u>	<u>1154.0</u>	<u>1686.2</u>
<u>Estimated Availability</u>			<u>1134</u>		<u>1273</u>	

^{1/} Assumption A: Labor requirements projected on the basis of productivity per man growing at 3.1 percent p.a. (achieved as between 1959/60-1964/65).

^{2/} Assumption B: Projected on the basis of no increase in productivity per man after 1964/65.

Source: Data obtained by the mission from Lincoln College.

Table 11

Index of Capacity Utilization in Manufacturing Industries

1949/50	906
1950/51	934
1951/52	1000
1952/53	923
1953/54	918
1954/55	919
1955/56	952
1956/57	925
1957/58	946
1958/59	974
1959/60	937
1960/61	914
1961/62	901
1962/63	920
1963/64	943
1964/65	959

Source: Lincoln College, Agricultural Economics Research Unit.

Table 12

Production of Principal Agricultural Products

Product	Unit	1958/59	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	Percent Annual Increase	
												1958/59-62	1964/65-67
Wool (Greasy Basis)	(mn. lbs.) ^{1/}	540	577	588	587	620	617	623	695	709	728	3.5	3.2
<u>Primary Crops</u>	(000 bushels) ^{1/}												
Wheat		6,039	8,700	9,309	7,835	9,156	10,068	9,197	10,721	12,778	16,253	11.0	12.1
Oats		1,576	1,825	2,349	1,886	1,029	1,548	2,494	2,399	1,553	2,467	(-)10.2	19.1
Barley		2,661	3,137	3,416	3,561	4,202	5,776	4,670	5,030	5,909	9,674	12.1	18.1
<u>Meat</u>	(000 Tons) ^{2/}												
Beef		731	753	758	821	828	852	823	830	891	986	3.2	3.6
Beef		211	213	212	253	266	259	247	265	271	315	5.9	3.5
Mutton		168	169	168	176	166	176	170	150	186	213	(-) 0.3	5.1
Lamb		255	272	281	289	290	304	299	312	327	345	3.2	3.5
Other ^{3/}		97	99	97	103	106	113	107	103	107	113	2.2	1.3
<u>Dairy Products</u> ^{4/}													
Liquid milk	(mn. gal.)	1,153	1,138	1,148	1,149	1,176	1,214	1,284	1,310	1,332	1,324	0.5	2.4
Creamery butter	(000 Tons)	219	208	210	208	214	229	242	251	252	243	(-) 0.6	2.6
Cheese	(")	85	93	99	101	98	95	106	106	108	109	3.6	2.2
Butterfat	(mn. lbs.)	487	476	485	482	493	518	553	573	580	564	0.3	2.7
Condensed and powdered milk	(000 Tons)	14	17	17	15	14	16	13	15	16	14	-	-
Skim milk powder	(")	41	49	43	42	51	63	80	86	138	145	5.6	23.0
Buttermilk powder	(")	17	16	17	17	18	20	22	25	23	23	1.4	5.0
Casein		27	25	31	35	38	42	42	53	47	46	8.9	3.9

^{1/} Production data during years ended June 30.

^{2/} Data relate to Season Years.

^{3/} Includes pork, veal and offal.

^{4/} Data relate to years ended June 30 for 1958/59 to 1960/61, and to years ended May 31st for the other years.

Source: Department of Statistics. Monthly Abstract of Statistics.

Table 13

Output and Capacity of New Zealand's Electric Power Industry
1963 to 1969 and Projections to 1978

Year	Total Output (K.W.H. millions)	Per Capita Consumption (K.W.H.)	Capacity (Peak Generation) (MW)
1963/64	8,963	3,480	1,874
1964/65	9,718	3,740	2,048
1965/66	10,577	3,950	2,261
1966/67	11,315	4,180	2,448
1967/68	11,600	4,220	2,410
1968/69	12,315	4,460	2,672
1969/70	13,265	4,700	2,913
1970/71	14,278	4,980	3,169
1971/72	15,330	n.a.	3,437
1972/73	16,577	n.a.	3,717
1973/74	18,031	n.a.	4,044
1974/75	19,371	n.a.	4,344
1975/76	20,790	6,720	622
1976/77	22,303	n.a.	5,002
1977/78	23,887	n.a.	5,358

Sources: Planning Committee on Electric Power Development -
Report D4B, 1968, p. 19. Population from
N.Z. Department of Statistics.

Table 14

Value of Production by Manufacturing Industries, 1960-1966

(In thousands of NZ dollars)

Industry Group	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66
Food	500,946	528,006	553,030	627,568	683,388	716,179
Beverages	25,304	27,622	30,770	33,152	34,918	39,535
Tobacco manufactures	17,332	17,704	17,858	19,198	18,408	20,108
Textiles	82,654	92,146	88,136	113,968	120,846	135,899
Footwear, other wearing apparel, and made-up textile goods	98,964	105,218	103,624	112,846	119,552	127,063
Wood and cork products (except furniture)	100,572	105,074	102,916	110,902	126,562	138,745
Furniture and fixtures	28,092	28,488	30,556	34,280	38,748	41,395
Paper and paper products	67,992	71,440	83,490	95,382	101,868	114,836
Printing, publishing, etc.	59,350	62,936	65,400	72,206	78,344	86,248
Leather and leather products (except footwear apparel)	12,038	12,270	12,334	13,206	14,310	15,465
Rubber products	25,894	27,204	28,122	29,274	31,852	34,772
Chemical and chemical products	73,602	74,482	78,132	88,900	99,868	112,202
Petroleum and coal products	7,956	9,034	10,498	11,642	50,430	62,629
Non-metallic mineral products n.e.i.	52,900	54,718	55,626	63,314	71,488	77,665
Basic metal manufacture	9,306	9,848	11,170	13,246	15,864	17,977
Metal products (except machinery and trans- port equipment)	67,306	73,696	80,680	91,284	113,868	130,726
Machinery (except electrical)	72,092	76,484	71,602	86,278	105,666	120,247
Electrical machinery and appliances	38,714	43,470	51,790	65,992	84,418	80,800
Transport equipment	148,742	167,216	175,996	204,732	231,822	249,917
Miscellaneous products	23,840	25,964	29,510	36,716	42,984	52,040
Total:	1,513,600	1,613,016	1,681,244	1,924,084	2,185,206	2,374,447

Source: "Statistics of Industrial Production, 1965-66", Department of Statistics, Wellington.

Table 15

Projected Growth by Sectors 1967/68 to 1978/79

(In 1967/68 Prices)

(In millions of NZ dollars)

Sector	Total Output (incl. Intermediate Sales)			Exports			Investments	
	1967/ 1968	1972/ 1973	1978/ 1979	1967/ 1968	1972/ 1973	1978/ 1979	1972/ 1973	1978/ 1979
Agriculture, Processing and Fishing	1868	2273	2756	610	810	988	200	223
Manufacturing	2146	2871	3996	68	132	257	120	171
Forest Products	354	461	621	32	50	73	30	38
Mining	50	65	86	-	-	-	10	12
Transportation	635	809	1057	102	137	148	151	209
Construction	790	1078	1441	-	-	1	106	178
Services (Including Distribution and Utilities)	2693	3246	4193	78	104	132	835	1129
	8536	10802	14150	890	1233	1599	1452	1960

Source: Report of Targets Committee for Target Committee meeting on March 17, 1969.

Table 16

Balance of Payments, 1959/60 to 1969/70

(In millions of NZ dollars)

	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	Forecast 1969/70
Goods											
Exports, f.o.b.	623.3	574.1	580.0	606.0	718.4	765.4	747.9	788.2	753.7	947.0	980.0
Imports, f.o.b.	-442.2	-547.2	-551.0	-508.6	-600.5	-615.3	-721.1	-722.7	-640.1	-729.0	-790.0
Trade Balance (Deficit -)	181.1	26.9	29.0	97.4	117.9	150.1	26.9	65.5	113.6	218.0	190.0
Services (net)											
Transportation	- 22.4	- 29.8	- 33.3	- 38.0	- 44.5	- 49.9	- 58.8	- 53.6	- 56.2	n.a.	n.a.
Travel	- 12.4	- 19.8	- 20.2	- 19.6	- 19.1	- 22.5	- 27.5	- 30.4	- 23.0	n.a.	n.a.
Investment income ^{1/}	- 19.1	- 37.2	- 31.4	- 45.7	- 42.2	- 58.8	- 53.7	- 66.5	- 50.7	n.a.	n.a.
Government transactions	- 11.9	- 11.5	- 11.2	- 9.6	- 10.3	- 10.9	- 17.8	- 24.2	- 14.0	n.a.	n.a.
Other	- 17.6	- 19.8	- 27.8	- 13.5	- 16.3	- 25.4	- 24.7	- 29.1	- 26.7	n.a.	n.a.
Sub-total Services	- 83.4	-118.1	-123.9	-126.4	-132.4	-167.5	-182.5	-203.8	-170.6	-185.0	-200.0
Transfers (net)	- 9.7	- 11.5	- 12.1	- 12.9	- 13.0	- 15.0	- 22.6	- 23.3	- 19.8	- 14.0	- 15.0
<u>Balance on Current Account</u>	<u>88.0</u>	<u>-102.7</u>	<u>-106.9</u>	<u>- 42.0</u>	<u>- 27.4</u>	<u>- 32.4</u>	<u>-178.2</u>	<u>-161.5</u>	<u>- 76.7</u>	<u>20.0</u>	<u>- 25.0</u>
Overseas direct investment in NZ	- 6.5	- 34.2	- 36.2	- 55.3	- 38.1	- 43.5	- 62.8	- 28.9	- 21.5	n.a.	n.a.
NZ direct investment overseas	3.5	2.1	1.5	4.0	3.7	0.3	2.6	2.3	1.9	n.a.	n.a.
Net long-term private capital	- 15.1	- 19.7	- 18.5	- 7.7	- 7.7	- 21.5	- 15.3	- 15.1	- 20.1	n.a.	n.a.
Net long-term government capital	30.0	22.2	- 24.2	- 20.3	- 17.2	- 2.0	- 29.8	- 57.1	- 69.9	n.a.	n.a.
Long-term official and banking	0.4	1.0	0.4	0.3	0.3	0.4	- 43.3	- 44.5	- 27.5	n.a.	n.a.
Net short-term government capital	5.2	- 9.7	5.4	- 11.8	24.7	3.0	1.6	- 5.3	6.2	n.a.	n.a.
Net overseas assets	45.4	- 88.1	- 17.7 ^{2/}	58.6	- 6.2	- 7.2	- 43.2 ^{2/}	0.2 ^{2/}	69.8 ^{2/}	n.a.	n.a.
Other short-term including errors and omissions	25.1	23.7	- 17.6	- 9.8	13.1	38.7	12.0	- 13.1	- 11.7	n.a.	n.a.

^{1/} Revised.^{2/} Includes monetary gold.

Source: New Zealand Department of Statistics. Forecasts for 1969/70 were provided by Treasury Department.

Table 17

Overseas Exchange Transactions and Assets

(In millions of NZ dollars)

Year and Month	Export Receipts	Import Payments <u>1/</u>	Trade Balance <u>2/</u>	Other Current Trans. (Net) <u>2/</u>	Current Account Balance <u>2/</u>	Capital Account Balance <u>2/</u>	Overall Balance <u>2/</u>	Net Overseas Assets <u>3/</u>
Calendar Year								
1963	712.7	609.3	+103.4	-123.8	- 20.4	+ 11.3	- 9.1	120.8
1964	786.1	653.0	+133.0	-131.1	+ 1.9	+ 4.0	+ 5.9	127.8
1965	764.0	716.2	+ 49.3	-145.2	- 96.0	+ 71.6	- 24.4	102.6
1966	820.3	736.9	+ 83.3	-169.9	- 86.6	+ 71.5	- 15.1	90.6
1967	729.8	655.5	+ 74.3	-181.5	-107.2	+147.6	+ 40.4	145.1 <u>4/</u>
1968	945.8	708.3	+237.5	-164.6	+ 72.9	-100.8	- 27.9	112.0
Month								
1968: Feb.	82.0	45.7	+ 36.2	- 8.1	+ 28.1	- 16.4	+ 11.7	166.4
March	91.0	46.4	+ 44.6	- 16.6	+ 28.0	+ 1.4	+ 29.4	200.3
April	78.1	55.7	+ 22.5	- 10.4	+ 12.0	+ 0.9	+ 12.9	216.2
May	96.2	58.2	+ 38.1	- 18.5	+ 19.5	- 33.3	- 13.8	205.8
June	77.4	60.8	+ 16.6	- 9.5	+ 7.1	- 0.6	+ 6.6	209.3
July	85.8	65.9	+ 19.9	- 15.7	+ 4.1	+ 4.2	+ 8.3	211.5
August	73.0	63.8	+ 9.2	- 16.0	- 6.8	+ 3.2	- 3.6	214.4
Sept.	72.8	63.9	+ 8.9	- 13.5	- 4.6	- 35.8	- 40.4	169.3
Oct.	82.2	66.8	+ 15.4	- 11.4	+ 4.0	- 1.5	+ 2.4	167.7
Nov.	63.5	61.2	+ 2.2	- 15.9	- 13.7	- 2.9	- 16.6	157.2
Dec.	73.0	68.1	+ 5.0	- 19.5	- 14.6	- 23.8	- 38.4	112.0
1969: Jan.	73.9	65.5	+ 8.5	- 10.6	- 2.2	+ 0.3	- 1.8	119.7
Feb.	77.5	53.6	+ 24.0	- 11.3	+ 12.7	+ 21.3	+ 34.0	154.2
March	100.3	61.4	+ 38.9	- 11.7	+ 27.2	+ 1.2	28.4	183.1
April	101.5	57.9	+ 43.6	- 14.0	+ 29.6	+ 0.6	30.2	213.7
May	97.8	74.0	+ 23.8	- 22.5	+ 1.3	+ 2.8	4.1	225.8
June	99.4	69.6	+ 29.8	- 17.1	+ 12.7	- 22.2	9.5	229.4

1/ Private and Government.2/ Excess of receipts, +; excess of payments, -.3/ As at last balance day in period. Includes foreign exchange and overseas investments held by the Reserve Bank and trading banks in respect of New Zealand business, less overseas liabilities. Changes do not necessarily reflect movements in Overall Balance, mainly because of exchange valuation and timing differences.4/ The New Zealand dollar was devalued by 19.45% on 21/11/1967. Transactions after that date have been converted at the new par value.

Source: Reserve Bank of New Zealand Bulletin.

Table 18

New Zealand - International Transactions

(In millions of NZ dollars)

	1962	1963	1964	1965	1966	1967	1968
Exports (f.o.b.)	534	654	773	724	774	725	902
Wool	193	227	266	205	233	140	181
Butter	87	98	116	113	103	117	111
Lamb and mutton	<u>85</u>	<u>96</u>	<u>122</u>	<u>127</u>	<u>121</u>	<u>125</u>	<u>161</u>
Total	365	421	504	445	457	382	453
Imports (c.i.f.)	544	649	691	750	788	696	799
	*	*	*	*	*	*	*
Export prices	868	950	1035	1000	990	903	978
Pastoral Exports	861	951	1039	1000	992	899	970
Export Volume ^{1/}	1084	1200	1220	1299	1298	1228	n.a.
Concentration of Exports (wool, butter, lamb and mutton)	68.4	64.4	65.2	61.5	59.0	52.7	50.2

^{1/} Year beginning July.

Source: Reserve Bank of New Zealand Bulletin.

Table 19

Volume of Major Commodities Exports

Year ended March		1963	1964	1965	1966	1967	1968
	<u>Unit</u>						
Beef and Veal	(tons 000)	112.9	117.7	126.4	106.7	99.6	112.6
Lamb	(tons 000)	245.8	277.3	293.3	272.8	287.9	290.1
Mutton	(tons 000)	75.6	69.5	86.7	84.0	69.8	99.7
Fish	(cwt 000)	72.1	77.8	100.8	92.4	93.5	122.0
Milk - condensed, evaporated and dried	(tons 000)	55.4	70.9	88.6	88.8	120.4	132.9
Butter	(tons 000)	166.3	185.1	184.9	189.2	194.7	211.4
Cheese	(tons 000)	91.2	84.6	93.8	95.5	95.7	107.3
Apples and Pears	(lbs. 000)	101.5	60.1	94.2	91.4	112.1	82.7
Vegetables - frozen and canned	(cwt 000)	30.2	117.8	108.3	110.8	110.0	103.4
Radiata Pine logs	(cu.ft. 000)	N.A.	N.A.	N.A.	16.8	19.3	36.2
Sawn timber	(sup.ft. 000)	29.1	28.1	37.3	31.4	30.1	45.9
Wood pulp	(tons 000)	66.2	64.0	65.7	58.2	75.1	73.6
Newsprint	(tons 000)	51.7	106.2	119.2	111.9	98.3	121.1
Wool	(lbs. million)	531.2	596.8	525.0	581.0	585.8	492.4

Source: Department of Statistics

Table 20

Export Receipts^{1/} By Countries of Destination

(In millions of NZ dollars)

Years ended December 31st:	Butter	Cheese ^{2/}	Meat	Wool	All Others ^{3/}	Total
US						
1958	81.8	32.8	105.7	62.3	32.0	314.5
1963	104.7	35.7	101.2	71.2	28.0	340.8
1968	103.5	47.2	143.0	45.8	34.5	374.0
Australia						
1958	-	0.1	0.1	2.1	19.3	21.6
1963	*	0.1	1.7	3.3	27.7	32.9
1968	*	1.3	0.8	2.8	63.0	67.9
Other Sterling Area						
1958	2.1	1.2	3.2	1.0	6.4	13.9
1963	2.9	1.3	6.4	2.5	11.5	24.5
1968	3.0	12.2	13.2	1.3	19.6	49.3
U.S.A.						
1958	0.7	0.7	50.5	22.3	14.5	88.7
1963	1.0	1.7	63.6	42.2	22.1	130.7
1968	0.4	18.8	95.9	31.0	45.8	192.0
Canada						
1958	-	*	4.6	1.6	2.4	8.6
1963	*	*	5.4	2.1	3.0	10.5
1968	*	0.6	3.9	2.3	4.3	11.0
E.E.C. Countries						
1958	0.7	0.5	3.6	58.1	13.1	75.9
1963	0.4	0.8	3.0	98.9	16.9	120.0
1968	0.5	5.6	12.0	72.6	19.1	109.8
All Other Countries						
1958	*	*	1.4	16.9	6.0	24.4
1963	0.3	0.6	8.4	29.6	14.6	53.3
1968	0.8	23.7	28.4	45.3	43.5	141.8
Total						
1958	85.3	35.3	169.1	164.3	93.7	547.6
1963	109.3	40.2	189.7	249.8	123.8	712.7
1968	108.2	109.4	297.2	201.1	229.8	945.8

* Less than \$NZ100,000.00.

^{1/}As this table is based on exchange transactions rather than on customs data, it may not be comparable to other trade data.^{2/}For 1968 this item includes other dairy products.^{3/}For 1968 this item includes other agricultural and forest products plus miscellaneous receipts.

Source: Reserve Bank Bulletin.

Table 21

Foreign Exchange Reserves, 1958-1968

(In millions of NZ dollars)

Balance in Last Day	Reserve Bank	Trading Banks	Gold Holdings of Reserve Bank	Gvt. Held Overseas Domiciled Securities	IMF Gold Tranche Position ^{1/}	Total
1958	94.8	15.4	24.0	64.7	-	199.0
1959	130.4	44.7	24.6	87.6	-	287.2
1960	101.4	30.5	24.8	87.2	-	244.0
1961	67.1	31.0	0.4	49.0	22.5	170.0
1962	97.5	25.6	0.5	74.3	22.5	220.5
1963	80.0	40.7	0.5	67.8	22.5	211.5
1964	96.1	31.7	0.5	84.2	22.5	235.0
1965	69.2	33.4	0.2	67.1	-	170.0
1966	67.8	22.8	0.2	73.2	-	163.9
1967 (1st Qtr)	72.8	43.5	0.3	69.6	-	186.3
(2nd Qtr)	87.3	24.4	0.6	70.1	-	182.4
(3rd Qtr)	82.3	24.0	0.5	71.6	-	178.4
(4th Qtr)	118.9	26.2	0.5	88.9	-	234.5
1968 (1st Qtr)	142.9	57.4	0.2	91.4	-	291.8
(2nd Qtr)	149.4	60.0	1.2	91.0	-	301.5
(3rd Qtr)	123.6	45.7	0.9	93.7	-	263.8
(4th Qtr)	66.5	45.5	0.5	92.5	-	205.0
1969 (2nd Qtr)						285.8

^{1/} The gold portion of New Zealand's subscription to the IMF was increased by NZ\$5.8 million to \$NZ28.2 million in March 1966, but the additional amount was drawn simultaneously.

Source: New Zealand Treasury Department.

Table 22

External Loans Raised Since 1950

Year of Issue	Amount	Interest	Maturity	Issue Price
U.K.	£ Sterling			
1953	10,000,000	4	11 December 1976/78	98.5
1954	10,000,000	3-1/2	16 September 1981/84	98
1955	10,000,000	4-1/4	1 July 1970/73	97.5
1956	5,000,000	5-1/4	14 November 1978/82	96.5
1958	20,000,000	5	28 February 1976/80	99
1961	20,000,000	6	15 November 1972	98.5
1962	10,000,000	6	15 March 1975/76	97
1964	15,000,000	5-1/2	28 February 1974	96.5
1965	10,000,000	6-3/4	6 December 1971	98.5
1966	12,000,000	7-1/2	1 June 1986	98
1967	5,000,000	7-1/4	1 January 1992	98
U.S.A. Dollars				
1956	13,054,549	4-3/4	Various to 15 May 1966	100
1958	10,000,000	5-1/2	1 December 1970	99
1961	20,000,000	5-3/4	15 October 1976	97.5
1962	25,000,000	5-1/4	1 May 1977	97.5
1965	20,000,000	5-3/4	1 July 1985	97.5
1966	15,000,000	6-1/2	15 March 1986	96
1966	10,000,000	7	15 September 1976	98
1967	20,000,000	6-3/4	15 July 1979	97.75
1967	14,000,000	5-1/2	30 November 1972	100
IBRD Dollars				
1963	7,114,000	5-1/2	15 February 1989	100
1965	32,500,000	5-1/2	15 March 1984	100
	20,500,000	6-1/4	15 March 1980	100
	42,000,000	6-1/4	15 October 1980	100
Euro-Bond Stg/DM and DM				
1967	£Stg 7,200,000	6-3/4	14 March 1982	97.7
1968	" 6,000,000	7-1/2	5 February 1978	98.5
1968	DM 80,000,000	7	1 January 1978	99.75
1969	" 100,000,000	6-3/4	31 January 1984	99.0

Source: New Zealand Treasury Department.

Table 23

Exports of New Zealand Manufactures

(Calendar years 1966, 1967 and 1968)

(In millions of NZ dollars)

	1966	1967	1968
Wood Products	2.16	2.82	7.99
Pulp and Paper	18.48	19.17	26.82
Petroleum and Petroleum Products	5.43	4.19	5.32
Foods	0.90	1.35	2.87
Beverages	0.39	0.37	0.47
Tobacco and Cigarettes	0.32	0.30	0.42
Footwear	0.09	0.08	0.23
Clothing	0.13	0.23	0.94
Textiles	1.20	2.26	7.00
Leathers and Travel Goods	0.38	0.57	0.95
Rubber Products	0.36	0.60	1.30
Chemicals	1.72	2.75	4.35
Ceramics and Ceramic Products	0.34	0.47	1.88
Basic Metals	1.82	2.28	3.97
Metal Products	0.62	0.83	1.67
Electrical Machinery	0.89	1.83	3.52
Other Machinery	1.62	2.73	4.62
Transport Equipment	0.21	0.50	1.22
Other Manufactured Products	<u>1.22</u>	<u>1.90</u>	<u>4.15</u>
Total	38.29	45.35	79.67

Source: New Zealand Manufacturers' Federation.

Table 24

Value of Exports (f.o.b.) by Commodity Groups

(In millions of NZ dollars)

Year ended March	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
Dairy	132.1	124.6	191.8	130.0	142.5	144.7	166.1	192.1	196.7	200.3	218.7
Meat	143.1	145.8	147.9	151.0	148.3	153.2	173.7	212.7	194.1	200.1	227.0
Wool	198.1	153.4	199.1	193.8	202.2	190.7	261.8	233.2	217.7	212.8	137.5
By-products	34.9	35.4	44.3	40.2	42.9	39.1	51.3	52.8	57.7	64.6	54.9
Other Pastoral	1.4	1.4	1.6	1.4	1.5	2.4	3.2	3.7	4.7	5.1	6.5
<u>Total Pastoral</u>	<u>509.6</u>	<u>460.5</u>	<u>584.7</u>	<u>516.4</u>	<u>537.4</u>	<u>530.0</u>	<u>656.1</u>	<u>694.5</u>	<u>670.9</u>	<u>683.0</u>	<u>644.5</u>
Fresh Fruit and Vegetables	4.4	5.5	5.9	5.8	6.2	7.2	4.8	8.0	8.0	9.4	8.3
Processed Fruit and Vegetables	1.5	1.4	0.8	0.8	0.7	0.5	1.7	1.5	2.0	1.9	1.9
Other Horticultural incl. Seeds	4.7	4.7	3.8	5.6	4.6	5.4	5.9	3.8	5.1	4.7	5.4
Sawn Logs	-	0.4	1.2	1.1	2.8	2.1	2.7	3.5	4.1	5.1	9.5
Forestry Product Manufactures	13.9	14.5	15.4	15.9	12.3	13.7	19.2	21.6	19.5	19.6	25.3
Fresh and Frozen Fish	3.0	2.6	2.7	2.6	2.7	2.9	3.3	4.7	5.3	5.9	8.6
Processed Fish	0.3	0.3	0.2	0.6	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Minerals and Fuels	0.2	0.3	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Petroleum and Petroleum Products	-	-	-	-	-	-	-	1.5	4.3	4.9	4.0
Foods, Beverages and Tobacco	1.1	0.9	0.8	0.8	0.7	1.0	1.3	1.3	1.6	1.7	2.3
Other Manufacturing	1.7	1.9	3.1	2.5	2.8	3.9	5.5	7.7	9.2	11.8	19.2
Miscellaneous	3.8	2.0	2.0	1.9	1.1	0.9	1.0	1.3	1.8	2.5	1.7
<u>Total</u>	<u>544.1</u>	<u>495.0</u>	<u>620.9</u>	<u>554.3</u>	<u>571.8</u>	<u>567.8</u>	<u>702.1</u>	<u>750.1</u>	<u>732.3</u>	<u>750.8</u>	<u>731.2</u>
<u>Re-exports</u>	<u>5.3</u>	<u>4.6</u>	<u>5.3</u>	<u>5.2</u>	<u>7.6</u>	<u>8.1</u>	<u>9.3</u>	<u>8.3</u>	<u>9.6</u>	<u>10.1</u>	<u>14.8</u>
<u>Total Exports</u>	<u>549.4</u>	<u>499.6</u>	<u>626.2</u>	<u>559.4</u>	<u>579.5</u>	<u>575.9</u>	<u>711.4</u>	<u>758.4</u>	<u>741.9</u>	<u>760.9</u>	<u>746.0</u>

Source: New Zealand Treasury and Statistics Department.

Table 25

Major Exports, 1962/63 - 1967/68

(In millions of NZ dollars; Index 1960 = 100)

	July - June						Jan. - Dec.
	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968 ^{a/}
<u>Dairy Produce</u>							
Value	147	169	199	197	207	210	203
Volume Index	107	116	124	126	138	135	131
Price Index	105	110	119	114	110	114	116
<u>Meat Product</u>							
Value	183	195	224	208	217	259	295
Volume Index	113	114	110	104	113	124	133
Price Index	100	107	123	120	120	131	136
<u>Wool</u>							
Value	214	271	209	232	174	155	181
Volume Index	111	109	102	118	97	113	127
Price Index	100	127	99	98	87	68	76
<u>Other Exports</u>							
Value	83	102	112	132	131	179	222
<u>Total Exports</u>							
Value	628	737	742	767	727	801	901
Volume Index	111	115	114	119	120	133	135
Price Index	101	114	112	111	105	102	109
<u>Total Imports</u>							
Value b/	576	694	724	792	813	669	727
Volume Index	105	125	130	141	140	110	123
Price Index	97	99	99	100	99	107	117

a/ Preliminary.

b/ Expressed in c.i.f. value.

Source: Monthly Abstract of Statistics.

Table 26

Economic End-Use Classification of Imports

(In millions of NZ dollars; c.i.f.)

Class of Goods Imported ^{1/}	Year ended June -				Quarter ended -				
	1965	1966	1967	1968	Dec. 1967	Mar. 1968	June 1968	Sept. 1968	Dec. 1968
1. Finished Capital Goods (In %)	92.8 (13.0)	122.0 (15.4)	115.9 (14.2)	89.4 (13.4)	15.3 (11.1)	24.0 (13.1)	21.8 (12.4)	35.0 (15.9)	31.6 (14.3)
2. Components and Materials for Capital Goods (In %)	84.8 (11.8)	104.6 (13.2)	109.4 (13.4)	77.9 (11.7)	15.4 (11.2)	22.5 (12.3)	19.8 (11.3)	22.6 (10.3)	22.9 (10.4)
3. Finished Goods and Components - (classified as consumption or capital accord. to type of buyer) (In %)	98.0 (13.7)	105.6 (13.3)	103.7 (12.7)	78.7 (11.8)	16.4 (11.9)	21.1 (11.5)	20.2 (11.5)	25.4 (11.6)	26.8 (12.1)
4. Consumer Goods (In %)	183.4 (25.6)	197.9 (25.0)	191.7 (23.5)	175.5 (26.3)	38.7 (28.1)	47.4 (25.9)	44.7 (25.5)	55.4 (25.2)	56.7 (25.7)
5. Materials used in the Production Process and Items Unable to be Separately Classified Elsewhere (In %)	250.6 (35.0)	261.9 (33.0)	264.8 (32.5)	244.9 (36.6)	51.7 (37.5)	67.4 (36.8)	67.8 (38.7)	81.1 (36.9)	82.0 (37.1)
6. Stores Used only for Defense (In %)	6.1 (0.9)	1.2 (0.2)	28.7 (3.5)	2.1 (0.3)	0.3 (0.2)	1.0 (0.5)	0.7 (0.4)	0.3 (0.1)	0.9 (0.4)
<u>Total Imports</u> (In %)	<u>716.0</u> (100.0)	<u>793.2</u> (100.0)	<u>814.2</u> (100.0)	<u>668.5</u> (100.0)	<u>137.8</u> (100.0)	<u>183.2</u> (100.0)	<u>175.2</u> (100.0)	<u>219.7</u> (100.0)	<u>221.0</u> (100.0)

^{1/} A more detailed analysis and description of these classes will be found in the January 1969 Monthly Abstract of Statistics.

Source: New Zealand Department of Statistics.

Table 27

Imports by Commodity Classes, 1960-1967/68

(Year ended June)

Commodity Class	Import Value (In '000 NZ\$ c.d.v.)			Percent Distribution		
	1960	1967	1968	1960	1967	1968
Food, Beverages, Tobacco	41.323	39.791	40.640	9.09	5.29	6.58
Mineral Fuels	59.722	81.543	79.649	13.14	10.84	12.90
Chemicals, inc. Manufactured Fertilizers	37.077	77.674	76.722	8.16	10.33	12.43
Base Metals and Manufactures of Metal	184.079	257.220	225.558	40.51	34.20	36.53
Machinery and Transport Equipment	128.053	290.908	191.381	28.18	38.67	31.00
Textiles, Cloth- ings and Footwear	4.157	5.069	3.442	0.91	0.67	0.56
Total Imports	454.411	752.206	617.392	100.00	100.00	100.00

Source: New Zealand Department of Statistics.

THE HISTORY OF THE UNITED STATES

CHAPTER I

THE HISTORY OF THE UNITED STATES

Table 28

Export & Import Prices and Terms of Trade, 1957-68

(Calendar Year 1957 = 100)

Period	Export Price Index ^{1/}						Import Price Index ^{1/}	Terms of Trade
	Total	Butter	Cheese	Meat	Wool	Meat, Wool & By-products		
Calendar Year								
1957	100	100	100	100	100	100	100	100
1960	94	105	142	91	82	87	99	96
1961	89	93	141	87	78	83	99	90
1962	91	110	142	87	77	82	97	94
Year ended 30 June ^{2/}								
1963	95	115	140	91	83	87	96	99
1964	108	124	137	97	105	102	98	110
1965	106	128	148	112	81	96	98	108
1966	105	116	147	109	81	97	99	107
1967	99	110	147	109	72	90	98	101
1968	96	113	163	119	56	84	106	90
3 Months ended ^{3/}								
1966: 30 Sept.	105	110	145	116	75	98	97	108
31 Dec.	101	110	147	106	76	93	98	104
1967: 31 March	98	110	149	111	69	89	99	99
30 June	95	110	150	107	66	85	99	96
30 Sept.	91	110	156	104	60	79	98	93
31 Dec.	91	110	159	110	52	77	99	91
1968: 31 March	101	116	165	129	55	89	114	88
30 June	100	116	167	123	58	88	113	89
30 Sept.	101	116	163	120	63	90	116	87
30 Nov.	105	114	166	119	73	95	122	86
31 Dec.	108	114	166	125	76	99		

^{1/} Converted from original bases to a 1957 base.^{2/} Since the trade statistics are now prepared for years ended June, the definitive import and export price indexes, and consequently terms of trade are calculated accordingly.^{3/} Provisional.

Source: Monthly Abstract of Statistics, January 1969.

Table 29

Total Foreign Borrowing by Public Sector

(In millions of U.S. dollars)

Fiscal Year <u>1/</u>	Actual			Estimated	Required to Meet Repayments					1969/70-1973/74	
	1965/ 1966	1966/ 1967	1967/ 1968	1968/ 1969	1969/ 1970	1970/ 1971	1971/ 1972	1972/ 1973	1973/ 1974	Total	Annual Average
Borrowing											
United Kingdom	21.7	63.8	34.7	-)							
United States	-	-	14.6	-)							
Euro-bonds	26.7	7.6	29.1	44.0)							
IBRD	13.2	17.2	10.6	10.1	9.0	-	-	-	-	9.0	1.8
Central Government	61.6	88.6	89.0	54.1	49.3	68.9	107.1	85.5	90.9	401.7	80.3
Local Authorities	0.9	0.4	0.7	0.1	-	-	-	-	-		
Total	62.5	89.0	89.7	54.2	58.3	68.9	107.1	85.5	90.9	410.7	82.1
Repayments <u>4/</u>											
United Kingdom	38.2	15.0	22.4	36.5	-	-	35.5	46.6	54.7	136.8	27.4
United States	4.1	3.6	3.2	13.9	12.8	12.5	8.6	7.6	7.6	49.1	9.8
Euro-bonds	-	-	-	-	1.6	1.6	1.6	4.0	6.7	15.5	3.1
IBRD	-	0.9	1.1	2.0	2.5	5.4	5.7	6.0	6.4	26.0	5.2
Total Repayments (-)	-42.3	-19.5	-26.7	-52.4	-16.9	-19.5	-51.4	-64.2	-75.4	-227.4	-45.5
(1) Net Borrowing	20.2	69.5	63.0	1.8							
(2) Net IMF Drawings	56.3	-	54.3	-64.3	-	-30.0	-30.0	-	-	-60.0	-12.0
(3) Net Other Credits	-	51.1	-13.9	-10.5	-31.5	-7.5	-12.3	-9.3	-9.3	-69.9	-14.0
(4) Net Guaranteed Credits	-	-	-	-5.7	-9.9	-11.9	-13.4	-12.0	-6.2	-53.4	-10.7
Net Capital Inflow											
- Public Account <u>2/</u>	76.5	120.6	103.4	-78.7	-58.3	-68.9	-107.1	-85.5	-90.9	-410.7	-82.1

1/ Ending March 31.2/ (1) + (2) + (3) + (4).3/ Excluding undisbursed portion of railway loan.4/ On outstanding debt only.

Source: Treasury Department.

Table 30

Consolidated Revenue and Expenditure Accounts, 1958-59 to 1968-69

(In millions of NZ dollars)

Fiscal Years	1958- 59	1959- 60	1960- 61	1961- 62	1962- 63	1963- 64	1964- 65	1965- 66	1966- 67	1967- 68	1968- 69
Taxation -											
(a) Direct	447	425	499	538	512	551	640	702	767	780	803
(b) Indirect	208	217	226	231	228	254	276	289	301	317	344
Trading Income	74	82	91	100	106	123	136	147	149	163	174
Direct taxes paid by public authority trading undertakings	<u>-5</u>	<u>-6</u>	<u>-6</u>	<u>-7</u>	<u>-7</u>	<u>-9</u>	<u>-11</u>	<u>-11</u>	<u>-11</u>	<u>-12</u>	<u>-13</u>
<u>Total Revenue</u>	<u>724</u>	<u>718</u>	<u>811</u>	<u>862</u>	<u>839</u>	<u>919</u>	<u>1041</u>	<u>1127</u>	<u>1206</u>	<u>1248</u>	<u>1308</u>
Current expenditure on goods and services	302	324	346	363	395	417	460	516	566	591	639
Transfers -											
Social security benefits and pensions	160	197	212	218	219	229	234	242	252	269	278
Net transfers to rest of world	4	4	4	5	4	5	5	6	6	6	6
Interest on public debt paid in New Zealand	57	59	65	70	77	89	95	104	113	121	130
Subsidies	27	26	31	28	29	30	35	39	39	21	18
Balance of revenue over expenditures	<u>174</u>	<u>108</u>	<u>153</u>	<u>176</u>	<u>115</u>	<u>149</u>	<u>212</u>	<u>220</u>	<u>230</u>	<u>240</u>	<u>237</u>
<u>Total expenditure (+ revenue balances)</u>	<u>724</u>	<u>713</u>	<u>811</u>	<u>862</u>	<u>839</u>	<u>919</u>	<u>1041</u>	<u>1127</u>	<u>1206</u>	<u>1248</u>	<u>1308</u>

Source: Department of Statistics.

Table 31

Central Government Revenues
(In millions of NZ dollars)

	1958/ 59	1959/ 60	1960/ 61	1961/ 62	1962/ 63	1963/ 64	1964/ 65	1965/ 66	1966/ 67	1967/ 68 ^{1/}
Taxation										
(a) <u>Direct Taxes</u>										
Income Tax	218.8	351.8	263.0	296.2	268.2	288.7	362.3	401.2	443.4	440.3
Social Security Tax	161.2	..	150.8	160.8	164.6	177.8	185.4	204.7	221.0	232.5
Land Tax	2.8	3.0	3.6	4.0	2.4	2.3	2.6	3.2	3.5	4.4
Gift and Death Duties	20.8	24.6	33.4	26.0	21.6	21.5	20.5	22.3	22.5	21.4
<u>Sub-total</u>	<u>403.8</u>	<u>379.6</u>	<u>450.8</u>	<u>487.2</u>	<u>456.8</u>	<u>490.3</u>	<u>570.8</u>	<u>631.4</u>	<u>690.4</u>	<u>698.6</u>
(b) <u>Indirect Taxes</u>										
Sales Tax	51.6	48.4	47.4	51.2	52.4	64.2	77.0	76.6	78.9	75.4
Customs and Excise Duties	83.2	93.2	110.4	108.8	103.8	111.6	114.5	121.7	126.8	131.1
Motor Registration and Spirits Tax	57.4	57.8	47.6	51.6	52.2	56.8	61.0	65.8	70.1	76.2
Other	14.8	15.6	18.4	17.8	17.6	18.9	20.7	21.9	22.2	20.2
<u>Sub-total</u>	<u>206.8</u>	<u>215.0</u>	<u>223.8</u>	<u>229.4</u>	<u>226.2</u>	<u>251.5</u>	<u>273.2</u>	<u>286.0</u>	<u>298.0</u>	<u>302.9</u>
<u>Total Tax Revenue</u>	<u>610.4</u>	<u>594.6</u>	<u>674.6</u>	<u>716.4</u>	<u>683.0</u>	<u>741.7</u>	<u>844.1</u>	<u>917.5</u>	<u>988.3</u>	<u>1001.5</u>
Trading Income	54.1	59.7	67.7	75.8	81.9	96.5	108.2	117.8	115.0	132.8
Direct Taxation Paid by Trading Departments	-5.0	-5.6	-5.8	-6.9	-7.4	-8.8	-11.0	-11.1	-11.0	-12.3
<u>Sub-total</u>	<u>49.1</u>	<u>54.1</u>	<u>61.9</u>	<u>68.9</u>	<u>74.5</u>	<u>87.7</u>	<u>97.2</u>	<u>106.7</u>	<u>104.0</u>	<u>120.5</u>
<u>Total Revenue</u>	<u>659.5</u>	<u>648.7</u>	<u>736.5</u>	<u>785.3</u>	<u>757.5</u>	<u>829.4</u>	<u>941.3</u>	<u>1024.2</u>	<u>1092.3</u>	<u>1122.0</u>

^{1/} Provisional.

Source: Department of Statistics.

Table 32

Central Government Finances, 1957/58-1967/68

(\$NZ million)

Fiscal Year	1957/ 58	1958/ 59	1959/ 60	1960/ 61	1961/ 62	1962/ 63	1963/ 64	1964/ 65	1965/ 66	1966/ 67	1967/ 68
Receipts											
Taxes on income	288.2	380.0	351.8	413.8	457.0	432.8	466.4	547.8	606.0	664.4	672.8
Other taxation	201.2	232.0	246.8	256.6	259.8	252.4	277.4	297.2	312.8	325.0	340.3
Other current receipts	87.0	95.6	117.2	123.8	116.8	127.8	140.4	148.0	136.2	148.4	165.1
Total current receipts	576.4	707.6	715.8	794.2	833.6	813.0	884.2	993.0	1055.0	1137.8	1178.2
Expenditure											
of which:											
Benefits, health and education	291.0	319.8	371.6	406.4	414.8	444.2	451.0	500.6	534.2	571.4	608.5
Administration, defence and maintenance	123.8	114.2	125.2	128.0	135.8	153.6	161.8	187.2	204.2	221.8	222.1
Development financing	34.4	45.8	37.2	44.4	42.6	46.6	50.4	49.4	55.0	60.0	60.3
Subsidies	25.8	25.8	25.2	30.8	27.8	28.6	29.6	34.6	37.2	35.8	17.8
Interest on government debt	51.4	57.2	58.2	61.0	66.6	72.4	82.6	88.2	95.4	107.0	116.9
Works and other capital expenditures	161.2	139.8	192.8	302.8	202.4	171.6	192.0	222.0	243.6	275.8	262.4
Total expenditure	687.6	744.6	810.2	873.4	890.0	934.0	991.4	1082.0	1169.4	1271.8	1288.0
Deficit	-111.2	-37.0	-94.4	-79.2	-66.4	-121.0	-107.2	-89.0	-114.4	-134.0	-109.8
Financed by:											
Net receipts of govt borrowing and investment transactions -											
Domestic	+70.6	+26.8	+66.0	+88.4	+32.6	+105.6	+113.0	+158.0	+93.0	+89.0	+95.1
External	-4.0	+74.0	-40.2	-0.8	+34.6	+32.8	+19.0	-14.2	22.8	+67.8	+35.7
Increase (-) or decrease (+) in cash balances	-	-33.0	+30.0	-8.4	-	-17.4	-4.8	-1.8	-1.4	-2.8	-1.8
Reserve bank purchase (-) or sale (+) of govt securities	+44.6	-30.8	+38.6	-	+0.8	-	-20.0	-53.0	-	-20.0	-19.2

Source: New Zealand, Annual Budgetary Accounts.

Table 33
Central Government Social Security Benefits,
 Health Benefits, and War Pensions

(In millions of NZ dollars)

Years ended March 31:	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
<u>Social Security Benefits</u>	<u>225.63</u>	<u>269.47</u>	<u>295.66</u>	<u>302.90</u>	<u>312.17</u>	<u>330.89</u>	<u>347.84</u>	<u>370.91</u>	<u>394.17</u>	<u>418.08</u>	<u>437.27</u>
Monetary Benefits	136.65	165.28	172.61	179.85	181.21	191.47	195.66	203.95	213.45	230.21	236.98
Age	52.21	54.58	54.07	49.72	49.02	49.36	51.02	51.46	55.10	57.50	60.83
Invalids	3.88	4.24	4.30	4.38	4.54	4.59	4.83	4.79	5.07	5.30	5.51
Widows	7.28	7.83	8.40	8.71	9.09	9.56	10.22	10.48	11.32	12.00	12.62
Sickness	2.87	3.44	3.35	3.41	3.13	4.51	3.91	4.08	4.56	5.16	5.58
Family	51.99	63.58	61.80	66.88	64.60	68.48	65.92	70.16	66.82	71.45	68.27
Miners	0.23	0.23	0.24	0.20	0.17	0.16	0.15	0.14	0.13	0.12	0.11
Orphans	0.09	0.08	0.09	0.09	0.09	0.10	0.11	0.12	0.12	0.13	0.14
Unemployment	0.22	0.38	0.19	0.16	0.33	0.32	0.20	0.14	0.14	2.18	3.30
Universal Superannuation	17.88	30.92	40.17	46.30	50.24	54.39	59.30	62.58	70.19	76.37	80.61
Family benefit capitalisation	-	7.76	13.88	11.52	10.30	9.09	8.84	8.60	7.58	7.24	7.79
Health benefits ^{1/}	84.03	90.86	98.84	105.76	114.96	123.34	136.04	150.73	164.68	171.04	181.68
Social security expenses and emergency benefits	4.95	5.57	5.98	5.77	5.70	6.99	7.30	7.63	8.46	9.59	10.82
<u>War and Other Pensions ^{2/}</u>	<u>23.84</u>	<u>24.98</u>	<u>27.33</u>	<u>27.53</u>	<u>28.34</u>	<u>29.66</u>	<u>29.92</u>	<u>30.45</u>	<u>30.92</u>	<u>30.71</u>	<u>30.79</u>
<u>Grand Total ^{3/}</u>	<u>249.47</u>	<u>294.45</u>	<u>322.99</u>	<u>330.43</u>	<u>340.51</u>	<u>360.55</u>	<u>377.76</u>	<u>401.36</u>	<u>425.09</u>	<u>448.79</u>	<u>468.06</u>
Total as % of GNP	11.00	12.10	12.30	12.10	11.70	11.30	10.80	10.70	10.90	11.10	10.90

^{1/}Includes expenditures on health and public hospitals.

^{2/}Includes rehabilitation expenditures.

^{3/}Excludes contribution to Social Security Fund and education expenditures.

Source: The Treasury Department.

Table 34

Money Supply and Selected Liquid
Assets of the Public

(In millions of NZ dollars)

End of March Years	Notes and Coin ^{a/}	Trading Bank Demand Deposits ^{b/}	Money Supply (1)+(2)=	Other Demand Deposits ^{c/}	Total (3)+(4)=	Time and Fixed Term Deposits ^{d/}	Total (5)+(6)=
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1964	147.2	585.6	732.8	950.0	1682.8	327.2	2010.0
1965	140.2	603.4	743.6	1036.1	1779.7	377.3	2157.0
1966							
March	140.6	565.0	730.6	1090.0	1795.6	556.1	2242.0
June	135.4	595.2	730.6	1093.6	1824.2	469.2	2293.4
Sept.	139.0	562.0	701.0	1088.9	1789.9	518.3	2308.0
Dec.	158.4	615.8	774.2	1104.7	1878.9	551.2	2430.2
1967							
March	139.8	567.4	707.2	1103.1	1810.3	545.0	2355.1
June	125.5	566.2	691.7	1120.8	1812.5	559.6	2372.1
Sept.	128.9	539.7	668.6	1119.5	1788.1	583.6	2371.7
Dec.	153.2	608.1	761.4	1140.5	1901.9	607.2	2509.1
1968							
March	133.6	550.7	684.3	1134.3	1818.7	609.1	2427.8
June	133.2	567.5	700.7	1181.4	1882.1	635.8	2517.9
Sept.	139.1	549.6	688.7	1192.4	1881.1	670.5	2551.6
Dec.	156.9	599.0	755.9	1220.9	1976.8	700.9	2677.7

^{a/} Notes and coins on issue minus till money of the trading banks.

^{b/} Trading bank demand deposits minus total of government deposits and trading bank deposits held by financial institutions included in column 4.

^{c/} Demand and call deposits of post office saving bank, trustee saving banks, private trading bank saving banks, official money market, finance companies, and current accounts of stock and station agents net of call and demand deposits excluding such deposits of all these financial institutions with each other.

^{d/} Fixed deposits and Wool Retention Accounts of trading banks plus all other time and special deposits of all institutions mentioned under ^{c/}.

Source: Reserve Bank of New Zealand Bulletin.

Table 35
Classification of Trading Bank Advances 1/

(in millions of NZ\$)

Sectors	March						November		1968	
	1962	1963	1964	1965	1966	1967	1966	1967		
Agriculture, Forestry, Fisheries	67.2	62.1	61.2	62.2	65.6	72.9	74.9	76.7	81.6	86.4
Dairy Farming	26.0	24.0	25.0	23.2	22.8	23.0	23.4	24.6	23.5	28.2
Sheep Farming	28.6	25.7	23.7	26.3	30.3	35.6	33.9	38.5	41.1	37.9
Others	12.6	12.4	12.5	12.7	12.5	14.3	17.6	13.6	17.0	20.3
Mining	0.7	0.7	0.8	1.0	1.0	1.0	1.2	1.3	1.2	1.4
Manufacturing	146.1	143.5	150.9	168.9	163.5	167.3	188.5	143.4	159.7	147.6
Freezing works, Meat Companies	55.1	47.6	57.7	72.1	64.4	65.9	87.2	20.6	35.6	25.7
Metal Products, Machinery and Engineering	16.5	17.9	17.3	18.1	21.2	19.4	21.0	19.1	19.5	21.8
Textiles, Footwear, Clothing	16.8	17.5	19.4	21.5	22.0	20.0	16.7	18.8	17.1	12.8
Others	56.7	60.5	56.5	57.2	55.9	62.0	63.6	84.9	87.5	87.3
Transport, Storage and Communication	7.8	8.6	8.4	9.2	9.0	10.7	9.6	9.7	9.4	11.9
Construction	18.9	18.2	19.9	25.2	21.6	21.6	19.2	21.2	17.1	23.4
Commerce, Trade, and Finance	121.9	110.2	125.5	124.6	144.7	135.8	126.4	145.7	138.2	143.3
Wholesalers (incl. Importers)	36.9	37.5	39.5	38.1	40.4	39.3	38.7	41.9	36.2	42.3
Retailers	36.7	35.9	39.9	39.5	39.9	37.6	35.1	43.0	44.1	41.2
Woolbuyers	15.9	19.1	27.0	20.8	24.4	20.6	23.8	20.2	11.3	22.4
Stock and Station Agents	20.7	10.0	7.3	14.3	25.7	24.7	12.8	31.2	35.4	25.4
Others	11.7	7.7	11.8	11.9	14.3	13.6	16.0	9.4	11.2	12.0
Personal	43.6	44.1	50.7	55.3	51.2	52.3	48.4	51.1	47.9	52.2
Housing Purposes	17.4	17.2	19.7	22.3	20.5	21.1	19.1	20.8	18.8	19.7
Other Personal Advances	26.2	27.2	31.0	33.3	30.7	31.2	29.3	30.3	29.1	32.5
Others	21.2	22.9	22.5	25.3	26.2	26.9	25.7	33.0	26.4	29.3
TOTAL ADVANCES	427.4	410.3	439.9	471.7	482.8	488.5	493.9	482.1	481.5	495.5

1/ Excludes discounts, term loans, export finance, and meat hygiene loans.

Source: Reserve Bank, Bulletin

Table 36

Prices and Wages, 1953-1968

(1965 = 100, yearly averages)

Calendar Year	Consumers' Price Index		Wholesale Price Index			Weekly Wage Rates (adult males)		Average Weekly Earnings ^{1/}
	Food	All Groups	Imported	Home Produced	Total	Nominal	Real	
1959	87.6	87.1	97.0	91.0	92.8	81.4	93.5	75.8
1960	88.9	87.7	95.6	92.0	93.1	85.5	97.5	80.5
1961	89.7	89.3	96.0	91.4	92.8	86.9	97.3	84.2
1962	90.2	91.6	96.1	90.6	92.2	89.0	97.2	86.1
1963	91.9	93.5	97.9	92.3	94.0	91.5	97.9	89.5
1964	97.2	96.7	98.2	96.9	97.3	94.3	97.5	92.4
1965	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1966	101.8	102.8	101.7	101.6	101.7	102.8	100.0	103.1
1967	109.2	109.0	105.4	103.4	104.0	108.2	88.3	108.8
1968	112.6	113.7	118.3	108.2 ^{2/}	111.2 ^{2/}	111.8 ^{3/}	98.3 ^{3/}	112.1

^{1/} April of year shown. Includes bonuses and overtime.^{2/} Provisional^{3/} Estimate

Source: New Zealand Department of Statistics.

Table 37

Public Capital Expenditures
(National Accounts Series)

(In millions of NZ dollars)

											(Fiscal Year = April 1-March 31)				Percent Increase (2) over (1) %
	Actuals					Prelim. Actuals	Estimates				Five-Year Totals				
	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	(1)		(2)		
											1963/64-1967/68	1968/69-1972/73			
											Amount	%	Amount	%	%
Central Government															
Agriculture ^{1/}	8.8	8.8	9.2	9.2	10.0	9.0	9.0	9.3	9.6	10.0	46.0	2.7	46.9	2.1	2
Forestry	6.4	8.4	9.0	9.2	10.0	11.0	12.5	13.3	14.2	15.0	43.0	2.5	66.0	3.0	53
Power	48.6	54.5	65.8	88.2	82.0	75.0	87.0	89.6	92.3	95.0	339.1	20.1	438.9	19.9	29
Transportation	36.2	37.0	44.8	42.6	46.0	45.0	46.0	45.2	44.6	44.0	206.6	12.2	224.8	10.2	9
(Railways)	(16.4)	(16.8)	(17.0)	(17.4)	(22.0)	(20.0)	(23.0)	(21.1)	(19.2)	(18.0)	(89.6)	(5.3)	(101.3)	(4.6)	(13)
(Roads and Highways)	(19.8)	(20.2)	(27.8)	(25.2)	(24.0)	(25.0)	(23.0)	(24.1)	(25.4)	(26.0)	(117.0)	(6.9)	(123.5)	(5.6)	(6)
Post and Telecommunications	14.8	16.4	17.8	18.2	18.0	18.0	21.0	21.7	22.4	23.0	85.2	5.1	106.1	4.8	25
Housing	16.8	15.4	14.6	16.0	16.0	16.0	17.0	17.0	17.0	17.0	78.8	4.7	84.0	3.8	7
Education	22.8	25.6	27.4	30.8	34.0	34.0	38.0	40.8	43.8	47.0	140.6	8.3	203.6	9.2	45
Miscellaneous	25.4	30.4	29.8	29.2	29.0	32.0	35.0	39.5	43.8	48.0	143.8	8.5	198.3	9.0	38
Total	179.8	196.5	218.4	243.4	245.0	240.0	265.5	276.4	287.7	299.0	1083.1	64.2	1368.6	62.1	26
Local Authorities	106.0	116.0	124.0	128.0	130.0	155.0	145.0	161.0	177.0	196.0	604.0	35.8	834.0	37.9	38
Grand Total	285.8	312.5	342.4	371.4	375.0	395.0	410.5	437.4	464.7	495.0	1687.1	100.0	2202.6	100.0	31

^{1/} Land conservation and development.

Source: (1) Central Government: New Zealand Treasury for FY's 1963/64 through 1969/70 and estimate for FY1972/73. Data for FY1970/71 and 1971/72 were interpolated.
 (2) Local Authorities: New Zealand Treasury through FY1968/69; for other years residual between total public investments and Central Government investments.

Table 38

Central Government Works Program Expenditure by Sector

(Capital Formation and Maintenance)

(In millions of NZ dollars)

Sectors	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	Five-Year Totals			
											1963/64-1967/68		1968/69-1972/73	
											Amount	%	Amount	%
Agriculture	10.72	11.44	12.47	12.70	13.52	13.66	14.70	14.76	14.92	14.53	60.85	4.7	70.57	4.1
Forestry	6.38	8.45	9.19	9.56	10.12	12.55	12.55	12.57	13.30	14.33	43.70	3.3	65.30	3.8
Power	47.48	50.36	71.04	90.95	83.92	79.00	90.00	100.00	100.00	94.00	343.75	26.6	463.00	26.8
Transportation	<u>71.55</u>	<u>73.74</u>	<u>83.69</u>	<u>81.55</u>	<u>74.72</u>	<u>80.37</u>	<u>93.07</u>	<u>101.65</u>	<u>106.15</u>	<u>109.36</u>	<u>385.25</u>	<u>29.9</u>	<u>490.60</u>	<u>28.4</u>
Of which: Roads	59.46	61.22	71.93	72.49	67.42	72.64	78.27	82.08	86.08	90.28	332.52	25.8	409.35	23.7
Railways	5.58	5.84	6.54	6.21	5.62	5.85	10.00	11.25	10.50	7.17	29.79	2.3	44.77	2.6
Aviation	6.43	6.64	5.17	2.82	1.62	1.85	4.75	8.26	9.50	11.83	22.68	1.7	36.19	2.1
Other	0.08	0.04	0.05	0.03	0.06	0.03	0.05	0.06	0.07	0.08	0.26	-	0.29	-
Posts and Telecommunications ^{1/}	19.30	20.97	22.07	23.42	23.60	25.08	28.18	30.57	32.30	34.80	109.36	8.5	150.93	8.7
Mining	0.50	0.53	0.33	0.37	0.28	0.32	1.14	3.95	3.20	2.34	2.01	0.2	10.95	0.6
Housing	16.64	15.34	14.69	15.92	15.68	16.08	17.00	17.00	17.00	17.00	78.27	6.1	84.08	4.9
Education	25.83	30.46	31.89	36.24	38.79	36.90	43.66	53.49	57.65	55.90	163.21	12.7	247.60	14.3
Health	2.77	3.10	2.96	2.58	2.98	3.16	3.70	5.28	5.58	6.04	14.39	1.1	23.76	1.4
Tourism	1.21	2.09	1.23	0.94	1.01	1.09	1.30	1.15	1.36	1.18	6.48	0.5	6.08	0.3
Sub-total, Economic Sector:	<u>202.38</u>	<u>216.48</u>	<u>249.56</u>	<u>274.23</u>	<u>264.62</u>	<u>268.21</u>	<u>305.30</u>	<u>340.42</u>	<u>351.46</u>	<u>349.48</u>	<u>1207.27</u>	<u>93.6</u>	<u>1614.87</u>	<u>93.4</u>
Public Buildings (Other)	6.71	8.36	9.13	9.92	9.80	9.03	10.33	12.57	14.18	16.86	43.92	3.4	62.97	3.6
Other	3.32	3.96	2.83	2.41	1.39	2.16	6.06	5.26	3.14	2.92	13.91	1.1	19.54	1.1
Sub-total:	<u>212.41</u>	<u>228.80</u>	<u>261.52</u>	<u>286.56</u>	<u>275.81</u>	<u>279.40</u>	<u>321.69</u>	<u>358.25</u>	<u>368.78</u>	<u>369.26</u>	<u>1265.10</u>	<u>98.1</u>	<u>1697.38</u>	<u>98.1</u>
Defense	4.75	4.91	4.93	5.21	4.98	4.90	6.05	6.40	6.72	6.97	24.78	1.9	31.04	1.9
Grand Total:	<u>217.16</u>	<u>233.71</u>	<u>266.45</u>	<u>291.77</u>	<u>280.79</u>	<u>284.30</u>	<u>327.74</u>	<u>364.65</u>	<u>375.50</u>	<u>376.23</u>	<u>1289.88</u>	<u>100.0</u>	<u>1728.42</u>	<u>100.0</u>

^{1/} Includes broadcasting.

Source: The Treasury.

Table 39

Value of Building Work Done 1966-1968
(In millions of NZ dollars)

<u>Building Type</u>	<u>1966</u>	<u>Year ended March 31st.</u>	
		<u>1967</u>	<u>1968</u>
I. Residential Buildings	<u>210.6</u>	<u>205.4</u>	<u>190.4</u>
1. New houses and flats	<u>183.9</u>	<u>177.3</u>	<u>163.8</u>
(a) Government	<u>16.0</u>	<u>17.1</u>	<u>14.6</u>
(b) Other	<u>167.9</u>	<u>160.2</u>	<u>149.2</u>
2. Alterations and additions	<u>26.8</u>	<u>28.1</u>	<u>26.6</u>
II. Other Buildings ^{1/}	<u>175.4</u>	<u>177.6</u>	<u>171.7</u>
1. Hotels, boarding houses	<u>11.0</u>	<u>13.9</u>	<u>14.8</u>
2. Hospitals ^{2/}	<u>7.6</u>	<u>10.4</u>	<u>13.3</u>
3. Factories	<u>47.5</u>	<u>39.5</u>	<u>37.0</u>
4. Commercial buildings	<u>62.9</u>	<u>60.5</u>	<u>53.9</u>
5. Schools	<u>18.6</u>	<u>20.7</u>	<u>19.9</u>
6. Miscellaneous ^{3/}	<u>27.8</u>	<u>32.7</u>	<u>32.8</u>
<u>TOTAL</u>	<u>386.1</u>	<u>383.0</u>	<u>362.1</u>

^{1/} Includes alterations and additions.

^{2/} Includes ancillary buildings.

^{3/} Churches, sports, and entertainment buildings.

Source: Department of Statistics. Monthly Abstract of Statistics.

Table 40

Macro-Economic Targets - Expenditure

(In Constant 1967/68 Prices, \$NZ Million)

	Actuals		Projected	
	1962/63	1967/68	1972/73	1978/79
Consumption	2538	3050	3665	4745
(Private)	(2098)	(2459)	(n.a.)	(n.a.)
(Public)	(440)	(591)	(n.a.)	(n.a.)
Capital Formation	756	1039	1343	1745
(Private Fixed)	(432)	(540)	(751)	(959)
(Public Fixed)	(285)	(375)	(472)	(636)
(Stock Changes)	(39)	(124)	(120)	(150)
Net Exports	-30	-57	+23	+47
(Exports of Goods and Services) ^{1/}	(722)	(855)	(1203)	(1613)
(Imports of Goods and Services) ^{1/}	(-704)	(-861)	(-1105)	(-1466)
(Net Factor Income Payment Abroad)	(-48)	(-51)	(-75)	(-100)
Gross National Product	3264	4032	5031	6537
(Annual Percent Change)		(4.3)	(4.5)	(4.5)

^{1/} Excludes net factor income payments.

Source: Targets Committee Report, National Development Conference.

Table 41

Macro-Economic Targets - Savings and Investments

(In Percent)

	Actuals		Projected	
	1962/63	1967/68	1972/73	1978/79
Savings				
Private Savings /GNP	10.3	10.9	12.2	12.2
Public Savings/GNP	3.9	5.7	6.2	6.4
Depreciation/GNP <u>1/</u>	<u>7.5</u>	<u>7.3</u>	<u>7.5</u>	<u>7.5</u>
National Savings/GNP	21.7	23.8	25.8	26.2
Investment				
Private Investment/GNP <u>2/</u>	13.2	13.4	14.9	14.7
Public Investment/GNP <u>2/</u>	8.7	9.3	9.4	9.7
Stock Changes /GNP <u>3/</u>	<u>1.2</u>	<u>3.1</u>	<u>2.4</u>	<u>2.3</u>
Domestic Investment/GNP	23.2	25.7	26.7	26.7
Resource Gap				
Resource Gap/GNP	-1.5	-1.9	-0.9	-0.5
(Marginal Saving Rate)	(-)	(29.4)	(33.2)	(27.0)
(Marginal Investment Rate) <u>4/</u>	(-)	(24.6)	(30.8)	(24.7)

1/ Includes public and private.2/ Fixed capital formation only.3/ Includes public and private.4/ Only fixed investments.

Source: Targets Committee Report, National Development Conference.

Table 42

Labor Force Estimates

	Output in 1964/ 1965	Labor Force 1964/ 1965	Output Per Man 1964/ 1965	Annual Growth in Out- put per man 1959/60- 1964/65 Adjusted for Hrs. Worked (%)	Output in 1972/ 1973	Output per man 1972/73 at same Produc- tivity Growth as '59/60-64/65 (\$'000)	Required Labor Force 1972/73 with Produc- tivity Growth ('000men)	Required Labor Force 1972/73 with 1964/65 Output per Man ('000men)
	(\$mn.)	('000men)	(\$'000)		(\$mn.)	(\$'000)	('000men)	('000men)
1. Farming	1037	119.3	8.7	4.8	1470	12.7	116	169
2. Forestry	42	6.4	6.6	-	61	6.6	9	9
3. Forest Processing	252	24	10.5	4.3	361	14.7	25	34
4. Hunting and Fishing	110	41	2.7	1.1	173	29.0	6	6
5. Mining	451	5	8.5	4.7	63	12.0	5	7
6. Primary Processing	691	29	23.8	-	904	23.7	38	38
7. Other Manufacturing	1550	205	7.6	4.7	2195	10.9	202	290
8. Building	717	86	8.3	2.1	974	9.8	100	117
9. Public Utilities	177	14	12.5	5.5	230	19.2	12	18
10. Transport	528	98	5.4	4.7	763	7.8	98	142
11. Trade	874	145	6.0	2.9	1132	7.6	149	187
12. Services	696	211	3.3	-	1671	-	-	283
Total: ^{2/}	7108	973	7.3		9636	9.3	1042 ^{1/}	1300 ^{1/}

^{1/} Estimated labor force in 1972/73 - 1,134,000.

^{2/} Weighted and rounded.

Source: Agricultural Economics Research Unit, Lincoln College.

Table 43

Public Sector Revenue, Expenditure, and Saving
At Current Prices

(In millions of NZ dollars)

	1967/ 1968	1968/ 1969	1969/ 1970	1970/ 1971	1971/ 1972	1972/ 1973	1978/ 1979
I. Current Revenue (Tax Revenue ^{1/}) (Tax Revenue as % of GNP)	1,236 (1,074) (26.6)	1,252 (1,082) (25.6)	1,290 (1,120) (25.0)	1,383 (1,226) (26.0)	1,483 (1,315) (26.5)	1,590 (1,410) (27.0)	2,255 (1,990) (28.0)
II. Current Expenditures	1,008	1,062	1,110	1,171	1,235	1,303	1,800
III. Revenue Balances of Public Sector (I-II)	228	190	180	212	248	287	458 ^{3/}
IV. Depreciation ^{2/}	47	49	51	55	59	63	95
V. Gross Public Saving (IV + V) Gross Public Saving as % of GNP	275 6.8	239 5.6	231 5.2	267 5.7	307 6.2	350 6.7	553 7.8
VI. Public Sector Capital Expenditure	375	395	410	437	465	495	698
VII. Public Savings Gap	100	156	179	170	158	145	145

^{1/} Excluding taxes paid by public authorities.^{2/} Related to Government and Local Authority Trading Undertakings.^{3/} Targets Committee estimate.

Source: Treasury, New Zealand Government.

Table 44

Savings Targets

(In millions of NZ dollars)

	<u>Actual</u> <u>1967/68</u>	1972/73	1978/79
Private Savings	438	636	869
Public Savings	222	322	458
Depreciation	295	392	533
Total Savings	<u>955</u>	<u>1350</u>	<u>1860</u>
(GNP)	(4032)	(5223)	(7110)
<u>Average Ratios (%)</u>			
SP/GNP	10.9	12.2	12.2
SG/GNP	5.5	6.2	6.4
D/GNP	7.3	7.5	7.5
S/GNP	<u>23.7</u>	<u>25.8</u>	<u>26.2</u>
<u>Marginal Ratios</u>			
$\Delta S/\Delta \text{GNP}$	-	33.2	27.2

Source: Targets Committee Report, National Development Conference.

Table 45

Analysis of Projected Expenditure Pattern

	Annual Change (in % p.a.)			Destination of Incremental GNP (in % of total)		
	1962/63	1967/68	1972/73	1962/63	1967/68	1972/73
	-1967/68	-1972/73	-1978/79	-1967/68	-1972/73	-1978/79
Consumption	3.8	3.8	4.4	66.7	61.5	71.7
(Private)	(3.2)	(n.a.)	(n.a.)	(47.0)	(n.a.)	(n.a.)
(Public)	(6.0)	(n.a.)	(n.a.)	(19.7)	(n.a.)	(n.a.)
Capital Formation	6.5	5.3	4.5	36.8	30.4	26.7
(Private Fixed)	(4.6)	(6.8)	(4.2)	(14.1)	(21.1)	(13.8)
(Public Fixed)	(5.6)	(4.7)	(4.8)	(11.7)	(9.7)	(10.9)
(Stock Changes)	(-)	(-)	(-)	(11.1)	(-0.4)	(2.0)
Exports	3.4	7.1	5.0	17.3	34.8	27.2
Imports	4.1	5.1	4.8	-20.4	-24.4	-24.0
Net Factor Payments	-	-	-	- 0.4	- 2.4	- 1.7
G.N.P.	4.3	4.5	4.5	100.0	100.0	100.0

NEW ZEALAND

NEW ZEALAND POPULATION 1966 POPULATION OF MAJOR CENTERS SHOWN (CENSUS OF MARCH 22, 1966)

