Outlook: Growth or Slowth?

Keith Rankin, 21 March 2015

New Zealand's latest economic growth figures – 3.3% annual – were released on Thursday (19 March).

If the economy is servant rather than master, it is improved living standards that matter, not output growth. The two may of course coincide, at least for some of history. Productivity growth – an increasing ratio of outputs to inputs – is a necessary but not sufficient condition for a general increase in living standards. Economic growth, however – measured as a simple annual increase in real GDP – is neither a necessary nor a sufficient condition for improved living standards. Having said that, sustainable economic growth is not an oxymoron, and is better than both unsustainable growth and unsustainable slowth.

There's a gap in the language of economic growth cycles. For a country like New Zealand, annual growth in excess of three percent is called 'expansion'. Growth between two and three percent is 'steady', meaning that (given the present relations of production) unemployment neither rises much nor falls much. Although growth below zero is called either 'contraction' or 'recession', when teaching I use the term contraction for anything less than steady. (This helps students to understand expansionary versus contractionary policy settings. New Zealand presently has contractionary fiscal policy settings and steady monetary policy.)

In this article I will substitute the word 'slowth' to mean anything below two percent, including recession.

The latest annual growth rate at 3.3% is the highest since 2007. And it is likely to be close to the highest this decade. There is an investment cycle of around 10 years – one early neoclassical economist [Jevons] famously correlated it to sunspots and aurorae – that has generally persisted in western capitalist economies for 200 years or so. New Zealand growth rates in years ending in '4' or '5' have often been among the highest for each decade, with growth rates in years ending in '8' being near the lowest.

Ten years ago the growth rate was 4.0%, twenty years before it was 5.4%, and thirty years ago (in "basket-case" 1984) it was 4.5%. The average growth rate since 1978 of the years ending in '4' has been 4.3%, significantly above the present 3.3%. If one corrects for population growth, then per person, this is even lower than it seems. It is the lowest mid-decade growth rate since World War 2.

If we look at end-of-decade '9' years, then growth was 1.7% (1979), 0.0% (1989), 4.3% (1999), and -0.6% (2009); an average of 1.4% compared to the 4.3% for the '4' years. The '8' years were worse, all below 1.0%.

If we average-out the last 10 years we get 1.9% average ('slowth' for sure, below 2%), 3.6% in the decade to 2004, and 1.6% in the Roger and Ruth decade. The present series (from 1978) doesn't give a full picture of the Muldoon years, but annual growth in the half-decade to 1984 (in very difficult international times) was 2.9% per annum, pretty-much bang on today's 3% target rate. (Slowth came post-Muldoon, of course, with 1.2% for the late 1980s' half-decade and 0.0% for the five years ended December 1992.)

Where to from here? Economic growth above 2% in the United States and United Kingdom; continued expansion in China and other emerging economies in Asia may keep New Zealand firing on all three cylinders for two or three more years. More of the same; including stimulus in the domestic services sector arising from household borrowing 'secured' by inflated asset values.

Meanwhile, global business debt, the presumptive engine of world growth in productive capacity, continues to stutter. Credit – fuelled by high corporate savings and inflated household balance sheets – is being aggressively channelled instead into unsustainable asset inflation. All the signs are that the coming '8' and '9' years will be years of slowth; indeed unsustainable slowth. Unsustainable practices are driven by desperation as well as by short-sighted greed.

My figures show 2.9% less growth on average in a '9' year. That's 0.4% growth in 2019. A drop of 4.5% – as in the 1980s and 2000s – means a nasty 2019 recession of -1.2% growth. 2015 may be as 'good' as it gets.