There and back again

Preview of Q1 GDP (15 Jun, 10.45am) and current account (14 Jun, 10.45am)

9 June 2017

- We estimate that GDP rose by 0.8% in the March quarter, after a 0.4% rise in the December quarter.
- Growth in the previous quarter was weighed down by declines in the primary sectors, which have partly unwound since then.
- Construction was a weak spot for the March quarter, but we expect this to be temporary given the growing pipeline of building work.
- The annual current account deficit is expected to widen to 3.0% of GDP, as weak export volumes countered a record high in the terms of trade.

	Dec-16 actual	Mar-17 Westpac f/c
GDP		
Quarterly % chg	0.4	0.8
Annual % chg	2.7	2.8
Annual average % chg	3.1	3.0

Balance of Payments		
Current account balance $m, s.a.	-1,599	-2,500
Annual balance $m	-7,112	-7,950
Annual balance % of GDP	-2.7	-3.0

We expect next week's GDP figures to show a more 'normal' pace of growth over the March quarter, as some of the temporary factors that held back growth in the December quarter unwind. We're forecasting a 0.8% increase in GDP, a little less than the 0.9% rise that the Reserve Bank expected in its most recent Monetary Policy Statement, but likely to be at the higher end of market forecasts.

The balance of payments will also reflect a reversal of some temporary factors. After the current account deficit narrowed from 3.0% to 2.7% of GDP in December, we expect it to widen out again to 3.0% of GDP. Export volumes have been held back to date by the drop in milk production over late 2016, but we expect a strong rebound in export earnings over the rest of this year.

Q1 GDP, 15 June

We expect a 0.8% rise in the production measure of GDP for the March quarter, following a 0.4% rise in the December quarter. Growth in the December quarter was weighed down by two factors in particular: a pullback in milk production in response to low dairy prices, and a temporary shutdown of the Maari oil platform. Both of these factors have since unwound, and accordingly we expect strong contributions to growth from the agriculture and mining sectors.

Recent indicators have also pointed to strong gains in transport, retail, wholesaling and non-food manufacturing. On the weaker side, food manufacturing was weighed down by lower meat production (as dairy farmers have shifted to herd rebuilding), wood harvesting fell further despite a sustained period of high prices, and real estate services fell as house sales continued to slow.

The biggest weak spot for the March quarter was in the construction sector. In particular, there was a sharp drop in non-residential building, concentrated in Auckland. However, activity in this segment tends to be lumpy, and the pipeline of work remains strong. Residential building is running up against capacity constraints, slowing the pace of growth in recent quarters.

It's worth noting that the Kaikoura earthquake does not appear to have weighed on growth over the December quarter. If anything, it may have done the opposite – Stats NZ has noted that transport activity was up in the South

Island (due to the need to take longer alternative routes), and civil construction (roading, earthmoving etc) was boosted over the quarter. So that suggests we're unlikely to see a quake-related rebound in activity in this or coming quarters.

Q1 current account, 14 June

We expect the current account deficit to widen from 2.7% to 3.0% of GDP, effectively reversing the narrowing that we saw in the December quarter.

In seasonally adjusted terms, the goods trade deficit widened to more than $1bn, its weakest since 2008. While New Zealand's terms of trade reached a new high in the March quarter, trade volumes remained unfavourable – in particular, dairy export volumes fell sharply for the second straight quarter.

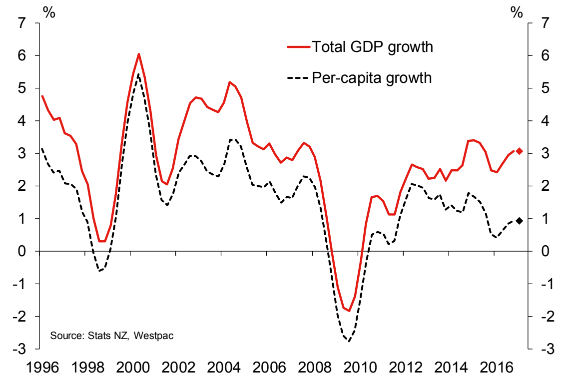
Dairy products tend to be shipped with a lag of about three months after production, so the weakness in exports reflects the slow start to the dairying season last year. Milk volumes have since recovered as farmgate milk prices have improved, so we expect a strong catch-up bounce in export volumes over the rest of this year. For similar reasons, we don't think that weak exports will weigh heavily on GDP growth, as they're likely to be offset by stockbuilding.

The services balance remains strongly in surplus, but is likely to have narrowed compared to the record high seen in the December quarter. Spending by overseas tourists in New Zealand was up slightly, but this was more than offset by rising spending by New Zealanders travelling overseas.

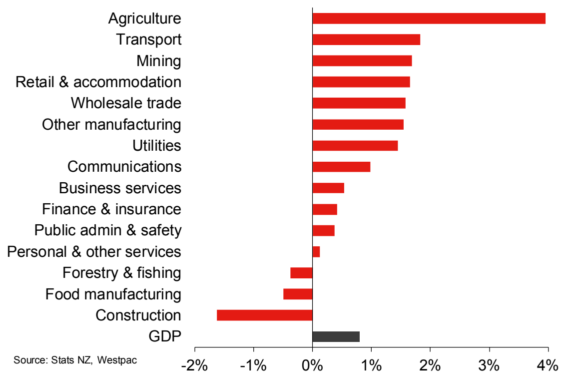
We expect the investment income deficit to widen, largely because the December quarter appears to have captured some windfall gains from New Zealanders' investments overseas. Earnings of foreign-owned companies in New Zealand appear to have been fairly steady for the quarter.

Michael Gordon
Acting Chief Economist

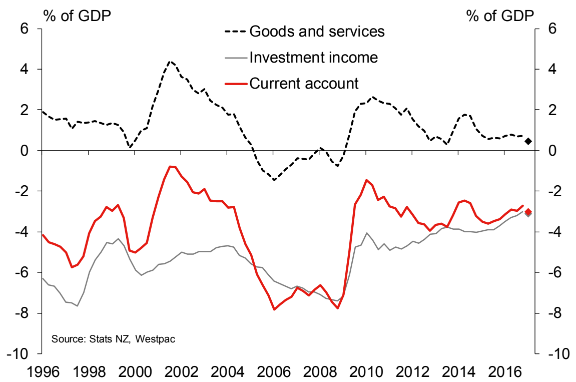
Annual GDP growth



Q1 GDP changes by sector



Annual current account balance



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