Growth to rebound in Q2

Preview of NZ Q2 GDP (21 Sep, 10.45am) and current account (20 Sep, 10.45am)

14 September 2017

- We estimate that GDP rose by 0.8% in the June quarter, to be up 2.8% over the past year.
- In part, the expected firmness in the June quarter reflects a rebound from earlier temporary weakness in the agriculture and transport sectors. We also saw a strong gain in retail spending over the quarter.
- On the downside, the construction sector has encountered roadblocks, and there has been softness in non-food manufacturing.
- The annual current account deficit is expected to remain around 3.1% of GDP.

	Mar-17 actual	Jun-17 Westpac f/c
GDP		
Quarterly % chg	0.5	0.8
Annual % chg	2.5	2.5
Annual average % chg	3.0	2.8
Balance of Payments		
Current account balance $m, s.a.	-2,836	-1794
Annual balance $m	-8132	-8192
Annual balance % of GDP	3.1	3.1

We expect next week's GDP figures to show a rebound in growth over the June quarter to 0.8%. That follows subdued growth in both the December and March quarters that was weighed down by temporary factors. Our forecast is lower than the 0.9% rise that the Reserve Bank expected in its most recent *Monetary Policy Statement*.

The annual current account deficit is expected to remain around 3.1%. On a seasonally adjusted basis, we expect improvements in both the quarterly goods and services balances, underpinned by increases in dairy and tourism exports.

June quarter GDP growth, 21 September

We're expecting a 0.8% rise in GDP in the June quarter. That would leave the level of output in the economy up 2.8% over the past year.

In part, our forecast for the June quarter reflects a rebound after softness in the past two quarters – 0.4% in the December quarter and 0.5% in the March quarter – each of which were held back by temporary factors. Milk production was weak at the end of last year due to poor weather and low returns to dairying. In addition, transport services in parts of the South Island were disrupted by the Kaikoura earthquake last November, then the wildfires around Christchurch in February. As these disruptions have passed, both agricultural production and transport services are expected to rebound in the June quarter, helping push GDP growth up to 0.8%.

In addition to the reversal of earlier temporary weakness, strong retail spending also boosted GDP growth in the June quarter. Retail spending levels rose by 2% over the quarter, underpinned by strong population growth and the strong tourist season.

Balanced against the above boosts to growth, we are seeing signs of softness in some parts of the economy. Most notable has been the slowdown in construction. The Building Work Survey (which is an input to the GDP figures) recorded a decline in construction activity of 0.5% in the June quarter, following a sharp 3.3% decline in March. Despite a large pipeline of planned work and growing demand for housing, a number of factors are providing a brake on building activity, especially in Auckland. These include rising costs, limited capacity and a tightening in credit conditions. On top of those factors, post-earthquake reconstruction in Canterbury is continuing its gradual wind- down.

We're also seeing some softness in the manufacturing sector, with the latest Economic Survey of Manufacturing showing only a small lift in output over the June quarter. Growth in food manufacturing was unsurprisingly strong June, with large gains in dairy and meat processing on the back of more favourable farmgate prices. There was also a strong lift in other food and beverage manufacturing. However, output was down across most of the other categories, including a reversal of the large March quarter jump in transport and machinery manufacturing.

With much of the June quarter rise in activity a result of temporary factors, such as the recovery in agricultural production and spike in tourist arrivals, this will likely be the high point for GDP growth. Looking to the remainder of 2017, we expect that growth will ease off. Notably, it seems likely that construction (which was a key driver of GDP and employment gains in recent years) is in for a period of more gradual growth.

June quarter current account, 21 September

We expect the annual current account deficit to remain around 3.1% of GDP.

In seasonally adjusted terms, last quarter's deterioration in the goods balance is set to reverse, with the goods deficit expected to narrow from $1bn to $400m. Underpinning this recovery has been a lift in dairy exports volumes and prices following weakness in the previous two quarters. Meat exports have also continued to climb.

The services balance is expected to continue rising from already firm levels. This mainly reflects ongoing strong growth in tourism exports, with a record inflow of international visitors over the past year. Tourism exports are likely to be particularly strong in the June quarter as a result of the boosts to spending from the Masters Games and Lions tour.

The investment income deficit is expected to remain stable.

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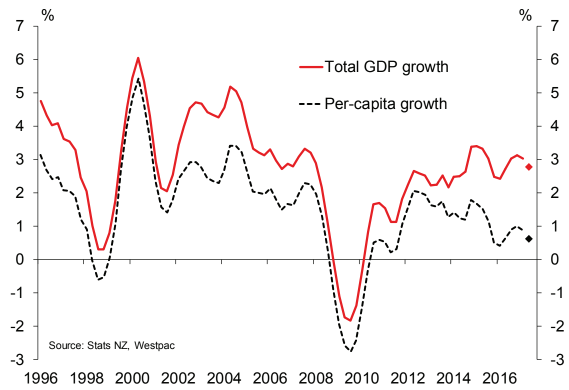
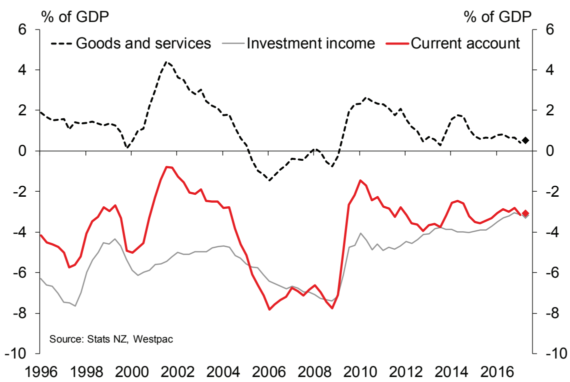
Annual average GDP growth



Q2 GDP changes by sector

Annual current account balance



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