# Easing back

## Preview of December 2016 GDP (16 Mar, 10.45am) and current account (15 Mar, 10.45am)

**10 March 2017**

- **We estimate that GDP rose by a modest 0.5% in the December quarter, following 1.1% growth in September.**
- **Construction is again expected to be one of the strongest sectors, with primary production and manufacturing likely to be the most significant drags on growth.**
- **The annual current account deficit is forecast to narrow to 2.7% of GDP, supported by a rebound in tourism exports.**

| | Sep-16 actual | Dec-16 Westpac f/c |
|---|---|---|
| GDP | | |
| Quarterly % chg | 1.1 | 0.5 |
| Annual % chg | 3.5 | 3.0 |
| Annual average % chg | 3.0 | 3.2 |

| | | |
|---|---|---|
| Balance of Payments | | |
| Current account balance $m, s.a. | -1,899 | -1,760 |
| Annual balance $m | -7,480 | -7,150 |
| Annual balance % of GDP | -2.9 | -2.7 |

We expect the December quarter national accounts to paint a moderate picture of the New Zealand economy. After the heady 1.1% pace of growth in September, we're forecasting that quarterly growth eased to 0.5% in December. That's a bit weaker than we'd been expecting previously, and below the 1% gain that the Reserve Bank forecast in its February *Monetary Policy Statement*. Market pricing for rate hikes has been pared back a fair bit over the past month, and a softer growth outturn could see markets further reconsider the probability of rate hikes within the next year.

Indicators over the past few months have suggested that the economy rounded out 2016 in decent shape, albeit at a slower pace of growth than seen in the September quarter. Business confidence eased back from Q3's lofty levels, and the jobs data painted a similar picture for the pace of growth. Detailed sector-level data confirms that there was an element of timing to September's strong GDP outturn, which was boosted by especially strong gains in some areas that look to have been pared back. There were a couple factors dragging on growth in the December quarter, including declines in milk and meat processing, that will bounce back in March, while the Kaikoura earthquake in mid-November likely displaced some activity.

### Q4 GDP, 16 March

We expect growth of 0.5% in the production measure of GDP, with construction again expected to be one of the main contributors to growth. Increased demand from a rising population is expected to show through in some of the services categories, with personal services (such as healthcare and arts and recreation) expected to record strong growth. However, businesses services are looking a bit softer this quarter after a string of solid gains, and retail spending was surprisingly moderate against strong gains in the population and tourist numbers.

The two notable drags on growth for the quarter come from primary production and manufacturing. Agriculture looks to have dragged on growth for the second consecutive quarter, as damp spring conditions continued to weigh on milk production, while a very slow start to the slaughter season weighed on food manufacturing. However, with milk production recovering well in early 2017, agriculture should finally return to the positive side of the ledger in the March quarter. Meanwhile, after surging 9% in September, forestry production eased back a bit, and mining production is expected to fall due to a shutdown in the Maari oil platform in November (production came back online in early January).

## Q4 current account, 15 March

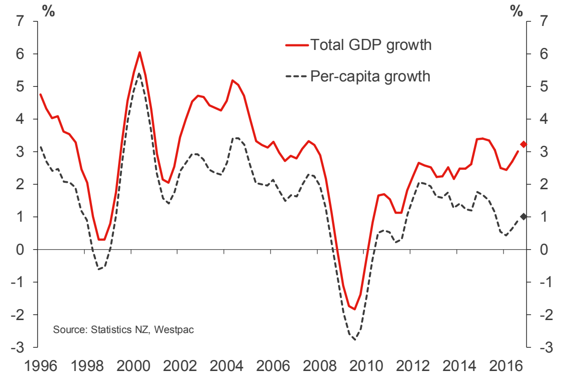
We expect the current account deficit to narrow to 2.7% of GDP, which would make it the smallest deficit since September 2014.

There are a couple of factors contributing to the improved balance in December. Tourism exports are expected to bounce back strongly, after softening in the previous six months. The decline in spend per person that had been weighing on tourism earnings looks to have halted in the December quarter, while growth in visitor arrivals accelerated. And on the goods side, New Zealand's import bill continues to be held down by low import prices, which fell over 6% in the year to December, while last year's recovery in global dairy prices begun to bolster export receipts in the December quarter.

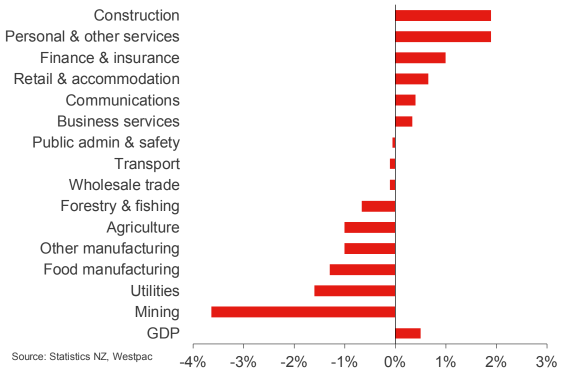
We expect the investment income deficit to widen in the quarter, reflecting an improvement in profits of overseas-owned firms. However, on an annual basis, the deficit is expected to narrow to 3.1%. This is very low relative to history, reflecting low interest rates reducing interest payments on New Zealand's stock of debt and improved national saving.

**Sarah Drought**
Economist

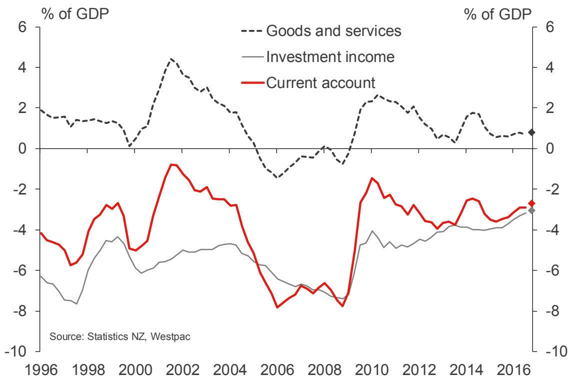
### Chart 1: Annual growth and per-capita




### Chart 2: Changes by sector




### Chart 3: Current account balance



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