Late fade

Preview of Q4 GDP (15 Mar, 10.45am) and current account (14 Mar, 10.45am)

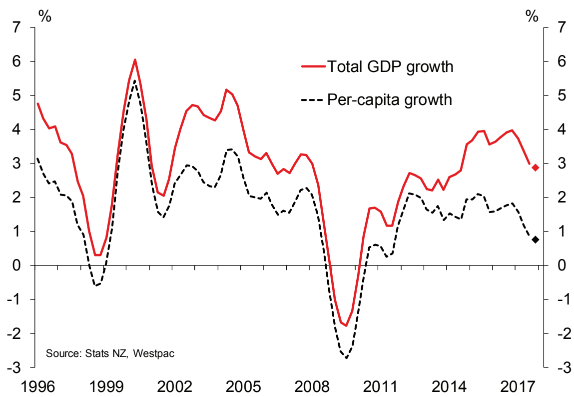
9 March 2018

- The December quarter national accounts are expected to highlight the slowing in the New Zealand economy's momentum over the last year.
- We expect a 0.6% rise in GDP for the quarter, similar to the subdued pace in the previous quarter.
- Retail and wholesale turnover were relatively brisk, but the services sectors were generally subdued, milk production fell, and the construction sector faced constraints on growth.
- The current account deficit is expected to widen slightly, but it remains well within the range of what would be considered sustainable.

	Sep-17 actual	Dec-17 Westpac f/c
GDP		
Quarterly % chg	0.6	0.6
Annual % chg	2.7	3.0
Annual average % chg	3.0	2.9

Balance of Payments		
Current account balance $m, s.a.	-1,310	-1,680
Annual balance $m	-6,860	-7,250
Annual balance % of GDP	-2.5	-2.6

Annual average GDP growth



We expect the December quarter national accounts to continue the theme the momentum in the New Zealand economy slowed over the course of 2017. We estimate that GDP (released on Thursday 15 March) rose by 0.6%, a similar pace to the September quarter. With population growth still running strong at about 0.5% a quarter, this would mark the second quarter when growth has been barely above zero in per capita terms. The current account deficit (Wednesday 14 March) is expected to remain well contained despite a surge in imports over the quarter.

Our GDP forecast appears to be on the lower side of the market, though we haven't seen the full range of forecasts yet. (Yesterday's manufacturing survey prompted us to revise down our forecast from 0.8% to 0.6%, and others may also make adjustments.) The Reserve Bank forecast a 0.7% rise in its *February Monetary Policy Statement*. A result in line with our forecast would bring the market closer towards our view that the OCR is unlikely to be raised before late 2019.

Q4 GDP, 15 March

We expect a 0.6% rise in the production measure of GDP. That compares to an average growth rate of 0.8% over the previous three quarters of 2017. For the year as a whole, we expect the growth rate to slow to 2.9%, compared to a peak of 4% growth in 2016.

There are no obvious one-off factors driving the quarterly result, just modest growth across a range of sectors. Goods turnover was relatively brisk in the December quarter, with some of the strongest gains seen in the retail, wholesale and transport sectors. However, growth in services was more subdued.

Construction was mixed, with the building work survey showing flat homebuilding, but a rise in non-residential building. We've also assumed that non-building construction (not covered in the survey) will retrace after a 9% jump last quarter. The construction sector is increasingly facing capacity constraints, and is unlikely to match the rapid growth rates of previous years.

The poor season for dairying continued into the December quarter, although milk collections didn't fall short by as much as they did in the September quarter. Collections picked up strongly in October, before an unusual dry spell hammered pasture growth in November.

Q4 current account, 14 March

We estimate that the annual current account deficit widened slightly to 2.6% of GDP. The previous outturn is expected to be revised from 2.6% to 2.5%, as a result of some recent revisions to the figures on foreign aid flows.

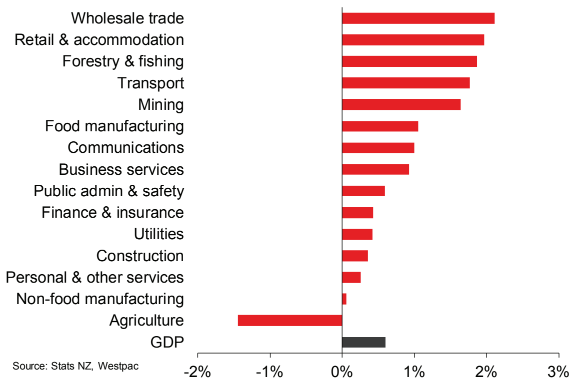
In seasonally adjusted terms, the good trade deficit is expected to have widened by about half a billion dollars in the December quarter. A modest rise in export volumes was overshadowed by a surge in import volumes, led by imports of capital equipment and vehicles (including two more Boeings for Air New Zealand's fleet). These imports add to the trade deficit for now, but they will increase the economy's productive capacity over time.

The services surplus was broadly unchanged in the December quarter. There was strong growth in tourist numbers both into and out of the country.

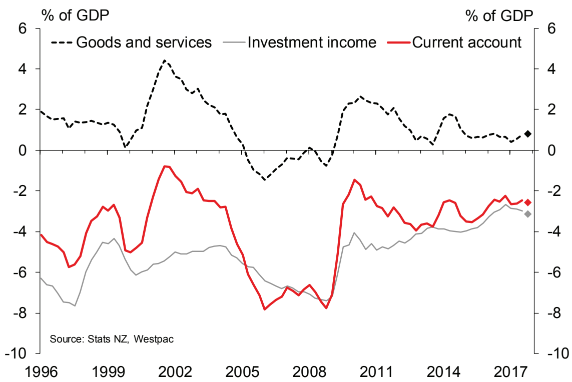
We expect a slight narrowing of the investment income deficit for the December quarter, with a pullback in profits of overseas-owned firms after a few unusually strong quarters. This should still contribute to a widening in the annual deficit, as the deficit in the December quarter last year was unusually small.

Michael Gordon
Senior Economist

Q4 GDP changes by sector



Annual current account balance



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