More of the same

Preview of Q1 GDP and current account

12 June 2019

- We expect a 0.6% rise in GDP for the March quarter, a similar pace to previous quarters.
- A burst of building activity will account for about half of the growth over the quarter.
- Agriculture and manufacturing were soft, and service sector growth has continued to slow.
- Our GDP forecast is in line with the market, but is slightly ahead of the Reserve Bank's forecast. A more robust than expected starting point for the economy would help to keep the RBNZ in watch and wait mode.
- We expect the annual current account deficit to remain at 3.7% of GDP. Stronger dairy exports will offset weaker tourism earnings and a larger outflow of returns to overseas investors.

	Dec-18 actual	Mar-19 Westpac f/c	Mar-19 RBNZ f/c
GDP			
Quarterly % chg	0.6	0.6	0.4
Annual % chg	2.3	2.4	2.2
Annual average % chg	2.8	2.6	2.6
Balance of Payments			
Current account balance $m, s.a.	-2,471	-3,340	-2,710
Annual balance $m	-10,974	-11,010	-10,380
Annual balance % of GDP	-3.7	-3.7	-3.5

Next week's national accounts are expected to show little change in the direction of the New Zealand economy in the early part of 2019. We estimate that GDP rose by 0.6% in the March quarter, in line with the average quarterly pace seen last year, but down from the peaks of previous years. We expect the current account deficit to remain at 3.7% of GDP, with only a modest improvement in the country's overseas trade performance.

Our GDP forecast appears to be in line with other market forecasts, but is higher than the 0.4% that the Reserve Bank assumed in its May *Monetary Policy Statement*. As we've noted before, the RBNZ was already braced for some soft near-term data when it decided to cut the OCR last month, and further rate cuts would require some fresh downside surprises. Instead, the New Zealand economy looks to be a little more robust than the RBNZ expected – not by enough to take OCR cuts off the table, but enough leave the RBNZ in watch and wait mode for now.

Our view remains that GDP growth will gradually pick up over 2019 and peak in 2020, supported by higher government spending, a strong pipeline of construction work, and a lift in labour incomes. Where we are more upbeat than most is our view on housing. We expect the recent sharp fall in mortgage rates and the ruling-out of a capital gains tax to provide fresh stimulus to the housing market, which in turn will boost consumer spending over the coming year.

Q1 GDP, 20 June

We expect a 0.6% increase in the production measure of GDP for the March quarter, matching the pace seen in the December quarter. Annualised growth has slowed to around 2.5%, compared to a peak of around 4% growth in 2016.

A burst of construction activity in the March quarter enlivened what was otherwise shaping up to be a subdued result. The recent growth in building consents had already made it clear that there was a substantial amount of work in the pipeline for the coming year, but the 6.2% jump in building activity for the quarter was much stronger than expected. We've assumed a more modest result for non-building construction, which has been weighed down lately by capacity constraints and the completion of quake-related work. Construction accounts for about half of the growth in our forecast for the quarter.

The primary industries appear to have had mixed fortunes. We expect a drop in agricultural output, with dry conditions dragging down milk production in February and March. In contrast, we expect forestry and mining to rebound from their December quarter declines. In the latter case, maintenance shutdowns at the Pohokura gas field appear to have been more than offset by strong production from other wells.

We expect a strong lift in food manufacturing, mostly driven by beverages which can be quite jumpy from quarter to quarter. In contrast, non-food manufacturing shrank for the third quarter in a row.

The recent slowdown in growth has been particularly noticeable in the service industries, a trend that we expect will continue in the March quarter figures. The Quarterly Employment Survey showed a fall in hours worked for most personal and professional services, except for healthcare. Retail was weighed down by a fall in hospitality spending, reflecting a drop in overseas visitor numbers over the quarter. Rental, hiring and real estate services are expected to be soft on the back of a sharp drop in house sales.

On the more positive side, transport activity has continued to grow at a solid pace, and we've assumed a 1% rise in communications which is in line with recent trend growth. Public services have continued to rise, although we're expecting a smaller increase compared to the large gains in previous quarters.

For the expenditure measure of GDP we're also expecting a 0.6% rise, with gains in household consumption, government spending and construction, while business investment remains subdued. There was a surge in dairy exports in the March quarter, but this is likely to have come out of stocks, leaving no net impact on GDP.

Q1 current account, 19 June

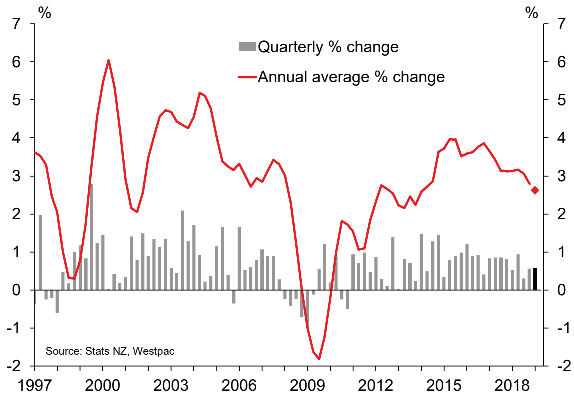
We expect the annual current account deficit to hold steady at 3.7% of GDP. This would leave the deficit at its widest since September 2013.

We expect a marginal improvement in the good trade deficit for the March quarter, with a strong lift in export volumes helping to offset lower dairy export prices and higher oil import prices. In contrast, we expect the balance on services to soften, reflecting the drop in tourist numbers. We expect an increase in the investment income deficit, due to higher profits for overseas-owned firms.

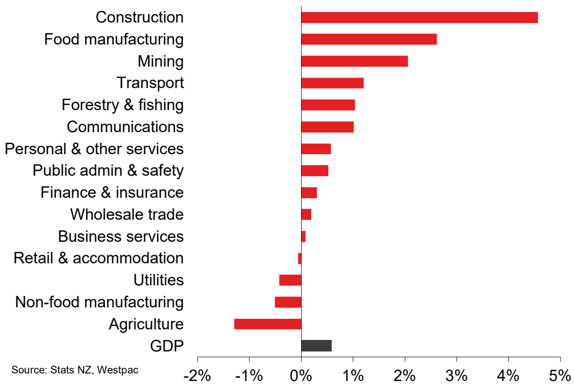
The current account deficit still a long way from the blowout that was seen in the years before the Global Financial Crisis. But it is starting to reach levels that would be associated with a worsening in New Zealand's net overseas debt position, after a decade-long trend of improvement.

Michael Gordon
Senior Economist

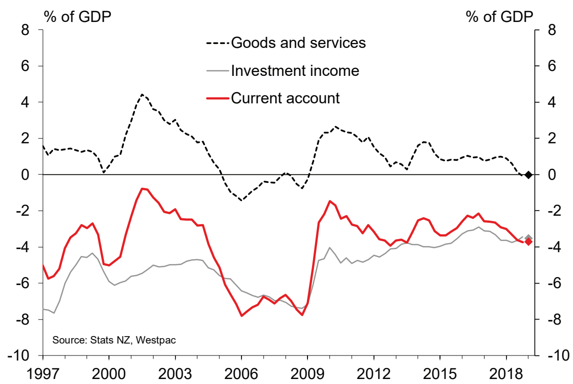
GDP growth



Q1 GDP changes by sector



Annual current account balance



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