Holding up for now.

Preview of Q2 GDP and current account.

- We expect a 0.6% rise in GDP for the June quarter, matching the pace seen in the previous two quarters.
- Service sector activity looks to have picked up after a particularly soft patch in the March quarter, while construction, mining and food manufacturing are likely to have eased back.
- Our GDP forecast is slightly above the Reserve Bank's forecast and at the upper end of market forecasts.
- A result in line with our view is unlikely to move the dial for the RBNZ. We expect no change at the September OCR review, but a further cut in November.
- We expect the annual current account deficit to narrow to at 3.4% of GDP, subject to the impact of annual data revisions. Exports picked up in the quarter while imports were flat.

	Mar-19 actual	Jun-19 Westpac f/c	Jun-19 RBNZ f/c
GDP			
Quarterly % chg	0.6	0.6	0.5
Annual % chg	2.5	2.2	2.0
Annual average % chg	2.7	2.5	2.4
Balance of Payments			
Current account balance $m, s.a.	-2,614	-2,360	-3,050
Annual balance $m	-10,624	-10,120	-10,880
Annual balance % of GDP	-3.6	-3.4	-3.6

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Next week's release of the June quarter national accounts will help to provide some perspective on the state of the economy, amid growing market concerns about a downturn. We're expecting a 0.6% rise in June quarter GDP, matching the rate of growth in the previous two quarters. That wouldn't be a great result – the pace of growth is clearly down from the highs seen in 2016 and 2017 – but it would at least suggest that there hasn't been a further deterioration so far this year. We also expect a narrowing in the current account deficit, reflecting an improved performance for exporters.

Our GDP forecast is a little above the Reserve Bank's estimate of 0.5%, and looks to be on the higher side of the range of market forecasts. A stronger GDP result on its own probably wouldn't do much to shift market expectations of further OCR cuts, given that there's already little chance of a cut priced in for the September OCR review the following week. We expect a further OCR cut at the November *Monetary Policy Statement*, by which time the RBNZ will armed with further data on inflation, the labour market, house prices, and of course whatever may transpire overseas.

Q2 GDP, 19 September.

We expect a 0.6% increase in the production measure of GDP for the June quarter. This would see annual average growth slow further to 2.5%, compared to a peak of around 4% growth in 2016.

While we're expecting growth to be no faster than it was in the previous quarter, the breakdown of our forecast is a little more encouraging. In particular, the services sectors are looking in better shape, with an expected gain of 0.8% in the June quarter after a weak 0.2% rise in the March quarter. Not only are services a major part of the economy – making up around 70% of GDP – their performance tends to be more persistent, and less subject to one-off factors.

Business and personal services are expected to make the biggest contributions to growth in the June quarter. We also expect solid gains in financial services, wholesale trade, transport and government services. Not all services sectors fared so well, however, with retail spending rising by just 0.2% for the quarter. We put at least some of this down to the cooling housing market, which has weighed on households' wealth and hence their willingness to spend.

We expect a boost for the agricultural sector, led by a 4% rise in dairy production. While the June quarter is normally a lull in the dairying season, milk collections were up in seasonally adjusted terms compared to the March quarter.

The sectors with the biggest expected declines in the June quarter are all coming off sharp gains in the previous quarter. We expect a 2.6% drop in food manufacturing after a 3.8% rise last quarter, due to volatility in fruit, beverage, and meat processing. Mining was boosted in the March quarter by exploratory drilling, which ended without success. And the construction couldn't quite maintain its previous level of activity after a 3.7% surge in the March quarter.

We expect GDP growth to remain subdued in the second half of this year. While there is already substantial monetary and fiscal stimulus in place, we think it will take some time for this to have an impact on households' willingness to spend.

Q2 current account, 18 September.

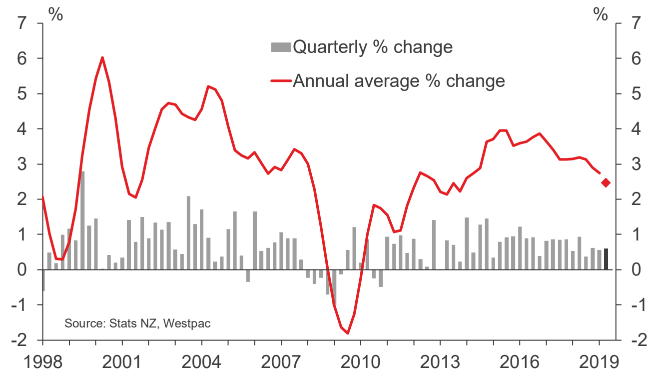
We expect the annual current account deficit to narrow to 3.4% of GDP in June, from 3.6% in March. However, these figures are subject to the impact of annual revisions, which are incorporated into June quarter releases.

The expected narrowing in the current account deficit is due to an improvement in the trade balance. Goods exports rose in seasonally adjusted terms, as rising prices outweighed a pullback in volumes, while imports were closer to flat. More importantly, exports were significantly stronger compared to a year ago, when they were being weighed down by lower dairy prices and volumes. We also expect a small increase in the services balance, led by higher exports.

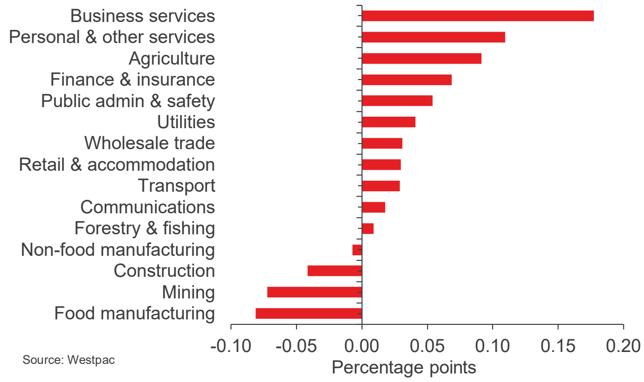
We expect a widening in the investment income deficit, which was unusually small in the March quarter. However, we expect the June quarter to be on a par with the same time last year, which means no impact on the annual current account balance.

Annual revisions to trade in services have already been published, showing an increase in the already sizeable trade surpluses over the last few years. On their own, these revisions would narrow the current account deficit by as much as 0.3% of GDP. However, we don't have any steer on the upcoming revisions to investment income, which can be even larger than this.

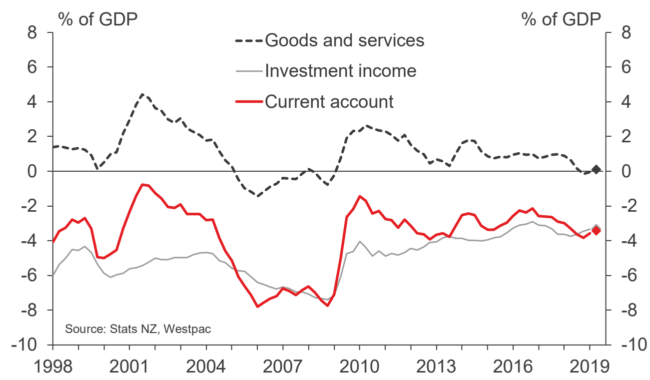
GDP growth



Forecast contributions to Q2 GDP



Annual current account balance



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