Economic Bulletin.

10 December 2019

Preview of NZ Q3 GDP and current account.

- We expect a 0.5% rise in GDP for the September quarter, similar to the pace seen in the previous quarter.
- Conditions were mixed over the quarter. Retailing, manufacturing and business services saw solid gains, while forestry, travel and personal services were soft.
- Annual revisions will lift the level of nominal GDP growth in recent years, though the impact on real activity is unclear.
- GDP growth has slowed over the course of this year, but there are tentative signs that we have reached the low point.
- Our GDP forecast is likely to be within the range of other market forecasts, but is stronger than the Reserve Bank's estimate of 0.3%.
- We expect the current account deficit to hold steady at 3.4% of GDP, with weaker exports offset by a smaller investment income deficit.

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	Jun-19 actual	Sep-19 Westpac f/c	Sep-19 RBNZ f/c
GDP			
Quarterly % chg	0.5	0.5	0.3
Annual % chg	2.1	2.3	2.1
Annual average % chg	2.4	2.3	2.3
Balance of Payments			
Current account balance $m, s.a.	-2,381	-2,770	-2,080
Annual balance $m	-10,137	-10,350	-9,760
Annual balance % of GDP	-3.4	-3.4	-3.2

Next week's release of the September quarter national accounts is set to deliver some modestly positive news to end the year on. The pace of growth has clearly slowed over the course of this year, as the economy has faced a range of headwinds. We've been saying for some time that we expect the September quarter will mark the low point for growth. While we think that will still be the case, the trough is shaping up to be not quite as deep as we expected.

We expect a 0.5% rise in GDP for the September quarter, close to the previous quarter's result (slightly lower in unrounded terms). That's up from our previous forecast of 0.3%, largely due to yesterday's stronger than expected figures for the manufacturing sector. The monthly manufacturing PMI (which purports to be a gauge of activity, rather than sentiment) had suggested that the sector was contracting over the quarter. However, that turned out not to be the case.

Consequently, we now expect GDP growth to exceed the 0.3% that the Reserve Bank predicted in its November *Monetary Policy Statement*. Other market forecasters, with the benefit of the most up-to-date information, have been revising up their estimates as well.

For the current account, we expect the deficit to hold steady at 3.4% of GDP. A larger trade deficit, due to lower exports, is expected to be offset by a smaller investment income deficit.

Q3 GDP: 19 December, 10:45am.

We expect a 0.5% rise in the production measure of GDP for the September quarter. The gains will be shared across the primary sector, manufacturing and services.

We expect a 1.6% gain in the agricultural sector, led by a lift in milk collections after a slow start to the dairying season. This will have also helped to lift food manufacturing, along with a rise in slaughtering to meet Chinese demand for beef and lamb. In contrast, forestry will see a sharp drop in output, after a mid-year slump in log export prices led to a pullback in harvesting.

Performance within the manufacturing sector was mixed, but we estimate that overall activity rose by 1%. Construction was up slightly, with a small drop in homebuilding but further gains in non-residential activity. The electricity sector is likely to be a drag on growth, partly unwinding a strong rise in the June quarter.

Retailing and hospitality were among the highlights for the quarter, with an estimate gain of 1.8%. However, spending on other personal services such as health, travel, arts and recreation was on the soft side.

Business-related services appear to have been strong overall. Real estate and financial services have picked up the pace as house sales have started to rebound, and professional and administrative services saw a strong rise in hours worked.

We also expect a 0.5% rise in the expenditure measure of GDP. This measure provides a useful lens on how New Zealand's recent economic performance compares with Australia. The Australian GDP figures for the September quarter, released last week, showed ongoing weakness in private sector demand, down by 0.3%. Government spending and exports were the saving grace.

In contrast, private demand in New Zealand looks to have been quite strong – we expect a 1% rise in household spending and a 0.9% rise in investment. Government spending is also expected to make a strong contribution. The main point of weakness in our forecast is a sharp drop in export volumes, particularly in dairy and forestry. In the case of dairy, this probably reflects the timing of export shipments, and is likely to be balanced out by a rise in inventories.

On an annual basis, we expect the pace of growth to slow slightly to 2.3%, down from 3.1% a year ago. However, the extent of that growth slowdown could be even starker, depending on the impact of the annual revisions to the national accounts. Stats NZ has already revealed that the level of nominal GDP will be revised up by 1.7% for the year to March 2018. We don't know how much of that will consist of stronger real activity versus higher prices, but there is some chance that real GDP growth in previous years could be bumped higher as well.

Q3 current account: 18 December, 10:45am.

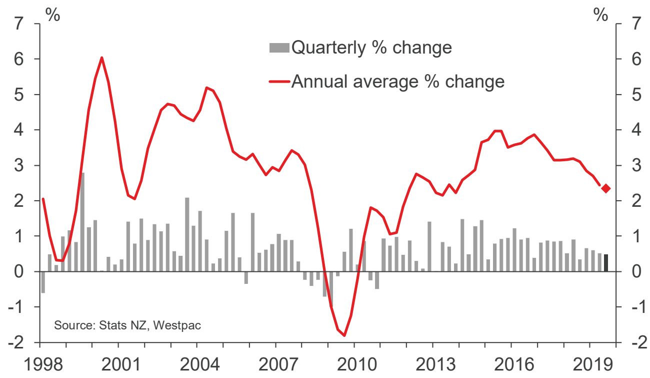
We expect the annual current account deficit to remain at 3.4% of GDP in September. We haven't accounted here for the upward revisions to nominal GDP, which could reduce this ratio slightly for the past couple of years.

The goods trade balance worsened over the quarter due to the sharp drop in export volumes, more than offsetting the rise in export prices. Import volumes rose slightly, with a notable lift in imports of plant and machinery. We also expect the services trade balance to be slightly weaker, with exports flat and imports higher.

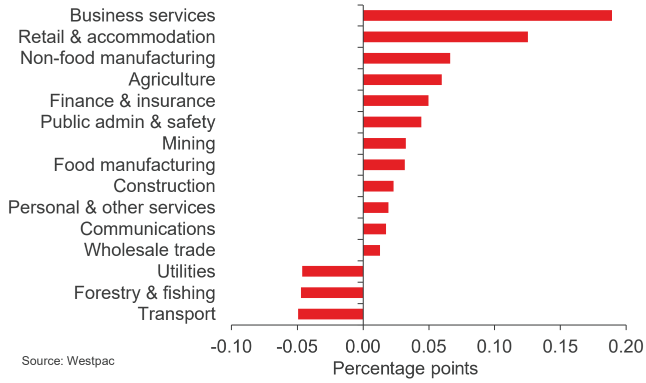
Offsetting this, we expect the investment income deficit to narrow for the September quarter. In particular, profits for overseas-owned banks were relatively low for the quarter.

The current account deficit is on the larger side of what we would consider to be sustainable over the long run. However, we expect it to improve a little over the next year, as recent improvements in export prices start to flow through.

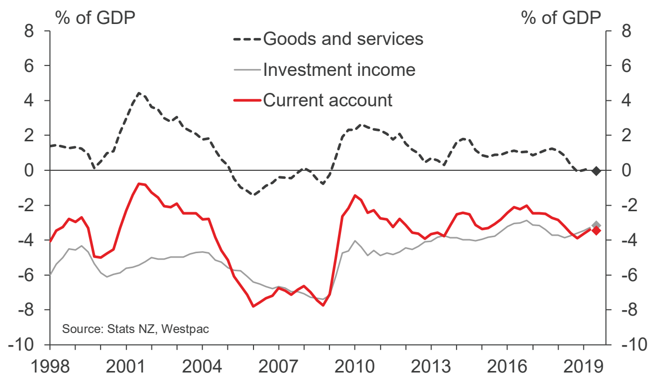
GDP growth



Forecast contributions to Q3 GDP



Annual current account balance



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