

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.

Michael Gordon, Senior Economist

+64 9 336 5670

	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.

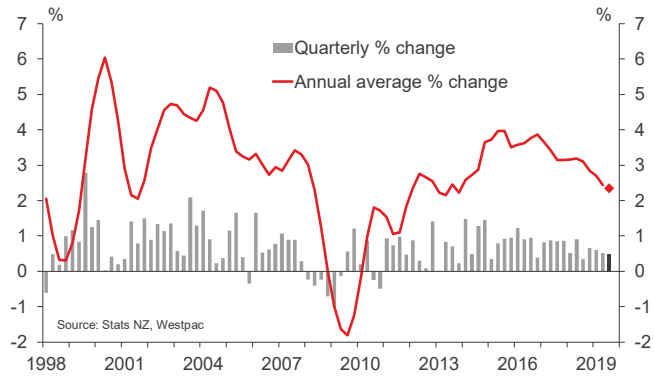
We expect the annual current account deficit to remain at 3.4% of GDP in September. We haven't accounted here for the upward revisions to nominal GDP, which could reduce this ratio slightly for the past couple of years.

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.

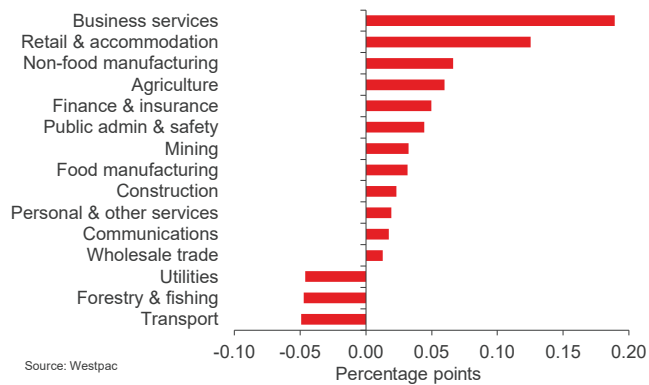
Offsetting this, we expect the investment income deficit to narrow for the September quarter. In particular, profits for overseas-owned banks were relatively low for the quarter.

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.

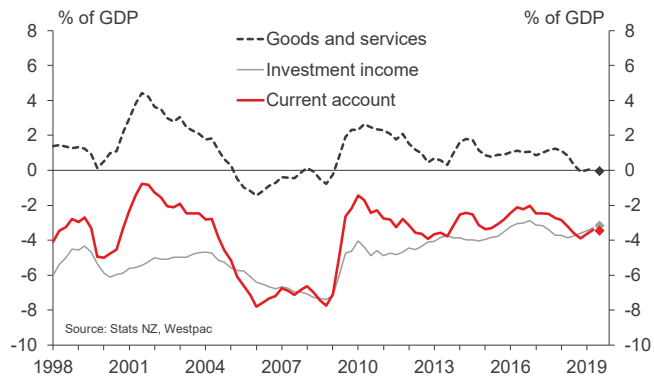
GDP growth



Forecast contributions to Q3 GDP



Annual current account balance



Contact the Westpac economics team.

Dominick Stephens, Chief Economist

+64 9 336 5671

Michael Gordon, Senior Economist

+64 9 336 5670

Satish Ranchhod, Senior Economist

+64 9 336 5668

Paul Clark, Industry Economist

+64 9 336 5656

Any questions email:

electronics@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Disclaimer.

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QF Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed,

directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts of interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.