Westpac

Institutional Bank

9 September 2015

Faster but slower

Preview of June 2015 quarter GDP (17 Sep, 10:45am) and current account (16 Sep, 10:45am)

- We estimate that GDP rose by 0.7% in the June quarter, as some of the temporary factors that weighed on March quarter growth were unwound.
- However, the economy's momentum has clearly slowed compared to last year.
- We expect the current account deficit to widen to 3.8% of GDP, with rising tourist spending providing only a small offset to weak dairy export prices.

	Mar 15 actual	Jun 15 Westpac f/c
Balance of Payments (16 Sep)		
Current account balance $m, s.a.	-1,779	-2,420
Annual balance $m	-8,604	-9,080
Annual balance % of GDP	-3.6	-3.8
GDP (17 Sep)		
Quarterly % chg	0.2	0.7
Annual % chg	2.6	2.6
Annual average % chg	3.2	3.0

The June quarter national accounts will be released next week. We expect the results will support our view that the New Zealand economy, while still holding its own, is losing momentum as dairying income plunges and the Christchurch rebuild tops out. Our forecast of a 0.7% rise in GDP (Thursday) partly reflects the reversal of some short-lived factors that depressed growth in the March quarter. However, the underlying pace of growth has clearly slowed since last year. The current account deficit (Wednesday) is likely to widen further as it captures the downturn in dairy export prices, a process that will probably take another year to fully play out.

We should note that Statistics NZ incorporates annual revisions and updates to both of these series in the June quarter releases. So the margin of uncertainty around our forecasts, especially in terms of the annual totals, is a little wider than usual.

Q2 GDP, 17 September

Our forecast of a 0.7% increase in GDP for the June quarter follows a surprisingly weak 0.2% rise in the March quarter. That previous weakness was partly due to three temporary factors over the quarter. First, milk production fell by 3.6% as drought gripped much of the South Island. Second, mining output fell sharply due to a partial shutdown at the Tui oil field while a new well was drilled. Third, low lake levels saw electricity generation shift away from more efficient hydro generation over the December and March quarters.

All of those factors were more than fully reversed in the June quarter. A strong end to the dairying season in the North Island meant that milk production rose by an estimated 8% in seasonally adjusted terms. The Tui oil field has returned to full operation, and in fact recorded its highest quarterly output in four years. We've conservatively assumed a 5% rise in overall mining activity, given that rising oil production may be countered by a further decline in exploration. And hydro's share of electricity generation has risen sharply.

Removing these volatile items would suggest an underlying growth pace of about 0.4% for each of the last two quarters – not recessionary, but a meaningful slowdown compared to last year, when annual growth topped 3% for the first time since the global financial crisis. What's more, some of the detailed data we've used to prepare our forecast give us cause for concern. The sharp fall in business investment that we saw in the March quarter doesn't appear to have been reversed, and wholesale trade and manufacturing (aside from dairy) have declined for two straight quarters. These are areas that touch on many parts of the economy.

As we saw in the building work survey earlier this month, the construction sector remains an important contributor to growth at the national level. However, homebuilding in Canterbury is now clearly past its peak; the growth is now being driven by commercial buildings and Auckland housing.

Q2 current account, 16 September

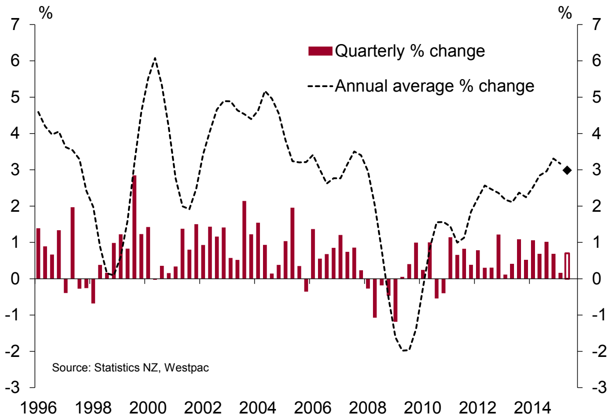
We expect the annual current account deficit to widen from 3.6% to 3.8% of GDP. That's not a particularly alarming level in light of the history of New Zealand's current account deficit. However, reporting the balance on an annual basis means that it tends to reflect market developments with a substantial lag. The plunge in dairy prices to date means that the annual deficit is destined to keep widening further over the next year, peaking at 5.7% of GDP before receding again.

We expect the goods trade balance to have moved further into deficit in seasonally adjusted terms. While the terms of trade improved over the quarter – another lagging reflection of dairy prices – we believe that trade volumes more than offset this, with a fall in export volumes and a small rise in imports. In contrast, we expect a further increase in the trade surplus for services, as tourist spending continues to surge.

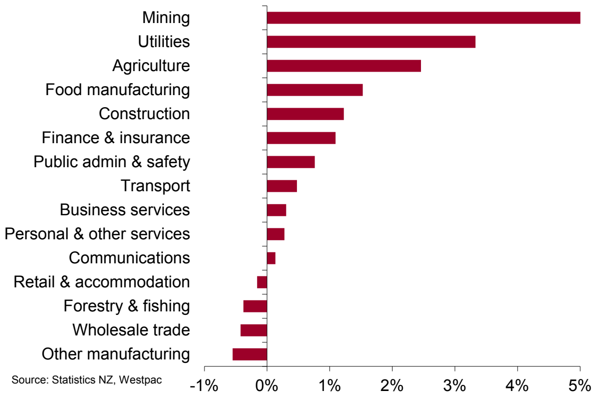
We expect the investment income deficit to widen compared to the March quarter, on stronger earnings for foreign-owned companies in New Zealand. However, with an even larger deficit from the June 2014 quarter dropping out of the calculation, we expect the annual deficit to narrow slightly.

Michael Gordon
Senior Economist

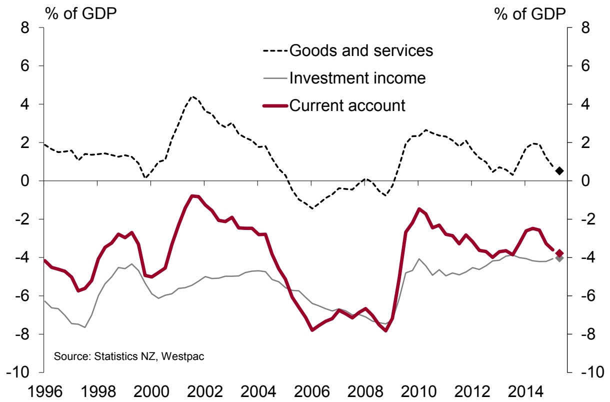
Production-based GDP growth



Q2 GDP growth by sector



Annual current account balance



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