Westpac
Institutional Bank

9 December 2015

End of year cheer

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

- We estimate that GDP rose by 0.9% in the September quarter, as partial payback for the disappointingly soft outturns over the first half of the year.
- Gains in manufacturing and services should more than make up for the softness in primary industries.
- However, even with a September quarter bounce, per-capita GDP growth has slowed to a below-trend pace.
- We expect the current account deficit to narrow slightly to 3.4% of GDP, due to higher export volumes and surging tourist spending.

	Jun15 actual	Sep 15 Westpac f/c
Balance of Payments (16 Dec)		
Current account balance $m, s.a.	-2,096	-1,890
Annual balance $m	-8,300	-8,165
Annual balance % of GDP	-3.5	-3.4
GDP (17 Dec)		
Quarterly % chg	0.4	0.9
Annual % chg	2.4	2.4
Annual average % chg	3.0	2.7

The September quarter national accounts, released next week, will provide some food for thought, given that opinions on both the economy and monetary policy are in flux at the moment. The most significant release for the market will be GDP (Thursday), which is set to bounce after two surprisingly soft reads in the first half of this year. We have long been calling a 0.7% increase for the quarter, but some late mail has pushed our forecast up to 0.9%. The current account balance (Wednesday) tends to get less market attention, although the narrowing of the deficit that we're expecting may be noteworthy, as it runs somewhat against the narrative of weak dairy export earnings.

On the face of it, a strong GDP outturn might weaken the case for the Reserve Bank to cut interest rates further (although the forecasts that it publishes in tomorrow's *Monetary Policy Statement* won't capture the very latest information on September quarter activity). But if we take a step back, it's clear that domestic inflation pressures remain very subdued. Even if September quarter GDP is as strong as we're expecting, it won't fully make up for the weakness over the first half of the year, and even less so once we account for population growth of around 2% a year. On a per capita basis, our forecast implies that GDP growth will drop to its slowest pace in four years.

Q3 GDP, 17 December

Our forecast of a 0.9% increase in September quarter GDP follows surprisingly weak outturns of 0.2% in the March quarter and 0.4% in the June quarter. While activity in the primary sectors looks to have been softer across the board, we expect to see strength across manufacturing and services.

The reasons for upgrading our GDP forecast were the wholesale and manufacturing surveys released early this week, which both recorded sizeable gains. Notably, these two sectors together provided the biggest drag on GDP growth over the first half of the year; it's an open question as to whether this volatility is genuine or just survey noise.

Agriculture is likely to be the weakest component this time, reversing its June quarter gains. We estimate that milk production was down 8% in seasonally adjusted terms, reflecting the poor start to spring pasture growth and the increased cow cull due to the low payout expected for this season. However, that combination of less milk and more beef appears to have been a net positive for food manufacturing, along with a lift in fruit processing and beverages.

As reported last month, retailing had another strong quarter of growth, after a pause in the June quarter. At least some of this strength will have been due to tourist spending, which has continued to record major growth in visitor numbers and spend per person over the last year.

Elsewhere, we expect solid gains in transport, based on an observed lift in revenue from road user charges; telecommunications, reflecting the increased uptake of uncapped broadband plans; and finance and real estate services, reflecting the surge in homebuying ahead of the regulations that took effect in October.

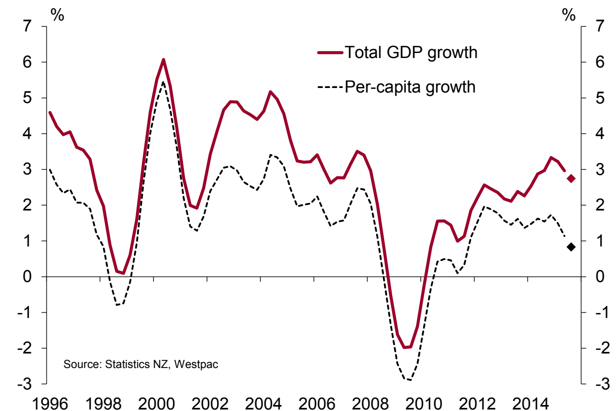
Q3 current account, 16 December

We estimate that the annual current account deficit narrowed slightly from 3.5% to 3.4% of GDP. In seasonally adjusted terms, we expect the goods balance to slide further into deficit. Export prices and volumes rose for the quarter, but these were more than offset by a sharp rise in the import bill due to the weaker New Zealand dollar.

In contrast, trade in services is expected to move further into surplus, in particular thanks to growth in tourist spending. The surge in tourist spending over the last year has been dramatic, and if sustained at current levels or higher, it would have major implications for the long-run outlook for New Zealand's current account balance.

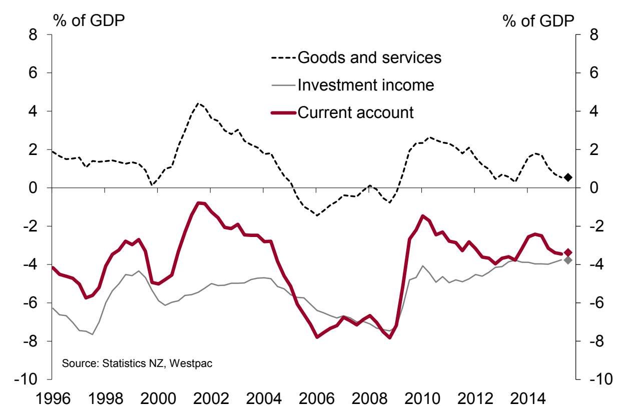
Michael Gordon
Senior Economist

Annual average GDP growth



Q3 GDP changes by sector

Annual current account balance



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