Westpac Institutional Bank

8 September 2016

Something for everyone

Preview of June 2016 GDP
(15 Sep, 10.45am) and current account (14 Sep, 10.45am)

- We estimate that GDP rose 1% in the June quarter, a pick-up from 0.7% growth in the March quarter.
- Growth is expected to be led (again) by a surge in construction, but is broadening across sectors.
- The annual current account deficit is estimated to narrow to 2.6% of GDP off the back of a surge in goods export volumes.

	Mar-16 actual	Jun-16 Westpac f/c
Balance of Payments (14 Sep)		
Current account balance $m, s.a.	-1,495	-1,215
Annual balance $m	-7,504	-6,414
Annual balance % of GDP	-3.0	-2.6
GDP (15 Sep)		
Quarterly % chg	0.7	1.0
Annual % chg	2.8	3.5
Annual average % chg	2.5	2.7

We expect the June quarter national accounts, released next week, to show the New Zealand economy in good shape. After decent, but not spectacular, growth of 0.7% in the March quarter, we're forecasting that quarterly growth picked up to 1% in June. We also expect positive news on the current account, with the annual deficit expected to narrow to 2.6% of GDP, bolstered by a surge in goods export volumes in the quarter and an upward revision to services exports.

Indicators for several months have been pointing to strengthening economic growth in the June quarter, with gains broadening beyond the construction sector. Business confidence perked up, retail sales posted the strongest quarterly gain since 2006, and primary production rebounded. Detailed data released over the past week reinforced this view, with the construction, manufacturing and wholesale trade surveys all reporting solid gains. This led us to revise our forecast for June quarter growth higher from 0.9% to 1%. While this will be an upside surprise to the RBNZ's forecast of 0.8%, we don't expect it to fundamentally change their view of the economy and the outlook for inflation.

However, while the headline numbers for growth will be the envy of many countries, the picture is far from perfect. A rapidly rising population (up 2.1% in the year to June) has been a significant factor boosting economic growth, meaning per-capita growth is much weaker, at an estimated 0.6% in the year to June.

Q2 GDP, 15 Sep

We expect growth of 1% in the production measure of GDP. And while, once again, the biggest contribution is expected to come from construction (which is forecast to rise 4.1%), the picture this quarter is looking more balanced across sectors.

The agricultural sector is expected to put in a better showing this quarter. An early cull of beef and cattle through the second half of 2015 (due to low dairy prices and concerns about a drought developing) weighed on meat and dairy production in the March quarter. The weather wasn't as bad as feared, and dairy production ended the season strongly (in seasonally adjusted terms). Meat processing looks to have recovered somewhat, providing a boost to food manufacturing in the June quarter. Non-food manufacturing also looks to have been strong across components in the quarter.

Consumer spending appears to have perked up, with retail trade rising an estimated 1.7%. While stronger spending is being boosted by a rapidly growing population, low interest rates and rising house prices are also providing support. A pick-up in house sales through the June quarter is expected to boost the rental, hiring and real estate category in GDP.

Meanwhile, the biggest drag on GDP growth is expected to come from mining production. This is expected to decline for the fourth consecutive quarter as New Zealand oil production trends down, although this series can be notoriously volatile on a quarterly basis due to limited information about oil exploration.

Current account, 14 Sep

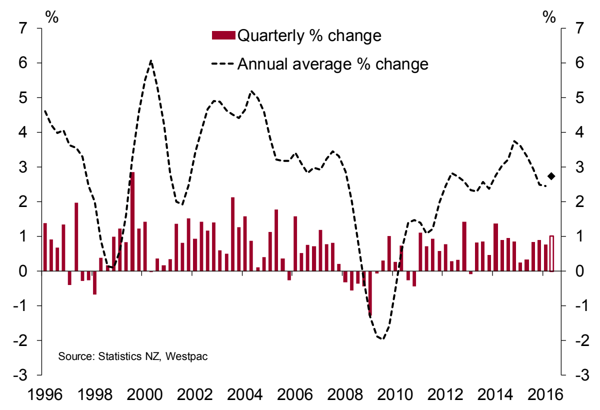
We expect the current account deficit to narrow sharply to 2.6% of GDP, which would be the smallest deficit since September 2014. The starting point in the March quarter should also improve by around 0.1 percentage points due to an upward revision to education exports (worth over $300m in the year to March, although with a small offsetting revision from higher imports).

The sharp narrowing in the annual deficit is quite remarkable given the terms of trade in the June quarter was down 3.9% for the year. Instead, the goods balance will be bolstered by a surge in goods exports volumes in the quarter (up about 10%). While some exports, such as fruit, are experiencing a bumper run, much of the strength in June quarter volumes looks to be a matter of timing after a couple of soft quarters, especially for meat and dairy exports. Exports will make a sizeable contribution to quarterly growth in the expenditure measure of GDP, but this is expected to be moderated by a large run-down in stocks.

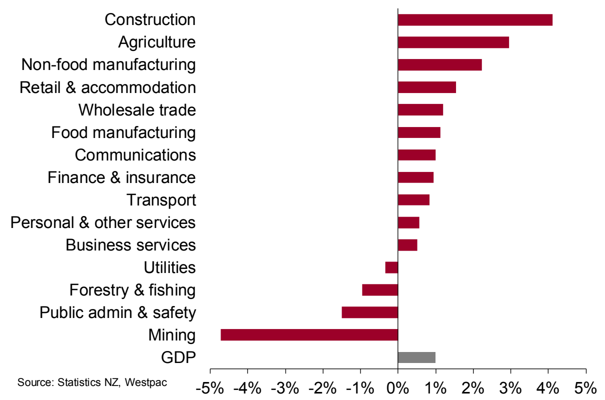
Meanwhile, strong service exports, led by tourism, continue to support the current account. The annual services balance is estimated to be around 1.7% of GDP, compared to only 0.4% two years ago. And for the investment income balance, a surprising drop in the outflow of investment income in the March quarter resulted in the smallest quarterly deficit in six years. This will continue to flatter the annual investment income balance, even if investment income outflows rose back to more normal levels in June as we expect.

Sarah Drought
Economist

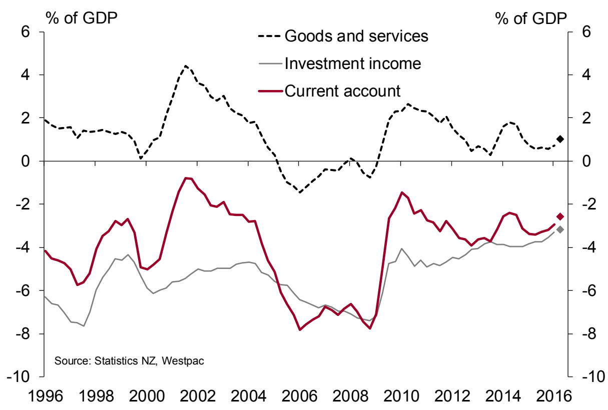
Production-based GDP growth



Q2 GDP changes by sector



Annual current account balance



Contact the Westpac economics team

Michael Gordon, Acting Chief Economist +64 9 336 5670
Satish Ranchhod, Senior Economist +64 9 336 5668
Anne Boniface, Senior Economist +64 9 336 5669
David Norman, Industry Economist +64 9 336 5656
Sarah Drought, Economist +64 9 336 5696
Any questions email: economics@westpac.co.nz

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 QFE 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 license 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 Regulatory Commission (CBRC). 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")

Disclaimer continued

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 in 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 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.