Westpac

Institutional Bank

10 June 2016

Slim pickings

Preview of March 2016 quarter GDP (16 Jun, 10:45am) and current account (15 Jun, 10:45am)

- We estimate that GDP rose by 0.6% in the March quarter, led by a surge in construction.
- Meat processing is likely to be the most significant drag on activity, a consequence of the increased cull last year.
- We expect the current account deficit to narrow to 3.0% of GDP, with lower oil prices reducing the import bill and tourism earnings continuing their strong run.

	Dec 15 actual	Mar 16 Westpac f/c
Balance of Payments (15 June)		
Current account balance $m, s.a.	-1,948	-1,700
Annual balance $m	-7,710	-7,440
Annual balance % of GDP	-3.1	-3.0
GDP (16 Jun)		
Quarterly % chg	0.9	0.6
Annual % chg	2.3	2.7
Annual average % chg	2.5	2.4

We expect some solid but not spectacular results from the March quarter national accounts, to be released next week. That won't leave financial markets with much to chew on – our forecasts are similar to the Reserve Bank's, and we suspect they will be close to the median market forecasts as well.

Our indicators have been suggesting for several months that economic growth in the March quarter would be decent, but something less than the 0.9% quarterly pace seen over the second half of last year. That's been confirmed by the more detailed data – in particular, the soft manufacturing and wholesale trade surveys this week have prompted us to revise down our GDP forecast from 0.7% to 0.6%. Meanwhile, we expect a further slight narrowing of the current account deficit, as weak dairy export prices are offset by positive factors elsewhere.

Q1 GDP, 16 June

We expect a 0.6% rise in the production measure of GDP, with the biggest contribution almost certainly coming from the construction sector. There was a surge in consents over the second half of last year, which translated into more building activity in early 2016. There have been some issues with seasonally adjusting the construction figures recently, due to a change in the building work survey, so we're not sure what the published growth rate will be. However, we expect it to be a strong number in any circumstance, and this issue doesn't affect the calculation of total GDP.

The main negative we expect for the quarter is meat processing. Over the second half of last year, low dairy prices and the possibility of an El Niño drought prompted a much larger than usual cull of both sheep and cattle. This boosted GDP over the September and December quarters, but we'll see the payback for this in the March quarter – the early cull meant fewer animals available later in the season. The impact on GDP should be temporary, with the level of meat processing likely to return to normal in the June quarter.

Otherwise, many of the primary sectors had a reasonable quarter. Milk production was up slightly in seasonally adjusted terms, and forestry, fruit and wine all saw strong gains. We expect a drop in mining activity due to the natural run-down of output from existing oil wells.

Consumers appear to have made a relatively modest contribution to growth for the quarter. The 1% rise that we expect for retail sales is less than the average of the last few years, even after the boost from rising tourist numbers. This may be linked to the fact that the housing market was subdued at the start of the year, following last year's investor regulations. House prices have since regained their ground, so we may see a perkier consumer in the June quarter.

Q1 current account, 15 June

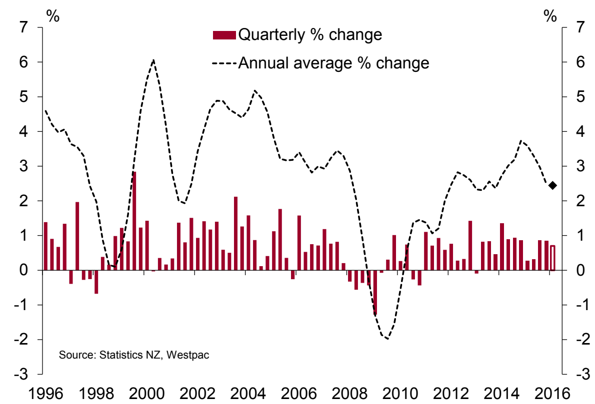
We expect the annual current account deficit to narrow slightly to 3.0% of GDP, which would make it the smallest deficit since September 2014. The plunge in world dairy prices has hit export earnings over the last two years, but there's been a variety of offsetting positives in that time too.

In the latest quarter there were two factors in particular. First, the renewed plunge in world oil prices reduced New Zealand's import bill, leading to a narrowing of the goods trade deficit. Second, overseas tourist numbers have continued to surge this year. Consequently, we expect the services trade surplus to top $1bn in seasonally adjusted terms for the first time.

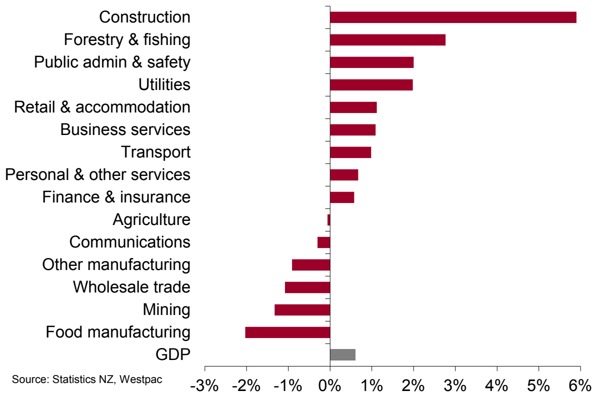
We also expect a small narrowing of the investment income deficit. New Zealand is a net debtor to the world, so the global trend towards lower interest rates has worked in our favour on balance.

Michael Gordon
Senior Economist

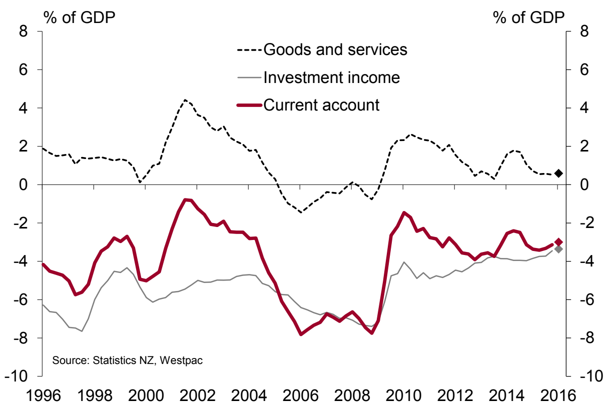
Production-based GDP growth



Q1 GDP changes by sector



Annual current account balance



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