Westpac Institutional Bank

11 March 2016

It's alright, it's OK

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

- We estimate that GDP rose by 0.7% in the December quarter, led by manufacturing, construction and retail.
- The economy has regained some momentum after a slowdown in the first half of 2015, but in per-capita terms the pace of growth is well off its peak.
- We expect the current account deficit to remain at 3.3% of GDP, with a weaker trade balance offset by a smaller investment income deficit.

	Sep15 actual	Dec 15 Westpac f/c
Balance of Payments (16 Mar)		
Current account balance $m, s.a.	-1,751	-2,420
Annual balance $m	-8,104	-8,180
Annual balance % of GDP	-3.3	-3.3
GDP (17 Mar)		
Quarterly % chg	0.9	0.7
Annual % chg	2.3	2.1
Annual average % chg	2.9	2.4

The December quarter national accounts, released next week, are expected to show an economy in reasonable shape. After a slowdown in the pace of growth over the first half of 2015, momentum picked up again in the second half, and we expect the 0.9% rise in September quarter GDP to be followed by a 0.7% rise in the December quarter. Meanwhile, we expect the current account deficit to hold steady, despite the ongoing slide in dairy export earnings.

As we've noted before, however, New Zealand's growth figures are increasingly being flattered by migration-led population growth, which is now running at over 2% a year. This means that on our forecast, per capita growth over 2015 slowed to just 0.5%, well short of what we experienced in the previous few years. We expect per-capita growth to improve a little over the next couple of years, with construction and tourism providing some of the impetus, but we suspect that the pace of growth is well past its peak for this cycle.

Q4 GDP, 17 March

We expect a 0.7% increase in the production measure of GDP, with the goods-producing sectors shaping up as the strongest performers this time. The manufacturing survey earlier this week showed a pullback in food manufacturing after a very strong September quarter, but solid gains across the non-food categories. Construction also had a strong quarter, where we expect a 2% gain.

Among the other positives, retailing had another strong quarter, particularly in the hospitality sector. Oil extraction appears to have boosted the mining sector, counteracting the likely weakness in exploration activity. And we expect a modest lift in agricultural output, mainly due to a (seasonally adjusted) rise in milk production, relative to the poor start to the season during the September quarter.

We expect business services, which have been the dominant contributor to growth over the last few years, to be relatively soft this quarter. In particular, we expect a fall in real estate services, with house sales falling sharply after the new regulations around property investment that came into force in October.

Q4 current account, 16 March

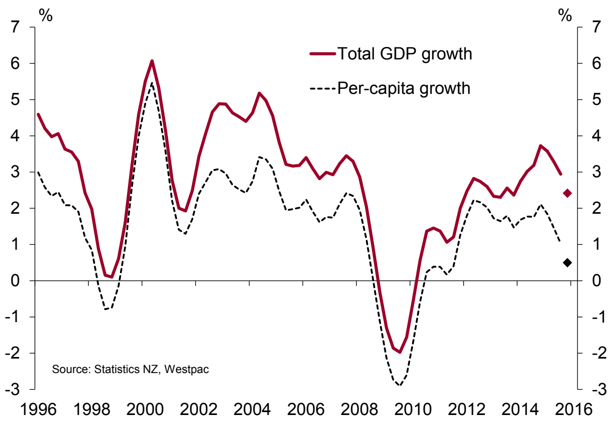
We expect the annual current account deficit to hold steady at 3.3% of GDP. In seasonally adjusted terms, we expect the deficit to widen for the December quarter, with a drop in both the goods and services trade balances. However, our quarterly forecast leaves the annual current account balance almost unchanged, since an equally large deficit in the December 2014 quarter will be dropping out of the equation.

The goods trade balance slid further into deficit in the December quarter, as lower dairy export earnings were only partly offset by a drop in petroleum import prices. However, unlike in previous quarters, the downturn in goods trade wasn't offset by an improvement in the services balance. Overseas visitor spending appears to have fallen over the December quarter, despite a record number of arrivals.

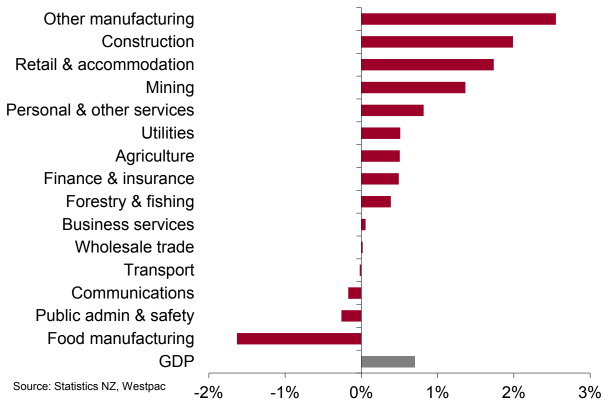
We estimate that the investment income deficit narrowed to around $2.2bn in the December quarter, reflecting lower profits for overseas-owned firms. Out forecast implies an improvement in the annual balance, as the deficit in the same quarter a year ago blew out to almost $2.6bn.

Michael Gordon
Senior Economist

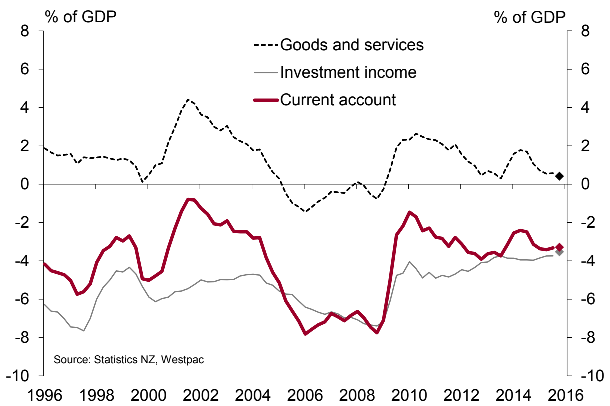
Annual average GDP growth



Q4 GDP changes by sector



Annual current account balance



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