

# Q2 GDP and Balance of Payments Preview

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## Southerly winds

### Bottom line

- We expect the New Zealand economy expanded 0.4% q/q in Q2, with growth driven by a rebound in services.
- The outlook for the second half of the year and beyond is looking softer and our medium-term forecasts are under review.
- Absent revisions, growth of 0.4% q/q would see annual growth slow by 0.5%pts to 2.0% y/y – the softest pace since Q4 2013.
- The seasonally adjusted current account deficit is expected to widen \$0.1bn in the quarter, driven by a widening income deficit. The annual current account deficit is expected to narrow 0.2%pts to 3.4% of GDP.

### Key points

June quarter New Zealand Balance of Payments and GDP figures are released at 10:45am next Wednesday and Thursday respectively.

We expect the economy expanded 0.4% q/q in Q2. Absent revisions, this would see annual growth moderate 0.5%pts, from 2.5% in Q1 to 2.0%. Per capita growth is poised for yet another weak print, but the volatile migration data mean this measure could be subject to larger revisions than has historically been the case.

Stepping back, economic momentum has been running out of puff for a while now. Forward-looking indicators suggest this process has continued into Q3, which, alongside a softening pipeline for construction activity, some worrying signals for employment growth, a persistently pessimistic business sector, and an increasingly fragile global backdrop, means the medium-term outlook is looking less assured (our medium-term forecasts are under review, and will be updated in **next week's Weekly Focus**).

That said, despite all the negative developments in recent months, **we're still** of the view that there will be enough supports out there to eventually put a floor under the slowdown and prevent growth from rolling over:

- Monetary conditions are, and will remain, accommodative. We expect the RBNZ to use **all of its "conventional" ammunition**, cutting the OCR to just 0.25% by May 2020.
- The terms of trade should remain elevated, provided the global economy – and the Chinese consumer in particular – **doesn't** take a sharp turn for the worse.
- Net migration inflows remain positive, but looking through the volatile data we think the cycle is easing, implying a shrinking impetus to growth.
- Households should remain in good stead as real wages continue to grow at a moderate pace (provided the labour market remains **broadly "tight"**).

**Turning to the details of next week's release, key partial** GDP indicators have come in on the softer side, with retail sales volumes growing just 0.2% q/q, the volume of work put in place falling 1.5% q/q, and total manufacturing volumes down 2.7% q/q, led by an 8.2% decline in meat and dairy.

### Data summary

	Last	ANZ exp
<b>GDP</b>		
Quarterly % change	0.6%	0.4%
Annual % change	2.5%	2.0%
Annual average % change	2.7%	2.4%
<b>Balance of Payments</b>		
Current account (\$m, actual)	675	-1,260
Current account (\$m, sa)	-2,614	-2,700
Annual CAB (\$bn)	-10.6	-10.3
% of GDP	-3.6%	-3.4%

Accordingly, goods production is expected to contract 0.9% q/q (a drag of 0.2%pts on headline **growth**) following Q1's impressive 2% lift. Manufacturing and construction are both set to contract, with risks skewed to the downside of our expectation.

Primary industries are expected to make only a small positive contribution to headline growth (0.1%pts), with seasonally adjusted milksolids production partially rebounding from Q1.

However, saving the day, we are expecting a rebound in growth in services industries (a little more than two thirds of the economy) from Q1's very weak print of just 0.2% q/q. We've pencilled in a 0.7% q/q lift, making a 0.5%pt contribution to GDP growth. This middling kind of rate represents a technical bounce amidst a continued loss of momentum. But there is a risk that the bounce is a little stronger than we expect.

The expenditure measure of GDP is expected to lift 0.5% q/q.

- Private and government consumption are expected to lift 0.8% q/q and 0.5% q/q respectively.
- Residential investment is expected to dip 0.8%, while the relatively volatile 'other fixed asset investment' component is expected to fall almost 2.5%.
- Net exports are expected to make a small positive contribution to quarterly growth. Exports of goods are set to fall less than goods imports, with the net impact more than offsetting softer services exports relative to broadly stable services imports.

Turning to the Balance of Payments, we expect the seasonally adjusted current account deficit to widen by around \$0.1bn from Q1. The goods deficit is expected to narrow by around \$0.2bn, driven by a similarly sized rise in exports while import values remain broadly stable. The services surplus is expected to narrow around \$0.1bn on a seasonally adjusted basis, as lower exports head off stable imports. The primary income deficit is expected to widen on the back of growing international liabilities. The secondary income deficit is expected to remain stable at around \$0.1bn.

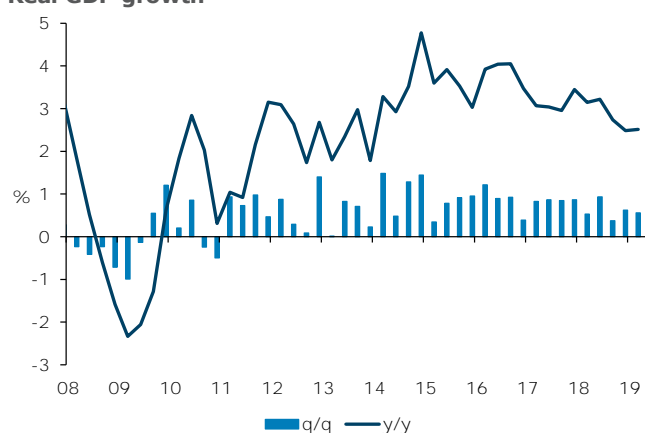
On an annual basis, the current account deficit is expected to narrow 0.2%pts of GDP to 3.4%, with base effects more than offsetting a quarterly widening. On an unadjusted basis, we've pencilled in a quarterly deficit of \$1.3bn.

#### ANZ Q1 GDP industry-level forecast

Industry	q/q%	%pt cont.
Agriculture, forestry, and fishing	0.5	0.03
Mining	-0.3	0.00
Manufacturing	-1.7	-0.16
Electricity, gas, water, and waste services	0.5	0.01
Construction	-0.4	-0.02
Wholesale trade	0.7	0.04
Retail trade and accommodation	0.5	0.04
Transport, postal, and warehousing	0.4	0.02
Information media and telecommunications	1.0	0.03
Financial and insurance services	0.8	0.05
Rental, hiring, and real estate services	0.3	0.04
Prof, scientific, technical, admin, and support	0.8	0.08
Public administration and safety	0.7	0.03
Education and training	0.2	0.01
Health care and social assistance	0.8	0.05
Arts, recreation, and other services	3.7	0.11
Unallocated	0.4	0.03
Balancing item	--	0.01
<b>Gross domestic product</b>	<b>0.4</b>	<b>0.4</b>

Source: Statistics NZ, ANZ

#### Real GDP growth





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