

# Q1 GDP and Balance of Payments Preview

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## Starting the year on a softer note

### Bottom line

- We expect the New Zealand economy expanded 0.4% q/q in Q1, in line with the RBNZ's May MPS forecast. This is a touch softer than our earlier forecast (0.5% q/q).
- Absent revisions this result would see annual growth moderate 0.1%pt from Q4 to 2.2% y/y.
- The seasonally adjusted current account deficit is expected to widen \$0.5bn in the quarter, with the annual deficit remaining stable as a share of GDP at 3.7%.

### Key points

March 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 Q1. This would see annual growth moderate 0.1%pt from Q4 to 2.2%. Per capita growth is poised for yet another weak print, and it's quite likely this softness will be amplified by the volatile migration data, which at face value suggests population growth accelerated in Q1. In fact, looking through the noise, we believe the migration cycle has most likely been easing in a gradual fashion, but it could take some time before the data settle down and this is confirmed. In short, going forward, GDP per capita measures are likely to be subject to larger revisions than previously.

The bigger picture is that economic momentum has been slowing for a while now, and we suspect this process has continued into 2019. However, a healthy domestic demand backdrop, supported by still-elevated (but likely easing) net migration inflows, modest growth in household incomes, low interest rates, and a touch of fiscal stimulus should prevent growth from rolling over.

Indeed, as we head into the second half of the year, we expect growth to gradually accelerate as recent monetary stimulus (and associated NZD weakness) lends a hand. All up, we expect annual growth to trough at around 2% in Q2 this year before gradually accelerating towards 3% by the end of 2021, with additional OCR cuts providing support (which we've pencilled in for November and February).

**Turning to the details of next week's release, key partial** GDP indicators have been a mixed bag. The Retail Trade Survey showed sales volumes remained solid, but with growth slowing from 1.7% q/q in Q4 to 0.7% q/q in Q1. Growth in wholesale trade volumes was modest, while the volume of building work put in place came in strong and above expectations. On the other hand, despite the Economic Survey of Manufacturing posting a solid 2% rise in volumes at the headline level, ex-primary manufacturing continued to soften in Q1.

As is typically the case, services industries (which account for almost 70% of GDP) are expected to make the largest contribution to quarterly GDP growth (0.3%pts, on the back of a 0.5% lift in services). Of this, financial & insurance services alongside health care & social assistance services are each expected to contribute around 0.1%pts to quarterly growth.

### Data summary

	Last	ANZ exp
<b>GDP</b>		
Quarterly % change	0.6%	0.4%
Annual % change	2.3%	2.2%
Annual average % change	2.8%	2.6%
<b>Balance of Payments</b>		
Current account (\$m, actual)	-3,256	160
Current account (\$m, sa)	-2,470	-2,980
Annual CAB (\$bn)	-11.0	-10.9
% of GDP	-3.7%	-3.7%

Goods production is expected to have lifted 0.7% q/q, making a 0.1%pt contribution to quarterly GDP growth. A solid 4.1% q/q lift in construction is expected to make a 0.2%pt contribution, more than offsetting weakness in manufacturing.

Primary industries are expected to drag on quarterly growth to the tune of 0.1%pts, as softer dairy volumes more than offset the impacts of ongoing strength in forestry and a greater-than-normal proportion of this season's slaughter and meat processing occurring in Q1. Mining is expected to eke out a modest rebound, but its very small weighting means this is inconsequential to headline GDP.

The expenditure measure of GDP is expected to lift 0.6% q/q, driven by robust domestic demand:

- Private consumption is expected to build on **Q4's strong** 1.3% q/q rise, lifting 0.8% in Q1, reflecting solid momentum in household spending.
- Residential investment is expected to lift 2.5%, while the relatively volatile 'other fixed asset investment' component is expected to rise 0.5%.
- Net exports are expected to drag on growth as services imports lift and services exports decline. On the goods side, growth in exports is expected to keep imports growth in check.
- Government consumption is expected to make a small positive contribution to growth, while inventories are neutral.

Turning to the Balance of Payments, we expect the seasonally adjusted current account deficit to widen by around \$0.5bn from Q4. The goods deficit is expected to remain broadly stable, with both export and import values lifting slightly. The services surplus is expected to narrow around \$0.1bn on a seasonally adjusted basis, driven by higher imports. On the income side, the deficit is expected to widen, owing largely to higher primary income outflows on the back of growing international liabilities. The secondary income deficit is **expected to widen to more "normal" levels (from broadly zero in Q4 to a deficit of \$0.1bn)**.

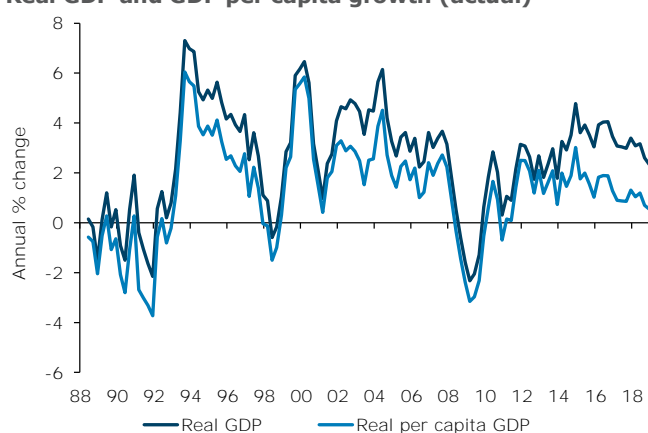
On an annual basis, the current account deficit is expected to remain stable at 3.7% of GDP, as base effects and quarterly moves offset. On an unadjusted basis, we've pencilled in a small quarterly surplus of around \$0.2bn.

#### ANZ Q1 GDP industry-level forecast

Industry	q/q%	%pt cont.
Agriculture, forestry, and fishing	-2.9	-0.16
Mining	4.0	0.05
Manufacturing	-1.2	-0.12
Electricity, gas, water, and waste services	-0.4	-0.01
Construction	4.1	0.25
Wholesale trade	0.1	0.01
Retail trade and accommodation	0.6	0.04
Transport, postal, and warehousing	0.1	0.00
Information media and telecommunications	1.2	0.04
Financial and insurance services	1.2	0.07
Rental, hiring, and real estate services	0.3	0.04
Prof, scientific, technical, admin, and support	-0.2	-0.02
Public administration and safety	0.5	0.02
Education and training	0.3	0.01
Health care and social assistance	1.6	0.10
Arts, recreation, and other services	-0.6	-0.02
Unallocated	0.8	0.06
Balancing item	--	0.04
<b>Gross domestic product</b>	<b>0.4</b>	<b>0.4</b>

Source: Statistics NZ, ANZ

#### Real GDP and GDP per capita growth (actual)





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