

Q1 GDP AND BALANCE OF PAYMENTS PREVIEW

9 June 2017

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RETURNING TO TYPE

- After a lacklustre end to 2016, we believe activity growth rebounded in Q1, with GDP growth of 0.8% q/q (2.8% y/y).
- Primary, goods-producing and services industries are all expected to have contributed positively to growth (to varying degrees) in the quarter.
- Forward indicators point to more of the same in Q2. That sort of growth rate is above trend and enough to eat into spare capacity.
- While the seasonally adjusted current account deficit is likely to be largely unchanged, the annual deficit is expected to narrow to 2.6% of GDP.
- Overall, the figures are likely to provide a reasonably healthy snapshot of the cyclical and structural state of the economy.

KEY POINTS

- March quarter Balance of Payments and GDP figures are released next Wednesday and Thursday (at 10:45am) respectively.
- After a soft end to 2016, in part due to temporary weather and earthquake-related factors, we forecast GDP growth to rebound to 0.8% q/q, which would be on par with the quarterly pace of growth evident over the first nine months of 2016. It would see annual growth lift to 2.8% and per capita growth expand 0.2% q/q (0.6% y/y).
- Primary industries (+1.9% q/q) should account for a large part of the growth rebound. Poor spring weather certainly hampered agricultural production late last year, and more favourable conditions should see that reverse.
- Goods-producing sectors (+0.3% q/q) should also contribute positively to growth. Manufacturing production is estimated to have lifted 1.3% q/q, led by non-primary or 'core' production. That should more than offset a drop in construction activity (the first in close to two years).
- Overall services industries (+0.7% q/q) are expected to expand at a similar pace to Q4 (in line with the average for the past couple of years). After a strong period of growth, arts, recreation and other services activity is forecast to contract, while wholesale and retail trade activity should lift. Transport activity is also expected to have increased solidly. More broadly, the services sector continues to benefit from strong population growth, shaking off the impact of softer housing market activity.
- Admittedly, the risks to the equivalent expenditure GDP measure look skewed to a softer outcome. Private consumption and other fixed asset investment (excluding non-residential construction) are both expected to grow solidly, more than offsetting a fall in residential and non-residential investment. However, net exports will be a large drag on growth. The biggest uncertainty surrounds the contribution from inventories, which we have assumed to be effectively flat in the quarter.
- But stepping back, forward indicators point to Q1 momentum being sustained into Q2 at a rate of growth we consider to still be eating into spare capacity. However, it won't be enough to change the RBNZ's neutral

DATA SUMMARY

| | Last | ANZ exp |
|-------------------------------|--------|------------|
| GDP | | |
| Quarterly % change | 0.4% | 0.8% |
| Annual % change | 2.7% | 2.8% |
| Annual average % change | 3.1% | 3.1% |
| Balance of Payments | | |
| Current account (\$m, actual) | -2,335 | 1,350 |
| Current account (\$m, sa) | -1,599 | -1,550 |
| Annual CAB (\$bn) | -7.11 | -6.95 |
| % of GDP | -2.7% | -2.6% |

2017Q1 GDP & BOP PREVIEW

stance. That is unlikely until there is clearer evidence that capacity pressures are manifesting in actual inflation outcomes in a sustained fashion.

- In what has now become a common occurrence in March quarters, we expect the unadjusted current account to show a surplus, of \$1.4bn. That should be enough to see the annual deficit narrow slightly to 2.6% of GDP, the smallest deficit in over two and a half years, and well below its historical average of 3.7% of GDP.
- That said, in seasonally adjusted terms, we expect the deficit to be broadly unchanged. A surge in the terms of trade in the quarter should help the goods deficit narrow a touch. However, the services surplus looks set to deteriorate modestly as international visitor spending remains broadly steady, but services imports rise – New Zealanders appear to have spent more overseas in the quarter. We have pencilled in a broadly stable investment income deficit, which has effectively been the case for over a year now.
- Together with what should still be reasonable external balance sheet metrics, the figures will show that New Zealand's external imbalances are far less of an issue right now than they would typically be at this point in the cycle. The economy is in a reasonably healthy cyclical and structural state.
- However, the balance between activity growth and the current account is likely to be more critical going forward. With the country's external borrowing now facing more scrutiny (from both the regulator and rating agencies), that is effectively a current account constraint. It means that in order for New Zealand to fund its considerable investment needs, more onus is going to fall on domestic saving. And more saving typically means less spending and growth.

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