Westpac Institutional Bank

11 June 2014

Better and better

Preview of March 2014 quarter GDP (19 Jun, 10:45am) and current account (18 Jun, 10:45am)

- We estimate that GDP rose 1.2% in the March quarter, a third consecutive strong gain that would lift annual growth back to pre-recession levels for the first time.
- A massive nationwide lift in construction activity accounted for about half of the growth over the quarter.
- The turnaround from last year's drought and record-high export prices drove a further improvement in the current account deficit, to an estimated 2.8% of GDP.

	Dec-13 actual	Mar-14 Westpac f/c
Balance of Payments (18 Jun)		
Current account balance $m	-1,469	1,380
Annual balance $m	-7,581	-6,310
Annual balance % of GDP	-3.4	-2.8
GDP (19 Jun)		
Quarterly % chg	0.9	1.2
Annual % chg	3.1	3.8
Annual average % chg	2.7	3.1

It's been clear for some time that the New Zealand economy started the year with a great deal of momentum, and the national accounts published next week should provide the final confirmation of this. We expect a 1.2% increase in GDP for the March quarter, led by a sharp upward burst in construction. Meanwhile, record-high commodity export prices and a rebound in volumes have greatly improved the trade balance over the last year; we expect the current account deficit to narrow further to 2.8% of GDP.

We suspect that our GDP forecast will be close to the market median, so an as-expected outturn is unlikely to move financial markets. Tomorrow's *Monetary Policy Statement* probably won't show a GDP forecast quite as high as ours, if only because the whopper construction figures were released after the cut-off date for that document. However, the Reserve Bank will have had a strong growth outturn in mind during its interest rate deliberations – another reason to suspect that the RBNZ's tone tomorrow will be firmer than the market is anticipating.

Q1 GDP, 19 June

We estimate that GDP grew by 1.2% in the March quarter, which would follow gains of 1.2% and 0.9% over the two previous quarters. Barring any downward revisions to recent history, this would see the New Zealand economy's annual average growth rate top 3% for the first time since 2007, before the Global Financial Crisis hit.

An upturn in building activity in both the quake-hit Canterbury region and elsewhere has long been a key theme in our growth forecasts. That theme came through with a vengeance in the March quarter, with a record 16% rise in building work – perhaps, in part, a catch-up after some surprisingly soft outturns for construction sector GDP in the previous two quarters. Depending on what happened with infrastructure work (no lead indicators for this, but we've assumed a more modest increase), we estimate that the construction sector accounted for about half of the rise in GDP over the quarter.

As for the remainder, we expect the gains to be fairly widely dispersed, as is typically the case in an economic upswing. Yesterday's manufacturing survey suggested a 1.4% gain in non-food manufacturing (though largely concentrated in chemical products), the Quarterly Employment Survey pointed to solid growth in personal and social services, retail trade rose by 0.7% (led by a strong rise in overseas visitor spending), and milk and wood production both recorded increases of around 2%.

Even those areas where we expect declines – such as wholesale trade, food and beverage manufacturing and mining – largely reflect a reversal of outsized gains in the December quarter, rather than any signs of emerging weakness. The notable exception is real estate and hiring services, reflecting the slowdown in house sales since the RBNZ introduced limits on low-equity mortgage lending last October.

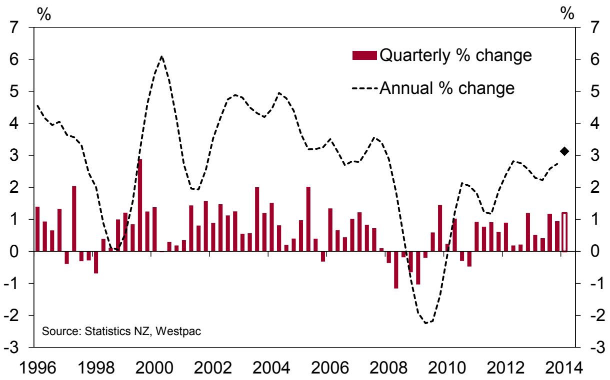
Q1 current account, 18 June

We expect the current account deficit to narrow to 2.8% of GDP for the year to March, from 3.4% in December and 4.1% in September. By the March quarter of this year, export volumes had fully recovered from last year's drought, while commodity export prices were at or near record highs. At the same time, the high New Zealand dollar has depressed the prices of imported goods, keeping the dollar value of imports fairly flat even as volumes rose. Given that the current account balance is reported on an annual basis, these forces will hold sway for a little while longer; we expect the deficit to narrow further to 2.3% of GDP by the June quarter.

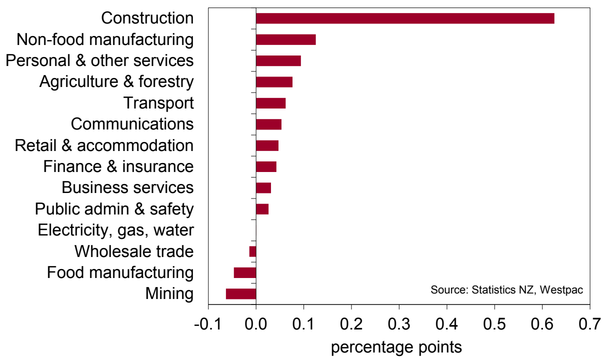
The sharp improvement in the goods trade balance will be augmented by a strong rise in services exports, due to the aforementioned sharp rise in overseas visitor spending. These will be only slightly offset by a widening of the investment income balance, reflecting the rising profitability of overseas-owned firms in New Zealand as the economy picks up.

Michael Gordon
Senior Economist

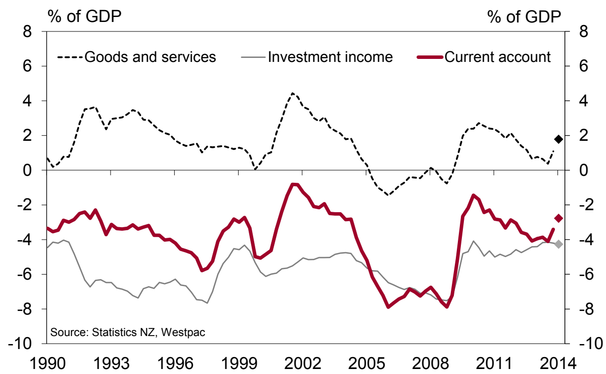
Production-based GDP



Contributions to Q4 GDP growth



Annual current account balance



Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

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