

GDP – 2018Q4

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Data summary

	Latest	Prev
Quarterly % change	0.6%	0.3%
Annual % change	2.3%	2.6%
Annual average % change	2.8%	3.1%

Par

Bottom line

- The New Zealand economy grew 0.6% q/q in Q4, on the back of a solid (0.9%) rise in services industries. It indicates that growth momentum, while running at a slower pace, still has some fuel in the tank.
- Annual growth moderated to 2.3% in Q4. We believe growth around these levels is the new – slower – norm.

Key points

The New Zealand economy grew 0.6% q/q in Q4, in line with both our and market expectations. This saw annual growth slow from 2.6% in Q3 to 2.3% in Q4 (annual average growth eased from a revised 3.1% in Q3 to 2.8% in Q4). We believe growth around these levels is the new – slower – norm.

Today's print was below the RBNZ's February MPS forecast for growth of 0.8% q/q, pushing their outlook for an acceleration in annual growth to 3.1% this year a little further into 'optimistic' territory. However, while we expect the RBNZ in **next week's OCR Review** to acknowledge that the economy has lost a bit of steam, **we don't** see **today's** print as sufficient fodder to pull the Bank out of their data-dependent neutral mode – yet. **We don't** foresee the RBNZ significantly shifting its tone until it becomes unambiguously clear that capacity pressures are waning, and therefore will prove insufficient to sustain core inflation near the target midpoint over the medium term.

Turning to the details of today's release, solid 0.9% growth in services industries was the clear standout, with broad-based strength across the components. Both retail trade & transport and postal & warehousing surprised us on the upside, suggesting robust household demand. **Q4's solid** rise was on the back of soft services growth in Q3 (just 0.5%), suggesting there was an **element of timing in last quarter's weakness**. Looking through this, we think services momentum has come down a notch. However, still-strong population growth will continue to put a floor under any significant deceleration (provided, that is, household financial positions remain healthy).

Growth across goods-producing industries was on the weaker side, at 0.2% q/q. Construction came in a little softer than expected, up 1.8%.

Primary industries GDP contracted 0.8%, with both mining (-1.7%) and agriculture, forestry and fishing (-0.6%) soft. This is the most volatile component of GDP, and we expect a pick-up in the coming quarters.

Overall, 10 of the 16 production industries recorded higher levels of activity compared to Q3.

Contrary to our expectation, expenditure GDP underperformed against its production-based equivalent, rising 0.5% q/q. Private consumption rose a healthy 1.3% q/q (making a 0.8%pt contribution), with general government consumption up 0.7%. Residential investment (up 2.1% q/q) was solid, but other fixed asset investment was relatively softer (up 1.3%). Net exports made a slightly positive contribution. The nominal economy grew just 0.3%, softer than its real counterpart owing to a softening in prices, particularly the softer terms of trade.

Per capita growth of just 0.1% q/q was weak, particularly in the context of downward revisions to Q3 growth (from 0.0% to -0.1%). This saw New Zealand narrowly dodge a per capita technical recession such as has been seen in Australia. Annual growth in this measure continued to moderate and is now running at just 0.9%. Implied labour productivity growth looks underwhelming, with population growth remaining the key driver of headline GDP growth. Admittedly, per capita measures have become more uncertain since the implementation of outcomes-based migration data.

All up, we expect quarterly growth to average 0.6% over the next couple of years. This is a decent step down from an average of 0.8% over the past few years. In this environment, we expect capacity pressures to wane, with inflationary pressures lacking the strength required to maintain core inflation **near the RBNZ's target midpoint**. Accordingly, we expect the next move in the OCR will be a cut and have pencilled the first in for November, with two follow up cuts taking it to 1% by late 2020.

Figure 1. Production-based GDP

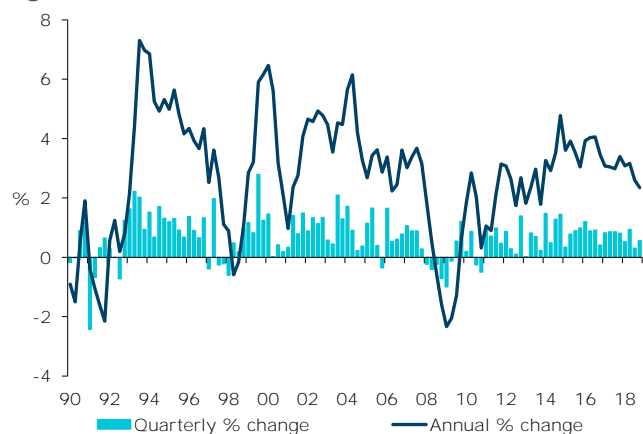


Figure 2. GDP per capita

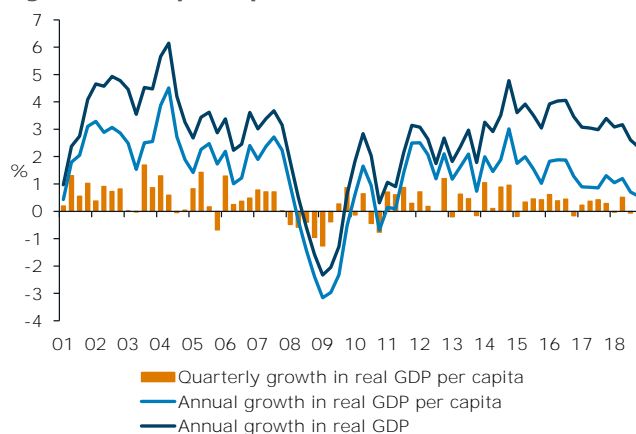


Figure 3. Production-based GDP components

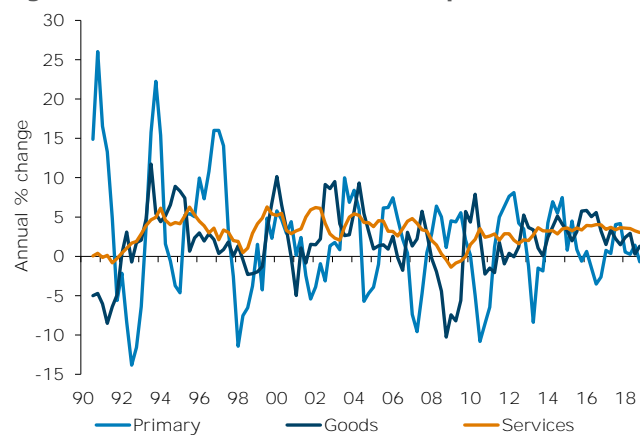
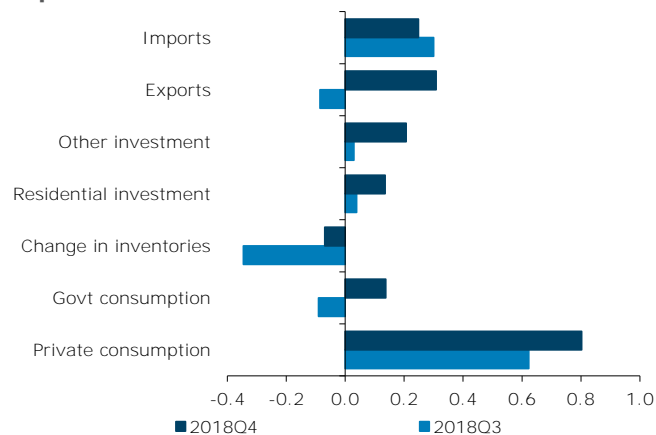


Figure 4. Contributions to quarterly growth in expenditure-based GDP



Source: Statistics NZ



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