ANZ Research

# GDP – 2019Q1

20 June 2019

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Data summary

| | Latest | Prev |
|---|---|---|
| Quarterly % change | 0.6% | 0.6% |
| Annual % change | 2.5% | 2.5% |
| Annual average % change | 2.7% | 2.9% |

## A softer underbelly

### Bottom line

- The New Zealand economy expanded 0.6% q/q in Q1, which was in line with market expectations, but stronger than the 0.4% we were expecting.
- However, the underlying details were softer than the headline suggests, and the overall narrative that momentum has weakened still holds.
- Aided by some positive revisions, annual growth was stable at 2.5% in Q1. But we believe growth will slow a little further before the boost from additional monetary stimulus makes itself felt.

### Key points

The New Zealand economy grew 0.6% q/q in the first three months of 2019, a touch stronger than the 0.4% we had pencilled in but in line with market expectations. Revisions to history mean annual growth has been running a little stronger than previously thought, but the story of slowing momentum remains intact. That said, annual growth at 2.5% was unchanged from Q4.

Today's print was also stronger than the RBNZ's May MPS forecast for growth of 0.4% q/q, which at the time was a significant downward revision from their previous estimate. However, despite the slight positive surprise (including the fact annual growth was stable in Q1), the real test for the RBNZ's outlook won't occur until the forward-looking indicators for growth in the second half of the year begin to roll in. That's because the RBNZ are forecasting quite a strong pickup in economic momentum that we think is on the optimistic side. While we agree in broad terms that the growth slowdown is bottoming out and will begin to turn a corner from mid-year, we think the improvement will be relatively gradual. And that implies softer-for-longer inflationary pressures, which in turn justifies a lower OCR.

The details of today's release were not as strong as the headline number suggests. In particular, services industries posted a very weak 0.2% q/q lift, following Q4's robust 0.9% increase. This is perhaps a better signal for underlying momentum than goods-producing industries and primary production, given services are typically less volatile and account for around two thirds of GDP. Both retail trade & accommodation and transport, postal & warehousing surprised us on the downside, suggesting household demand may be going through a softer patch.

It's become increasingly clear that momentum in the services industries has softened, with annual growth of 2.5% in Q1 a decent cooldown versus 3.6% this time last year. However, as long as household incomes and sentiment remains buoyed, still-strong (but easing) population growth should continue to put a floor under further significant deceleration. But risks do appear heightened.

Growth across the goods-producing industries was a little stronger than we expected, and was stronger than in Q4 (2.0% q/q in Q1 following a 0.4% q/q lift in Q4). A strong 3.7% lift in construction came in broadly as expected, while manufacturing surprised on the upside (despite the weak steer on core

manufacturing from the survey data). Looking forward, we think there's a bit of volatility ahead on the construction side, and that momentum will struggle to accelerate. Likewise, recent moderation in the PMI suggests manufacturing is likely to slow in the near term, but as long as the PMI remains at an expansionary level, any spillovers to the broader economy should be limited.

Primary industries GDP contracted 0.7% q/q, which was a smaller fall than we expected. Agricultural production actually lifted slightly (0.5% q/q), despite a softer end to milksolids production in the 2018/19 season. This appears to be an issue of timing more than anything, with delayed meat slaughter and solid horticulture providing a decent offset.

Overall, 12 of the 16 production industries recorded higher levels of activity compared to Q4.

As expected, expenditure GDP outperformed its production-based equivalent, rising 0.8% q/q. But this too was a little stronger than our forecast (0.6%).

- Private consumption growth was weak at just 0.4% q/q – again a bit of a warning shot for the state of underlying momentum – with spending on services very soft at 0.3% and non-durables spending also soft at just 0.4%.
- The only bright spot here was durables spending, which lifted 1.4%, reflecting a decent quarter for residential investment, which rose 2.7% q/q. However, given headwinds in the construction sector, we don't see this pace of growth as sustainable.
- General government consumption rose 0.9% and business investment was solid at 1.9% q/q.
- Net exports made a stronger-than-expected contribution to growth. Higher goods exports outweighed weaker services exports, and services imports also came in softer – the latter also indicative of a little more caution among households.

The nominal economy grew 1.2%, a little faster than its real counterpart owing to lifting prices, including a lift in the terms of trade.

As expected, per capita growth was soft at 0.1% q/q, with annual growth in this measure moderating 0.1%pt from Q4 to just 0.9% y/y. Per capita growth certainly confirms that New Zealand's labour productivity performance is nothing to write home about, with population growth remaining the key driver of headline GDP growth. That said, per capita measures are being influenced by the noisy migration data, which has been suggesting net inflows are on the rise again. We don't think that's the case, and if we're right, per capita growth will likely be eventually revised a little higher.

Economic momentum has been slowing for a while now, and today's data confirm this theme has continued. Yes, today's headline was a little stronger than we were expecting, but a softer underbelly remained. We expect that by November the gap between the RBNZ's forecasts and the dataflow will warrant a further OCR cut, though we will be paying close attention to next week's OCR Review for an updated sense of how the RBNZ is weighing it all up, given the firmly dovish tilt from global central banks of late.

However, we think significant downside from here is limited. A healthy domestic demand backdrop, supported by still-elevated (but likely easing) net migration inflows, modest growth in household incomes, lower interest rates, a weaker currency and a touch of fiscal stimulus should prevent growth from rolling over. While we expect growth to gradually lift in the second half of the year, we note that risks are skewed towards weaker outcomes, particularly if New Zealand's hitherto relative immunity to slowing global growth begins to show signs of cracking.

**Figure 1. Production-based GDP**

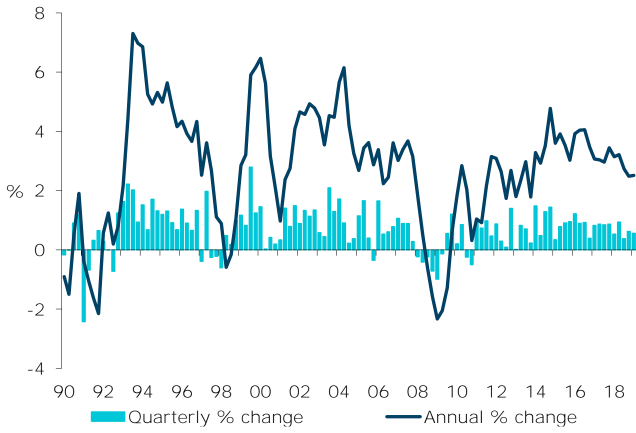



**Figure 2. GDP per capita**

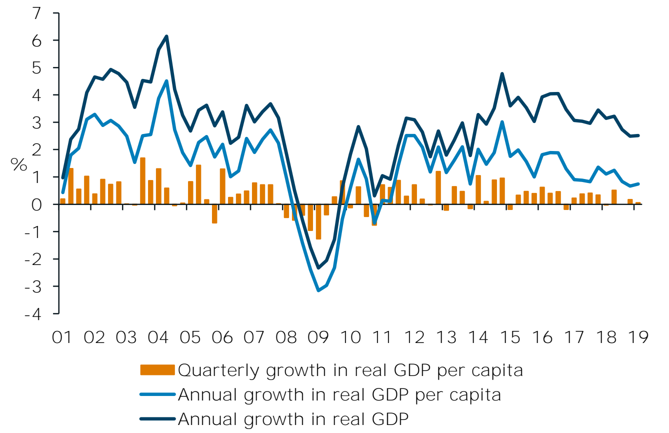



**Figure 3. Production-based GDP components**

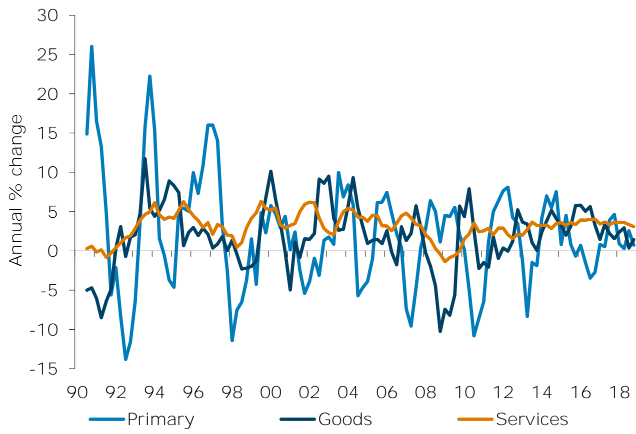
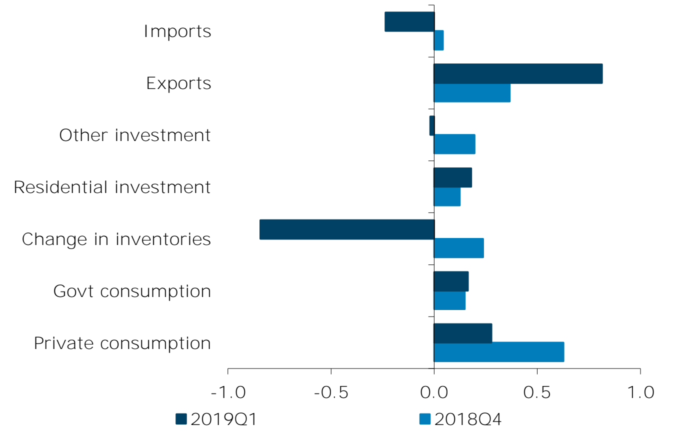



**Figure 4. Contributions to quarterly growth in expenditure-based GDP**




Source: Statistics NZ

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