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## MUDDLE-THROUGH

## BOTTOM LINE

- The economy got off to a surprisingly sluggish start to the year, with growth only rebounding modestly off what was a mediocre (and weather-impacted) December quarter. However, we view this as a mild hiccup, with underlying momentum stronger than these numbers imply. In fact, a number of the forward indicators we monitor point to an acceleration in growth momentum over the second half of 2017.
- That said, today's figures clearly allow the RBNZ to remain cautious and watchful. We do see growth rising to a pace that will mildly eat into spare capacity. However, until that shows up in actual inflation outcomes it is not going to sway the RBNZ from its ultra-neutral stance.

## KEY POINTS

- **The economy expanded by just 0.5% q/q over the first three months of 2017.** That was below consensus expectations (and well below the RBNZ's 0.9% pick), and represents only a mild rebound from the soft end to 2016, which was weighed down by some temporary weather disruptions. Annual growth fell from 2.7% to 2.5% y/y.
- **Across the components of production GDP, 11 of the 16 industries recorded positive growth.** In particular, agricultural production rose by 4.3% q/q, rebounding from Q4 weakness on the back of stronger milk production. However, services industries (0.4% q/q overall) were surprisingly soft (particularly in the context of strong population growth), with stronger retail and accommodation activity offset by weaker transport, postal and real estate services. Construction activity fell by 2.1% q/q, reflecting falls across all building sectors. This was the biggest fall in over two years, but comes after a string of strong readings.
- **The equivalent expenditure GDP measure showed just 0.2% q/q growth.** Despite a strong contribution from private consumption (+1.2% q/q), and a huge lift in plant & business investment (+13% q/q), growth was weighed down by a contraction in residential investment, a large drag from net exports (-0.7%pts) and a run-down in inventories (-0.7%pts). Negative contributions from both net exports and inventories in the same quarter is relatively uncommon for New Zealand and we expect that to reverse over the coming quarters.
- **There will no doubt be the naysayers highlighting poor growth in per capita terms.** And at -0.1% q/q (+0.9% y/y), the second consecutive quarterly contraction, we wouldn't deny that it is weak. However, we take a more sanguine view overall. Migrants (the key driver of population growth) do not instantly slot into the economic system; like any worker who starts a new job, they take time to fit in and deliver value add. The disruptive impact of natural disasters should also not be discounted when viewing the economy's disappointing productivity performance. However, with hours worked contracting in Q1, implied productivity growth actually did post a decent bounce.
- **Income-based measures were surprisingly mixed.** Nominal GDP posted a 1.4% q/q lift (+6.2% y/y), on the back of terms of trade strength. But despite the latter, real gross national disposable income

## DATA SUMMARY

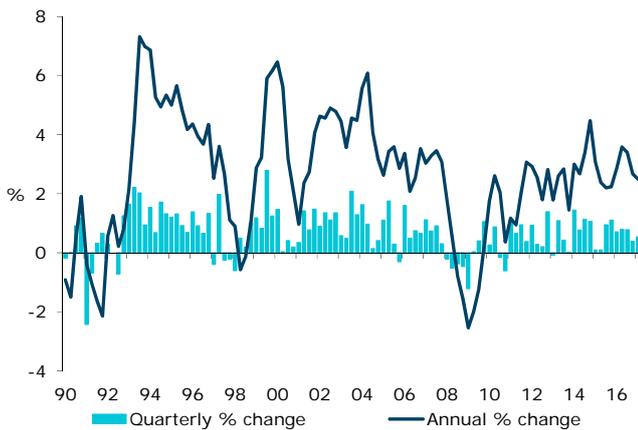
	Latest	Prev
Quarterly % change	0.5%	0.4%
Annual % change	2.5%	2.7%
Annual average % change	3.0%	3.1%

# 2017Q1 GDP

(RGNDI) surprisingly fell 0.3% q/q (+3.4% y/y) due to a large fall in net income from the rest of the world (a key part of the deterioration in yesterday's current account figures). Again, we expect the contraction in RGNDI to be temporary.

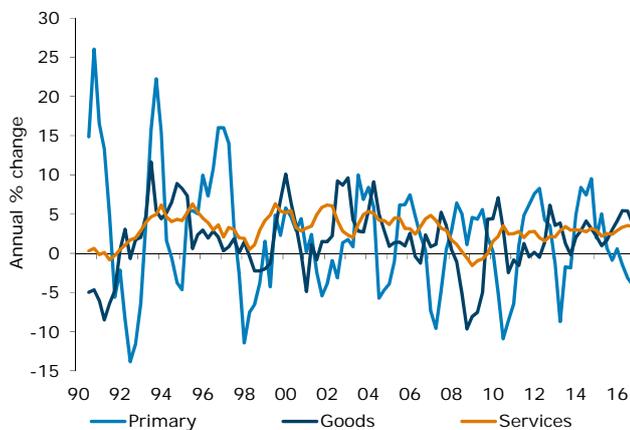
- **Stepping back, although the headline result is a clear disappointment, we don't believe it is a true reflection of growth momentum across the economy at present** (and the lack of reaction on the part of the NZD to today's figures suggests the market is taking a similar view). And importantly, putting aside the historical nature of today's figures, forward indicators remain positive overall. Despite a backdrop of softer housing activity, difficulties finding staff and increasing capital constraints, we see momentum accelerating over the quarters ahead to a rate that we believe will continue to marginally eat into spare capacity.

**FIGURE 1. PRODUCTION-BASED GDP**



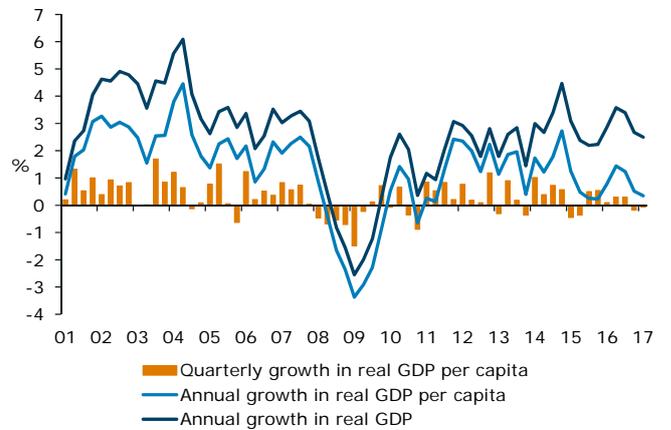
Source: ANZ, Statistics NZ

**FIGURE 2. PRODUCTION-BASED GDP COMPONENTS**



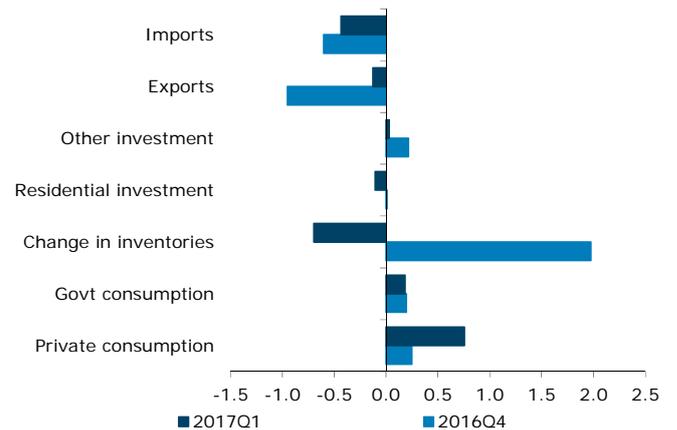
Source: ANZ, Statistics NZ

**FIGURE 3. GDP PER CAPITA**



Source: ANZ, Statistics NZ

**FIGURE 4. CONTRIBUTIONS TO QUARTERLY GROWTH IN EXPENDITURE-BASED GDP**



Source: ANZ, Statistics NZ

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