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## CONTRIBUTORS

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## SOGGY WEATHER, SOGGY GROWTH

## BOTTOM LINE

- Economic growth was modest over the final three months of the year, especially in per-capita terms, and a step-down in pace from what was seen earlier in the year. However, some temporary weather-related influences had a clear impact so we need to be cautious about extrapolating trends. The underlying pace of growth is better than these figures suggest. Income growth metrics were strong in the quarter.
- To be fair, we do believe activity momentum will ease over the course of 2017 as capacity and capital constraints increasingly bite, but we still expect decent growth to be recorded overall (stronger than suggested by today's figures).

## KEY POINTS

- **The economy expanded by 0.4% q/q over the final three months of 2016.** That was below consensus expectations and the softest quarterly growth experienced since Q2 2015. Q3 growth was also revised lower to 0.8% q/q (from 1.1% previously reported). As such, annual growth eased to 2.7% y/y.
- **Activity in per-capita terms was particularly mediocre, contracting 0.2% q/q.** This sees annual per capita (production) growth ease to just 0.6% y/y, which is less than half its annual average rate since 1993. It could well invigorate the debate about the wider merits of current record net migrant inflows.
- **However, some temporary factors played a big part in the overall softness.** In particular, wet spring weather conditions are likely to be the key reason for contractions in both agricultural production (-0.8% q/q) and manufacturing production (-1.6% q/q), which together knocked 0.3%pts off growth.
- **In all, half of the 16 production-based industries recorded growth over the quarter.** Construction posted another decent increase, rising 1.8% q/q, while broader services activity rose 0.7% q/q. The latter was driven by growth in professional and administrative services, arts and recreation services, finance and insurance and health care. Many of these sectors will have been boosted by strong population growth.
- **Expenditure GDP growth was even softer, rising just 0.2% q/q.** However, again, some caution is needed in interpreting these figures as expenditure GDP has been far exceeding growth of its production equivalent over recent quarters (annual expenditure GDP growth still sits at 3.5% y/y). Private consumption rose a modest 0.4% q/q, which is a step down from strong growth over Q2 and Q3. Residential investment was flat, while other fixed asset investment rose 1.8% q/q led by non-residential building, other construction and plant and machinery investment. Net exports were a large drag on growth (-1.6%pts), with weather-related issues no doubt impacting here too, but was offset by a positive contribution from inventories (1.9%pts).

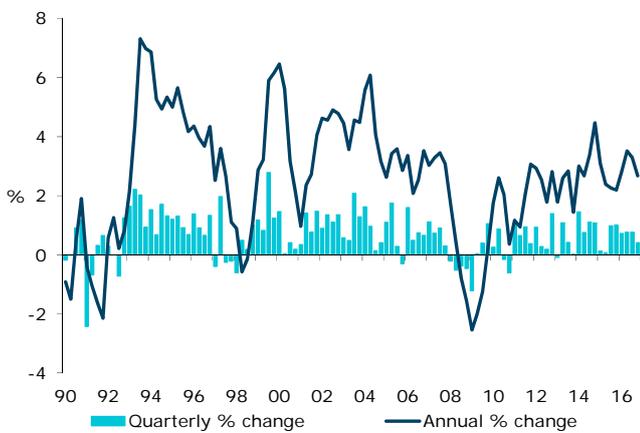
## DATA SUMMARY

	Latest	Prev
Quarterly % change	0.4%	0.8%
Annual % change	2.7%	3.3%
Annual average % change	3.1%	3.0%

# 2016Q4 GDP

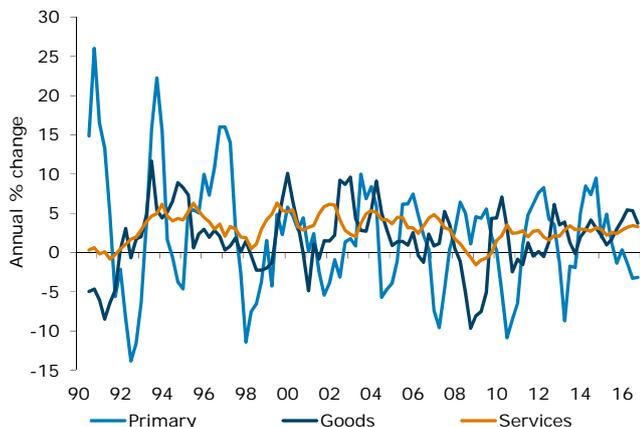
- Not all the headline figures were soft.** On the back of stronger terms of trade, nominal GDP rose 2.1% q/q (7.5% y/y), while real gross national disposable income (RGNDI) surged 2.8% q/q – the strongest quarterly lift since Q1 2010. In per capita terms, RGNDI rose 2.3% q/q. The benefits of this real income boost should not be discounted.
- So while some may jump on the soft elements of today’s figures (and the market has, to some extent, with a modest decline in the NZD and swap rates), we don’t believe they paint a true reflection of the state of the economy at present.** It is true that some highly cyclical elements of the economy have shown some softer signals of late (housing activity, building consents etc), and we do expect that a slightly more mixed economic picture develops over the course of 2017 as the economy increasing butts up against capacity and capital constraints. However, we expect to see a reasonable bounce in Q1 GDP figures.

**FIGURE 1. PRODUCTION-BASED GDP**



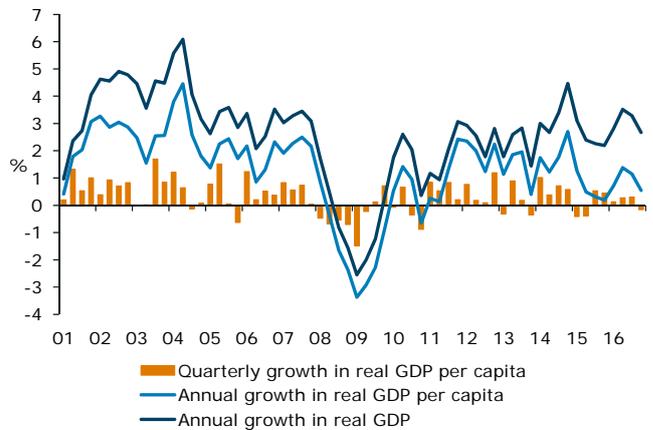
Source: ANZ, Statistics NZ

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



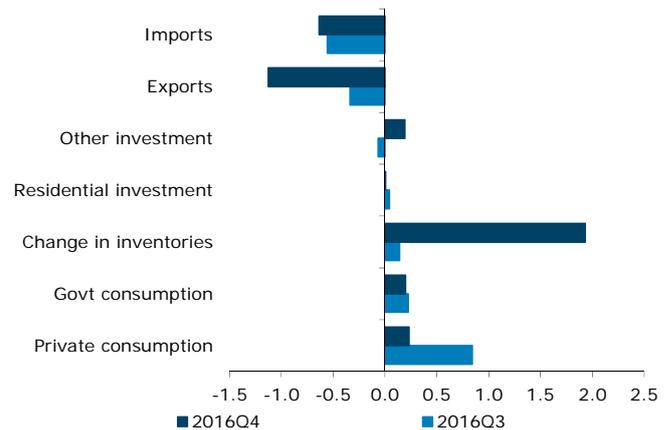
Source: ANZ, Statistics NZ

**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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