

# NEW ZEALAND ECONOMICS

## GDP & BALANCE OF PAYMENTS – 2016Q3

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### CONTRIBUTORS

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### DATA SUMMARY

	Latest	Prev
<b>GDP</b>		
Quarterly % change	1.1%	0.7%
Annual % change	3.5%	3.4%
Annual average % change	3.0%	2.7%
<b>Current Account</b>		
Current account (\$m, actual)	-4,891	-932
Current account (\$m, sa)	-1,899	-1,844
Goods & Services (\$m, sa)	+320	+526
Primary & Second Income (\$m)	-2,219	-2,370
Annual CAB (\$m)	-7,480	-7,371
as % of GDP	-2.9%	-2.9%
Net IIP (% GDP)	-64.9%	-64.4%

## STRONG AND BROAD-BASED GROWTH

### BOTTOM LINE

- Excellent momentum; above-trend growth eating into capacity.
- Higher Q3 number slightly offset by downward revisions to Q2 and Q1 which left annual growth at 3.5% (production measure) but the expenditure measure surged to 4.5%!
- It's broad-based growth. Momentum built through 2016, and signals are positive for 2017.
- The bias is clearly shifting towards an increasing risk the RBNZ will have to dial back the stimulus in 2017.
- Current account in line with expectations at 2.9% of GDP but the net external debt position has started to lift; this needs watching. It requires slower credit growth, which will have growth consequences in 2017.

### THE NUMBERS

- Strong: 1.1% q/q lift in the September quarter GDP for the production measure and 1.4% q/q for the expenditure measure.
- Broad-based: 13 of 16 industries buoyed the production measure, led by business services, transport, manufacturing and construction. The main weakness came from agriculture, dragged lower by dairy production.
- In terms of the expenditure components, household consumption lifted 1.6% q/q (2% q/q last quarter and the tills look to be ringing in Q4 too), investment 1.4%. Exports fell 0.7% and imports lifted 1.2% q/q. Inventories detracted 0.6% from growth, led by manufacturing. Gross National Expenditure rose 1.7%, which illustrates that the domestic economy and interest rate-sensitive sectors are doing a lot of the heavy lifting and responding to pricing signals.
- The GDP deflator was tame at 0.3% q/q and 0.6% y/y but this will lift as a recovery in the terms of trade kicks in.
- Per capita growth lifted 0.6% q/q and 1.0% y/y; still not great, but it shows that not all the growth is due to more bums on seats.
- The current account deficit of \$1.9b (sa) was a slight deterioration on the prior quarter and in line with the mix of growth we are seeing. The annual picture was stable at 2.9% of GDP.
- Both the net external liability and net external debt position increased – the former from 64.4% to 64.9% of GDP and the latter from 55.9% to 58.0%. That's a marginal tweak but bears watching going forward, given the credit-centricity of growth and the releveraging behaviour we are seeing across the economy.

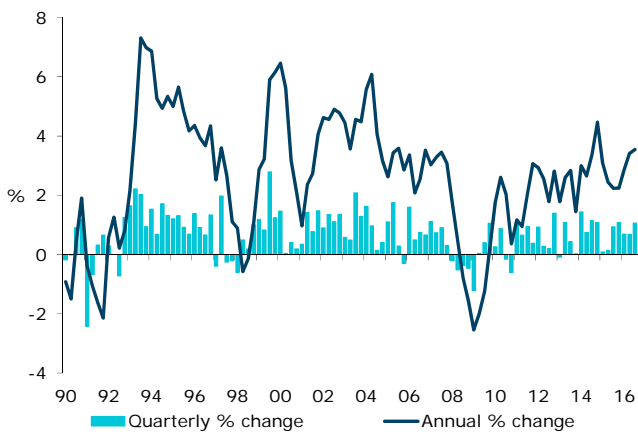
### COMMENT

- While revisions in H1 offset the positive upside surprise in the Q3 numbers there is no doubt the economy is chugging along nicely at a rate that is eating into spare capacity. In addition, expenditure numbers were revised up and burst through the 4% mark; only the production measure saw revisions down. With forward indicators suggesting good growth over Q4 (and an inventory rebuild likely), signs are positive as the year closes.

# 2016Q3 GDP & BALANCE OF PAYMENTS

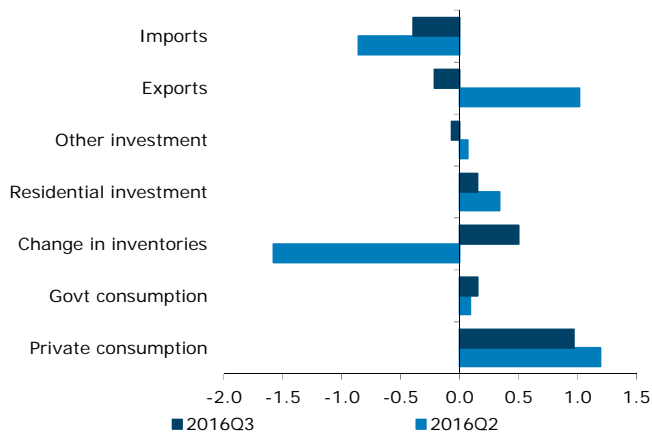
- While revisions played a role, today's figures will nonetheless cement market nuances in regard to odds of the RBNZ winding back stimulus in the back half of 2017. We're not in that camp yet, but that's clearly how the bias is shifting. Strong growth + yield + political stability should help temper some expectations that the NZD is headed lower. The strengthening USD might be front of mind but NZ's credentials demand respect, so expect elevation and support against other crosses.
- The current account position is by-and-large in check; it's been remarkably stable around 2.9% of GDP for quite a while. That said, we are starting to see signs of a slight deterioration due to credit growth outstripping income growth, and releveraging behaviour and the mix of monetary conditions favouring domestic-centric growth.

**FIGURE 1. PRODUCTION-BASED GDP**



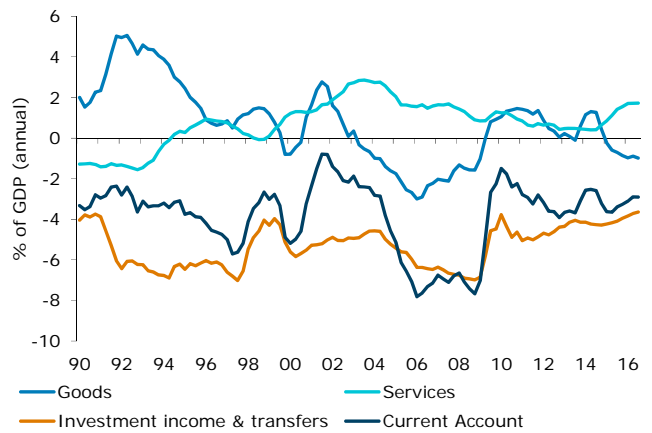
Source: ANZ, Statistics NZ

**FIGURE 2. CONTRIBUTIONS TO QUARTERLY GROWTH IN EXPENDITURE-BASED GDP**



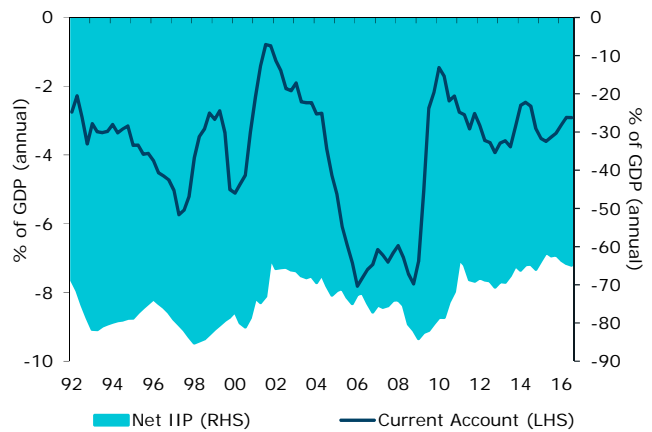
Source: ANZ, Statistics NZ

**FIGURE 3. ANNUAL CURRENT ACCOUNT BALANCE**



Source: ANZ, Statistics NZ

**FIGURE 4. NET INTERNATIONAL INVESTMENT POSITION**



Source: ANZ, Statistics NZ

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