

NEW ZEALAND ECONOMICS

GDP – 2016Q2

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CONTRIBUTORS

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BUILDING MOMENTUM

BOTTOM LINE

- **The New Zealand economy grew a solid 0.9% in the June quarter**, a little less than we expected on weaker-than-anticipated manufacturing growth but still a solid outturn. Q1 was revised up from 0.7% to 0.9% q/q. **The economy is strengthening and we expect strong growth over the back half of 2016.** Nonetheless, we continue to expect OCR cuts in November and February as the RBNZ responds to persistently low inflation and slipping inflation expectations.

KEY POINTS

- **The economy expanded briskly in the June quarter.** Though a touch weaker than expected by both ANZ and the market, it **beat the RBNZ's** 0.8% pick, made before very strong construction data was released. Q1 was revised up from 0.7% to 0.9% q/q. Annual growth lifted to 3.6%.
- **Per capita growth also accelerated** to 0.5% q/q, and the paltry 0.1% q/q previously recorded in Q1 was revised up to 0.3% q/q.
- **Eleven of 16 production-based industries recorded growth** over the quarter. As expected, the construction sector led the charge again, growing 5.0% q/q on top of 5.1% last quarter (sa). It is a relatively small part of the economy (~6% in a direct sense), but nonetheless contributed a third of the total quarterly growth.
- **Primary sector activity bounced** 0.5% after falling 0.2% in Q1. The services behemoth grew 0.7%, fuelled by population growth, with this sector a key driver of growth over the past year. Retail trade and accommodation lifted 1.9% q/q, with strong tourism again a factor. Manufacturing grew 0.8%, whereas we had expected quarterly growth closer to 2%. Food manufacturing rose 1.3%.
- **Expenditure GDP rose 1.2% q/q**, with the housing and building boom leaving its mark all over the data here too. Household consumption lifted 1.9% – it has been quite constrained in light of the housing strength but is up 3.9% y/y. Net exports contributed +0.4%, with timing effects at play. Inventories were a drag on growth, as we expected, with the change in inventories plus the balancing item knocking 1.2%pts off quarterly growth, but of course, much of this showed up in exports – dairy exports rose nearly 13% q/q. The terms of trade fell in Q2, so real gross national disposable income undershot GDP growth (+0.4% q/q).
- **The New Zealand economy is clearly strengthening.** We may see some statistical inventory-related noise in Q3 but looking through that **we expect a continuation of solid figures and above-trend growth.**
- **The mix of growth is gradually becoming more typical of 'late cycle' growth, with household debt ratios increasing.** That said, the backbone of the economy, commodity prices, is improving, and the fact the current account deficit is so modest despite a rampant housing market is testament to the fact that it is not a borrow-and-spend free-for-all.

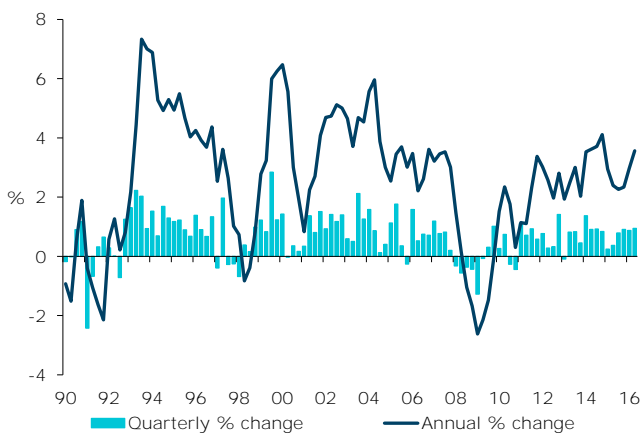
DATA SUMMARY

	Latest	Prev
Quarterly % change	0.9%	0.9%
Annual % change	3.6%	3.0%
Annual average % change	2.8%	2.5%

2016Q2 GDP

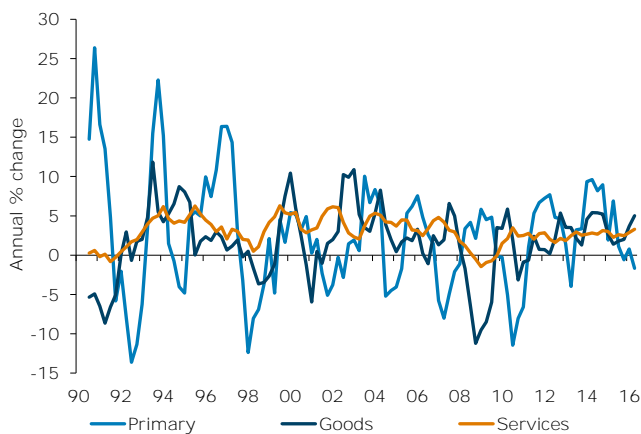
- Today's data pipped the published RBNZ prediction** of 0.8% q/q, but this prediction was made before the release of very strong construction data. We suspect their unpublished, updated forecast was a little higher than the outturn today. Growth is not determining New Zealand monetary policy at the moment; it is all about low inflation **and that's expected to remain** low courtesy of the strong NZD, despite the economy growing at an above-trend rate.

FIGURE 1. PRODUCTION-BASED GDP



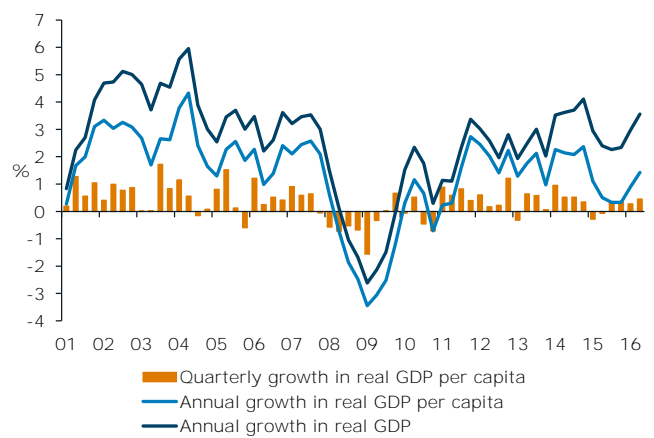
Source: ANZ, Statistics NZ

FIGURE 2. PRODUCTION-BASED GDP COMPONENTS



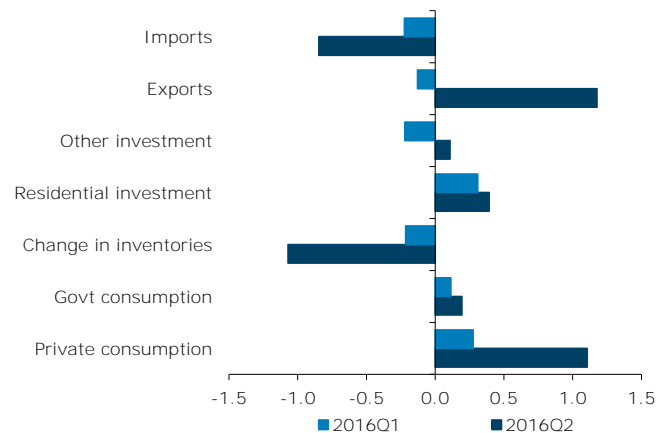
Source: ANZ, Statistics NZ

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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