

NEW ZEALAND ECONOMICS

GDP – 2016Q1

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CONTRIBUTORS

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DATA SUMMARY

	Latest	Prev
Quarterly % change	0.7%	0.9%
Annual % change	2.8%	2.3%
Annual average % change	2.4%	2.5%

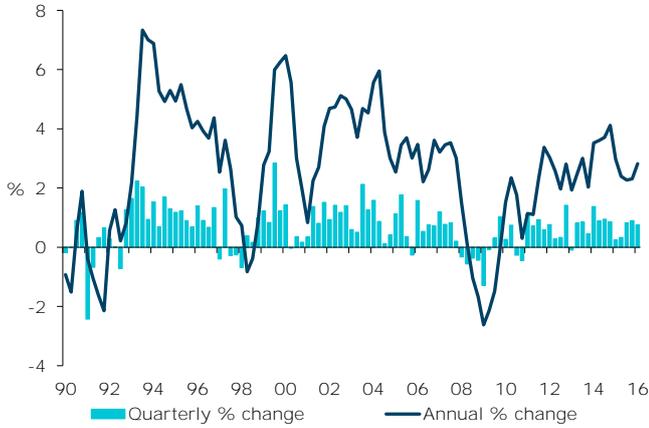
A LITTLE SOMETHING FOR EVERYONE

KEY POINTS

- The economy expanded by 0.7% over the first three months of the year, which was a little stronger than consensus expectations (0.5% q/q). Annual growth accelerated to 2.8% y/y.
- Despite the upside surprise, the data confirms a modest softening in momentum relative to the strong pace of growth seen over the second half of last year, where growth averaged close to a 0.9% quarterly pace. It is also a reasonably soft result in per capita terms, with the economy barely treading water over the quarter (+0.1% q/q).
- Twelve of 16 production-based industries recorded growth over the quarter, with the construction sector leading the way (as expected), rising 4.9% q/q. Primary sector activity dipped 0.4% q/q, while services sector activity rose 0.8% q/q – with a similar pace of growth now seen for three consecutive quarters. The latter was led by health care and social assistance, and is a function of strong population growth. Retail trade and accommodation rose 1.3% q/q, in part due to strong tourist spending.
- Expenditure GDP rose by a modestly softer 0.5%, led by fixed asset investment (again construction-related). Household consumption was on the softer side, rising just 0.4% q/q. Net exports were a modest drag on growth (-0.4%pts), as were inventories. Stronger terms of trade resulted in a decent bounce in real gross national disposable income (+2.2% q/q).
- In many ways, there is something for everyone in this data. In the first instance, there was of course an upside surprise in headline growth, which is nice. Income growth rebounded. But per capita growth was soft and household consumption somewhat lukewarm. Plant & machinery investment (0.6% q/q) was also a little disappointing in the context of a fall in Q4. There were also some modest downward historical revisions.
- When all is said and done, we view the figures as a respectable result following a strong pace of growth over the second half of 2015. There are risks to the outlook (global scene, dairy cash flow, elevated NZD etc), but when we consider the following, our base case is that reasonable rates of growth will continue (volatility aside) over the next year or so:
 - Indicators for Q2 are generally providing a decent signal. Primary activity should bounce and business and consumer confidence remain at decent levels.
 - Despite the elevated NZD, financial conditions remain supportive. The effective mortgage rate continues to fall. Tailwinds from migration and the construction sector pipeline persist.
 - Credit growth remains strong, supporting spending, although this does admittedly raise some medium-term sustainability questions.
- **Today's result was** a little above the **RBNZ's June MPS** pick (0.6% q/q) and so at the margin should reduce the odds of an August rate cut. However, the upcoming CPI and labour market data should carry far more weight in that regard. The odds still favour an August cut (on currency strength and global wobbles alone), but it is not a conviction view.

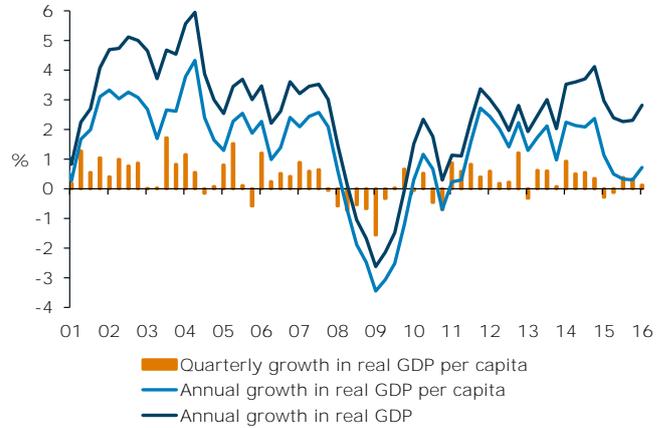
2016Q1 GDP

FIGURE 1. PRODUCTION-BASED GDP



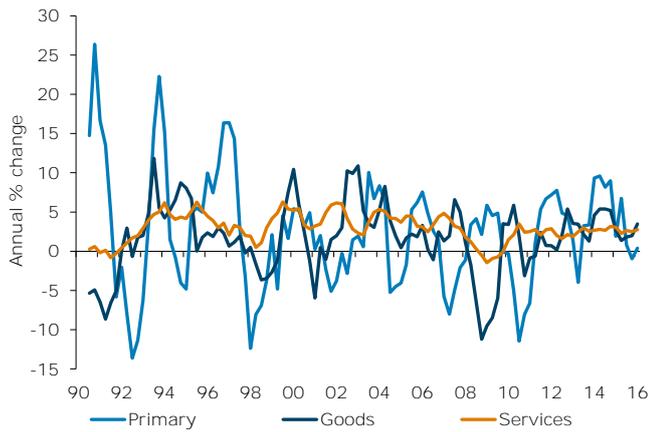
Source: ANZ, Statistics NZ

FIGURE 3. GDP PER CAPITA



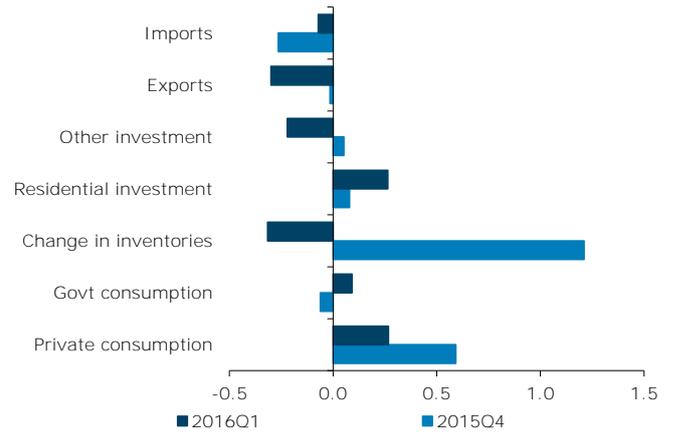
Source: ANZ, Statistics NZ

FIGURE 2. PRODUCTION-BASED GDP COMPONENTS



Source: ANZ, Statistics NZ

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



Source: ANZ, Statistics NZ

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