

Steady as she goes

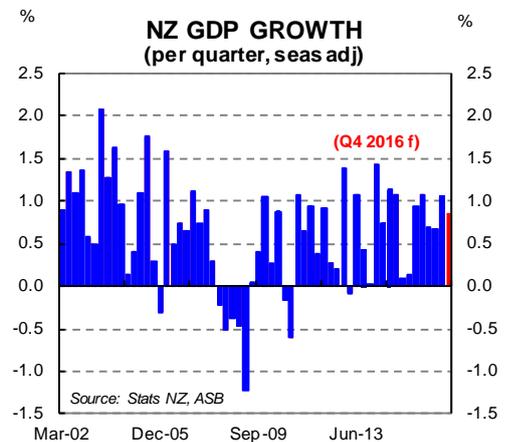
- We expect Q4 GDP growth of 0.9% qoq, yet another quarter of steady, solid growth.
- The *net* impact of the Kaikoura earthquake on economic growth is the key uncertainty for the quarter.
- We expect growth will be close to the RBNZ’s 1% forecast at the February Monetary Policy Statement.

Summary and Implications

Q4 GDP figures are reported by StatsNZ on **Thursday 16th of March**. Initial estimates point to yet another quarter of robust growth. **We expect 0.9% quarterly growth**, bringing annual growth to 3.4% and annual average growth to 3.3%.

Our forecast is **close to the RBNZ’s February Monetary Policy Statement forecast of 1% qoq**. As a result, the Q4 GDP figures are likely to **have limited implications for the RBNZ** – we continue to expect the RBNZ to keep the OCR on hold at 1.75% until late 2018.

GDP - December 2016	Previous	ASB	RBNZ	Market
quarterly % growth	1.1	0.9	1.0	-
annual % growth	3.5	3.3	3.5	-
annual average % growth	3.0	3.3		



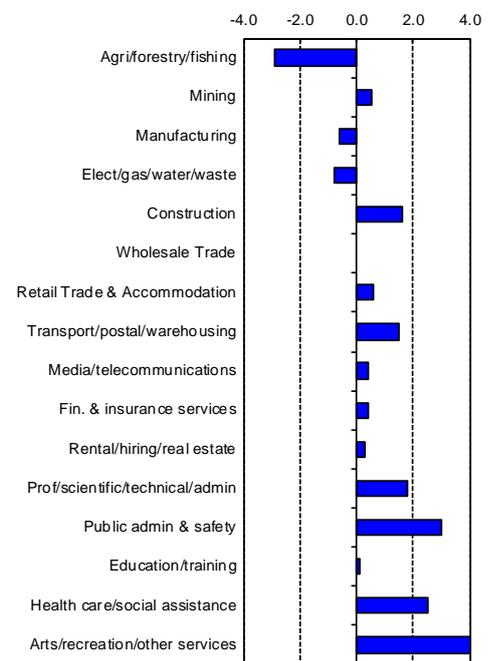
Construction and services sector continue to underpin growth

Construction activity continues to be a key source of economic growth. In addition, the services sector is also likely to be a key contributor to the strong end-of-year performance. In particular, strong growth in hours paid for public services such as health care and social assistance, as well as public administration and safety, suggest robust GDP growth in these sectors. Meanwhile, a fall in dairy production over the quarter is likely to be a mild drag on agricultural GDP.

Impact of Kaikoura earthquake uncertain

The wild card for the quarter will be the impact of the Kaikoura earthquake and associated disruption throughout the top of the South Island and bottom of the North Island. We know from the Retail Trade Survey, there was displaced activity, particularly with tourism (i.e. one region’s loss was another region’s gain). However, one area of uncertainty for GDP estimates is the extent to which the net disruption is picked up by StatsNZ’s many surveys which feed into quarterly GDP estimates. A number of small businesses were acutely disrupted, for example Kaikoura tourist services and businesses impacted by the Wellington CBD closure. This type of activity may not necessarily be picked up in the quarterly StatsNZ surveys. However, for large organisations, where employees could work from home, the impact may be minimal. Meanwhile, there may be an increase in activity in some areas as a direct result of the earthquake, in particular from emergency services and transport.

Q4 2016 PRODUCTION GDP (Quarterly % Change)



Given the vast array of information which feed into GDP and unique impacts of the Kaikoura quakes, StatsNZ is best placed to provide a steer on the impact of the earthquake on quarterly GDP growth.

Outlook remains strong

Looking ahead, we expect momentum to continue. Construction growth is likely to slow, particularly given the recent stall in residential building consent growth. However, we expect increased demand from NZ households to become a more significant driver of growth.

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