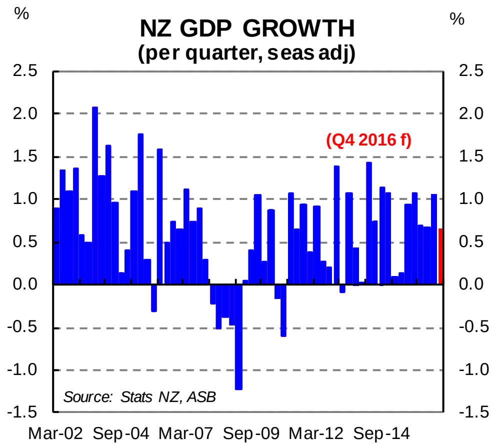
Trucking along

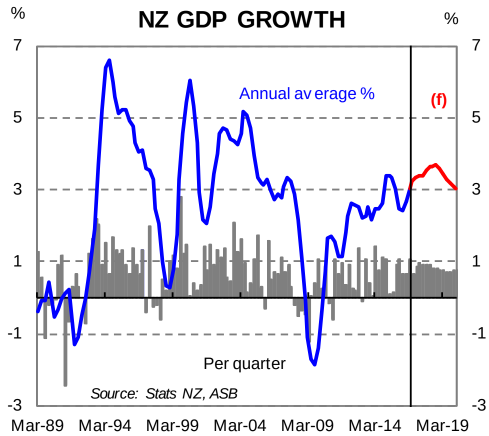
- **Q3 GDP growth was stronger than the market expected**.
- **However, the positive surprise was offset by downward historical revisions**.
- **We continue to expect the RBNZ to keep the OCR on hold at 1.75% for the foreseeable future**.

Q3 GDP growth printed stronger than expected, lifting 1.1% vs market and our own expectations of a 0.8% lift. However, this '**positive surprise' was offset by downward revisions to history**. This leaves annual growth at 3.5% - in line where we expected but slightly softer than market and RBNZ expectations.

In particular, the **lift in growth over the first half of the year wasn't nearly as impressive as previously thought**. This has implications for the extent the RBNZ can hope for domestically-sourced inflation to lift over the coming year. It argues for the RBNZ to remain patient for inflation pressures to lift off lows. **But does not change our OCR outlook, we continue to expect the RBNZ to leave the OCR on hold at 1.75% for the foreseeable future.**



GDP - September 2016	Previous	Actual	ASB	RBNZ	Market
quarterly % growth	0.7	**1.1**	0.8	0.9	0.8
annual % growth	3.4	**3.5**	3.5	3.7	3.6
annual average % growth	2.7	**3.0**	3.1		
Current account					
annual % GDP	-2.9	**-2.9**	-3.0	-	-3.0



GDP detail

As expected, the **services sector was a key source of growth over Q3**. Also as expected, continued growth contributions came from **manufacturing, construction and retail spending.** Meanwhile, agricultural activity did not contract as we had expected, instead it remained flat.

The main upside surprise for us was the thumping 3.7% increase in transport activity over Q3 – led by increased road and air transport. StatsNZ does not elaborate on the detail in the release, so at this point it's not known if this is due to increased freight or increased tourist activity. Nonetheless, either would be an encouraging sign of healthy growth in NZ activity.

According to StatsNZ, spending by **overseas tourists fell 3.4%** - a figure we were surprised by given tourist arrivals continued to lift over the quarter. This decline suggests the **strength of the NZD may have significantly eroded the purchasing power of visitors**. In turn, this would also suggest strong transport activity was due to domestic air travel and freight.

Another point of note was the **strong lift in household spending**. This lift was led by services and non-durable spending (i.e. fuel and food). **Strong population growth** over the past year could be a factor boosting consumer spending. Although, we do wonder how much of this could also be due by tourist spending – it is relatively difficult to distinguish if NZers or tourists are behind spending growth in these sectors. Meanwhile, **consumer durables spending** (which is highly correlated with the housing investment) growth was more subdued.

Balance of Payments detail

The annual current account deficit held steady at 2.9% of GDP in Q3, in contrast to our and market expectations of a slight widening. Contributing to the surprise was a smaller than expected seasonally-adjusted deficit and a minor downward revision to Q2. Looking at the drivers, the recent theme of strong services exports offsetting soft goods exports continued. Meanwhile, the investment income deficit was relatively steady over the quarter. Heading into 2017, we expect improving goods exports via higher dairy prices to result in a steady, if not narrower, current account deficit.

Jane Turner – Senior Economist – 649 301 5853 – jane.turner@asb.co.nz
Nathan Penny – Senior Rural Economist – 649 488 8778 – nathan.penny@asb.co.nz
Nick Tuffley – Chief Economist – 649 301 5660 – nick.tuffley@asb.co.nz

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778	
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661	
Economist	Daniel Snowden	Daniel.snowden@asb.co.nz	(649) 301 5657	
Publication and Data Analyst	Judith Pinto	Judith.pinto@asb.co.nz	(649) 301 5660	

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@ASBMarkets

ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland