

Economic Note

Q3 2018 GDP Preview

14 December 2018

Losing steam

- We expect Q3 2018 GDP grew 0.5%, due to slowing demand for both goods and services.
- We believe high petrol prices and weak business confidence sapped economic momentum over H2 2018.
- Annual benchmark revisions to National Accounts will also be incorporated at this release.

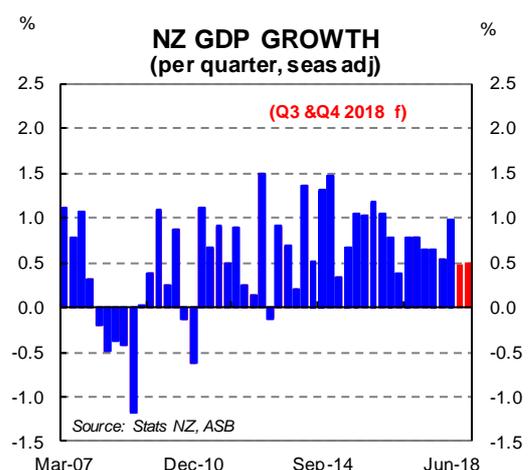
Summary & implications

Statistics NZ releases its estimate of Q3 GDP on Thursday 20th December, 10.45am NZT. **We expect soft Q3 GDP growth of just 0.5% qoq.** There was reasonable momentum in the economy over the first half of the year (albeit still soft on a per-capita basis) after a modest second half for 2017. But this recent momentum appears to have fizzled out and **we believe the pace of growth slowed again over the second half of 2018.** The sharp increase in petrol prices squeezed household budgets and appears to have directly impacted broader economic activity. Meanwhile, weak business confidence continues to linger, potentially undermining the relatively strong fundamentals which remain in place, including high Terms of Trade, strong population growth and low interest rates. **This quarter's National Accounts release also brings annual benchmark revisions to GDP,** which will range back as far as 2015 and are typically minor but on occasion have been significant.

GDP - September 2018	Previous	ASB	RBNZ
quarterly % growth	1.0	0.5	0.7
annual % growth	2.8	2.7	2.9
annual average % growth	2.7	2.8	

Muted growth likely over H2 2018

We expect Q3 growth of 0.5%, slightly weaker than the RBNZ's November Monetary Policy Statement forecast of 0.7% qoq. The trend in growth has been broadly flat over 2018 (around 2.7%), after slowing from 2016's robust pace of approx. 4% pa. The muted Q3 growth performance is reasonably broad based across NZ industries, with the exception of NZ horticultural and agricultural production (and exports). Key culprits for subdued activity include weak business sentiment and painfully-high petrol prices. **We currently expect soft growth to linger into Q4,** with 0.5% qoq also pencilled in. But looking into 2019, we are at a crossroad. Is the growth slowdown over H2 2018 temporary and can we expect growth to bounce back in 2019 now that petrol prices have fallen? Or, is this is the beginning of another period of modest growth, similar to what set in over 2017?



Weak growth in Q3 reflects:

- **Soft construction activity** growth (this appears to reflect supply constraints limiting growth rather than weak demand, as consents have been strong over 2018).
- **Weak manufacturing production** (impacted by slowing growth from construction activity and weakening business investment appetites).
- **Weak retail demand**, as household discretionary spending was squeezed by the sharp increase in petrol prices from July.
- **Soft housing demand** and credit appetites.
- **Very weak services activity**, in particular data from the Selected Services Survey and Quarterly Employment Survey point to a fall in business services activity (referred to as professional, scientific, technical, administration and support services).

On the upside

- **Wholesale trade** was boosted by strong export activity (in particular, kiwifruit and meat).
- We expect a **recovery in mining activity** following the previous quarter's gas production disruption due to the discovery of a leak in the Pohokura pipeline and subsequent unplanned shutdown.

High petrol prices sap demand

Since late last year **business confidence has remained weak** as the business community fretted about the uncertain impacts from the new Government's policy agenda, particularly work-place relations changes. However, **over the first half of 2018**, weak business confidence did not materially impact economic growth and it was largely **'business as usual' for the NZ economy**, which enjoyed supports from strong population growth, high Terms of Trade and low interest rates.

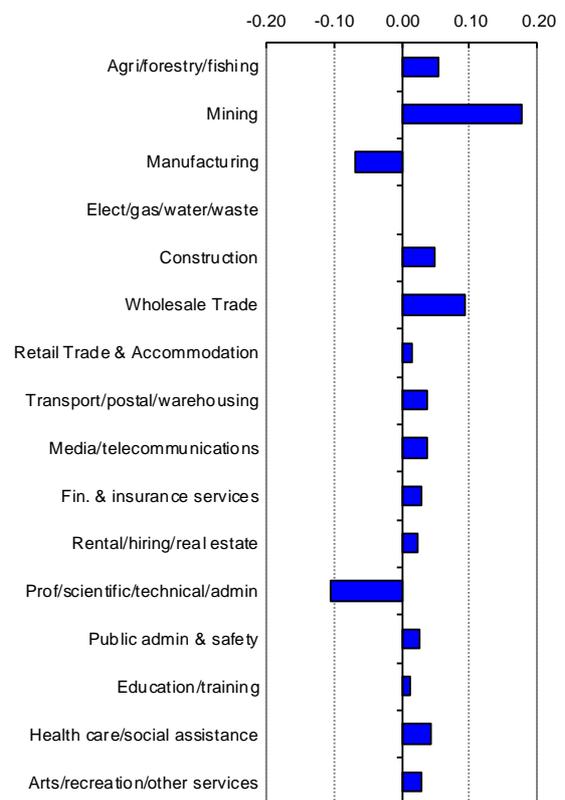
However, from Q3, there was a **material change in tone**, with the reliable NZIER Quarterly Survey of Business Opinion revealing a sharp drop in activity along with a sharp fall in profitability as cost pressures surged. It appears, the **double whammy of the low NZD (pushing up import prices) along with the sudden large surge in fuel prices was too much for NZ households and businesses to digest, and this has impacted activity**. Retail trade volumes were flat and indicators suggest services activity (an area exposed to discretionary spending appetites) were weak. The **good news here is that petrol prices have since fallen** as global oil prices have declined and the NZD has lifted. From the first half of 2019, we expect growth to pick up as strong fundamentals to reassert themselves, with fiscal stimulus, improving labour incomes and low interest rates supporting household demand.

Nonetheless, the **key risk to growth remains low business confidence**. The longer business sentiment remains poor, the more likely perceptions will spill over into reality via reduced investment and employment. There are tentative signs that business investment demand has slowed over 2018.

Revision risk

GDP can be subject to material revisions in the September quarter release, as StatsNZ incorporates annual benchmark data to revise its previous estimates of GDP. The revisions largely reflect StatsNZ incorporating more accurate data which is only available at a lower frequency. Usually the revisions are fairly minor, but at times these have been substantial.

Q3 2018 PRODUCTION GDP
(pp contribution to quarterly % change)



ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Rural Economist
Senior Economist, Wealth
Economist
Data & Publication Manager

Nick Tuffley
Jane Turner
Mark Smith
Nathan Penny
Chris Tennent-Brown
Kim Mundy
Judith Pinto

nick.tuffley@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
nathan.penny@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5957
(649) 301 5657
(649) 448 8778
(649) 301 5915
(649) 301 5661
(649) 301 5660

www.asb.co.nz/economics

 [@ASBMarkets](https://twitter.com/ASBMarkets)

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.