

Economic Note

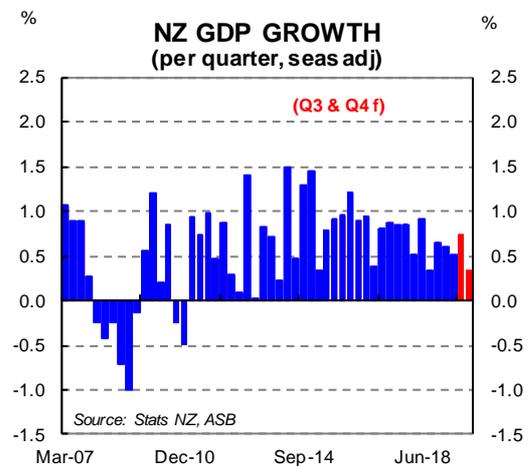
Q3 2019 GDP Preview

13 December 2019

Q3 GDP could deliver some holiday cheer

- We expect Q3 2019 GDP increased by 0.7% qoq, with annual growth lifting to 2.5%.
- Q3 economic data have been surprisingly robust despite very weak readings from typically-reliable sentiment-based indicators of GDP growth.
- StatsNZ will also update its earlier GDP estimates, which could result in some material revisions, adding an additional layer of uncertainty ahead of the release.

GDP - Sep 2019	Previous	ASB	RBNZ
quarterly % growth	0.5	0.7	0.3
annual % growth	2.1	2.5	2.1
annual average % growth	2.4	2.4	



Summary & implications

Q3 GDP is released on Thursday 19th December at 10.45am, and there is **some risk of material revisions to the annual rate of GDP growth** as StatsNZ will also update its previous estimates of GDP to incorporate annual benchmark data. Our usual suite of economic

indicators has provided **varying signals on the strength of the economy in Q3**. The early, yet typically-reliable **sentiment-based measures implied very little (if any) economic growth** over the quarter. However, **StatsNZ data released in recent weeks**, which are used as inputs into StatsNZ’s GDP estimate, **have been surprisingly robust**. **All up we are expecting reasonable Q3 GDP growth of 0.7%**, with annual GDP growth lifting to 2.5% from 2.1%. However, we still urge some caution - should Q3 GDP print close to our expectation, then the contrast of the strong outturn against weak levels of business confidence would cast additional uncertainty around the underlying strength or momentum in the economy.

We will probably never know the true state of the economy over H2 2019 until well into 2020. NZ quarterly GDP estimates are just that – early estimates, based off a range of survey data. StatsNZ does the best with what it has and it is a **balancing act in terms of timely estimates for policy makers versus the burden of surveying a representative sample of NZ businesses and individuals**. Adding to the uncertainty around the trend of GDP growth, StatsNZ will also update its previous GDP estimates to incorporate additional data from annual surveys. In the past, on occasion, these revisions have resulted in meaningful changes to the historical growth view. As a result, anything can happen on Thursday, Dec 19th but **fingers crossed Santa delivers some positive economic news to finish the year on**.

Early indicators of Q3 economic growth were weak

At the start of the quarter, **early forecasts of underlying GDP growth are derived from sentiment-based surveys**. We take care to assess the accuracy of these surveys over time, and there have been some fairly reliable performances in predicting the underlying rate of economic growth from a number of surveys. These include the BusinessNZ manufacturing and services PMI surveys and our pet favourite, the NZIER Quarterly Survey of Business Opinion measure of past quarter trading activity. **Both surveys pointed to a deceleration in growth over Q3**. Indeed, the weak results in a number of key economic indicators spiked our recession probability estimate higher, suggesting a 30% chance of recession and a period of sub-trend growth likely over H2 2019.

But Q3 data has been robust

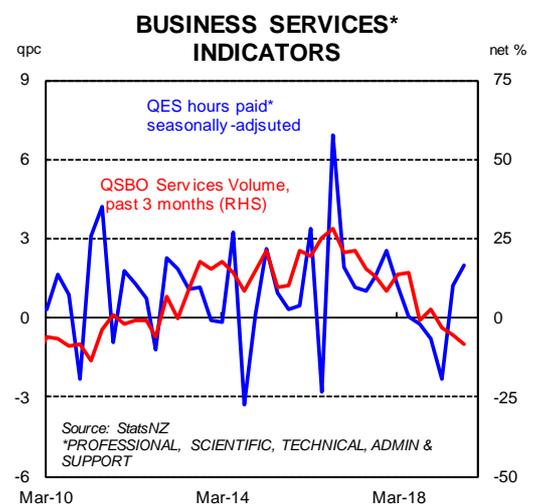
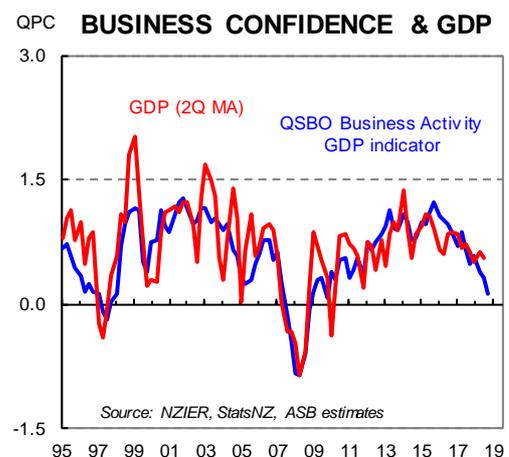
Despite the weak confidence-based indicators pointing to weak underlying trend, we had always expected some support for Q3 GDP growth from a few pockets of the economy. In particular, dairy production and livestock slaughter were expected to contribute to growth, whilst we were also seeing early signs of life creeping back into the housing market over Q3. But we had expected the rest of the economy to perform at a below-trend pace, in particular the goods producing sectors and professional business services. **So much to our surprise has been the relative strength of early partial economic data for Q3**. The **Retail Trade Survey** revealed a thumper of a quarter. The data within the **Economic Survey of Manufacturing** suggest that ex-primary manufacturing production actually increased a relatively strong 1% – in contrast to the manufacturing PMI pointing to a 1.5% contraction. Finally, **select employment data suggest that services GDP may be stronger than we pencilled in**. Despite earlier concerns for Q3 growth, we found ourselves forecasting a reasonably robust 0.7% quarterly growth. Not too shabby at all – and more importantly miles away from a recession! Phew!

So what does it all mean?

And the end of the day it's just a forecast.... of an estimate which is subject to revision. **Robust GDP growth over Q3 would certainly be a pleasant surprise, but we would still interpret the result with caution** and would not outright dismiss the information content of weak confidence data, particularly that of the more reliable surveys mentioned above. **NZ quarterly GDP estimates are just that – early estimates, based off a limited range of survey data**. StatsNZ does the best with what it has and it is a balancing act in terms of timely estimates for policy makers versus the burden of frequently collecting data from a representative sample of NZ businesses and individuals. As a result, the initial quarterly estimates are often revised using more accurate data that is surveyed on a less timely basis.

Indeed, the Q3 GDP figures are less predictable than usual, as StatsNZ will be incorporating some data from annual surveys and updating its estimates GDP growth from the past year or so. In the past, these revisions can have material economic and policy implications.

The RBNZ had penciled in just 0.3% qoq growth in the November Monetary Policy Statement (MPS). Depending on the extent and direction of historical revisions, it's likely the RBNZ will be updating its February forecasts with stronger economic growth than expected. At the November MPS, the RBNZ still saw downside risk to the OCR, with the RBNZ's OCR track indicating around a 50% chance on another cut. **A stronger GDP result would likely come as some relief to the RBNZ and result in the RBNZ's OCR risk assessment becoming more balanced**.



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