

Economic Note

Q4 GDP Preview

9 March 2018

End of the golden weather?

- We expect Q4 2017 GDP grew 0.8%, led by retail spending and business services.
- Expenditure GDP is likely to show strong business investment appetites and strong tourist spending.
- Post-election uncertainty may weigh on growth over H1 2018.

Summary & implications

We expect GDP growth of 0.8% in the final quarter of 2017, which would lift the annual pace of growth to 3.1% from 2.7% (as Q4 2016 was a very soft quarter). **Our forecast for growth is close to the RBNZ's February MPS expectations** (0.7% qq), and an outcome in this vicinity is unlikely change the RBNZ's policy assessment at the March 22nd OCR review. We expect GDP growth over Q4 will be **led by strong business services, a rebound in housing market activity and strong retail trade volumes**. However, we expect **post-election uncertainty will temporarily impact growth over H1 2018**, with business and employment intentions remaining weak in February's business confidence survey.

GDP - Dec 2017	Previous	ASB	RBNZ	Market
quarterly % growth	0.6	0.8	0.7	0.8
annual % growth	2.7	3.1	3.1	
annual average % growth	3.0	2.9		

We expect GDP growth of 0.8%

StatsNZ produces its first estimate of Q4 2017 GDP growth on Thursday 15th March. We expect GDP growth of 0.8% in the final quarter of 2017, which would lift the annual pace of growth to 3.1% from 2.7% (as Q4 2016 was a very soft quarter). As NZ quarterly GDP growth can be choppy, the annual average pace of growth is a smoother measure, which we expect to slip to 2.9% from 3.0%. Our growth forecast is close to the RBNZ's February MPS expectation (0.7% qq), and an outcome in this vicinity is unlikely change the RBNZ's policy assessment at the March 22nd OCR review.

Busy retail sector and strong business services demand

Growth momentum over 2017 eased, reflecting slowing growth in construction and household spending. However, we expect the year finished on a strong note and that Q4 growth will be relatively robust. Strong retail trade volumes are a key source of Q4 growth, spending growth was likely supported in part by solid household spending but also strong visitor spending. Real estate activity also bounced back strongly in Q4, with election uncertainty passing (and potentially some foreign buyers making purchases ahead of a signalled policy change). Business services are likely to be a strong contributor to Q4 growth, with our indicators suggesting legal and accounting services are a key driver of

this quarter's lift. Non-residential construction activity was strong and will see the construction sector contribute positively to growth over the quarter.

Investment demand strong and tourist numbers up

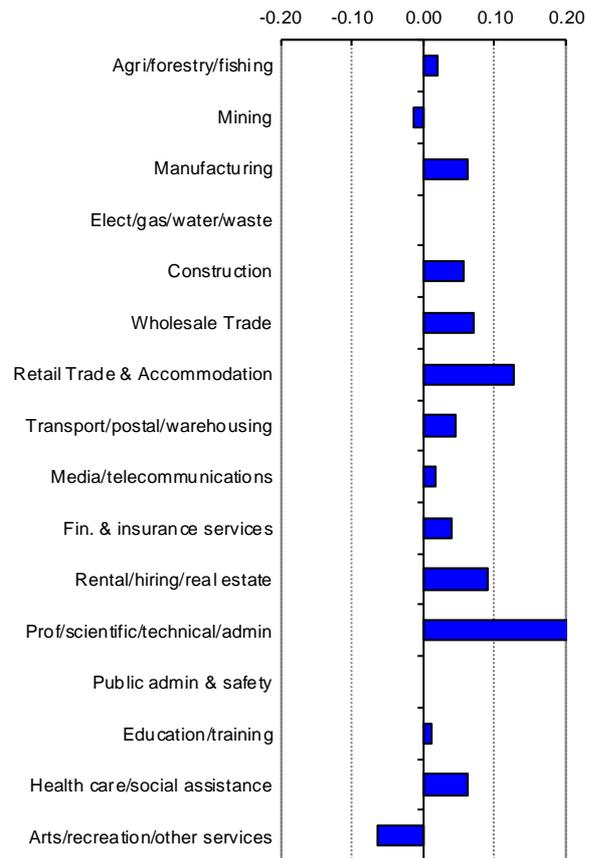
From the expenditure side, the economy is likely to look quite strong. Business investment demand surged toward the end of the year (according to import data). Household spending looks to have maintained momentum. Tourist spending likely benefited from a dual boost from both increased visitor arrivals and a lower NZD. Exports of goods lifted strongly over the quarter, adding onto the previous two quarter's growth.

Economic growth likely to temporarily slow on post-election uncertainty

The economy, with such broad-based support, appears at first glance to be little impacted by the election at the end of Q3 and subsequent change in Government. However, we expect the impact of the change in Government to hit with a lag. Policy-related uncertainty may delay investment and employment decisions, which could temporarily weigh on economic activity over the first half of the year. Early indicators point to slower growth in Q1, with building consents and manufacturing PMI all pointing to a slowdown after a robust Q4. In addition, the ANZ business confidence survey remained at relatively low levels in February, particularly employment and investment intentions.

Nonetheless, we expect this slowdown to be temporary. As further policy details are revealed we expect business confidence to recover and for investment and employment activity to resume. Beyond the near-term uncertainty, the key challenge for the economy will be escalating capacity constraints (particularly in the labour market) and the cost pressure that will come along with increasingly tight resources. Only then can the RBNZ truly be confident that core inflation pressures will rise and can begin to seriously contemplate OCR hikes. As we have been saying for some time, this is a story for 2019.

Q4 2017 PRODUCTION GDP
(pp contribution to quarterly % change)



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