

Economic Note

Q1 GDP Review

21 June 2018

Down, but not out (yet)

- Q1 GDP grew 0.5% qoq, in line with market expectations, which was slightly stronger than our own forecast, but weaker than the RBNZ May MPS forecast.
- We expect stronger growth in Q2 as forward-looking indicators suggest some of the weakness in Q1 growth was temporary.
- Going forward, our key concern for growth is whether weak business confidence spills over into business investment and hiring decisions.

GDP - March 2018	Previous	Actual	ASB	RBNZ	Market
quarterly % growth	0.6	0.5	0.4	0.7	0.5
annual % growth	2.9	2.7	2.5	2.9	2.7
annual average % growth	2.8	2.7	2.7		

Summary & implications

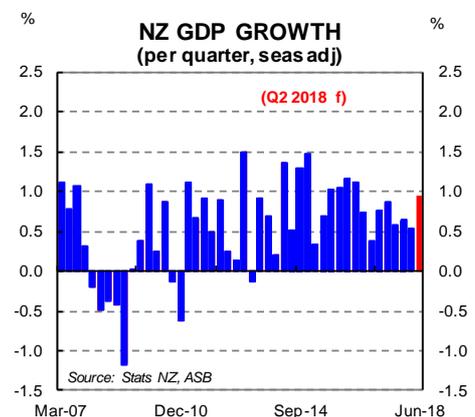
Q1 GDP lifted 0.5% qoq, in line with market expectations but slightly stronger than ASB’s forecast of 0.4% qoq and weaker than the RBNZ’s May Monetary Policy Statement (MPS) forecast (0.7% qoq). The composition of growth in Q1 was largely as we expected, with **flat activity in the goods producing industries** and **modest growth in the primary and services sectors**. We believe **some one-offs held quarterly growth down over Q1** and we do expect some bounce back next quarter. Beyond the first half of 2018, our **key concern is that weak business confidence spills over into weaker investment and hiring activity, which will weigh on growth**.

We continue to expect the RBNZ to wait until at least August 2019 before lifting the OCR.

A couple of temporary setbacks in Q1

GDP growth over the first quarter of this year was a modest 0.5% qoq (+2.7% yoy), roughly in line with population growth leaving per-capita GDP broadly unchanged over the quarter. **We had expected GDP growth to be sub-trend in Q1, which was largely corroborated by this outturn.**

Household spending was soft and the disruption to vehicle imports appears to have temporarily impacted vehicle sales. We expect vehicle sales to recover over Q2. Although consumer sentiment has dipped slightly over recent months, confidence remains at reasonable levels and also point to solid household spending growth over Q2. Looking beyond



Q2, we expect continued employment growth and rising wages to support household spending growth.

Construction activity was another weak spot in Q1, as indicated by the earlier released of Q1 Building Work Put in Place. Weakness in construction sector activity likely contributed to the subdued growth in manufacturing and wholesale activity.

Non-residential building construction fell 1.3% over the quarter, while residential building was 0.5% lower. Consent issuance suggests there remains a strong pipeline of activity for building construction in the near term, and we expect some bounce back in Q2. Furthermore, non-building construction activity also fell over Q1 (following strong increases over 2017) due to a drop in infrastructure investment reflecting reduced road and rail activity around Kaikoura with main transport links reopened at the end of 2017. This frees up resources that can be used to boost supply side capacity.



Services sector growth broad-based, but slowing

Much of the positive surprise from our perspective was the growth seen in the services sector. Growth in services sector value added was broad-based, with StatsNZ noting all 11 service industries recording increases over Q1. What stood out was the very large 2.3% qoq increase in information media and telecommunications (which include internet services) value added, which as StatsNZ noted was the largest quarterly increase in this sector since June 2015.

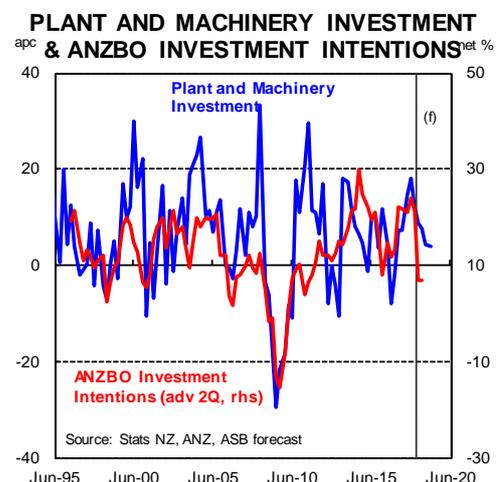
However, the overall momentum in the services sector is also slowing, with annual growth of 3.3% in March 2018, compared to a peak of 3.9% at the end of December 2016. Over the past year, key growth has been supported by business services (in particular professional, scientific, technical, administrative and support along with information media and telecommunications), health care and social assistance and public administration. However, the slowdown in the real estate market has dragged on real estate services and financial services. Arts and recreation and education and training have also been under performers in the services sector. With further growth in the construction sector likely to be limited due to construction-sector capacity constraints, we look to the services industry to pick up momentum and lead economic growth higher over the coming year.

Q1 growth in primary production was supported by a recovery in milk production, but was weighed by a fall in forestry activity.

Business investment strong for now, but outlook vulnerable

Expenditure GDP lifted 0.3% qoq (+3.0% yoy), the lowest quarterly growth rate in close to five years. Driving the weakness was soft household demand (flat) and lower meat and dairy export volumes. Providing an offset was a lift in business investment, higher government consumption and a strong lift in exports of services.

As expected, investment activity continued to increase over the quarter, with plant and machinery investment up 13% for the March 2018 year. Strong growth in core business investment is evidence of the strong underlying fundamentals supporting the economy (including the high Terms of Trade and low interest rates) and widespread capacity pressures. Going forward, our key concern for GDP growth is that weak business confidence spills over into weaker business investment and hiring.



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 5853
(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.