Economic Note

Q3 GDP Review

19 December 2019

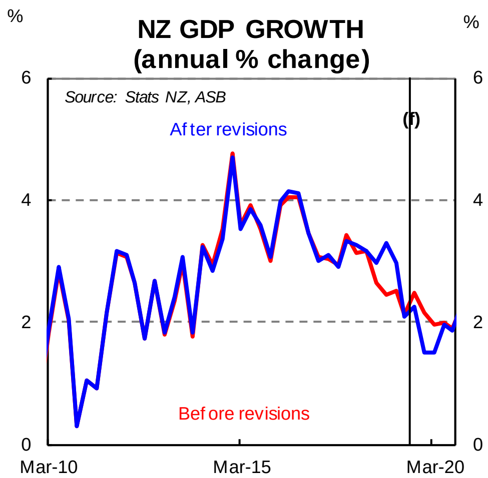
GDP takes us on a roller-coaster ride of revisions

- Q3 GDP grew 0.7% qoq (2.3% yoy), bang on ASB's forecast, and stronger than both the market expectation and the RBNZ's November MPS forecast.
- However, revisions to previous GDP estimates have altered the profile of GDP growth – in short 2018 GDP growth is stronger but 2019 GDP growth is weaker.
- The net result is that GDP is slightly ahead of the RBNZ's Q3 GDP forecast, but a back-drop of GDP growth decelerating more sharply than previously believed over 2019. We continue to expect the RBNZ to cut the OCR once more in 2020.

GDP – Q3 2019	Q3 19	Q3 19 Forecasts		
	Actual	Market	ASB	RBNZ
quarterly % growth	**0.7**	0.5	0.7	0.3
annual % growth	**2.3**	2.3	2.5	2.1

Summary and implications

Q3 GDP increased by 0.7% qoq, bang on ASB's "bullish" forecast, and stronger than both the Reserve Bank of New Zealand's (RBNZ) November Monetary Policy Statement (MPS) forecast and the market expectation. Revisions to previous GDP estimates show stronger growth over 2018, but much sharper deceleration over 2019, with H1 2019 GDP growth estimates revised substantially lower. This sharp drop in H1 2019 GDP growth offsets the surprise to market and RBNZ expectations from the strong Q3 GDP growth.



Compared to the RBNZ's November MPS forecasts, the slightly stronger annual GDP growth rate, along with the recent pick-up in business confidence, will give the RBNZ some comfort, with the RBNZ's OCR risk assessment now likely to be more balanced. Nonetheless, **we continue to expect the RBNZ will cut the OCR once more over 2020, in large part due to tightening credit conditions creating headwinds to a recovery in GDP growth over 2020.** We have pencilled in May for this last rate cut, but the risks are skewed to a later move.

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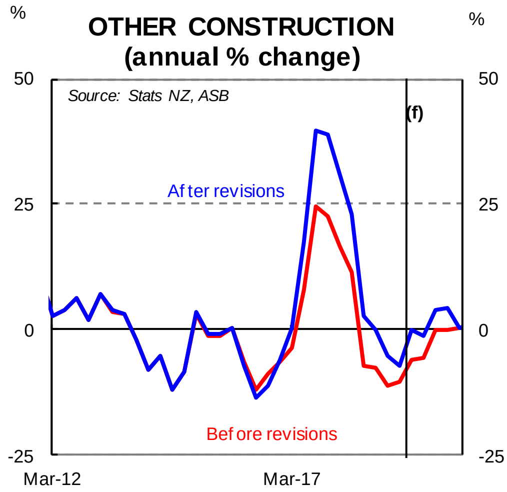
Roller-coaster ride of revisions

Revisions to previous GDP estimates have altered the profile of GDP growth. In short, 2018 GDP growth is higher and H1 2019 GDP growth is now weaker than previously published.



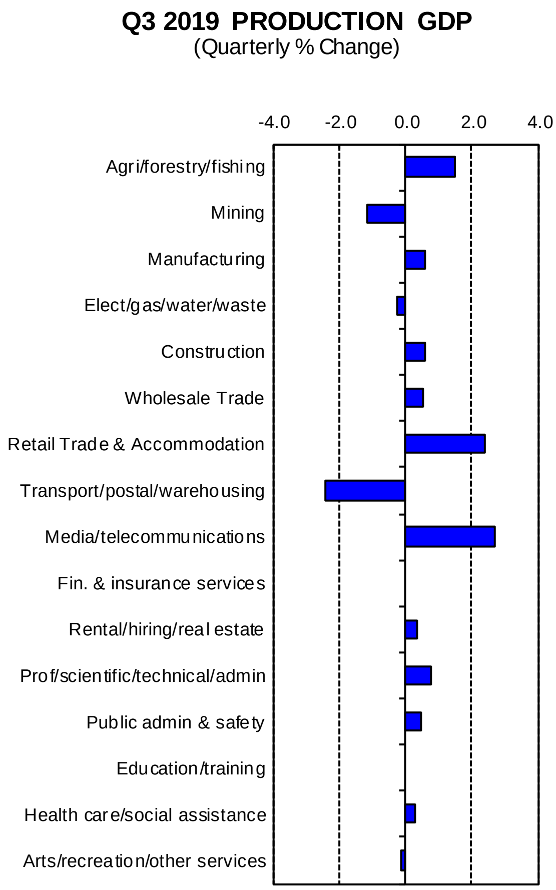
It's common to see large revisions to GDP growth at the end of the year (i.e. within the September quarter estimates) as StatsNZ incorporates annual benchmark data (which improve the estimates of GDP using less timely but more in-depth survey data). StatsNZ also took the opportunity to incorporate methodology improvements and new updated indicator data.

StatsNZ revised 2018 GDP growth up by around 0.9 percentage points. At first glance, a large part of the revisions to 2018 GDP appear to be in StatsNZ's estimates of "other construction", and the timing suggests StatsNZ has increased its estimates of the Kaikoura earthquake rebuild activity.

However, estimates of GDP growth over the first half of 2019 have been revised lower, by around 0.6 percentage points. In particular, the Q2 2019 GDP estimate has been revised down to just 0.1% growth, from 0.5% estimated previously. **Although the updated GDP estimates paint a picture of much stronger growth over 2018, it also shows a much sharper deceleration in GDP growth over 2019.** This sharp drop in H1 2019 GDP growth provides a material offset to the surprising strength of the Q3 GDP growth. And, annual growth of just 2.3% reinforces that the RBNZ's 75 basis points of rate cuts over 2019 was indeed the right move to support the economy.

Q3 activity a mixed bag

Q3 GDP increased by 0.7% qoq, bang on ASB's "bullish" forecast, and stronger than both the Reserve Bank of New Zealand's (RBNZ) November MPS forecast and the median market expectation.



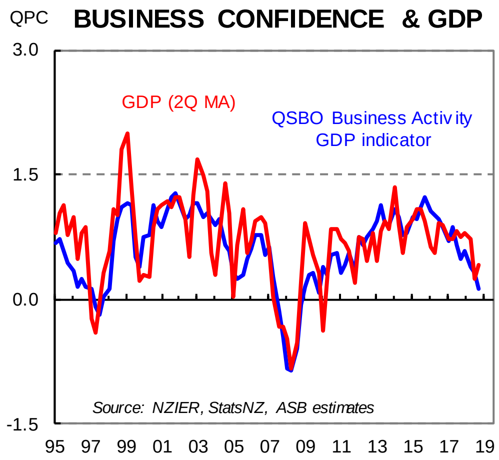
As expected, Q3 GDP growth was supported by very strong spending in **retail trade**, accommodation and restaurants, up 2.4% in the national accounts framework (and even stronger than indicated by the Retail Trade Survey). StatsNZ noted that much of the spending increase was driven by **electronic items.** Also supporting growth was an **out-sized increase in information media and telecommunications**, up a whopping 2.7% qoq and led by an increase in telecommunications services. Agricultural activity also increased in line with our expectations.

Business services and rental, hiring and real estate services demand lifted, although the increase was slightly more modest than we expected.

A large drop in transport, postal and warehousing activity (down 2.4%) was a key drag on growth. StatsNZ noted the fall was largely due to a drop in road transport.

Downward revisions see average GDP growth consistent with weak business confidence.

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, had been surprisingly robust. Despite earlier concerns for Q3 growth, we found ourselves forecasting a reasonably robust 0.7% quarterly growth, which proved to be correct. Robust GDP growth over Q3 was certainly a pleasant surprise, but the surprise was tempered by a substantial downward revision to Q2 growth. **The average pace of growth over Q2 and Q3 sits closer to the subdued rate of GDP growth that business confidence surveys have been pointing to.**



RBNZ implications

The RBNZ had pencilled in just 0.3% qoq growth in the November Monetary Policy Statement (MPS). As a result of the outturn today, and along with the revisions to the historical profile, the RBNZ will be updating its February forecasts with a history of slightly stronger economic growth than expected. At the November MPS, the RBNZ still saw the balance of risks as skewed to a lower OCR, with the RBNZ's OCR track indicating around a 50% chance of another cut. The slightly stronger GDP result, along with the recent pick-up in business confidence, will likely come as some relief to the RBNZ and result in the RBNZ's OCR risk assessment becoming more balanced. Nonetheless, we continue to expect the RBNZ will cut the OCR once more over 2020, in large part due to tightening credit conditions creating headwinds to a recovery in GDP growth over 2020. We have pencilled in May for this last rate cut, but the risks are skewed to a later move.

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