ASB

Economic Note

Q4 GDP Preview

15 March 2018

Wild weather weighs on GDP

- Q4 GDP grew 0.6% qoq, slightly weaker than our own forecast and the market expectation of 0.8% qoq, and the RBNZ February MPS forecast of 0.7%.
- The key drag on GDP growth was a fall in agricultural production, while services sector growth was strong.
- There are no implications for the RBNZ's March 22nd OCR review, and we continue to expect the RBNZ to leave the OCR on hold until the second half of 2019.

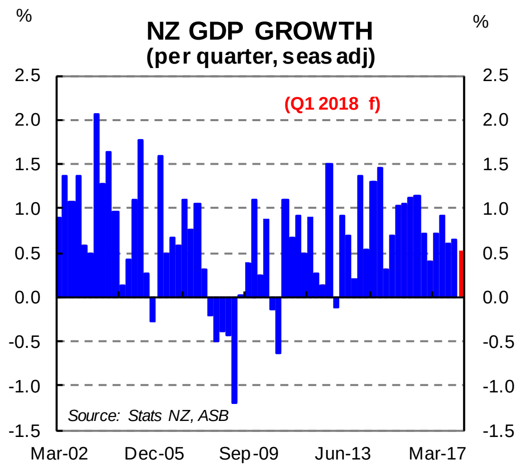
GDP - Dec 2017	Previous	Actual	ASB	RBNZ	Market
quarterly % growth	0.6	**0.6**	0.8	0.7	0.8
annual % growth	2.7	**2.9**	3.1	3.1	3.1
annual average % growth	3.0	**2.9**	2.9		

Summary & implications

Q4 GDP lifted 0.6%, slightly weaker than ASB's forecast and market median expectation of 0.8%, and marginally below the RBNZ's February Monetary Policy Statement (MPS) forecast (0.7%). However, aside from the sharp weather-related fall in agricultural production, the **underlying detail of the Q4 GDP figures was relatively robust with many sectors growing stronger than we expected**. The RBNZ can rest assured that underlying economic demand was resilient toward the end of 2017. We expect a temporary slowdown in growth over the first half of 2018 due to initial uncertainty following the recent change in government. But the details in Q4 GDP are encouraging and lift our confidence that economic growth will recover over the second half of this year. **As we share a similar growth forecast with the RBNZ, and we see no material implications to the RBNZ's GDP growth forecasts ahead of next week's OCR Review.**

Wild weather weighs primary production

Economic growth was weighed down by a 2.7% fall in agricultural activity. Stats NZ noted that cattle and sheep farming and milk production were affected by the volatile weather, with wet conditions in spring followed by drought conditions in early summer. This sector performed much weaker than we had anticipated, and we were a little surprised as according to our own seasonally-adjusted data the fall in dairy production occurred over Q3. Meanwhile, the relatively large spike in meat processing due to higher slaughter rates was offset by a fall in dairy and alcoholic beverage manufacturing.



Jane Turner – Senior Economist (649) 301 5853 jane.turner@asb.co.nz
Nick Tuffley – Chief Economist (649) 301 5659 nick.tuffley@asb.co.nz

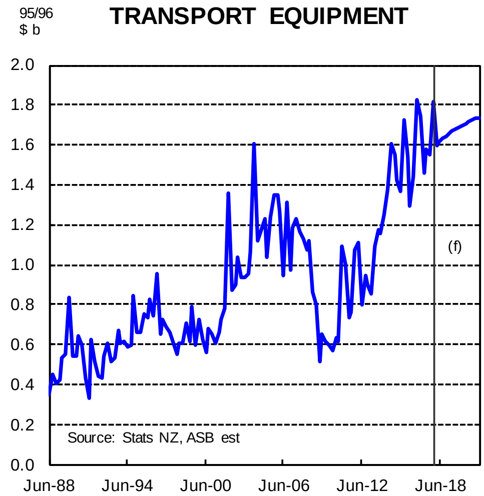
Looking through weather-related impacts, the rest of the detail in Q4 GDP was remarkably resilient, with many of the services sectors growing stronger than we had expected. Areas leading growth included wholesale trade, retail trade, business services and a bounce back in housing market activity.

Hot December stimulates household appeitites

Retail spending growth was a key driver of growth, up 1.6% over the quarter led by strong food and beverage services. One area of surprise was more of the retail spending strength in Q4 was attributed to NZ households than short-term visitors (i.e. tourists), with exports of services falling. This was surprising given the higher number of short-term visitors over the December quarter, along with the lower value of the NZD, both of which tend to increase tourist demand.

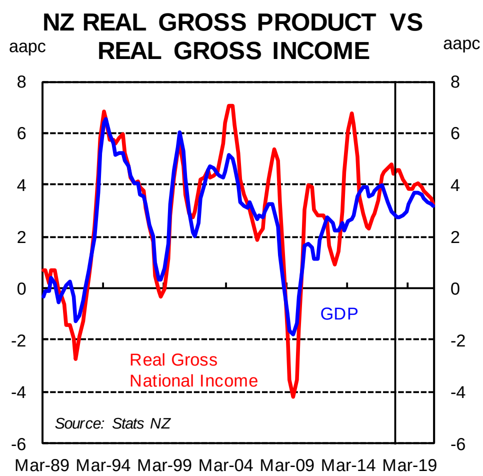
Nonetheless, **the hot start to summer in December did anecdotally increase beer and ice-cream demand,** which appears to have boosted household spending on non-durables. In addition, **signs of firm household demand will be an encouraging outcome for the RBNZ, suggesting that consumers weathered the election uncertainty and change in government well.**

Business activity strong heading into the end of 2017



Business services were another key area of growth in Q4. According to StatsNZ this was led by growth in computer system design services, advertising and marketing. As expected, **business investment received a boost from non-residential construction, plane imports** (there were two Dreamliners imported according to previously released trade data) **and plant and machinery**. All of this activity suggests business activity remained steady over the second half of 2017. Indeed, investment in transport equipment has remained at very high levels since 2015, reflecting increased demand from both stronger population growth and increased tourism activity.

Temporary slowdown ahead on weaker business confidence



Looking ahead, we expect to see slightly slower growth over Q1. Business confidence has fallen and employment and investment intentions remain low. Low business confidence of late likely reflects elevated uncertainty due to the change in government. This suggests we could see some decision making delayed, which could temporarily weigh on economic activity over the first half of 2018. We expect that business confidence will gradually recover as more policy details are finalised. **The underlying fundamentals for growth remain supportive, and include low interest rates, record high Terms of Trade and increased fiscal stimulus.**

ASB Economics & Research			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Jane Turner	Jane.turner@asb.co.nz	(649) 301 5853
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661
Data & Publication Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660

www.asb.co.nz/economics

@ASBMarkets

Disclaimer