

Economic Note

Q4 GDP Review

19 March 2020

The calm before the storm

- Q4 GDP lifted largely in line with expectations, up 0.5% qoq with annual growth slowing to 1.8%.
- There are no market or policy implications from today's GDP data. The COVID-19 coronavirus outbreak over the early months of 2020 has reshaped the NZ and global economic outlook, making Q4 2019 GDP outdated information.
- The recent rise in global government bond yields, including NZ 10-year Government bonds, increases the urgency for the RBNZ to begin asset purchases to keep interest rates low and stimulatory.

GDP - Dec 2019	Previous	Actual	ASB	RBNZ	Market
quarterly % growth	0.8	0.5	0.6	0.4	0.5
annual % growth	2.3	1.8	1.8	1.6	1.7
annual average % growth	2.7	2.3	2.3		

Summary and implications

Q4 GDP increased 0.5%, bang-on the market consensus and within 0.1 percentage points of our own and RBNZ forecasts. **Economic growth decelerated over 2019** and Q4 GDP brings annual growth down to 1.8%. There are **no market or policy implications from today's GDP data**. The COVID-19 coronavirus outbreak over the early months of 2020 has reshaped the NZ and global economic outlook, making Q4 2019 GDP outdated information. **We are currently updating our economic forecasts and see the economy contracting between 3 to 3.5% over 2020, with risks skewed to a greater contraction.**

The RBNZ has already cut the OCR to its current lower bound (of 0.25%). **The next step for the RBNZ would be Quantitative Easing** via the purchase of NZ Government Bonds – and given the sharp increase in global government bond yields in recent days, this may now need to be considered with some urgency. NZ Government Bond yields lifted from a low of 0.828% on March 9th 2020 to be trading around 1.6% today.

Growth slowed over 2019

Economic growth decelerated over 2019, in large part led by a slowdown in services sector growth, with the annual rate of growth slowing from 4.2% at the end of 2016 to just 2.1% by the end of 2019. A slowdown in primary sector growth has also contributed.

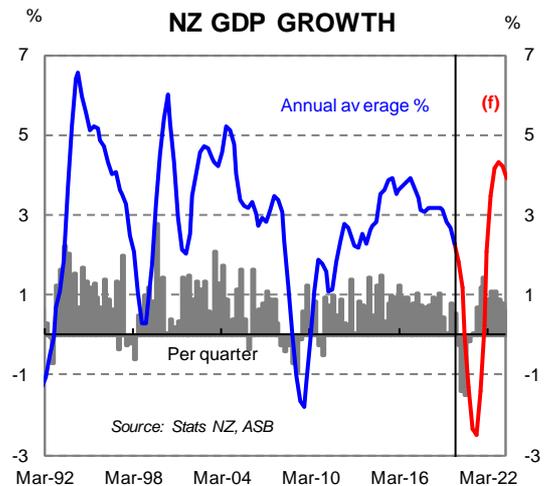
Within Q4 GDP, primary sector growth held up better than expected, in large part through a 2.5% increase in mining activity. Meanwhile, some **components of services-sector growth were slightly weaker than we expected**, with finance and insurance services and business services (professional, scientific, technical, admin, and support) registering a small contraction. These weak result in the services sector fits with low levels of business confidence

persisting in some sectors of the economy toward the end of the year.

Impact of the COVID-19 global pandemic

Focus now shifts to the economic impact of the COVID-19 pandemic, which has now spread globally and resulted in economic shut downs in many countries in an attempt to contain and slow the spread of the virus. Officially the outbreak in NZ has remained limited, although the situation continues to evolve on a daily basis. The Government’s move to limit any unnecessary international arrivals into NZ will hit the NZ economy hard. **According to the Tourism Satellite Account, international tourism expenditure was \$17.2 billion in the year-ended March 2019, or 5.7% of the economy.**

Even with the Government and RBNZ pulling out all the stops to support the economy through this hit, we still estimate the **economy is likely to contract 3-3.5% over 2020**, with risks skewed to a greater contraction should the outbreak become well entrenched in NZ.



Pulling out all the stops

To support the economy the Government announced this week a stimulus package of \$12.1 billion (almost 4% of GDP) and has indicated more help will likely come. Meanwhile, the Reserve Bank of New Zealand (RBNZ) has already cut the Official Cash Rate to its current lower bound (of 0.25%). **The next step for the RBNZ would be Quantitative Easing via the purchase of NZ Government Bonds – and given the sharp increase in global government bond yields in recent days, this may now need to be done with some urgency.** NZ Government Bond yields lifted from a low of 0.828% to be trading around 1.6% today.

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