

## GDP Underdone and Understated

- **Growth weaker than officialdom's forecasts**
- **But we think inflation will surprise the other way**
- **One-offs dent Q1 expansion**
- **Fiscal easing will provide a H2 boost**
- **Weakening confidence a concern for future investment**

New Zealand GDP grew 0.5% in the first quarter of 2018. While a less than stunning outcome, the annual expansion of 2.7% still looks acceptable. Moreover, this quarter's data was nobbled by a number of one-offs that made things look a little worse than they actually are. And, perhaps more importantly, the second half of this year will see a big boost to the economy provided by a substantial easing in fiscal policy. Accordingly, we think annual growth will climb back up to three percent by the end of the September quarter. A level that will continue to put pressure on New Zealand's dwindling ability to supply the economic outputs that are being demanded.

In terms of the one-offs that the economy faced this quarter, they include:

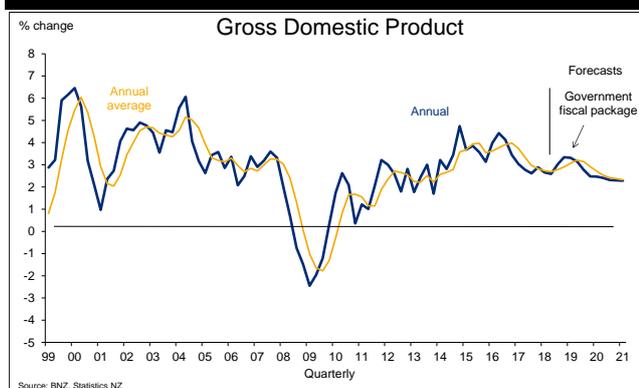
- A significant reduction in car sales thanks to stink bugs preventing vehicles crossing the wharves;
- Adverse weather conditions reduced the forestry harvest, construction and, possibly, retail spending;
- The end of significant post-Kaikoura earthquake construction projects;
- Gas supply constraints due to maintenance and repair work;

- A drop in meat processing thanks to a previously early kill because of dry weather concerns at the time; and
- What appears to be a negative impact on activity from an early Easter.

As much of this will resolve itself in the second quarter, our initial pick for Q2 GDP growth is 0.8%. With the fiscal stimulus on board in Q3, we are looking at growth for that quarter pushing even higher to 1.0%.

Some commentators were quick to suggest that weakening business and consumer confidence were responsible for the quarter's softening. We don't believe

### Growth – Down But Not Out



	qtr % chg prev qtr	% pt cont to chg (1)	ann avg % chg	ann % chg
<b>GDP by Industry - December 2017 quarter</b>				
Agriculture, Forestry & Fishing	0.8	0.0	0.0	-2.1
Mining	-0.2	0.0	-2.2	-0.2
Manufacturing	0.7	0.1	2.2	2.1
Electricity Gas, Water & Waste Services	-0.4	0.0	1.0	-0.8
Construction	-1.0	-0.1	1.4	2.4
Wholesale Trade	0.2	0.0	4.1	4.2
Retail, Accom. & Restaurants	0.3	0.0	5.9	4.4
Transport, Postal and Warehousing	0.5	0.0	5.0	6.9
Information Media & Telecommunications	2.3	0.1	2.9	4.7
Financial and Insurance Services	0.1	0.0	1.5	1.0
Rental, Hiring, Real Estate Services	0.4	0.1	0.9	1.5
Prof, Scientific, Technical, Admin	1.0	0.1	4.6	5.3
Public Admin and Safety	1.8	0.1	4.2	4.7
Education & Training	0.2	0.0	1.5	1.1
Health Care and Social Assistance	0.3	0.0	4.5	3.1
Arts, Recreation and Other	0.3	0.0	1.8	0.3
Unallocated <sup>(2)</sup>	-0.2	0.0	3.0	3.4
Balancing Terms <sup>(3)</sup>	..	0.1	..	..
<b>Gross Domestic Product</b>	<b>0.5</b>	<b>0.5</b>	<b>2.7</b>	<b>2.7</b>

<sup>(1)</sup> Includes the change in inventories and the seasonal adjustment balancing item

<sup>(2)</sup> Includes unallocated taxes on production and imports, and bank service charge

<sup>(3)</sup> The seasonal adjustment balancing item

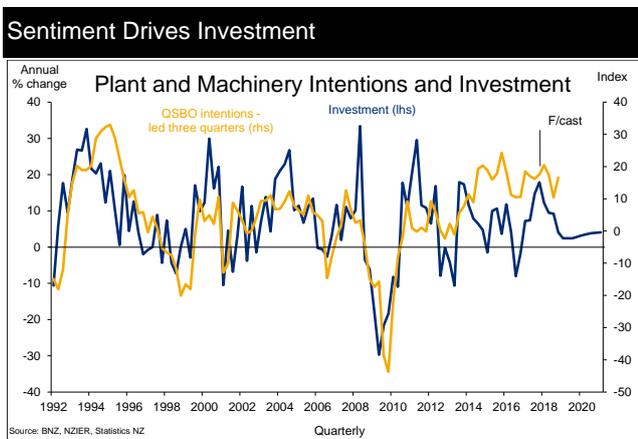
	qtr % chg prev qtr	% pt cont to chg (1)	ann avg % chg	ann % chg
<b>Expenditure on GDP - December 2017 quarter</b>				
Final Consumption Expenditure				
Private	0.0	0.0	3.8	2.9
General Government	0.5	0.1	4.9	4.2
Gross Fixed Capital Formation				
Residential Buildings	-0.2	0.0	0.6	2.5
Other Fixed Assets	0.6	0.1	5.5	6.7
Exports of Good and Service	-0.1	0.0	3.9	4.7
Imports of Goods and Services	1.2	-0.3	7.0	8.2
Change in Inv & Bal. Item <sup>(4)</sup>	..	0.5	..	..
<b>Expenditure on GDP</b>	<b>0.3</b>	<b>0.3</b>	<b>3.2</b>	<b>3.0</b>

<sup>(4)</sup> Includes the change in inventories and the seasonal adjustment balancing item.

Source: Statistics New Zealand

this. That said, we are strongly of the view that investment activity is starting to be adversely impacted by a combination of increasing input costs and political uncertainty. And it is one of the key reasons why our medium term forecast track is below consensus. Nonetheless, we think it premature to conclude that this is reflected in today's data.

Importantly, though, while some folk question the reliability of business surveys in picking future growth, we are cognisant from feedback from our own customer base that decisions are being put on hold while businesses come to grips with the new operating environment. Any reduction in uncertainty can only help support future activity while any increase in concerns would most definitely negatively impact future growth.



Today's release was in line with market projections, and our own. But it was below the quarterly estimates of both Treasury and the central bank. We had warned post budget that government revenue expectations might be a bit optimistic given our expectations for the evolution of the real economy. These data did nothing to dispel that view.

We also see these figures as being "the first leg of the double". For some time now we have been pushing the view that GDP would surprise the RBNZ to the downside while CPI inflation would surprise to the up. We are forecasting Q2 CPI inflation of 0.6% compared with the RBNZ's 0.4% pick.

On this basis, we caution market participants against getting too dovish on future RBNZ actions based on misses in real economy outcomes. As it turns out the GDP data didn't seem to faze anyone. Neither the NZD nor fixed interest rates moved.

[stephen\\_toplis@bnz.co.nz](mailto:stephen_toplis@bnz.co.nz)

## Contact Details

### BNZ Research

**Stephen Toplis**

Head of Research  
+64 4 474 6905

**Craig Ebert**

Senior Economist  
+64 4 474 6799

**Doug Steel**

Senior Economist  
+64 4 474 6923

**Jason Wong**

Senior Markets Strategist  
+64 4 924 7652

**Nick Smyth**

Interest Rates Strategist  
+64 4 924 7653

### Main Offices

**Wellington**

Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

**Auckland**

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

**Christchurch**

111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

### National Australia Bank

**Peter Jolly**

Global Head of Research  
+61 2 9237 1406

**Alan Oster**

Group Chief Economist  
+61 3 8634 2927

**Ray Attrill**

Head of FX Strategy  
+61 2 9237 1848

**Skye Masters**

Head of Fixed Income Research  
+61 2 9295 1196

**Wellington**

Foreign Exchange +800 642 222  
Fixed Income/Derivatives +800 283 269

**Sydney**

Foreign Exchange +61 2 9295 1100  
Fixed Income/Derivatives +61 2 9295 1166

**London**

Foreign Exchange +44 20 7796 3091  
Fixed Income/Derivatives +44 20 7796 4761

**New York**

Foreign Exchange +1 212 916 9631  
Fixed Income/Derivatives +1 212 916 9677

**Hong Kong**

Foreign Exchange +85 2 2526 5891  
Fixed Income/Derivatives +85 2 2526 5891

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**US DISCLAIMER:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

**National Australia Bank Limited is not a registered bank in New Zealand.**