Slow news day

NZ GDP, March quarter 2018

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- GDP rose by 0.5% in the March quarter, in line with market forecasts.
- Growth was widespread across industries, but modest in most cases.
- The economy has lost some momentum as firms take a cautious approach to the new Government and as the housing market has cooled.
- Softer growth in the near term provides some caution about the scope for additional fiscal spending, and reinforces that the case for OCR hikes is some way off.

Key Results	Dec 2017	Mar 2018	Westpac f/c	Market f/c
GDP Q/Q %	0.6	**0.5**	0.4	0.5
GDP Ann %	2.9	**2.7**	2.6	2.7
GDP Ann Avg %	2.8	**2.7**	2.8	2.8

Today's figures reinforced that the New Zealand economy has lost some of its momentum in recent times. GDP rose by 0.5% in the March quarter, following gains of 0.6% in each of the previous two quarters. There were some minor revisions to history that nudged the annual growth rate down to 2.7% after rounding.

There doesn't appear to be much in the way of special factors holding down the quarterly result – growth was widespread across industries but unremarkable in most cases. Consequently, we don't expect to see a strong rebound next time. Our forecast for the June quarter is 0.7% growth, but the risks are to the downside.

We have long been expecting a period of subdued growth, reflecting businesses' uncertainty about the new Government and a cooling in the housing market. We do expect a lift in government spending to boost GDP growth next year, though with public sector growth significantly outpacing the private sector. However, policy measures to restrain the housing market and slowing population growth suggest to us that GDP growth is well and truly past its peak.

The slowdown in growth to date stands in contrast to the views of the Reserve Bank and the Treasury, who both expected GDP growth to accelerate to 0.7% in the March quarter. Today's figures should give reason for caution about both the scope for additional fiscal spending and the timing of interest rate hikes.

Turning to the details of the release, the 0.5% growth in GDP was led by a 0.6% rise in services, with gains in every subsector. There was also a lift in agricultural output, as dairying recovered from a poor start to the season. Retail spending grew at a slower pace as consumers turned more cautious, and construction activity fell in the face of capacity and finance constraints.

The biggest contribution to growth was from a surprisingly large 2.3% gain in the information and telecommunications sector. While intuitively this should be a rapidly-growing industry, the nature of it means that it's difficult to measure output – for instance, the GDP figures report it as shrinking through 2016, in what was otherwise a strong year for the economy. We don't know whether the latest result will survive future data revisions, as better indicators become available over time.

The public sector also saw strong growth in the quarter. This is another instance where output is difficult to measure, as many government services don't have a market value. With the new Government planning to lift in spending on health, education and the public service, we expect this sector to be make a strong contribution to GDP growth in years to come.

Manufacturing was up overall, though most of the growth came from equipment and machinery manufacturing. Businesses may be sounding more cautious, but to date they have remained willing to invest in boosting their capacity – both local production and imports of capital equipment have been strong recently.

The retail sector saw a relatively subdued 0.3% gain for the quarter. Part of this will reflect increased consumer caution, particularly as the growth in house prices has slowed. But it also partly reflects an interruption in car sales, with some import shipments delayed due to the discovery of marmorated stink bugs. The most recent vehicle registration figures suggest that this lost ground should be made up over the next quarter or two.

The main drag on growth for the March quarter was a 1% drop in construction activity. Residential and non-residential building were down slightly, and spending on road and rail infrastructure fell as the clean-up from the Kaikoura earthquake was completed. Capacity constraints and access to finance have been a challenge for the construction sector, but with building consents picking up again in recent months, we expect a gradual lift in building activity over the rest of this year.

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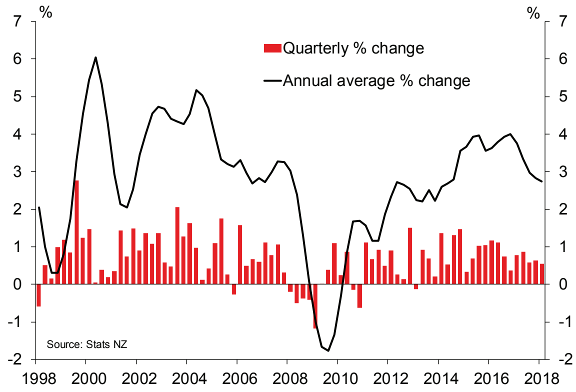
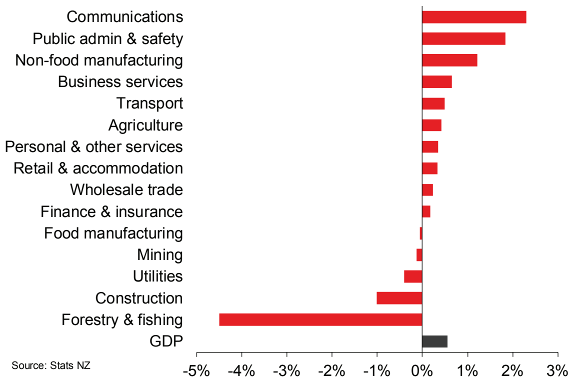
Annual average GDP growth



Q1 GDP changes by sector



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