Economic Bulletin.

19 September 2019

Neither here nor there – NZ GDP, June quarter 2019.

- GDP rose by 0.5% in the June quarter, a little ahead of market forecasts but in line with the Reserve Bank's view.
- Growth in the services sectors picked up, although the results were still mixed.
- Manufacturing, mining and construction dropped back after sharp gains in the previous quarter.
- The pace of growth has slowed markedly in the last couple of years, in part due to weak business confidence and a more subdued housing market. Lower interest rates will have an important bearing on the latter in coming quarters.

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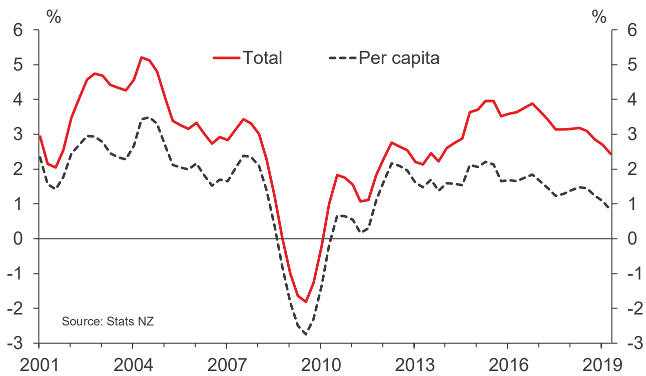
Key results	Jun 2019	Mar 2019	Westpac f/c	Market f/c
GDP qtr %	**0.5**	0.6	0.6	0.4
GDP ann %	**2.1**	2.5	2.2	2.0
GDP ann avg %	**2.4**	2.7	2.5	2.4

GDP, annual average growth



New Zealand's economic performance was muted over the first half of 2019, with a 0.5% rise in June quarter GDP that followed a 0.6% rise in the March quarter. Annual growth over the last year slowed to 2.4%, the lowest since 2013 – though that was at a time when population growth was slower than it is today. In per capita terms, annual growth slowed to 0.8%, its lowest since 2011.

The June quarter result was ahead of the median market forecast, though a bit lower than our top-of-the-range forecast of 0.6%. There were no one-offs or special factors that would affect our outlook for the September quarter; we expect growth to remain similarly subdued, based on the persistent weakness in business confidence and signs of a softening in hiring.

GDP was in line with what the Reserve Bank forecast in its August *Monetary Policy Statement*, which means that the chance of further action at next Wednesday's OCR review remains low. The RBNZ was at pains to state that its 50 basis point rate cut in August was aimed at 'getting ahead of the curve', and developments since then don't suggest that it has fallen behind again. We'll be releasing our preview of the OCR decision tomorrow.

Turning to the details, the 0.5% rise in the production measure of GDP was largely in line with what we expected. The sectors that saw strong gains in the March quarter – food manufacturing, mining and construction – eased back in June, while agriculture and services picked up after weak March results.

Agriculture (up 1.1%) benefited from a lift in milk production in seasonally adjusted terms. Forestry output rose by 1.8%, though this sector is likely to fall heavily next quarter, as a plunge in log export prices has seen a sharp pullback in harvesting.

Mining was down 4.4%, partially unwinding a 9% rise in the March quarter that was boosted by exploration activity. Mining output is likely to pick up strongly from next quarter, after recent drilling at the existing offshore oil fields.

Manufacturing was down 0.8% overall, led by a 2.8% drop in food and beverages. The latter was largely a matter of quarterly volatility, following a 3.5% jump in March. However, non-food manufacturing was close to flat, as it has been for the last year.

Construction activity eased back by 0.8%. Residential and non-residential building work have been trending higher, but couldn't maintain their pace after a sharp spike in the March quarter. Civil construction, which had been slowing in previous quarters, was flat in June.

Services, which make up around two-thirds of GDP, rose by 0.7% in June after a subdued 0.3% rise in March. However, the results were still mixed. Households were a bit more vibrant, with an improvement in retail spending, arts and recreation, and real estate services. But there were surprising declines in telecommunications and professional services.

The expenditure measure of GDP was more impressive with a 0.7% gain in the June quarter, and March quarter growth was revised slightly up to 0.9%. The expenditure approach is considered less reliable on a quarterly basis, and future data revisions could narrow some of the gap between the two measures. However, it does provide an additional lens on the drivers of growth.

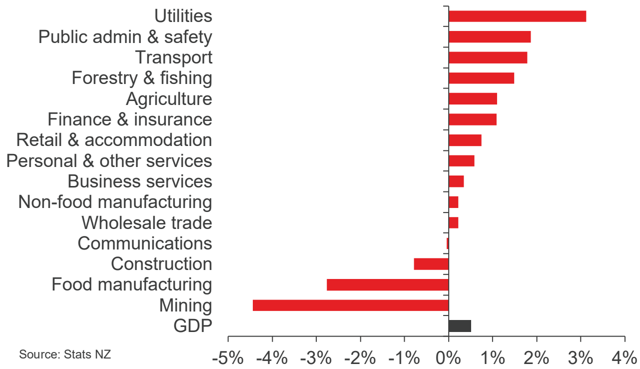
Household consumption was a bit stronger in June quarter, but it's clear that the pace of growth over the last two quarters is well down from its earlier peaks. The subdued housing market has likely played a role in people's willingness to spend, which means that how house prices react to the recent sharp fall in mortgage rates will have an important bearing on the growth outlook in coming quarters.

Government expenditure has been growing at a steady pace, though it hasn't made the contribution to GDP growth that we were anticipating. A closer look suggests that the lift in government spending over the last couple of years has come through more in prices, and less in activity, than we assumed. Note that this item only covers final expenditure such as health and education; a large part of the additional government spending has been though transfers, which have boosted household incomes and supported their spending.

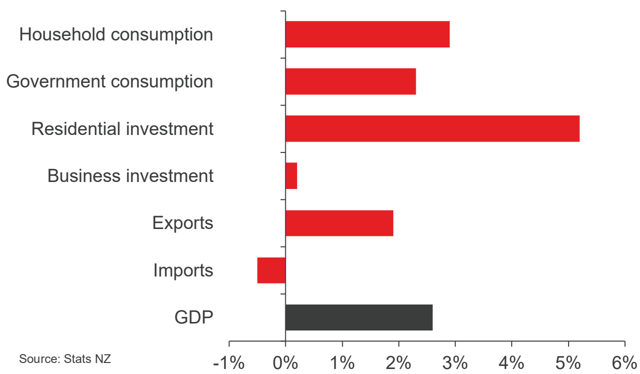
Business investment has been a notable weak spot during the recent slowdown, matching the downturn in business confidence. That said, it held up better than we expected in the June quarter, including a 2% rise in plant and machinery investment.

Despite the darkening outlook for the global economy, export volumes have continued to grow modestly. Given the commodity-heavy focus of New Zealand's exports, changes in global demand tend to be reflected in prices more than volumes.

Q2 GDP growth by sector



Annual GDP growth by expenditure



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