

Economic Update – First Impressions.

19 March 2020



NZ GDP, Q4 2019.

- GDP increased by 0.5% in the December quarter, with the economy growing by 2.3% over the past year. Today's result was a little below our forecast, but close to market expectations. Today's result confirms our view that the economy was picking late last year.

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Quarterly change: +0.5%

(last: +0.8%, Westpac f/c: +0.6%, market f/c: +0.5%)

Annual change: +1.8 (last: 2.3%)

Annual average change: 2.3% (last: 2.7%)

New Zealand's GDP rose by 0.5% in the December quarter. That was just below our forecast for a 0.6% rise, but in line with the average analyst forecast.

For the year to December 2019, the New Zealand economy grew by 2.3%. That compares to growth of 3.2% over calendar 2018.

Looking under the surface, the slowdown in GDP growth over 2019 really reflected a loss of momentum through the first half of the year, with activity actually edging back slightly in per capita terms. Economic activity reaccelerated again in the second half of the year, buoyed by supportive monetary policy and increases in fiscal spending.

The makeup of activity in the December quarter was largely as we expected.

- GDP was supported mainly by increases in services sectors. Spending by central government was up 3.1%. there were also increases in the rental/real estate sector (+1.8%), transport (+1.5) and the retail sector (+0.6%).
- On the downside, we did see softness in the agricultural sector (down 1.7%) and subdued manufacturing activity (down 0.1%).
- The small surprise to our forecast was mainly due to a 0.2% fall in financial services (we were looking for an increase).

Looking at expenditure in the economy, the December quarter saw only modest growth in household spending (+0.3%). There was also a fall in lumpy business investment



spending categories. That was balanced against firmness in Government consumption spending and residential investment.

Today's result was a little above the RBNZ forecast for a 0.4% increase. However, we doubt this will have any major impact on their thinking, with Covid-19 concerns now dominating policy makers' thinking.

Today's result predates the outbreak of Covid-19. It confirms our view that the economy was picking late last year. Nevertheless, we still expect a significant deterioration in economic activity over the coming year.

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