

# Party central

## Q3 GDP preview: 22 December, 10:45am

- We expect a 0.8% rise in September quarter GDP, partly reflecting the temporary boost to activity from the Rugby World Cup.
- The underlying pace of recovery remains modest, with rebuilding in Canterbury not yet making a substantial contribution to growth.
- The GDP figures should have little influence on the RBNZ, given the overriding concerns about the European crisis and increased offshore funding costs.

### GDP expectations

	GDP q/q	GDP y/y	GDP ann ave
Q2 actual	0.1%	1.5%	1.5%
Q3 Westpac forecasts	0.8%	2.4%	1.7%
Q3 market forecasts	0.8%	2.3%	1.7%

### Summary

We expect a solid 0.8% increase in GDP in the September quarter, in line with the market median. Some of this reflects the start of the Rugby World Cup (RWC), which will have had its greatest impact on the rate of growth in Q3 (though the level of activity in September was probably at least maintained in October). Rugby aside, our forecast suggests a continuation of the modest pace of recovery over the last year, with no substantial boost from the Christchurch rebuild coming through just yet.

### Details

The Rugby World Cup is likely to have been a modest positive for GDP overall, though with the benefits concentrated in a few areas (such as hospitality, transport and tourism) and some noticeable disruptions in others. The clearest impact that we've seen is the sharp rise in retail spending in Q3 (up 2.6%). Given that much of the rise was concentrated in supermarkets, it's likely to have been driven by locals as well as visitors.

The other sector that's likely to see a strong boost is cultural and recreational services, which includes the running of the tournament itself. During the 2003 RWC in Australia, this sector grew by 4.4% and added a little less than 0.1% to total GDP –

Figure 1: Production based GDP

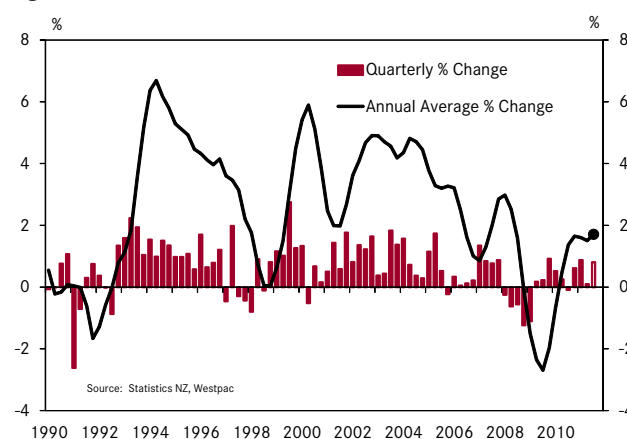
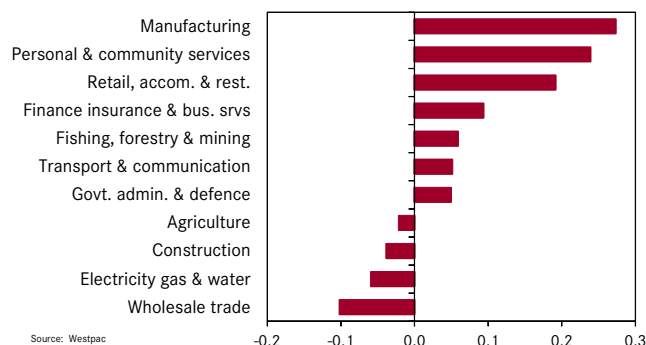


Figure 2: Percentage point contribution to Q2 GDP growth



and that was from a similar-scale tournament in an economy six times the size of ours. It's difficult to put a figure on the GDP impact this time, but our assumption is well within the bounds of what the Australian experience suggests.

We estimate that the RWC was a net positive for the transport sector, though not by a wide margin. The pickup in short-haul flights (domestic and trans-Tasman) was countered by a drop in business travel during the tournament and a general softening in long-distance travel.

Aside from RWC effects, there was also a strong increase in manufacturing production – although this largely went into

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building up inventories, while sales actually fell. That's a positive for output in the September quarter, but could be a drag in later quarters if the stock build-up was involuntary – that is, if firms were unable to find buyers. The weakness in more recent manufacturing surveys suggests that may be the case.

Other positives for the quarter included a rebound in mining activity, particularly gas production; a strong increase in hiring and spending by local authorities (possibly related to the Christchurch rebuild and/or the RWC); and a small increase in property sales relative to the June quarter.

On the weaker side, the largest negative contribution came from a 1.4% drop in wholesale trade. Construction also remained a drag on growth, with only a small degree of rebuilding so far in Canterbury and an ongoing malaise in the rest of the country. Repairs to buildings and infrastructure and demolition work in Christchurch will have softened the blow for the industry. Agriculture is coming off a period of superb growing conditions that was always going to be hard to top (June quarter production was up 9% on a year earlier). And electricity production rose overall, but there was a sharp drop in the share generated from cheaper renewable sources, which means less value-added in the GDP calculations.

On the expenditure approach to GDP, we expect a boost to household consumption (including RWC ticket sales that were purchased as early as last year but only just 'consumed' now), and a sharp rise in services exports (though only reversing the drop in Q2, which was depressed by the Christchurch earthquake and ash cloud disruptions). The lift in overseas visitor spending related to the RWC probably won't seem particularly large in Q3 – spending is surveyed on departure, which for many visitors will have fallen into Q4. There will also be an assortment of services flows on both sides of the ledger, which will also be detailed in the balance of payments published the day beforehand.

### Market implications

Our forecast is in line with the median market forecast, and was also shared by the RBNZ in its December Monetary Policy Statement. The impact of a unique event such as the Rugby World Cup implies a wider than average margin of error around quarterly forecasts (though admittedly there's been no shortage of 'unique' events to deal with lately), and any surprises in the Q3 figures relating to the tournament will have to be mirrored in forecasts for the December and March quarters.

The prevailing market sentiment is largely negative, and dominated by the sovereign debt crisis in Europe and its knock-on effects for the rest of the world. Consequently, a stronger than expected result will probably see only a small lift in interest rates and the NZ dollar (nothing short of a rapid improvement in global market conditions will prompt the RBNZ to bring forward rate hikes). A weaker than forecast outturn would further encourage the market to price in OCR cuts – which it has returned to in recent days despite the RBNZ signalling that the hurdle for cuts is extremely high.

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