

# Better than nothing

Q4 GDP preview: released 25/03 10:45am NZT

- Despite lofty confidence surveys, hard data suggests Q4 GDP growth will be restricted to 0.7%.
- While the goods industries have rebounded, the housing market slowdown was probably a serious drag on service industries.
- Like the early stages of all post-recession recoveries, stockbuilding will make an important contribution on the expenditure breakdown.

### GDP expectations

	GDP q/q	GDP y/y	GDP ann ave
Q3 actual	0.2%	-1.3%	-2.2%
Q4 Westpac forecasts	0.7%	0.2%	-1.5%
Q4 RBNZ forecasts	0.6%		-1.6%
Q4 Market forecasts	0.8%	0.3%	-1.5%

After two years of miserable economic performance, we expect that New Zealand experienced a half-decent rate of economic growth in the fourth quarter of 2009. Although our forecast of 0.7% growth is close to average, that's actually a fairly disappointing performance in the context of the global recovery.

First the good news. By our reckoning manufacturing expanded 1.9%, propelled by restocking activity, strong domestic and Australian demand, and the low NZD/AUD exchange rate. That was no doubt a welcome break after the crushing 16.4% contraction that manufacturing had experienced over the preceding six quarters. Wholesale trade (+4.5%) and retailing, accommodation and restaurants (+1.3%) are expected to bear testament to the beginnings of a consumer recovery. And residential construction is expected to have finally found a firm footing, although overall construction will be weighed down by a further decline in commercial building activity. So far so good, at least as far as the goods producing industries are concerned.

The wrinkle in the growth story for Q4 was the weak housing market. House sales fell 10% in the fourth quarter of 2009, which is a direct hit to real estate and a whole range of related industries. Lack of house sales will have further compounded

Figure 1: Production Based GDP

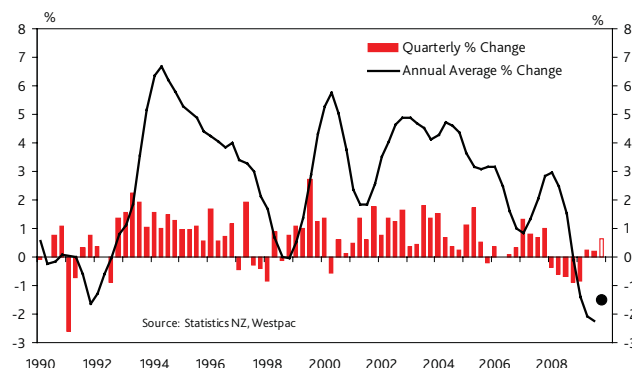
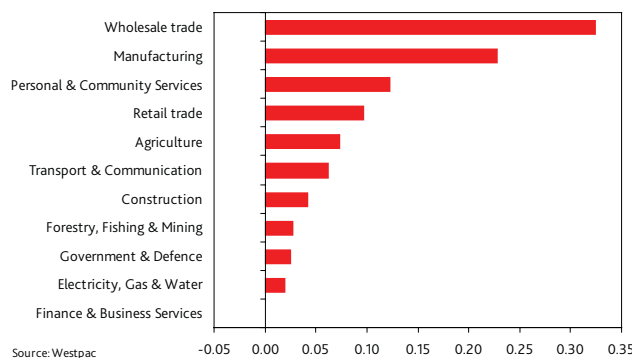


Figure 2: Percentage point contribution to Q3 GDP growth



generalised weakness in lending, which is a drag on economic activity in the finance industry. Labour market data indicates that the business service sector fared poorly, while the lack of house building over the past year means little growth in consumption of owner-occupied dwellings.

The expenditure GDP breakdown is expected to show evidence of recovery in consumer spending and exports, balanced against a further fall in business investment. But the standout component of the expenditure breakdown is sure to be inventory investment. Our assumption is that firms had nearly completed the destocking phase by Q4, but had not yet embarked

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upon restocking. Even that modest assumption suggests a 1.6 percentage point contribution to expenditure GDP coming from stocks. No doubt some will use that to cast doubt upon the sustainability of the recovery. There will be cries of “no growth ex-stockbuilding!” We urge our readers to ignore such tripe when it is inevitably dished up. Stockbuilding is the first stage of every recovery, just as destocking is an important part of every recession. Nobody would claim that the recession was somehow less real because it was partly caused by a stock cycle. The same applies to the recovery.

### **Balance of risks and implications**

We have pitched our forecast at a level that leaves a balance of upside and downside risks. There is a decent chance of a small downside surprise, perhaps if the service industries were even weaker than expected. But having lived through the quarter, one finds it very hard to imagine that GDP growth was any less than 0.5% or so. By contrast, the upside risks are open ended. Surveys of confidence and business activity were pointing to very robust growth of 1% or more, creating a small risk of a very large upside surprise.

The Reserve Bank’s 0.6% forecast was finalised before strong partial data was released, and is consequently looking slightly low. It is highly unlikely that the tone of this GDP data will dissuade the RBNZ from its intention to keep the OCR on hold in April. However, the data could well prove important for market pricing of the risk of a June OCR hike.

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