



New Zealand GDP strong

Construction boom ramps up and broadens

New Zealand's GDP print was strong for Q1 and broadly in line with the market expectation. GDP was estimated to have risen by +1.0% in Q1 and +3.8% y-o-y (market had +3.7%). The key driver of growth in the quarter was construction, which has been supported by the rebuild of the earthquake damaged Canterbury region as well as building in Auckland. Exports also rose solidly in the quarter, though household consumption was flat, which was a surprise. Overall, these numbers are broadly consistent with RBNZ's expectations. This will support the RBNZ's plans to deliver further rate hikes in coming quarters. We expect another 125bp of hikes by end-2015.

Facts

- GDP rose by +1.0% q-o-q (market had +1.1%; HSBC had +1.0%) to be 3.8% y-o-y (market had +3.7%; HSBC had +3.5%).

- Across industries, construction was by far the largest contributor to overall growth (+0.8ppts) with construction output rising by +15.3% y-o-y. Over the year, agricultural production also showed strong growth (+9.3% y-o-y) while health care (+5.5% y-o-y), finance and insurance (+4.2% y-o-y) and retail (+4.1% y-o-y) all expanded solidly. All industries except professional and scientific services showed growth in output over the past year.

- Across expenditure components, investment rose by +10.1% y-o-y, supported by a rise in residential and non-residential investment. Exports also rose strongly in the quarter and were +2.8% higher y-o-y. Household consumption was flat in the quarter, with a rise in durables goods consumption offset by a fall in spending on services, to be +2.7% y-o-y.

Implications

Today's GDP numbers confirmed that the economy is booming. GDP grew at an above trend pace in the quarter and over the year. The numbers were broadly in line with the market expectation and with the RBNZ's latest published view.

By far the largest contributor to growth has been a construction boom that is underway. This has been led by the rebuilding activity in the Canterbury region, although today's numbers also showed strong growth in residential construction outside of Canterbury. Construction outside of Canterbury has been supported by low interest rates, rising housing prices and recent changes in land release policies, particularly in Auckland.

Exports also continued to support growth in the quarter, as the volume of dairy exports has been rising. Agricultural production rose by a solid +9.3% y-o-y.

Somewhat surprisingly, household consumption was flat in the quarter. While spending on durable goods rose, this was offset by a fall in spending on services. Nonetheless, household consumption remained solid for the year as a whole, growing by 2.7% y-o-y.

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In our view, there was little in today's report to deter the RBNZ from its suggested path for rates. The RBNZ plans to deliver further rate hikes in coming quarters and, in line with their view, we expect 125bps of further hikes before end-2015.

Disclosure appendix

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