Economic Commentary

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central 1 Economics

Q1 GDP growth solid, but third wave to curtail growth before H2 resurgence

Growth in headline expenditure GDP came in lower than expected but remained strong pace of 5.6 per cent annualized. The Reuters consensus came in at a significantly higher 6.7 per cent (which was in line with Central 1's forecast) given recent data and preliminary industry – GDP data for March. Indeed, the monthly industry GDP came in as expected with a one per cent m/m gain.

While the Q1 miss was substantial, there remained positive progress during the quarter. Household consumption growth accelerated to a 2.7 per cent annual rate led by growth in consumer durables- specifically vehicles. Household consumption contributed about a quarter of the net increase. Services consumption growth continued to lag. Government consumption spending rose 6.2 per cent. Meanwhile the robust housing market, reflecting strong renovations, housing starts and sales flow drove another leg up in residential investment spending, pushing growth to 43 per cent annualized (64 per cent of overall growth). In contrast, non-residential investment in machinery and equipment was a drag and down 2.7 per cent while business inventories were drawn down after a Q4 surge. That said, these are one-off adjustments, with a decline in machinery and equipment largely owing disposal of aircraft via exports. Trade was a positive contributor to growth with exports accelerating from 4.1 per cent to six per cent annualized, albeit lifted by the aforementioned aircraft, while imports slowed from 11.6 per cent growth to 4.3 per cent. Final domestic demand was a solid 6.4 per cent.

In nominal terms GDP rose 18.4 per cent, annualized on higher prices – driving revenues and profits. Household disposable income rose 9.5 per cent after easing in Q4 as more social benefits provided a lift. The household savings rate increased from 11.9 per cent to 13.1 per cent. Corporate profits rose 20 per cent q/q (109 per cent annualized).

Industry GDP in contrast came in as expected with a 1.1 per cent m/m increase, compared to 0.4 per cent in February, and narrowed the gap with pre-pandemic February 2020 to 1.1 per cent. Quarterly growth in industry GDP (production) was 6.6 per cent. Deviations between expenditure and industry GDP are not uncommon.

The latest industry GDP numbers showed further recovery from the second wave of the pandemic with retail trade up 3.7 per cent which added to a 5.9 per cent increase in February, accommodations/foodservices expanded 5.0 per cent, and arts/entertainment/recreation expanded 2.1 per cent. Consistent with expenditure accounts, construction a strong rose 2.1 per cent m/m, while professional/services/technical services rose one per cent.

Relative to pre- pandemic levels, there remains substantial variation in performance. Construction, housing-related services and sectors easily transitioned to work from home have more than recovered. In contrast hospitality and tourism sectors are still down 30 – 50 per cent, and contingent on health restrictions and re-opening of events and tourism.

Q1 data is broadly stale but provides a decent hand off to Q2 which will soften considerably as the third wave of the pandemic and restriction curb growth. LFS employment fell by 200k in April, and likely to have edged lower in May. Preliminary GDP estimates for April is for a 0.8 per cent m/m contraction. We forecast growth to slow to two per cent in Q2, but growth trends will rebound more substantially in June as measures amidst fewer restrictions as vaccines continue to roll and case count declines.

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