

NZ GDP: Outlook and Q4 Review

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Data summary

	Latest	Prev
Quarterly % change	0.5%	0.8%
Annual % change	1.8%	2.3%
Annual average % change	2.3%	2.7%

The good old days

Bottom line

- We are now at the beginning of a significant economic downturn. Our best guess is that GDP will fall 3-4% this year, though the outlook is highly uncertain. GDP grew 0.5% q/q (1.8% y/y) in Q4 last year.
- Monetary and fiscal stimulus announced this week will cushion the blow, and more Government support is on the way. And yet, still more stimulus is needed. We expect the RBNZ will need to start large-scale asset purchases soon. Market intervention is also urgently needed.

The outlook

The global economy is now in the midst of an unprecedented synchronised slowdown. New Zealand will experience a recession this year, and it could be deep. The economic impacts of what is unfolding are difficult to quantify; the economics textbook has gone well and truly out the window.

There's no way to sugar coat it; the year ahead will be difficult for many. And we can't emphasise enough how uncertain the outlook is at present. Forecasting has become an almost-impossible task. For the GDP outlook, we are thinking about a wide range of possible scenarios, with a contraction perhaps in the range of 1-9%, depending on how developments play out. Our best guess at this stage is that the economy will contract 3-4% this year, even with fiscal and monetary stimulus. Impacts at the larger end of this range could be seen if there was a sustained outbreak here, if credit markets were to seize up, or both.

Encouragingly, the Government and the RBNZ have stepped up the plate to provide stimulus and cushion the blow. The Government's \$12bn (4% of GDP) response package is bold and broad, as it needs to be to match the seriousness of the situation. The Government has indicated that they are willing to do more, and we think they will need to – more initiatives are expected in the May Budget. Fiscal spending and net debt are expected to increase sharply, but there is plenty of scope for that. If ever there was a time for that to happen, it's now.

The RBNZ has slashed the OCR, committing to keep it at 0.25% for at least a year. They have also delayed increases in bank capital requirements to help support credit creation, and they stand ready to support the functioning of the financial system. We expect **urgent intervention** given current stresses, and large-scale asset purchases as soon as they can be deployed to provide more stimulus. This will help soak up some of the increased supply of Government bonds that are now a certainty as the fiscal spending outlook balloons.

According to data released today, GDP growth was running at 1.8% y/y in Q4 (more details follow). By contrast, we currently forecast annual growth to average -3½% over the year to March 2021. At this stage, we assume a recovery that gathers pace from the middle of next year. Strong rates of growth are then expected as the economy returns to something resembling normal. However, the bounce-back will not be complete. Unfortunately, some spending that would otherwise have happened will simply be lost.

In time gone by

The economy has entered this uncertain and difficult period in a relatively good position. The labour market has been strong, with inflation near target, and GDP growth looked like it was stabilising as we ended 2019. The economy saw a modest rise in Q4, after a solid lift in Q3.

According to the December quarter GDP data:

- GDP grew 0.5% q/q in Q4 2019, a little stronger than we expected but in line with market. Per capita GDP growth was modest (0.1%).
- Annual growth slowed from 2.3% y/y to 1.8%.
- As expected, primary sector production and manufacturing had a softer quarter, while services grew strongly.
- Expenditure GDP grew 0.2% q/q (1.6% y/y).
- Government consumption was up strongly (2.1% q/q), with private consumption seeing a more modest lift (0.3% q/q).
- Residential investment saw a solid rise (1.8% q/q). But other investment fell (-0.7%), after being flat through the middle of the year. Exports lifted, while inventory drawdowns were drag.

Figure 1. Production-based GDP

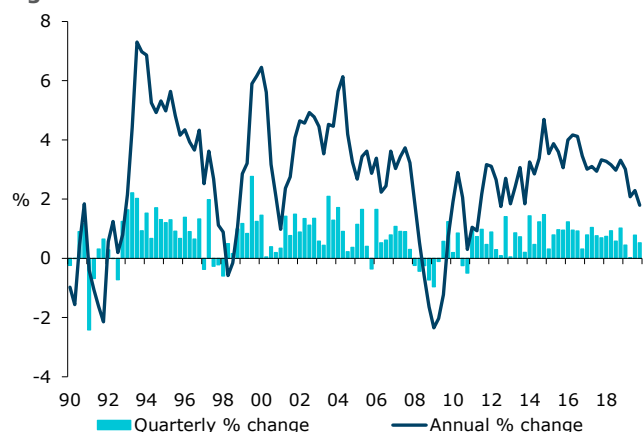


Figure 3. GDP per capita

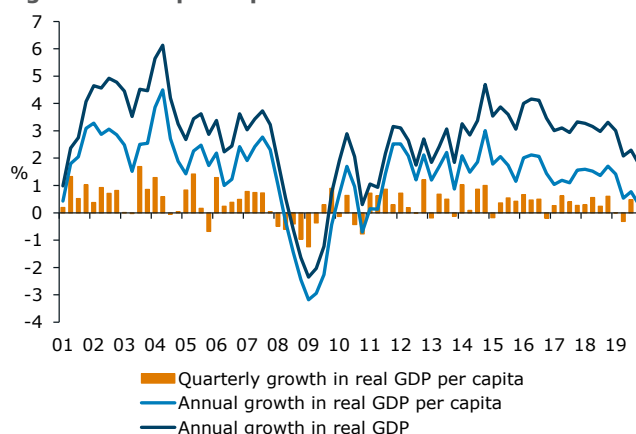


Figure 2. Production-based GDP components

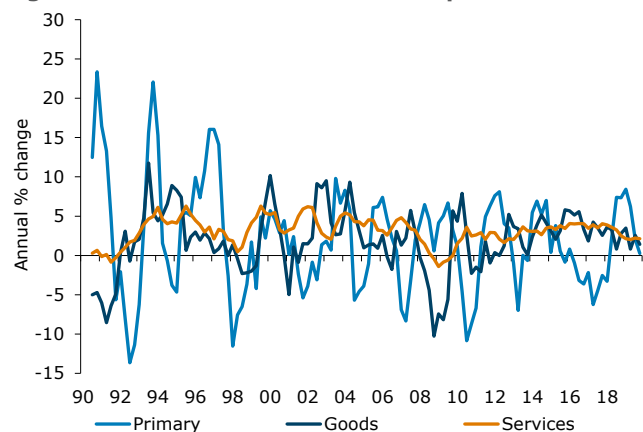
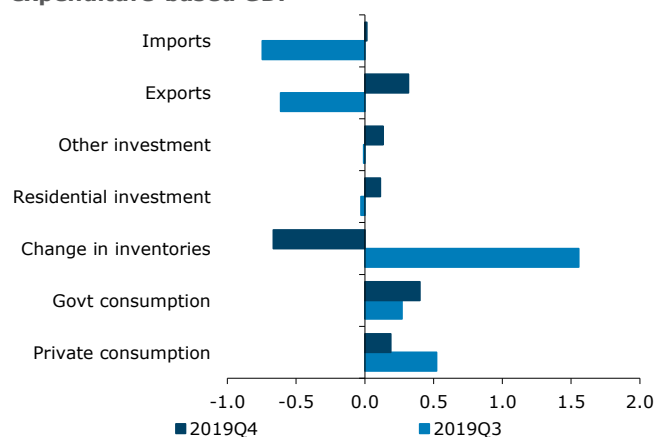


Figure 4. Contributions to quarterly growth in expenditure-based GDP



Source: Statistics NZ



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