

NZ GDP: 2020 Q1 Review

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Data summary

	Latest	Prev
Quarterly % change	-1.6%	0.5%
Annual % change	-0.2%	1.8%
Annual average % change	1.5%	2.3%

Disruption in the data, but not to our view

Bottom line

- The COVID-19 crisis has led to an unprecedented economic slowdown. The first phase was disruption. Reflecting this, Q1 GDP is reported to have fallen 1.6% q/q in Q1, a little more than had been expected given known measurement difficulties, but a bit less than where we see the “true” impact.
- We are currently seeing a post-lockdown bounce in activity but the longer-lasting recessionary effects of this crisis will be determined by where the trend settles after that. For now, there is a lot of noise to wade through.

The view

We are currently in the midst of an enormous economic slowdown. The first phase of the crisis was lockdown-induced disruption. This dented GDP starting in Q1 (with lockdown affecting 7% of days in the quarter).

Measured GDP contracted 1.6% q/q in Q1 (-0.2% y/y) – the largest quarterly fall since March 1991. Statistics NZ have made adjustments to the data to capture the impacts of COVID-19, but ultimately the effects of lockdown are enormously difficult to measure, and the impact appears to be understated.

We think that GDP probably contracted between 2-2½% q/q in Q1 (and 20-21% over H1), though there is considerable uncertainty. For now, given measurement difficulties and an expectation that revisions will throw the numbers around over time, there is little in today’s release to change our view of the estimated lockdown impact or the economic outlook.

We had expected measurement issues would be at play. The print showed a slightly larger contraction than we had estimated taking measurement issues into account (ANZ: -1.3% q/q, Market: -1.0% q/q). But broadly, today’s release was in line with our expectations and provides little in the way of new news. At the margin, the slightly larger contraction in today’s numbers might imply a slightly smaller fall in Q2, but that really isn’t here nor there given the magnitude of the 19% fall we have pencilled in for the June quarter – and any tweak to our forecasts is a matter of timing, rather than change in view.

Today’s data are also very dated, given what has come to pass since. The economy has been able to exit lockdown and we are now experiencing a bounce in activity from pent-up demand. But the worst of the economic impact is still coming for many: unemployment is rising and many firms are experiencing difficulty, with a tourism-shaped hole difficult to fill and impossible to ignore. The recession will start to become evident in more lasting ways, even though the dent in GDP is past its worst.

We will be watching Q3 high-frequency data, the housing market, business sentiment and household spending closely to get a sense for underlying economic momentum. That’s where we need to be looking to get a sense of the scope for recovery from here. While things are starting to look up, a weaker trend is expected in time, and downside risks should not be ignored.

The details

According to the March quarter GDP data:

- GDP fell 1.6% q/q (-0.2% y/y) in Q1 2020, a little more than generally expected, but less than our estimates of the “true” impact.
- Per capita GDP growth fell 2.2% q/q (-0.2% y/y), closer to where we see the “true” impact lying. But this measure is likely to be thrown around by volatility in estimated population growth in coming quarters, so while this looks about right, some noise is likely to emerge in these numbers too.
- Services industries accounted for almost half of the fall in GDP, which isn’t surprising, with tourism-related industries hard-hit. Hospitality saw a 7.8% q/q fall. Construction (-4.1% q/q), transport (-5.2% q/q) and manufacturing (-2.4%) also saw strong impacts, accounting for 0.7%pts of the fall in production GDP combined.
- Expenditure GDP fell 1.3% q/q (-0.2% y/y).
- Big impacts on the expenditure side came from a fall in residential investment (down 5.5% q/q, subtracting 0.4%pts), business investment (-2.2% q/q, -0.4%pts), and exports (-2.1% q/q, -0.6%pts). There was also a chunky fall in inventories, subtracting 1.4%pts. Providing an offset, imports tanked 5.6% q/q, boosting GDP by 1.6%pts.

Figure 1. Production-based GDP

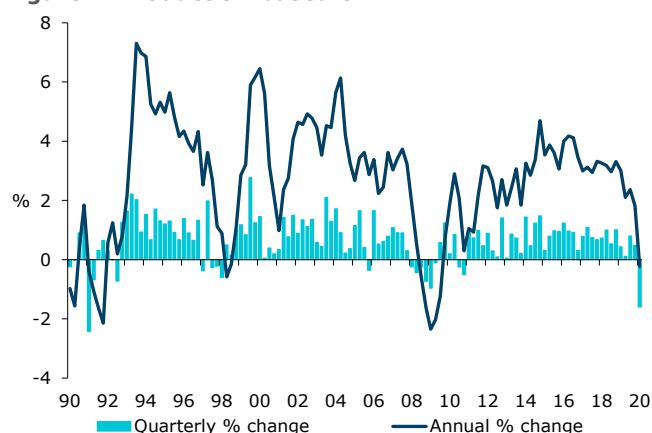
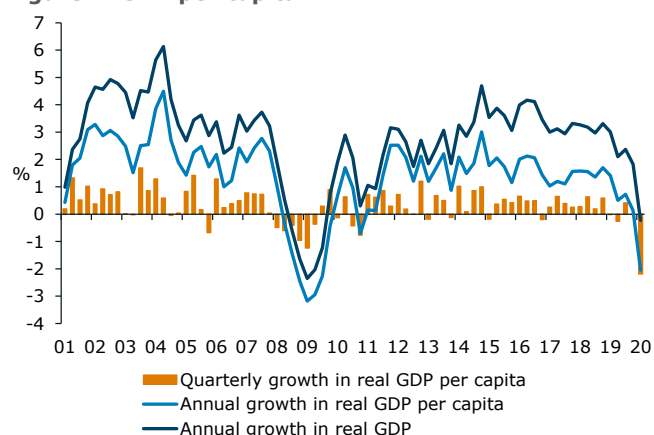


Figure 2. GDP per capita



Source: Statistics NZ



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