

NZ GDP: Q2 2020 Review

17 September 2020



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Contact

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On the money

Bottom line

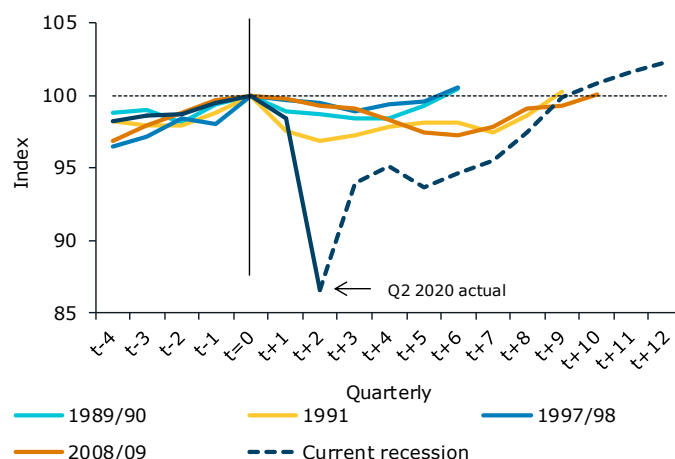
- The NZ economy contracted 12.2% q/q in the June quarter, in line with our expectation. We'll take the win – revisions will no doubt see the number evolve over time.
- There's nothing in today's data that changes our medium-term view.
- Policy makers will rightly downplay the importance of these data. Q3 will bring a sharp, but partial, rebound. The path to true recovery is lengthy, and further stimulus will be required.

The view

It's official. New Zealand spent the first half of 2020 in recession. But that's surely not a surprise to anyone. We're now in the final month of Q3, and that's going to bring a very sharp (albeit partial) rebound, freeing the economy of that recessionary label, but definitely not marking anything near a "recovery" from this crisis.

Indeed, we expect it will take about as long for activity to return to pre-crisis levels as it did following the Global Finance Crisis (9 quarters, Figure 1). However, given the scale of the lockdown-induced decline and the persistent impacts of this crisis, we expect the cumulative loss in activity will be around 3-4 times larger. So while Q3 will bring a sharp recovery in quarterly growth, we shouldn't lose sight of the challenges that lie ahead. Policy makers certainly won't.

Figure 1. GDP during past recessions (pre-recession quarter = 100)



Source: Stats NZ, ANZ Research (dotted line is ANZ forecast)

It's the medium-term outlook that really matters for policy settings, and the lockdown-induced contraction in Q2 is only the first round of this economic shock. [We're yet to really feel the full impact of the closed border](#) and the sharp (and very synchronised) global contraction. Not to mention the fact that the economy is yet to be weaned off an unprecedented amount of temporary support (such as the wage subsidy and mortgage relief). Fiscal and monetary policy still has its work cut out.

Data summary

	Latest	Prev
Quarterly % change	-12.2%	-1.4%
Annual % change	-12.4%	-0.1%
Annual average % change	-2.0%	1.5%

As expected, New Zealand's Q2 contraction was at the larger end of the range seen across our key trading partners, but the Q3 recovery should be stronger, due both to the degree of pent-up demand and fewer subsequent restrictions.

Table 1. Quarterly growth among key trading partners

	Australia	US	Japan	UK	Euro area	China	New Zealand
Q1 2020	-0.3	-1.3	-0.6	-2.2	-3.7	-10.1	-1.4
Q2 2020	-7.0	-9.1	-7.9	-20.4	-11.8	11.7	-12.2

Source: Macrobond, Stats NZ

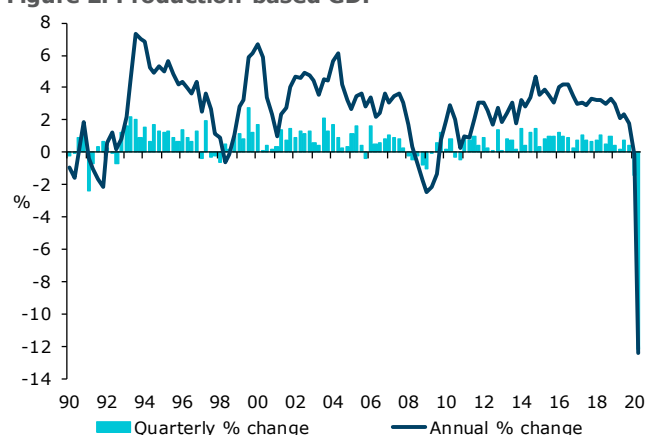
All up, the Q2 GDP read is an astonishing thing to witness, but it doesn't really tell us anything we didn't already know. The data will probably be revised, the outlook is grim, and policy makers have plenty more work to do.

The details

According to the June quarter GDP data:

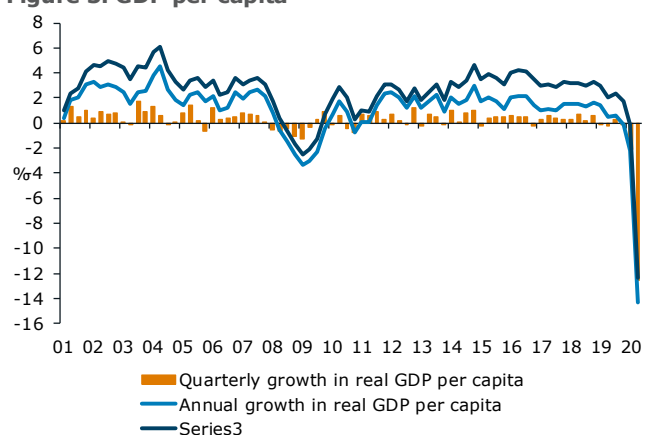
- GDP fell 12.2% q/q (-12.4% y/y) in Q2 2020, in line with our expectations but with a number of overs and unders in the details (as you'd expect in this environment). As expected, primary industries were the most resilient in the quarter (being least affected by lockdown), down 8.7% q/q (ANZ expectation: -7.0%). Goods-producing industries were the most severely impacted, falling 16.3% (ANZ: -13.5%). Services declined 10.9% (ANZ: -12%).
- Accommodation and food services were hardest hit, falling a whopping 47.4% q/q. But there were a number of industries that recorded similar declines, including mining (-43.9%), clothing and footwear (-38.6%), furniture manufacturing (-38.3%), and transport and postal warehousing (-38.7%).
- Forestry and fishing services outperformed (up 2.6% q/q), joining financial and insurance services (up 0.7%) and ownership of owner-occupied dwellings (up 0.4%) in a very exclusive club of industries that recorded positive growth in the quarter. Overall, these data confirm that lockdown has had an extremely varied impact across industries.
- Per capita GDP fell to levels not seen since early 2005 (down 12.6% q/q).
- Expenditure GDP fell 9.8% q/q (-10.1% y/y), with residential investment down 22.8%, other investment down -19.6%, and private consumption down 12.1%. Net exports provided a partial offset, with exports falling less than imports (-15.8% vs 24.6%). Government consumption lifted 1.7% q/q. These moves were broadly as expected.

Figure 2. Production-based GDP



Source: Statistics NZ, ANZ

Figure 3. GDP per capita





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