

NZ Insight: Quarterly income GDP

22 July 2021



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A new lens

Key points

- Newly minted quarterly income GDP data suggest households have been very well supported through the COVID crisis.
- Household incomes were relatively steady through the Great Lockdown, and household net wealth has lifted sharply (in part a function of extreme house price inflation).
- Households' saving behaviour suggests the NZ recovery is more advanced than some of our trading partners (including Australia).
- Businesses appear to have been hit a little harder than households by this crisis, but they are now benefiting greatly from all this domestic demand (ie a strong household sector).
- These data confirm what we've been saying for a long time. The Government effectively put a hefty chunk of the lockdown-induced loss in production on its balance sheet, while the monetary response (and housing-induced bump to net wealth) has helped put consumers in the mood to spend.
- We see no implications in these data for our OCR call or broader economic outlook. But we're certainly happy to have a new data set to play with.

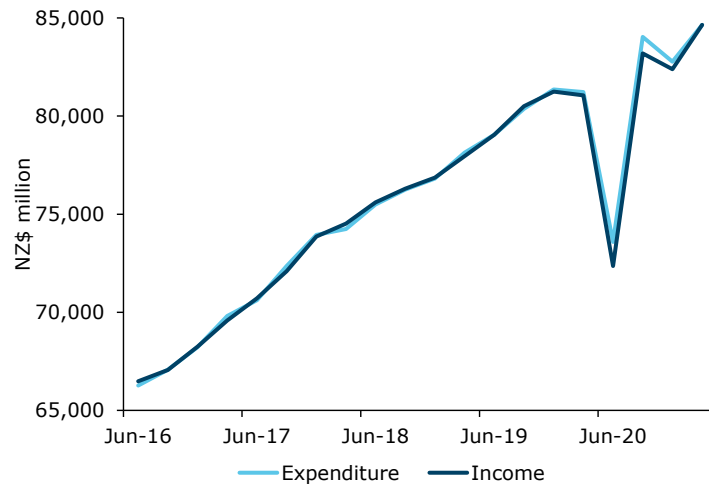
A new lens on the economy

Experimental data released today by Statistics NZ provide another lens on the economy: essentially, we now have a very aggregated quarterly income statement for New Zealand that will be released in a relatively timely manner (a little after production GDP is released). This supplements the nominal expenditure measure of GDP, and to a lesser extent production GDP (because it's not adjusted for the change in prices). We should still consider production GDP to be NZ's key economic activity indicator, but like all data this has its pitfalls. The new income measure certainly appears to be a better data set for assessing the impacts of the Great Lockdown on households.

Broadly, these data confirm what we already suspected: It's been a wild ride (in aggregate), but households have weathered the storm rather well (thanks to the Government's balance sheet taking the brunt of it).

Starting with the big picture, nominal income GDP has followed a relatively similar path through this crisis to expenditure GDP (that's to be expected).

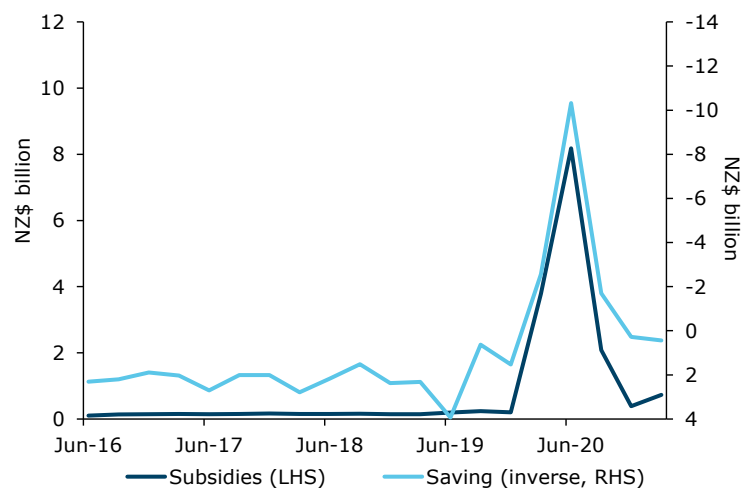
Figure 1: Nominal GDP (income vs expenditure)



Source: Stats NZ, ANZ Research

But take a deeper dive into the data, and it quickly becomes obvious that households have been very well supported. Compared to the 10.7% q/q decline in income GDP in Q2 2020, compensation of employees fell just 3.7% q/q in Q2 2020. And get this, household net disposable income fell just 0.1% q/q¹. Overall, this suggests the wage subsidy did a fantastic job of keeping people connected to their jobs during the Great Lockdown. But it didn't come cheap, just look at the central Government subsidies line item under income payable, and how much dis-saving the Government had to do to make it all happen (figure 2).

Figure 2. Central Government Subsidies payable and government savings

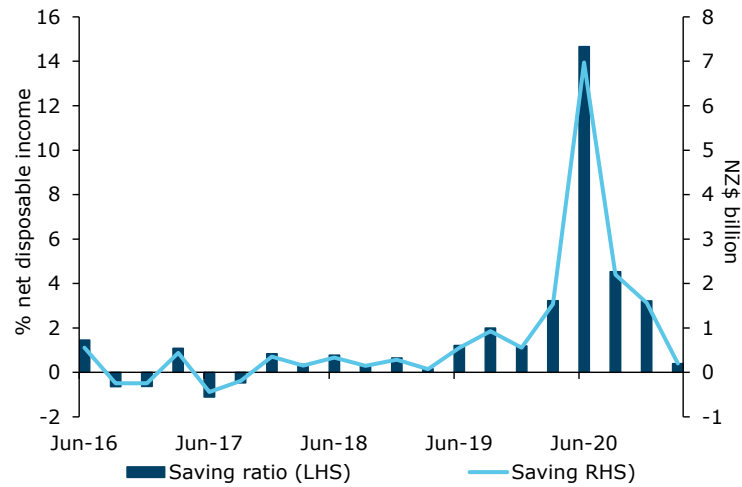


Source: Stats NZ, ANZ Research

Household savings are always worth keeping an eye on, and now we can do this on a quarterly basis. When households are worried, they tend to save more, and when they're confident about their income prospects they tend to dis-save. But this crisis was a wonky one. Households faced a rather constrained consumption basket during lockdown, which combined with relatively stable income saw savings spike (figure 3).

¹ This measure takes all forms of income, deducts income payable (such as taxes) and consumption of fixed capital, and adjusts for changes in net equity of pension funds.

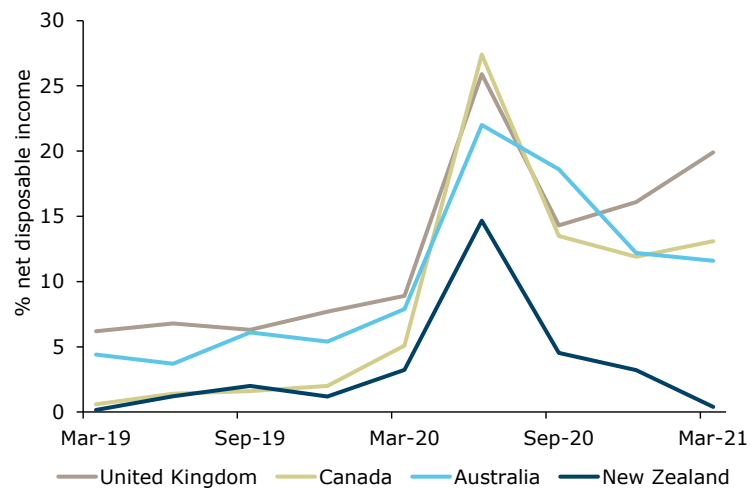
Figure 3. Household savings ratio



Source: Stats NZ, ANZ Research

As at Q1 2021, household savings had fallen to its lowest level in 2 years. That trajectory is certainly consistent with a cyclically strong economy, but not quite enough to suggest households (as at Q1) had completely thrown caution to the wind (ie spending more than they earn). But compared to other key economies (figure 4), household savings behaviour suggests NZ’s recovery is quite advanced. That’s just another piece of evidence to suggest the [RBNZ is likely to lift interest rates](#) before some central banks.

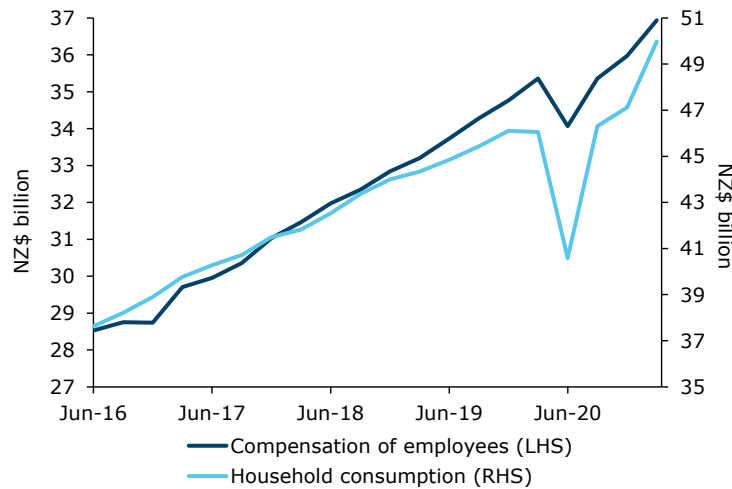
Figure 4. Household saving ratio by country.



Source: Stats NZ, ANZ Research

What’s unclear at this early stage is whether there’s still lingering caution among households (savings isn’t negative), or whether it just takes time to spend given shipping delays etc. Our [consumer confidence survey](#) suggests confidence is close to par, but that hasn’t prevented household consumption spending from shooting to the moon as it plays catch up to incomes (figure 5).

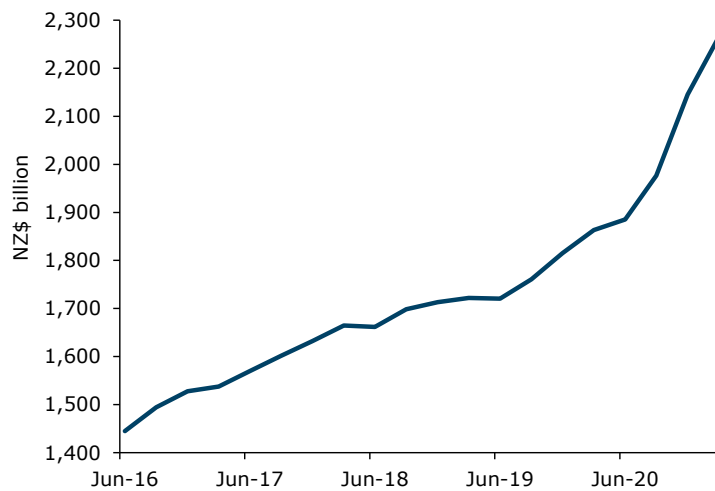
Figure 5. Compensation of Employees and nominal household consumption



Source: Stats NZ, ANZ Research

A massive lift in households' net worth has also been supporting the spending vibe (figure 6). This measure includes financial assets, equities, but most importantly housing. The latter being a significant driver of the recovery from lockdown.

Figure 6. Household net wealth



Source: Stats NZ, ANZ Research

For businesses, these data suggest the impact of the Great Lockdown was a little more severe than it was on households. The operating surplus fell 5.7% q/q in Q2 2020. But they probably shouldn't feel too hard done by, as the very solid household sector is what's now driving domestic demand and making many businesses very busy.

All up, while these newly minted data are "experimental" and therefore susceptible to revisions, they still offer some very valuable insights around the efficacy of the policy response through the Great Lockdown and the general experience and robustness of household and business balance sheets.

There is certainly scope to use these data for further analysis, but the limited history (data starts in 2016) means we can't exactly make statistically robust models – yet. Nonetheless, we're excited to get our hands on the new data set, and look forward to discovering new and interesting ways to use it.



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