

NZ GDP: Q1 2021 Review

17 June 2021



This is not personal advice nor financial advice about any product or service. It does not take into account your financial situation or goals. Please refer to the Important Notice.



Contact

Miles Workman or Sharon Zollner for more details.

More good, less bad, but structurally ugly

Bottom line

- **We are bringing forward our first forecast OCR hike to February 2022.**
- The NZ economy expanded 1.6% q/q in the 2021 March quarter, much stronger than our expectation (0.5% q/q) and much, much stronger than the RBNZ's May MPS forecast (-0.6% q/q).
- In year-on-year terms the economy was 2.4% larger in Q1. Base effects (ie the level 4 lockdown in Q2 2020) mean that figure is going to look very strong next quarter.
- Compared to the good old days before COVID-19 (ie Q4 2019), the economy is 1.0% larger. Not a bad recovery by any means, but still around 2% below a no-pandemic counterfactual.
- Overall, the Q1 data confirm NZ's economic recovery has been spectacular relative to early-pandemic expectations. And while there are still pockets of weakness, they are getting hard to identify at the aggregate level.
- While the data remain noisy under the hood, the core drivers of domestic demand, alongside lingering supply disruptions and biting capacity constraints, mean inflation pressures are lifting strongly.
- That's consistent with OCR hikes being needed, and a year from now feels too far away. However, a February hike is highly conditional, in light of the Reserve Bank's "least regrets" approach. In particular, the evolution of inflation, inflation expectations and the labour market are key.

Summary

The Q1 GDP data more than confirm what we suspected: the domestic economy is strong and undoubtedly better than anyone hoped it would be this time last year. However, there is still volatility under the hood. It's very clear that parts of the economy are trying to grow faster than capacity will permit, while other parts continue to struggle with closed border impacts. Robust business sentiment and housing-induced demand is facing off with MIA international tourists – and winning by some margin.

Looking forward, buoyant business sentiment, strong labour demand, high export commodity prices, and a little extra fiscal stimulus suggest the domestic demand pulse will withstand a gradual slowing in the housing market (**with momentum holding up so far**). But with capacity pressures biting in many pockets of the economy, the outlook for further expansion is just as much a function of lifting supply constraints as it is demand. With migration severely restricted and global disruptions of imported goods very persistent, we're likely to see more inflation for a given level of activity over the year ahead, compared with in 'normal' times.

Data summary

	Latest	Prev
Quarterly % change	1.6%	-1.0%
Annual % change	2.4%	-0.8%
Annual average % change	-2.3%	-2.9%

For the RBNZ, today's data are likely to result in a material upgrade to their near-term expectations for underlying economic momentum. But the medium term remains a bit murky. The strong GDP read goes a long way towards explaining the robust labour market to date, certainly. We think there is a case for the RBNZ to upgrade its near-term inflation forecasts (the May MPS forecast showed a peak of 2.6% y/y in Q2 2021 vs our forecast peak of 3.0% by Q3 2021). To really get the hawks going, we'll also need to see ongoing positive surprises in key labour market statistics and inflation expectations. That's certainly the way things are trending at the moment, and so we've brought forward our forecast for the first OCR hike to February next year, while noting that this is highly conditional on:

- A soft landing for the housing market.
- Inflation and expectations continuing to lift towards the upper end of the CPI target band.
- Wage growth lifting and the unemployment rate continuing to gently decline.
- Pricing intentions holding up for a considerable period.

If any of these factors turn out differently, then the RBNZ is likely to defer hikes until later in the year.

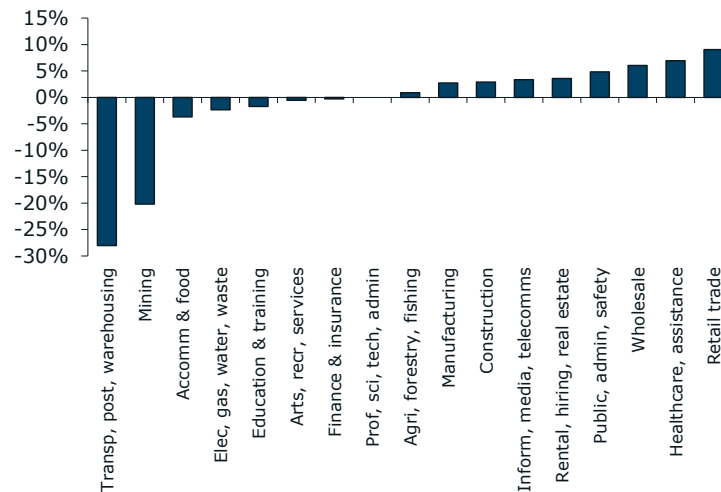
The good...

The 1.6% q/q increase in production GDP shows the recovery in domestic demand has been nothing short of spectacular. As expected, quarterly growth was driven by goods-producing industries (up 2.4%) as construction bounced back from Q4's very weak print (up 6.6% q/q) and manufacturing was solid (up 1% q/q). Services industries were up 1.1% q/q, reflecting solid growth in wholesale trade, professional services, health, retail, and transport. Primary production (which has been relatively unaffected by the pandemic and lockdowns) was up 0.3%. All three industry segments were stronger than our expectation. Historical revisions were smaller than we anticipated.

The acceleration in annual growth was also much stronger than we expected (y/y growth up 3.2%pts from Q4 to 2.4%). Strong quarterly growth and base effects are behind this, the latter reflecting the fact the NZ economy had entered recession this time last year. The annual percent change is going to look very strong next quarter given it'll be off an extremely weak base (Q2 2020). Annual average growth will similarly lift markedly next quarter as the very sharp Q2 2020 contraction shifts from the numerator into the denominator.

Compared to Q4 2019 (the days before COVID-19), there is still considerable variability in the recovery by industry. But overall, while some industries are still hurting from the impact of fewer international visitors, there is clear evidence of a solid recovery across many sectors. Retail trade, healthcare, and wholesale trade had recovered most in Q1, up 9.0%, 7.0% and 6.0% respectively compared to Q4 2019 (figure 1). Transport and mining are the underperformers, but have a relatively small weight in total GDP.

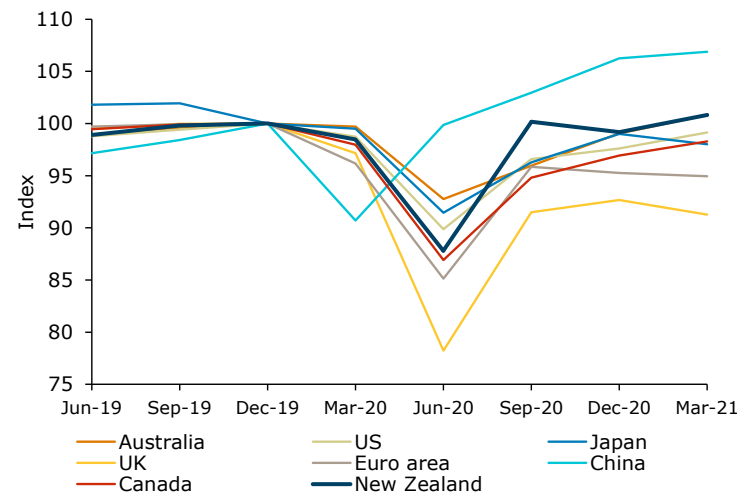
Figure 1. GDP by industry 2021 Q1 vs Q4 2019 (% change)



Source: Stats NZ, Macrobond, ANZ Research

Overall, there was a lot more good news in the Q1 data than expected. Good news in terms of the recent pace of economic momentum, good news in a lot of the specific industry-level data, and, has been the case for a while now, good news in the relative story (ie relative to earlier expectations and relative to our global peers, figure 2).

Figure 2. NZ GDP vs key trading partners



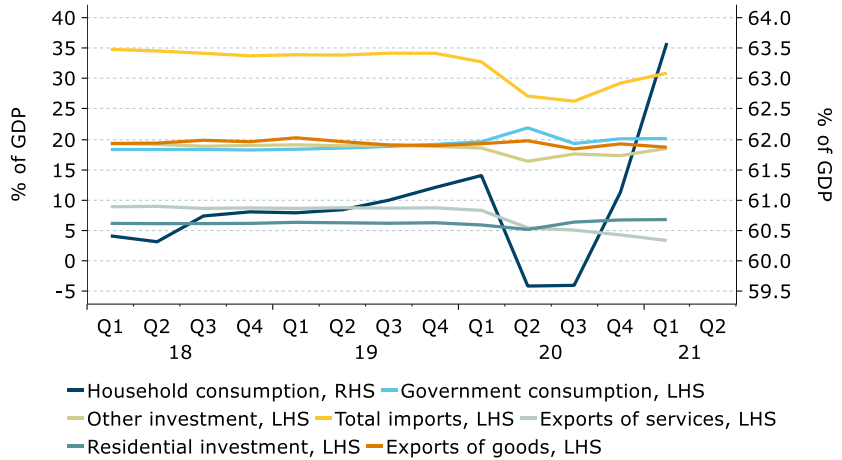
Source: Macrobond, Statistics NZ, ANZ Research

...the bad...

It's getting a lot harder to see in the aggregate data, but there are still pockets of the economy that are really hurting because of the closed border. While expenditure GDP data rose 1.4% q/q, exports of services fell 20.2% q/q and are down almost 50% versus a year ago. Tourism was NZ's largest export earner before this crisis (with a lot of this income earned in the summer months), and education exports were no slouch either. While the hole in GDP has been largely filled by debt-fuelled domestic activity (both household and government debt), debt is hardly a sustainable substitute for this lost income.

As a share of the economy, services exports have fallen from just under 9% pre-crisis to 3.4% in Q1 2021 (figure 3).

Figure 3. Expenditure GDP components share of total



Source: Stats NZ, Bloomberg, Macrobond, ANZ Research

All that said, while quarterly growth in headline expenditure GDP was a little weaker than its production equivalent, it was a lot stronger than we expected. Overall, the expenditure data provides very clear evidence that domestic demand is very robust. Strong household consumption (up 5.5% q/q), government consumption (up 1.6%), investment (up 6.4%), and goods imports (up 8.5%) suggest the domestic economy is currently humming.

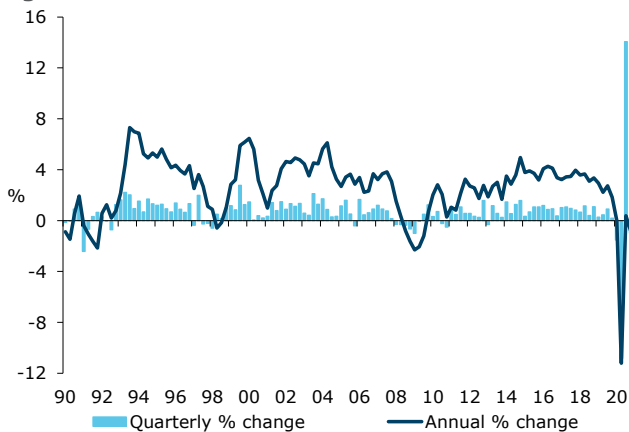
...and the ugly.

Importantly, the relative good news story is not the same as saying the aggregate economy is in a stronger position in an absolute sense. That story is a little uglier.

New Zealand has suffered a big negative income shock. While the size of the economy may have bounced back spectacularly, the quality of growth has deteriorated markedly. Both fiscal and monetary policy work by increasing debt – bringing forward consumption from the future. Government debt has gone from below 20% of GDP and is expected to lift to 48%. The housing boom has seen household debt lift from 158% to 166% of incomes – a record high. And counting.

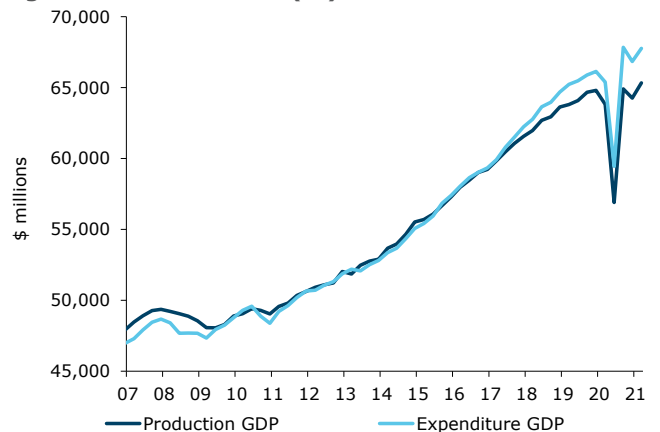
A hangover awaits, somewhere down the track. But for now, with inflation pressures building, unless the picture changes, the RBNZ will need to flip from one potential regret to the other, rather sooner than they are currently forecasting.

Figure 4. Production-based GDP



Source: Statistics NZ

Figure 5. Real GDP level (sa)





Contact us

Meet the team

We welcome your questions and feedback. Click [here](#) for more information about our team.



Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
[@ANZ_Research](#) (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Liz Kendall (maternity leave)
Senior Economist

Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.

Telephone: +64 27 240 9969
Email: elizabeth.kendall@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Finn Robinson
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: finn.robinson@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com



Important notice

Last updated: 9 April 2021

This document is intended for ANZ's Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The opinions and research contained in this document are (a) not personal advice nor financial advice about any product or service; (b) provided for information only; and (c) intended to be general in nature and does not take into account your financial situation or goals.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please or request from your ANZ point of contact.

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. The information contained in this document is confidential and is provided solely for your use upon your request. This does not constitute or form part of an offer or solicitation of any offer to engage services, nor should it or any part of it form the basis of, or be relied in any connection with, any contract or commitment whatsoever. ANZ does not have a licence to undertake banking operations or securities business or similar business, in Cambodia. By requesting financial services from ANZ, you agree, represent and warrant that you are engaging our services wholly outside of Cambodia and subject to the laws of the contract governing the terms of our engagement.

European Economic Area (EEA): United Kingdom. ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.



Important notice

Myanmar. This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

New Zealand. This material is for information purposes only and is not financial advice about any product or service. We recommend seeking financial advice about your financial situation and goals before acquiring or disposing of (or not acquiring or disposing of) a financial product.

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**) ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules.

United States. Except where this is a FX-related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64-9-357 4094, e-mail nzeconomics@anz.co.nz, <http://www.anz.co.nz>