

# NZ GDP: Q2 2021 Review

16 September 2021



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## Contact

Miles Workman for more details.

## Strong starting point, but about to get noisy

### Bottom line

- The NZ economy was expanding at a very solid pace before renewed lockdown measures were imposed, with Q2 GDP growth coming in at 2.8% q/q. Annual growth came in at a lofty 17.4%, but this is mostly 2020 lockdown-induced noise.
- Looking forward, GDP is poised to contract sharply in Q3. And with Alert Level 4 dragging on in Auckland, our forecast for a 6% q/q contraction in Q3 is starting to look a little optimistic. However, all going well, Auckland will be on a clear path towards Alert Level 1 by the end of the month, and that will set the stage for a sharp rebound in Q4.
- Stepping back, very noisy headline GDP data means we'll have to go elsewhere to gauge the underlying health of the economy over coming quarters. And just like the recovery to date, the experience won't be the same for everyone. Targeted fiscal support is needed. Getting on top of Delta is the first hurdle. Then we'll need to assess if there are any lasting hits to confidence, labour market tightness, household incomes and the generally-solid domestic demand pulse. So far so good, and so far all on track towards OCR hikes in October.

### Summary

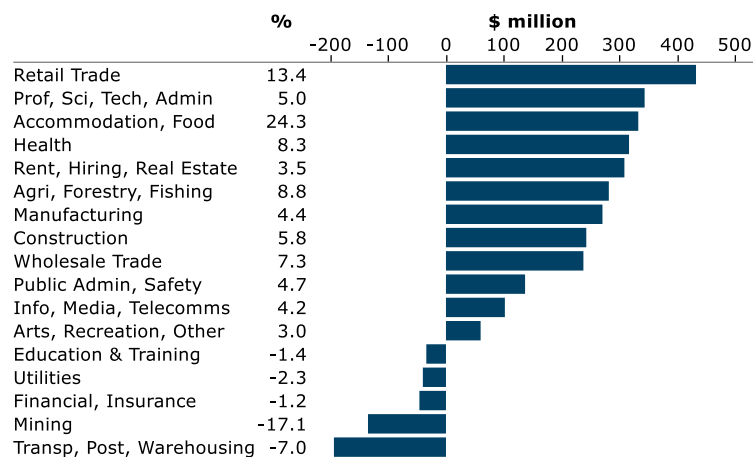
The Q2 GDP data shows economic momentum was very strong heading into the latest Alert Level 4 lockdown, with the economy expanding at a very strong 2.8% q/q pace. Growth was broad-based across services (up 2.8% q/q, goods (up 1.3%), and primary (up 5.0%) industries.

But while the aggregate Q2 GDP story is one of economic resilience and strength, closer inspection shows the post-pandemic economy hasn't been the same for everyone. Some industries are doing it much tougher than others courtesy of the closed border, and for some lockdown in Q3 is going to add whole lot more pain. Figure 1 shows how the level of activity compares to Q4 2019 (the last pre-pandemic quarter) at a more detailed industry level.

### Data summary

	Latest	Prev
Quarterly % change	2.8%	1.4%
Annual % change	17.4%	2.9%
Annual average % change	5.1%	-1.4%

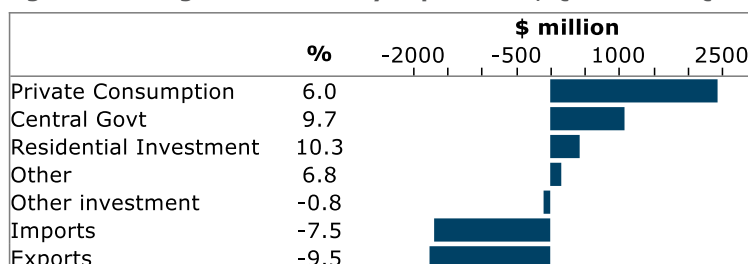
**Figure 1. Change in real GDP by industry, Q2 2021 vs Q4 2019**



Source: Stats NZ, Macrobond, ANZ Research

Turning to the expenditure measure of GDP, the economy grew 2.6% q/q despite household consumption and investment retracing in the quarter from very high levels. Exports of goods and services (up 17% q/q) led quarterly expenditure growth, as services (boosted by the Trans-Tasman bubble) lifted 63% q/q. There's certainly still plenty of volatility in the data! Stepping back from the quarterly ups and downs, we continue to see evidence of a very healthy domestic demand pulse in these data since the Great Lockdown of 2020 (figure 2).

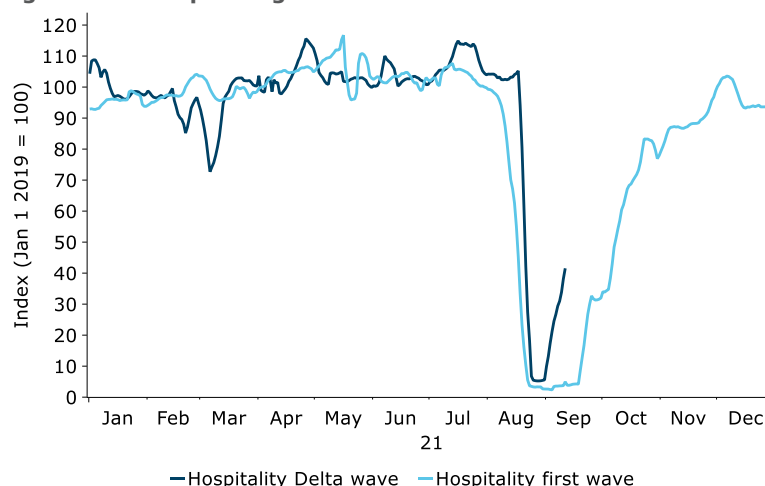
**Figure 2. Change in real GDP by expenditure, Q2 2021 vs Q4 2019**



Source: Stats NZ, Macrobond, ANZ Research

Looking forward, we know renewed lockdown measures are going to drive a material contraction in Q3 GDP. We've pencilled in a 6% q/q fall, but with Auckland's Alert Level 4 status lingering there are downside risks to that. That said, many businesses are now better prepared to work from home (chiefly those in services industries) and that's expected to limit the impacts of lockdown on aggregate economic activity to some extent. So for a similar duration, we'd expect the current lockdown to have a smaller GDP impact than the 10% decline recorded in Q2 2020. Our internal card spending data certainly suggests a little more is happening through this lockdown, but there will be some inflation in here too (figure 3).

**Figure 3. Card spending: 2020 Alert Level 4 lockdown vs current**



Source: Macrobond, ANZ Research

For the RBNZ, today's data are yet another significant positive surprise relative to their latest forecast (August MPS: 0.7% q/q), adding to the evidence that the economy has been operating above its sustainable pace. However, Q3 will obviously be a big miss to the downside (August MPS: +0.8%).

It might sound strange to some that we still think an OCR hike is on the menu come October even though economic activity has fallen off a cliff in Q3. But we should remember that the RBNZ is an inflation-targeting central bank and that the supply shock that comes with lockdowns means inflation and inflation expectations are unlikely to fall off the rails any time soon. And

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while the impacts on economic momentum over the medium term are arguably a lot less certain (and more important for the monetary policy outlook), we know fiscal policy is stepping up, is effective at protecting jobs, confidence, and household incomes, [has plenty of ammo](#), and is better placed to provide the targeted support that is needed now. So from a cyclical sense, this resource-constrained economy is still likely to need a little less monetary stimulus (particularly the still-nutty house price impulse) even though many are still doing it tough and some data are about to look terrible. Simply put, not tapping the brakes slightly now would add to some pretty significant boom-bust risks.

All up, there's going to be a lot of volatility in the data over coming months and quarters, but we think both inflation pressures and labour market tightness will survive that. That said, as we highlighted [last week](#), there's a lot that can go wrong before the OCR is fully "normalised". We'll need to keep a close eye out for any sustained deterioration in economic confidence, slack opening up in the labour market, the housing market softening significantly faster than expected, or broader anecdote that things are turning south. But the focus right now is eliminating Delta once more. One thing's for sure, the RBNZ can't wait for the GDP data to settle down to decide the best course of action. That won't happen until well into 2022.



## Contact us

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**Sharon Zollner**  
Chief Economist

Follow Sharon on Twitter  
[@sharon\\_zollner](#)

Telephone: +64 27 664 3554  
Email: [sharon.zollner@anz.com](mailto:sharon.zollner@anz.com)

General enquiries:  
[research@anz.com](mailto:research@anz.com)

Follow ANZ Research  
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**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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto:natalie.denne@anz.com)



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