

# NZ GDP: Q3 2021 Review

16 December 2021



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## Contact

Miles Workman for more details.

## Only a 3.7% fall

### Bottom line

- The recent lockdown saw the real economy contract 3.7% q/q in Q3. That's a bit better than the -4.5% q/q we had pencilled in and much better than the RBNZ's November MPS forecast of -7.0%.
- The relatively small contraction suggests many businesses have learned to operate better through lockdown compared to 2020. However, for some the economic pain is still immense.
- The RBNZ knows these data are not going to give them much insight into the underlying state of demand and capacity stretch. In fact, the data may not carry a convincing signal on that front until after the Q4 and Q1 rebound has come and gone.
- Overall, we don't see anything in today's data to materially change our expectations for the medium-term level of GDP, particularly given capacity constraints are a limiting factor.

### Summary

Before the pandemic, to say the NZ economy contracted by *only* 3.7% q/q would have been met with some very confused looks. It's a behemoth quarterly decline by historical standards (last lockdown excluded). But importantly, the lesson we've learned over the past 18 months or so is that government support via the wage subsidy and other business support is an extremely effective, albeit costly, way to limit the broader economic fallout.

We're hopeful that things will pick up largely where they left off ahead of lockdown, but we are cognisant of the fact that underlying economic conditions are very different to the last time we were asked to stay home and save lives. This time:

- The housing market isn't poised to unleash a tsunami of equity upon those lucky enough to not be locked out of the market. In fact, [house prices now appear poised to fall](#).
- Monetary conditions are tightening, not loosening.
- The labour market is tighter than a tight thing.
- We're mostly vaccinated and are gearing up to live with traffic lights and endemic COVID.
- Capacity constraints are biting hard and inflation pressures are at multi-decade highs. That's not optimal timing for additional fiscal stimulus, but [Budget 2022](#) is set to deliver that anyway.

One thing's for sure, whatever comes next won't be a rinse and repeat of the past year or so. Hopefully, the strong labour market and gradually reopening border puts the economy on a sustainable growth path, but forecast uncertainty remains very high.

The RBNZ will likely look upon today's data with interest, but know full well that it carries little insight insofar as assessing appropriate monetary settings. In fact, the signal in these data will be muted for a quarter or two yet. In the meantime, employment, business and consumer surveys, and

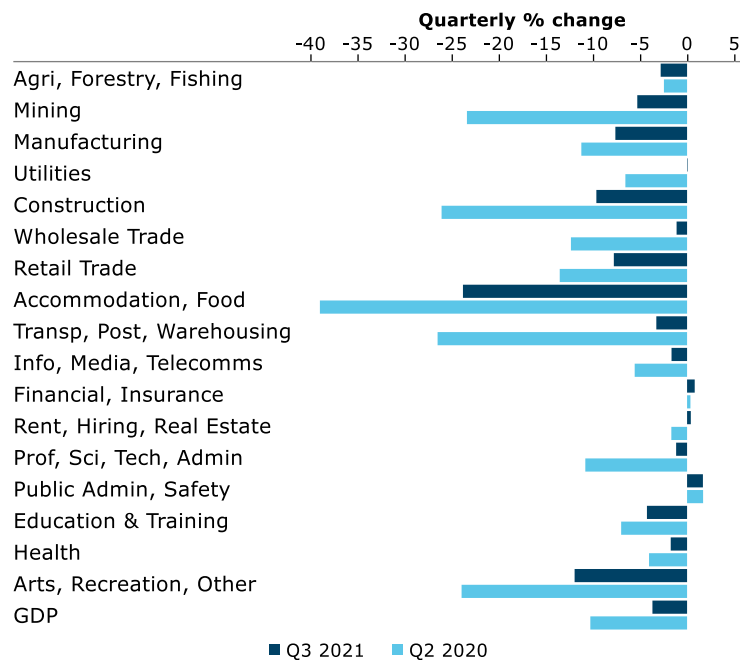
### Data summary

	Latest	Prev
Quarterly % change	-3.7%	2.4%
Annual % change	-0.3%	17.9%
Annual average % change	5.0%	5.4%

price data will have to fill in the gaps. Yes, the 3.7% q/q decline wasn't as sharp as the November MPS forecast (-7%), but we can be pretty confident that given the starting point, the RBNZ no longer expect growth to come in as strong as the 5.8% and 2.6% q/q they had pencilled in for Q4 and Q1 respectively. But with this much volatility in the data, it's probably better to think in terms of levels rather than growth rates. Given data revisions don't imply anything for economic momentum, we see nothing in today's data that will impact our medium-term GDP forecast in level terms, and the RBNZ probably feels much the same way.

Turning to the detail, quarterly growth by industry shows that as you'd expect, some suffered through lockdown a lot more than others. While it's not pretty, the contraction has been much less drastic compared to the Great Lockdown of 2020 (Figure 1). That means the rebound will be less amazing too.

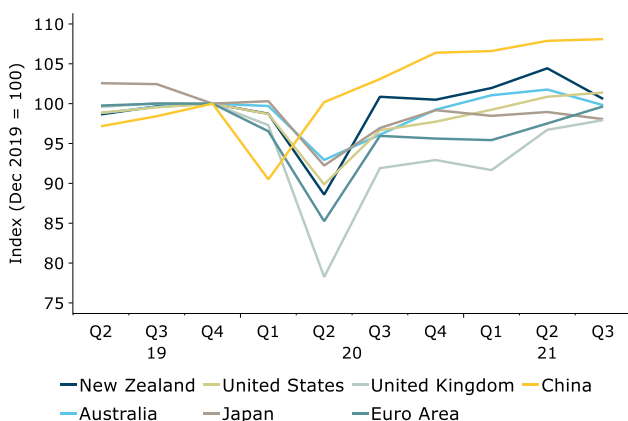
**Figure 1. Quarterly change in GDP by industry**



Source: Stats NZ, Macrobond, ANZ Research

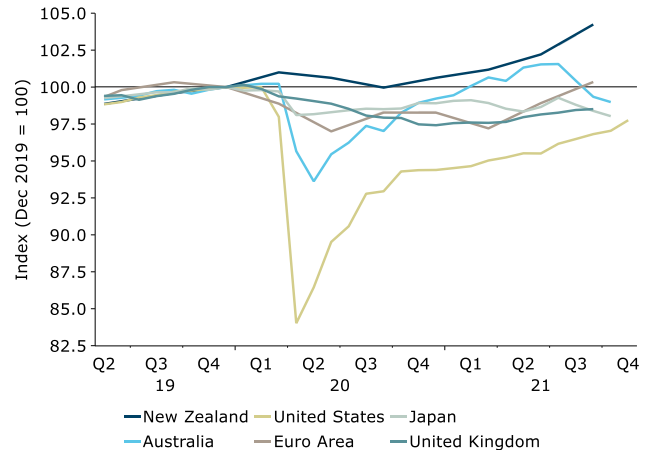
Unfortunately, the renewed lockdown has eroded our international bragging rights a little when it comes to economic activity (figure 2). But we're still miles ahead of most in terms of the recovery in employment (figure 3), and that's the better signal from an economic fundamentals perspective.

**Figure 2. GDP levels (Q4 2019 = 100)**



Source: Macrobond, ANZ Research

**Figure 3. Employment (Q4 2019 = 100)**



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Now that we're mostly vaccinated and operating under the traffic light system, Q3 hopefully marks the last of the lockdown-induced GDP contractions (touch wood), but Omicron is ominous. We'll be watching developments in Australia closely, with our planned border re-opening hanging by a thread, and the timetable for the longed-for progression to Green looking very murky. Nonetheless, at this point, there's certainly nothing to suggest the RBNZ should stray from its current path of withdrawing stimulus in considered steps, but the Bank needs to be ready for anything.



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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)



**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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