ANZ Research

NZ GDP: Q4 2021 Review

17 March 2022

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 for more details.

Getting real

Bottom line

- Economic activity rebounded 3.0% q/q in the final quarter of 2021. That's solid, but shy of the 3.5% rebound we had pencilled in and certainly not a full recovery to Q2 2021 levels.
- For the RBNZ, this is a positive surprise compared to the February MPS forecast of 2.3% q/q. That may go some way to explaining very strong inflation, but gauging the degree of capacity stretch in these data is no easy feat, given volatility. And when inflation is threatening to breach 7% y/y, a miss on a volatile GDP quarter doesn't seem particularly important. The RBNZ has clear work to do.
- Even looking beyond the near-term wobbles associated with the Omicron outbreak, a rather potent combo of high inflation and rising interest rates (to hopefully contain inflation) is set to erode household incomes from both ends. To prevent a hard landing, a lot depends on the revival of international tourism and education, and the labour market holding it together.

Summary

The Q4 GDP data was mixed, but robust. That's good news, but old news. And in an ironic twist, this solid starting point actually lowers the hurdle for a softer expansion (and possibly even a technical recession) over 2022. Indeed, headwinds to the growth outlook have intensified recently:

- The Omicron outbreak is constraining people's mobility, shifting the demand impulse away from face-to-face services, and adding to labour and goods scarcities. That's more near-term inflation pressure to add to the pile. But if the international experience is anything to go by, Omicron disruption should fade in a matter of months.
- But more broadly, extreme inflation pressures are gobbling up household incomes, weighing on consumer sentiment and demand. Indeed, it's going to be difficult to distinguish the impacts on household behaviour of falling real (CPI-adjusted) incomes, and rising interest rates. But to prevent the former from becoming a permanent feature and damaging the longer-term outlook, the RBNZ must act – even if that means inflicting some near-term economic pain. One way or another, it's time to pay the piper.
- Housing has decisively turned a corner, and has further to go. That'll likely take the shine off demand for both durable goods and housing-related services.
- Debt-servicing burdens are rising along with interest rates, but even with an OCR at 3.5% as we now expect, this should be manageable for most households.
- Businesses confidence has fallen sharply as Omicron cases surge. Employment intentions have slipped, but are holding up better. This will be worth keeping an eye on.

Data summary

	Latest	Prev
Quarterly % change	3.0%	-3.6%
Annual % change	3.1%	-0.2%
Annual average % change	5.6%	4.9%

- The Russian invasion of Ukraine is exacerbating the global supply shock, pushing key commodity prices higher and weighing on global economic sentiment.

It’s a pretty grim mix, but there are some positives out there:

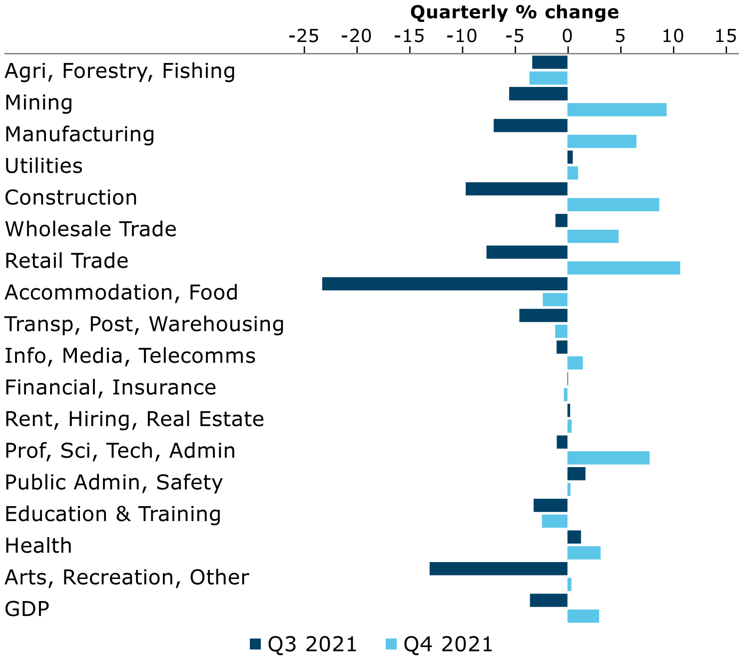
- The labour market is tight, and should remain that way. Particularly if open borders drive a significant net migration outflow in the near term, making labour even scarcer. If CPI inflation eventually slows as we expect, and the labour market remains tight, real household income growth will turn positive again.
- NZ will open its border to international tourists a little earlier than previously signalled (13 April for Australia, and 2 May for other visa-waver counties). NZ makes the bulk of its tourist receipts during the summer months, but this will at least increase the chances of a “normal” season over the 2022/23 summer. Further, winter havens such as Queenstown should feel the difference with a few more Aussie weekend-trippers on the ski fields this winter. This is undoubtedly a positive development, but may not make a significant dent until late in the year.
- It might be pro-cyclical, and therefore inflationary, but yet another significant increase in Government spending come Budget 2022 will (if nothing else) act as a hedge against the risk of spare capacity in the economy opening up. But make no mistake, expansionary fiscal policy means inflation and interest rates are going to be higher than otherwise. Through the lens of the business cycle, this is not the time for further fiscal stimulus (whether spending or tax cuts). However, looking at the details of today’s data, there is certainly need for targeted support for those who are hurting most.

Overall, it’s difficult to take too much comfort from the solid Q4 GDP data. Sure, it’s better than it could have been, but 2022 is shaping up to be a tough year. With today’s data in tow, and in light of our recent OCR call change, we’ll publish our updated thinking on the medium-term outlook next week.

Turning to the details of the Q4 release, quarterly growth by industry shows a very mixed rebound. Primary industries fell 2.2% q/q on the back of a 3.6% decline in Q3 – that’s just as much weather related as it is lingering supply disruption. Goods production posted a decent bounce, up 6.5% following a 7% fall in Q3. Services industries rebounded 2.5% from a 2.5% fall in Q3. The surprise relative to our expectation came from weaker activity in primary industries, chiefly agriculture. Accommodation and food services makes up a very small share of total production GDP, but the 2.3% q/q decline in in Q4 following a 23.2% fall in Q3 shows just how much the industry is struggling (figure 1).

Q1 is likely to be another wonky quarter across industries as the Omicron outbreak meets the continued rebound from the Delta-induced lockdown (which stretched over Q4 into the early part of Q1).

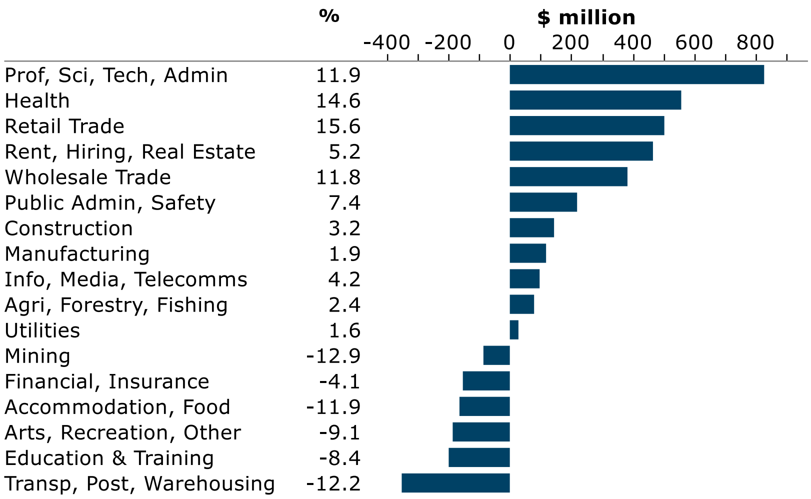
Figure 1. Quarterly change in GDP by industry



Source: Stats NZ, Macrobond, ANZ Research

Comparing Q4 2021 activity to that recorded in Q4 2019 (pre-pandemic) provides a sense of how different industries have performed through the pandemic (of course this misses the lockdown-induced holes in between these two points in time, which varied a lot by industry). Broadly, there isn't a lot of new news here. Industries hit hardest by closed borders have underperformed, while those closer to the housing cycle and can work from home with relative eased have flourished. 2022 should see some recalibration here as rates rise, housing slows and foreign tourists return.

Figure 2. Activity in Q4 2021 vs Q4 2019



Source: Stats NZ, Macrobond, ANZ Research

All up, the Q4 GDP data reflect a robust, albeit very stimulated economy (via both fiscal and monetary policy). But the outlook has a lengthy list of turning points that suggest we shouldn't expect more of the same going forward.

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

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: 28 February 2022

This document (which may be in the form of text, image, video or audio) 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 click here or request from your ANZ point of contact.
Brazil. This document is distributed on a cross border basis and only following request by the recipient.
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.
Chile. You understand and agree that ANZ Banking Group Limited is not regulated by Chilean Authorities and that the provision of this document is not subject to any Chilean supervision and is not guaranteed by any regulatory or governmental agency in Chile.
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 document 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 document 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.

Macau. Click here to read the disclaimer for all jurisdictions in Mandarin. **澳门. 点**击此处阅读所有司法管辖区的免责声明的中文版。

Myanmar. This document is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This document 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.

Important notice

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.
Peru. The information contained in this document has not been, and will not be, registered with or approved by the Peruvian Superintendency of the Securities Market (Superintendencia del Mercado de Valores, **SMV**) or the Lima Stock Exchange (Bolsa de Valores de Lima, **BVL**) or under the Peruvian Securities Market Law (Legislative Decree 6 861), and will not be subject to Peruvian laws applicable to public offerings in Peru. To the extent this information refers to any securities or interests, it should be noted the securities or interests may not be offered or sold in Peru, except if (i) such securities or interests were previously registered with the Peruvian Superintendency of the Securities Market, or (ii) such offering is considered a private offering in Peru under the securities laws and regulation of Peru.
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 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. In respect of any matters arising from, or in connection with, the distribution of this document in Singapore, please speak to your usual ANZ contact in 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 Kingdom. 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 Financial Conduct Authority (**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 considers this document to constitute an Acceptable Minor Non-Monetary Benefits (**AMNMB**) under the relevant inducement rules of 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.
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 our website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use our 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 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 a 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.com, http://www.anz.co.nz