

NZ GDP: Q3 2022 Review

15 December 2022



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One last hurrah?

Bottom line

- The New Zealand economy expanded a whopping 2.0% q/q in Q3, stronger than our expectation for a 1.1% rise, stronger than the median analyst expectation of 0.9%, and stronger than the RBNZ's November MPS forecast of 0.8%.
- There remain significant pockets of noise in these data as the economy continues to normalise following the border reopening. That's certainly dulling the signal.
- For the RBNZ, these data are unlikely to carry much weight when it comes to assessing appropriate monetary conditions. The data are noisy, pre-date the hawkish November MPS, and may not be providing a very good steer on underlying economic momentum given the travel-related normalisation underway.
- The weak spot in today's data was private consumption, which contracted 0.1% q/q following a 3.4% contraction in Q2. Clearly, the household sector is in belt-tightening mode as high inflation, falling house prices, and higher interest rates weigh. But at a headline level, this was more than offset by a 25.7% q/q increase in services exports (following a 54.5% increase in Q2).
- Q3 GDP may have been on the strong side, but these data don't change the fact that the domestic economy is on a softening trajectory as the housing market continues to slow, interest rates continue to rise, and as the labour market loosens toward more sustainable levels. Today's data won't change the RBNZ's assessment that a recession in 2023 is the likely cost of getting on top of the wage-price spiral that is fuelling core inflation.

The big picture

Economic activity expanded 2.0% q/q in Q3, above our stronger-than-consensus expectation of 1.1%. Taken together with the upwardly revised 1.9% q/q expansion in Q2, that's a respectable pace of growth over the six months to September. However, it pays to remember that these data are still transitioning through a significantly volatile patch as the economy normalises from closed border settings. We suspect some of this strength will unwind over Q4 and Q1 on quirky seasonality alone.

But looking forward, and through the noise, it's hard to tell a good news story about the state of economic momentum in 2023. The RBNZ have made it pretty clear that they suspect a relatively shallow recession will be the cost of getting core inflation down and the broader economy (including the labour market) back onto a sustainable path. And unless we see a miracle supply-side recovery, it's hard to disagree.

Reflecting our recent [OCR call change](#), we'll be downgrading our medium-term GDP forecast when we incorporate today's data into the outlook. Baking in a stronger interest rate headwind will add further weakness to the more interest rate-sensitive segments of the economy, such as residential and business investment. And high inflation, higher mortgage rates, and [falling house prices](#) are expected to hamper growth in private consumption. With the travel

Data summary

	Latest	Prev
Quarterly % change	2.0%	1.9%
Annual % change	6.4%	0.3%
Annual average % change	2.7%	1.1%

services exports recovery looking a little more advanced than we anticipated, there will be less scope for net exports to offset weaker domestic demand and keep the economy out of recession in 2023. We'll have more to say on this in tomorrow's Weekly Data Wrap.

The details

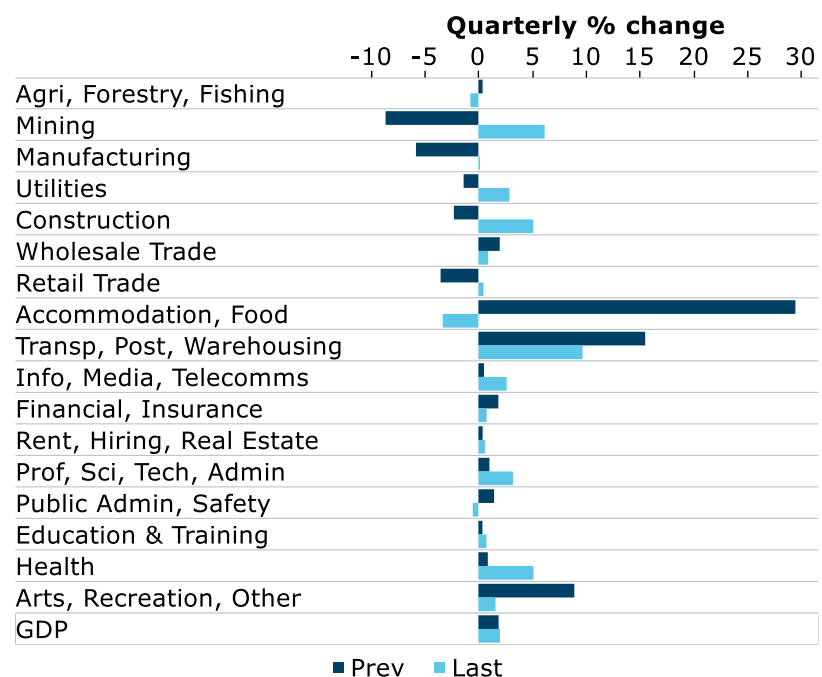
Turning to the details, there were once again some large quarterly moves in the GDP components – larger than some of our indicator models predicted.

Services industries (about two thirds of GDP) is where the bulk of the surprise to our forecast came from, and for a second quarter in a row, this was partly owing to a stronger normalisation from reopening borders, such as the 9.7% q/q lift in transport following Q2's 15.6% increase. But there was broad strength in services too, with health up 5.1% q/q, and business services up 3.2%. The weak spots were retail trade and accommodation, which together contracted 0.7% as the accommodation and food services component retraced 3.3% q/q following Q2's 29.6% increase.

Goods-producing industries posted a partial rebound from Q2, up 2.4% q/q led by construction (up 5.1% q/q). Manufacturing came in weaker than expected at 0.1% q/q, but together with stronger-than-expected activity in electricity, gas, water and waste services, growth in goods-producing industries was broadly as expected.

Growth in primary industries was weaker than expected, down 0.2%, led by a 1.4% q/q drop in agricultural production.

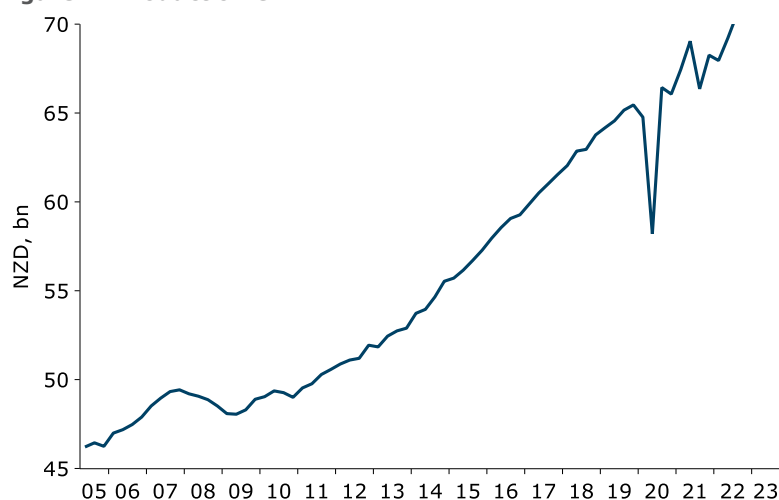
Figure 1. Quarterly change in GDP by industry



Source: Stats NZ, Macrobond, ANZ Research

In year-on year terms, growth came in at 6.4%, with annual average growth at 2.7%. However, lockdown impacts in 2021 are flattening these figures, meaning they are not a good representation of the underlying state of economic momentum. The recent noise in the data is quite obvious in the levels (figure 2).

Figure 2. Production GDP

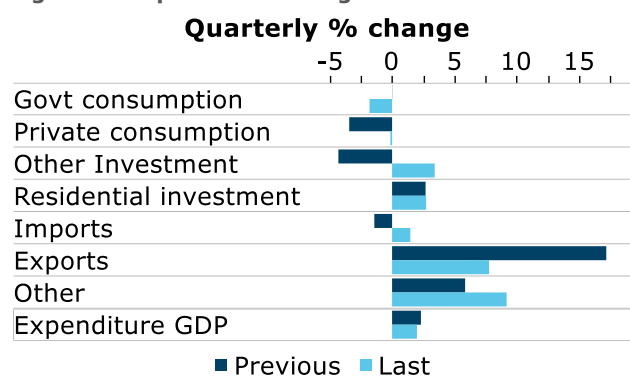


Source: Stats NZ, Macrobond, ANZ Research

In real (price adjusted) expenditure terms, GDP also lifted 2.0% q/q, led by solid investment growth (residential up 2.7% q/q and other fixed assets up 2.8%), and as exports (up 7.8%) got yet another massive boost from services exports (up 25.7% q/q) as tourists returned. Conversely, the 0.1% q/q contraction in private consumption (following Q2's 3.4% q/q contraction), suggests household sector momentum is southbound. Further, with interest rate headwinds building, it's hard to see Q3's strength in investment persisting.

Surprisingly, central government consumption contracted 1.8% q/q, with local government expenditure up 2.1%. With some still sizable figures baked into the fiscal outlook, we see plenty of scope for positive growth in central government spending over coming quarters, but if capacity pressures remain acute, this may not translate into higher economic activity overall.

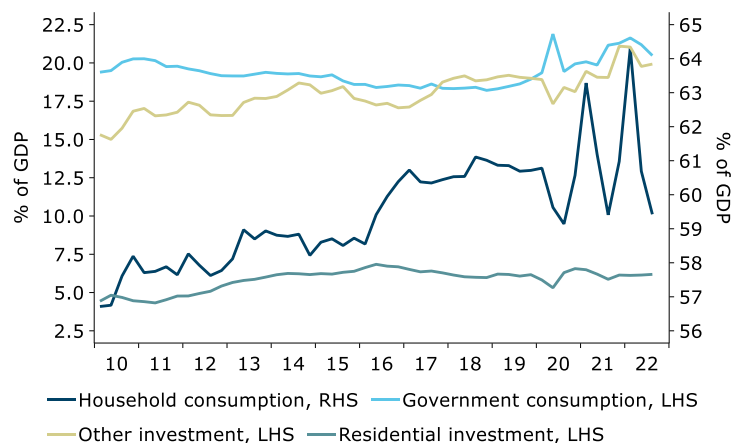
Figure 3. Expenditure GDP growth



Source: Stats NZ, Macrobond, ANZ Research

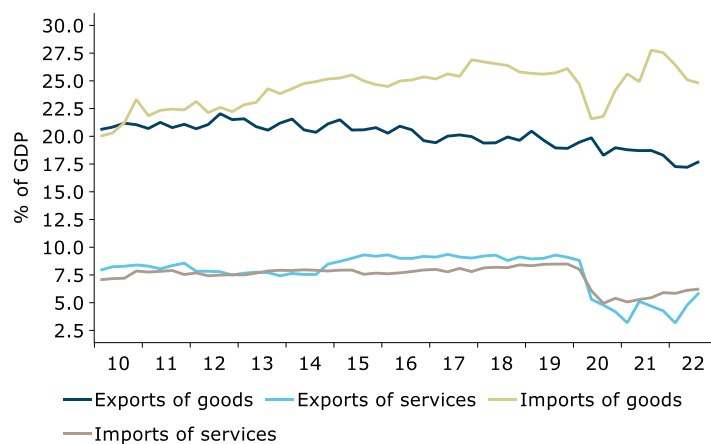
Overall, the post-pandemic story is pretty clear in the expenditure GDP data. Exports have taken a big hit thanks to the closed border and missing international tourists and students, but significant macroeconomic stimulus (fiscal and monetary) has seen domestic demand fill that hole (broadly, and in aggregate terms). Figures 4 and 5 show the key expenditure components of GDP as a share of total GDP. Domestic and goods imports shares have been trending higher, while exports (particularly services) struggle. But this broad composition story is changing, with domestic demand slowing and net exports beginning their recovery.

Figure 4. Domestic components share of total



Source: Stats NZ, Macrobond, ANZ Research

Figure 5. External sector components share of total



Source: Stats NZ, Macrobond, ANZ Research

All in all, the data are still very noisy, but under the hood there is a trend emerging: domestic demand is slowing (starting with household consumption), while services exports normalise due to the reopened border. Importantly, with inflation and labour scarcity where they currently are, Q3 GDP isn't exactly a game changer for the monetary policy outlook. Nor does it change what lies ahead.



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