

NZ GDP: Q1 2023 Review

15 June 2023



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Cyclone nudges NZ into recession

Bottom line

- The New Zealand economy contracted 0.1% q/q in Q1 on a seasonally adjusted basis, weaker than the 0.2% expansion we pencilled in, and weaker than the RBNZ's May MPS forecast of +0.3% q/q.
- With the unemployment rate still near a record low, non-tradables inflation at a record high, and the current account deficit still well outside the bounds of 'sustainable', it's hard to diagnose this 'technical recession' as anything but part of the necessary adjustment towards putting the economy back on a sustainable path after too much fiscal and monetary stimulus was delivered in the wake of COVID-19.
- As we noted in our [Q4 GDP Review](#), Q4's 0.7% q/q contraction (revised lower from -0.6% q/q) appears to have been at least partially driven by capacity constraints, given Q4 is the seasonal peak for the NZ economy. But Q1 didn't deliver as much payback from this as we were expecting, suggesting underlying momentum is softer and possibly Cyclone Gabrielle impacts were more negative in Q1 than our previous understanding. It's very hard to diagnose from these data, but headline growth would likely have been positive in Q1 if it weren't for the cyclone (but still sub-par). To the extent that the cyclone did weigh on activity in Q1, the Q2 (and possibly Q3) GDP figures should include some payback.
- Meanwhile, strong migration-induced population growth is bolstering demand for goods and services and labour supply. Adjusting for this, per capita GDP growth paints a very grim picture, coming in at -0.7% q/q.
- These data have surprised the RBNZ's forecast by a significant clip, but they still have a sticky inflation problem to solve before considering OCR cuts. We don't think today's noisy data are sufficient to knock the RBNZ off the course it set in May: to 'watch, worry and wait' for a period with the OCR at 5.5%.

Data summary

	Latest	Prev
Quarterly % change	-0.1%	-0.7%
Annual % change	2.2%	2.3%
Annual average % change	2.9%	2.7%

The big picture

The economy contracted 0.1% q/q on a seasonally adjusted basis in Q1. That was weaker than our expectation of +0.2% q/q, and the RBNZ's +0.3% q/q, but broadly in line with the median market expectation.

Migration-induced population growth is bolstering demand for goods and services and adding to the supply of labour, and both will be a positive influence on headline GDP growth. But per capita GDP growth (which came in at -0.7% q/q) shows economic conditions are quite soggy out there for the person on the street. High inflation and higher interest rates are certainly taking their toll.

Given the degree of noise in the GDP data at present, uncertain cyclone impacts, and sticky CPI inflation risks, we don't think today's data will be sufficient to knock the RBNZ off the course it set in May to 'watch, worry, and wait' for a period with the OCR at 5.5%. Yes, economic momentum has very clearly softened, but some of that reflects the fact that the economy has run

out of economic resource to grow. But perhaps most importantly, this slowdown is unfortunately part of the necessary correction to more sustainable macroeconomic conditions. In short, it's what the RBNZ needs to see, not a reason for them to think they've made a mistake. Further, while the starting point for GDP may be weaker than our expectation, new economic tailwinds are now emerging before annual non-tradables inflation has even turned a corner. Despite today's read, we see upside risks to growth momentum over the second half of the year due to both strong net migration and fiscal stimulus.

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.

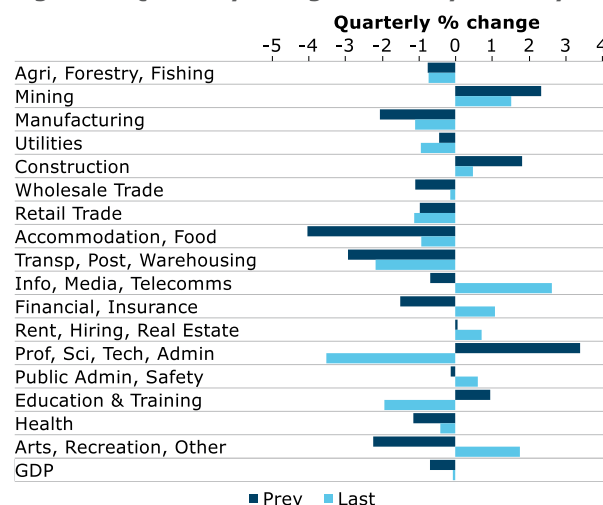
Services industries (about two thirds of GDP) contracted 0.6% q/q, much weaker than our expectation of +0.3%. The miss was largely driven by softer growth in 'professional, scientific, technical, admin, and support' services, which came in at -3.5% q/q, making a -0.4%pts contribution to headline growth vs the -0.1%pt contribution we had pencilled in. Other services industries tended to come in lower than expected too, but they have relatively small weightings. Education fell 1.9% q/q, retail trade and accommodation fell 1.0% q/q, and wholesale trade fell 0.1% q/q – all weaker than our expectation. Stepping back, weak growth across services industries suggests a softening in generally sticky services inflation, which will provide a degree of comfort for the RBNZ.

Goods-producing industries also came in weaker than expected at -0.4% q/q (ANZ: broadly flat), as construction (up 0.5% q/q) came in weaker than the 1.4% we pencilled in, while manufacturing (-1.1% q/q) was as expected.

Growth in primary industries was a little weaker than expected too, down 0.5% q/q (ANZ: -0.3%), with agriculture forestry and fishing down 0.7% q/q.

The unallocated component lifted 3.8% q/q, making a 0.3%pt contribution to growth – this was much stronger than the 0.4% q/q we had pencilled in.

Figure 1. Quarterly change in GDP by industry

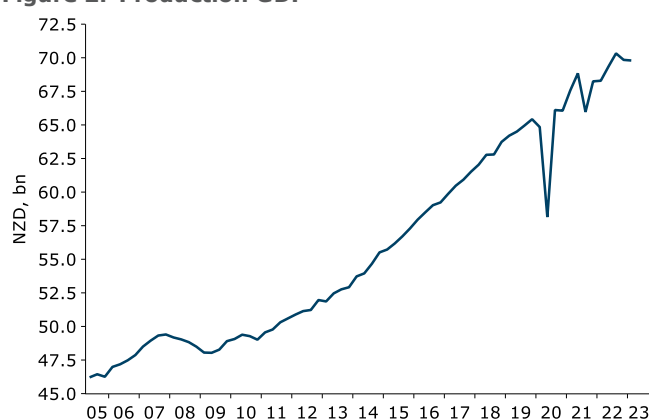


Source: Stats NZ, Macrobond, ANZ Research

In year-on-year terms, growth came in at 2.9%, which was in line with our expectation (revisions can do that). That's certainly not what we'd call 'weak', but there's still plenty of quirky seasonality and COVID-related volatility making the signal from annual growth less reliable than otherwise.

The level of GDP shows just how much volatility lockdowns have caused in the data compared to history (figure 2).

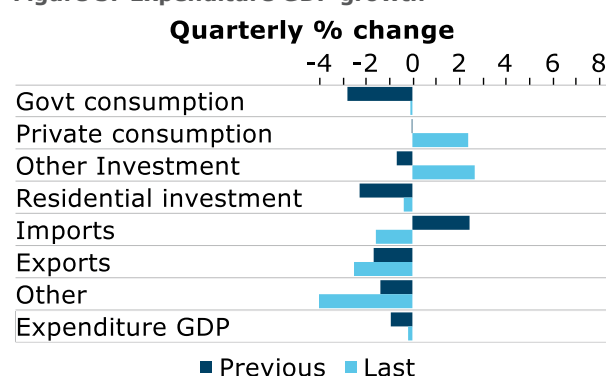
Figure 2. Production GDP



Source: Stats NZ, Macrobond, ANZ Research

In real (price-adjusted) expenditure terms, GDP contracted 0.2% q/q, with solid growth in private consumption (up 2.4% q/q) offset by weaker net exports (total exports down 2.5% q/q; imports down 1.6%), and softer residential construction (-0.4%). It's all a bit of a mixed bag.

Figure 3. Expenditure GDP growth



Source: Stats NZ, Macrobond, ANZ Research

All in all, the GDP data are still quite noisy. Lockdown-level volatility may now be a thing of the past, but the services exports recovery (chiefly international tourism) still has plenty of potential to deliver some quirky quarterly growth outturns on a seasonally adjusted basis. Meanwhile, capacity constraints and Cyclone Gabrielle appear to have constrained growth in Q4 2022 and Q1 2023 respectively, but with strong population growth in Q1 providing some offset (particularly in Q1). Underlying all that, economic momentum is clearly slowing, and with growth very weak on a per capita basis, households will be feeling that.

Looking forward, the economy certainly has its fair share of headwinds at present: [high inflation](#), higher interest rates, weak consumer and business sentiment, and a softening global demand pulse. But tailwinds exist too: [more fiscal stimulus added at Budget 2023](#), surging net migration, robust employment growth, and green shoots in housing (see latest data [here](#), and our forecast [here](#)). With Q1 data now in the bag, we're aiming to publish our updated medium-term economic forecasts tomorrow, adding a little more demand and supply to the outlook, and maintaining a sticky non-tradables inflation outlook that's expected to bring the RBNZ back to the hiking table come November. But for now, today's GDP data does not appear sufficient to knock the RBNZ off the course it set in May to 'watch, worry and wait' for a period with the OCR at 5.5%.



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