ANZ Research

NZ GDP: Q1 2024 Review

20 June 2024

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Contact

Miles Workman for more details.

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Kicking off 2024 with a tiny bounce

Bottom line

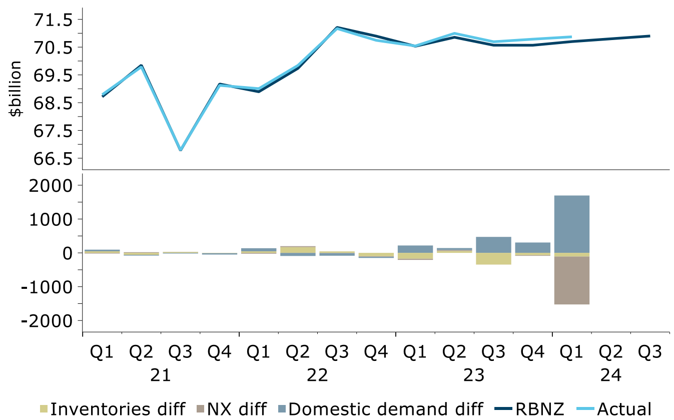
- The New Zealand economy expanded 0.2% q/q in Q1 on a seasonally adjusted basis, in line with our and the RBNZ's forecast (we were there first).
- The details of the GDP data were a little softer than the headline suggests, particularly services industries and the expenditure cut. However, quirky seasonality still plagues these data and Stats NZ continue to grapple with difficulties allocating spending to net services exports (eg international tourism) and private consumption, requiring ongoing methodology tweaks. New data tables ("spending in New Zealand") have been provided to help us look through some of this.
- All in all, we think the RBNZ will chalk today's data up to being broadly as expected, but with a few overs and unders in the details.
- Big picture: today's release doesn't change the fact that economic momentum is anaemic, particularly from domestic demand and per capita perspectives. We remain comfortable with our OCR call for cuts from February 2025.

Implications for monetary policy

The economy expanded 0.2% q/q on a seasonally adjusted basis in Q1, in line with our and the RBNZ's expectation. But as always, the details of today's data will be important for the RBNZ's diagnosis of what it might mean for the CPI inflation outlook.

Private consumption growth can be particularly important for the RBNZ (for obvious reasons), and here quarterly growth of 1.6% was much stronger than the RBNZ's forecast of 0.4% q/q. However, given quirky seasonality and methodology changes, this might not be as good a gauge as normal. Figure 1 shows that the bulk of the surprise to the RBNZ's Q1 expenditure GDP forecast came from stronger domestic activity components, and weaker net exports. However, given changes to methodology by Stats NZ and allocation issues between household consumption and services trade, it's not clear what the RBNZ will make of these surprises. We'd say things are looking about par with their forecast, but with plenty of overs and unders.

Figure 1. Real expenditure GDP vs RBNZ forecast



Source: Stats NZ, Macrobond, ANZ Research

Data summary

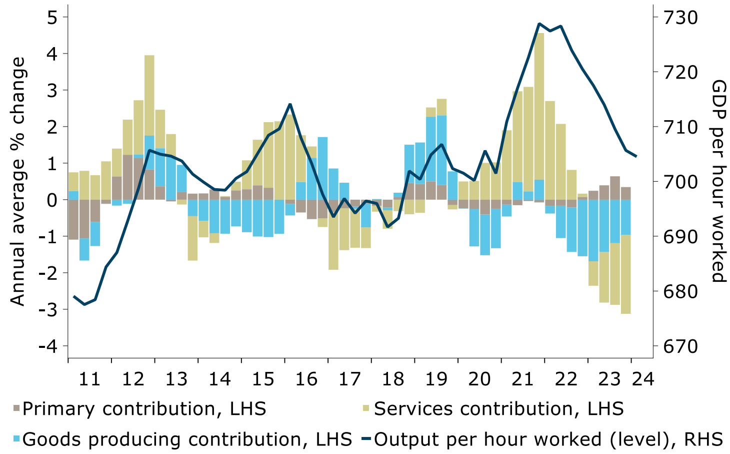
	Mar-24	Dec-23
Quarterly % change	0.2%	-0.1%
Annual % change	0.3%	-0.2%
Annual average % change	0.2%	0.6%

Zooming out, the RBNZ's estimate for how fast the economy can expand without inflation accelerating (aka potential GDP) was +0.7% q/q in the May MPS, meaning today's data certainly appears to tick the "disinflationary" box.

Speaking of the supply side, both the NZ Treasury and RBNZ have recently expressed concern about the state of implied labour productivity (output per hour worked) in recent quarters. Not only is weak productivity growth bad for households (as it's the only way to grow real wages over the longer run), but falling productivity implies higher inflation pressures for a given level of output (all else equal).

Figure 2 shows both the level of output per hour worked and the contributions to growth in output per hour by main industry. Further deterioration in Q1 suggests the RBNZ won't be concluding softening implied labour productivity has found a floor just yet. All else equal this could support a slightly more hawkish read of the GDP data than otherwise.

Figure 2. Output per hour worked



Source: Stats NZ, Macrobond, ANZ Research

Our view (as outlined in our recent Quarterly Economic Outlook) is that it doesn't make a lot of sense that a loosening labour market would be associated with falling labour productivity, and that what we are observing in these data is rather due to a mix of factors:

- normalising output per hour (following the impact of lockdowns and too much macroeconomic stimulus for the conditions),
- some residual labour hoarding in some industries (ie varying lags between demand for goods and services and demand for labour), and
- a healthy pinch of measurement challenges.

All in all, we'd say the Q1 GDP data are about par with the RBNZ's May MPS expectations, but with plenty of overs and unders. Domestic demand indicators, such as private consumption are very difficult to gauge given quirky seasonality, and the RBNZ will need to make some judgements here. But at the end of the day, upcoming reads on CPI inflation and the labour market will also be key for assessing the balance between aggregate supply and demand, and therefore inflation. With today's data in the bag, we remain comfortable with our OCR call for cuts from February 2025.

The details

Turning to the details, services industries (about 70% of GDP) contracted 0.1% q/q, weaker than our expectation of 0.4%. The miss was driven by a number of industries coming in on the slightly softer side, and it all added up. Stepping back, today's data suggest momentum across services industries is indeed slowing, running well below its post-GFC average pace of 0.8% q/q.

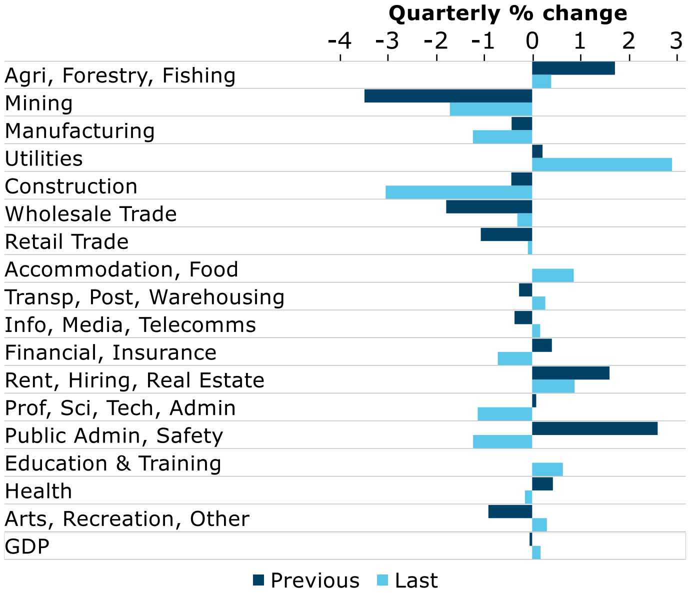
Certainly this week's very weak Performance of Services Index data suggests the services sector has now clearly gotten the RBNZ's memo. That certainly helps mitigate sticky services inflation risks.

Goods-producing industries came in close to forecast at -1.3% q/q (ANZ: -1.2%). Electricity (+2.9% q/q) was stronger than expected, while construction (-3.1% q/q), and manufacturing (-1.2% q/q) were slightly weaker.

Growth in primary industries was also close to expectation at 0.2% q/q (ANZ: 0.3% q/q).

Meanwhile, the unallocated tax component expanded 3.5% q/q, much stronger than the 0.6% lift we had pencilled in. This is one of the harder segments to forecast, and had growth in this component come in as we expected, headline GDP would have come in broadly flat (0.0% q/q). Unallocated tax is often a timing story, as it does tend to follow broader economic momentum over the longer run.

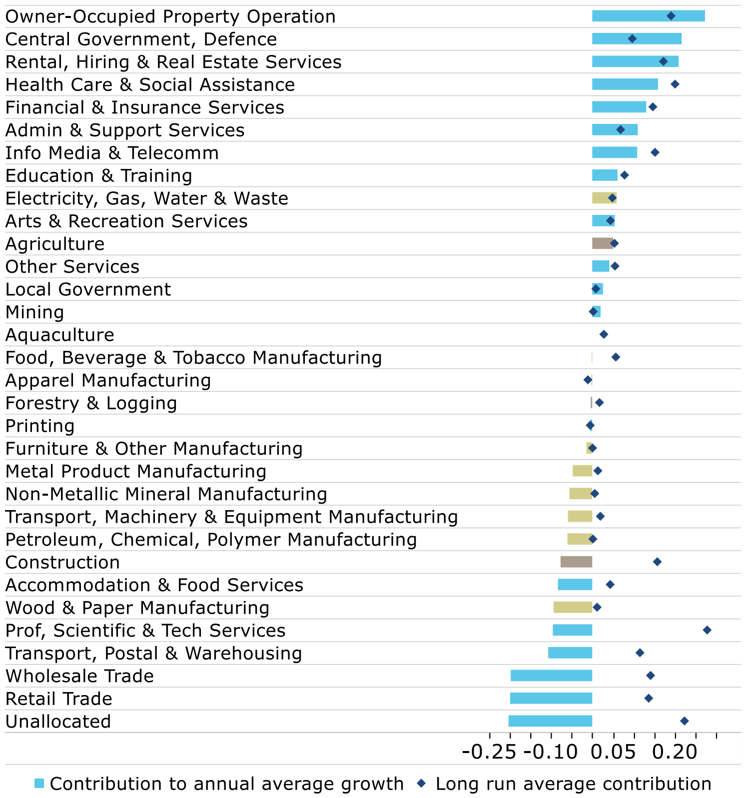
Figure 3. Quarterly change in GDP by industry



Source: Stats NZ, Macrobond, ANZ Research

Digging into the industry-level data in more detail (figure 4) shows there's still a handful of services industries that are growing at a faster pace than their historical average growth rate. The top few contributors to annual growth continue to come from services industries, and the top three were running hotter than their historical average pace. In Q4, the top 4 were running hotter than average, so things are certainly slowing. The relative strength in some of these industries is likely to be more related to previous fiscal expansion than monetary settings, but the overdue fiscal consolidation earmarked at Budget 2024 should see some of outperformance pull back over coming quarters.

Figure 4. Contributions to annual growth by industry

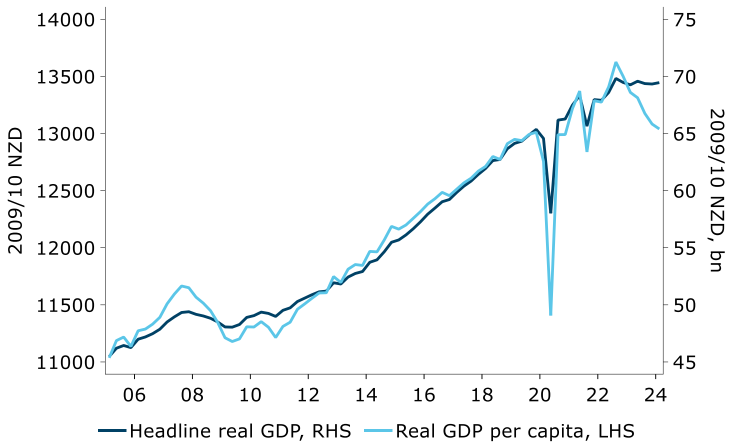


Bars are coloured according to industry group: Services (light blue), Goods (lemongrass), Primary (brown)
Source: Stats NZ, Macrobond, ANZ Research

At the other end of the spectrum, retail trade remains very weak, with wholesale trade not far behind. This reflects the impacts on consumer spending from high inflation and higher interest rates – and now, the deteriorating labour market. The unallocated tax component is following broader momentum, despite Q1's quarterly bounce. Overall, while there is plenty of divergence across industries, there is a broad-based slowing underway.

Turning to per-capita GDP, quarterly growth came in at -0.3% q/q, marking six consecutive quarters of decline. In peak-to-trough terms, per capita GDP is now down 4.3%. For context, following the Global Financial Crisis per-capita GDP contracted for seven consecutive quarters, and 4.2% peak to trough.

Figure 5. GDP per capita

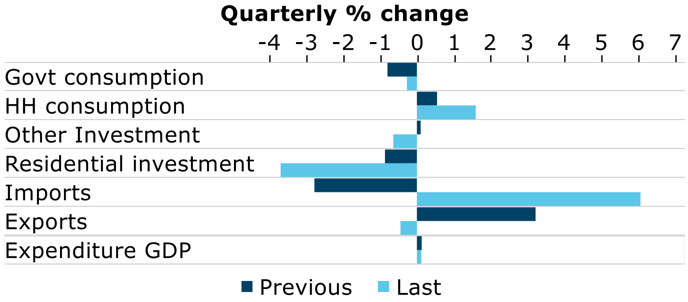


Source: Stats NZ, Macrobond, ANZ Research

In real (price-adjusted) expenditure terms, GDP growth came in at 0.1% q/q. Private consumption lifted 1.6% q/q, much stronger than the RBNZ's 0.4% pick. Under the hood, durables goods consumption fell 1.3% q/q suggesting discretionary spending remains weak. Meanwhile, non-durables consumption rose 0.8% q/q. Government consumption expenditure fell 0.3% q/q, and total investment fell 0.5% q/q. Net exports significantly dragged on quarterly growth, with total exports down 0.4% q/q and imports up 6.1% q/q. However, as is often the case, changes in inventories partially offset the strong net exports drag, adding 1.4ppts to quarterly growth.

Importantly, Stats NZ continue to grapple with the quirky seasonal factors associated with travel services exports and imports. Stats have a good gauge on the overall picture, but allocating this to domestic consumption and net exports remains a challenge. In fact, it is this quirky seasonality that appears to have contributed to strong private consumption growth in Q1 and weak services exports (down 13.2% q/q). Because of this, Stats NZ "encourage customers to focus on growth rates for spending in New Zealand by households and overseas visitors rather than household consumption expenditure" as this series excludes spending by households overseas (which is a services import), and includes spending by visitors in NZ (which is a services export). On that score, "spending in New Zealand" rose 0.8% q/q, with durables down 1.3%, non-durables up 0.9%, and services up 0.5%. Looking at total spending in NZ certainly paints a less rosy picture of demand than private consumption, but it's still relatively robust.

Figure 6. Expenditure GDP growth



Source: Stats NZ, Macrobond, ANZ Research

Overall, the economy certainly appears to be growing at a pace that's consistent with slowing inflation, with parts of the economy feeling the impacts of monetary tightening more than others. However, we think the drivers of economic momentum are becoming a little more synchronised to the downside than they have been in recent years, which will in time alleviate the RBNZ's concerns that monetary policy might not be getting enough traction. While today's data might not be a catalyst for OCR cuts in the near term, we don't think it represents a big challenge to our view that the RBNZ will be able to ease monetary conditions earlier than signalled in the May MPS. But ultimately, the data will decide.

In big picture terms, Q1's GDP data shows economic momentum is anaemic, particularly from a domestic demand and per capita perspective. And while GDP growth is expected to start gradually recovering later this year, most households won't feel it, given the domestic slowdown still has further to run and the labour market is loosening. Further, some forward indicators, such as reported past activity within our Business Outlook survey, suggest that Q2 GDP could be meaningfully softer than in Q1. We'll have more to say about the outlook when we update our forecasts in tomorrow's Data Wrap.

Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
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, economic developments, GDP and activity dynamics, fiscal and monetary policy.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Henry Russell
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@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

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

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