# Economic Bulletin.

**18 June 2020**

## A taste of what's to come – NZ GDP, March quarter 2020.

- GDP fell by 1.6% in the March quarter, the biggest quarterly drop since 1991.
- Activity was hit hard in the last week of the quarter, as the country went into lockdown in response to the Covid-19 outbreak.
- While the drop in GDP was bigger than expected, it was within the range of possible outcomes given the known difficulties with capturing the impact of the lockdown.
- With the lockdown continuing through April, June quarter GDP is expected to see an unprecedented double-digit decline, followed by a sharp bounce in September.

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| Key results | Mar 2020 | Dec 2019 | Westpac f/c | Market f/c |
|---|---|---|---|---|
| GDP qtr % | **-1.6** | 0.5 | -1.0 | -1.0 |
| GDP ann % | **-0.2** | 1.8 | 0.3 | 0.3 |
| GDP ann avg % | **1.5** | 2.3 | 1.6 | 1.6 |

New Zealand's GDP fell by 1.6% in the March quarter, as the economy suffered a major blow from the Covid-19 outbreak and the move into a strict lockdown at the end of March. That was more than the 1% decline that we and the market were expecting, but it was well within the range of possibilities given the unknowns about how the impact of the lockdown would be captured.

The nature of this shock meant that some of the usual inputs to GDP won't have captured the full impact. For instance the Quarterly Employment Survey (QES), which is used as an indicator for some services sectors, is held in the middle of the quarter, so it missed the impact of the lockdown completely. Stats NZ looked at additional data sources to gauge the impact, and has made adjustments to the GDP figures where appropriate.

So how much of the March quarter result reflects the lockdown, versus the underlying state of the economy? We've previously estimated that under Alert Level 4 the economy was running about a third below its potential. With the last week of March spent in lockdown, that alone should have knocked about 2.5% off GDP for the quarter. But these estimates are inevitably imprecise, and in the end we don't know whether Stats NZ has fully captured the impact of lockdown, despite its best efforts.

### GDP details.

The primary and goods-producing sectors performed largely in line with our forecasts. Agriculture fell by 0.3% due to the drought conditions across parts of the country, but otherwise benefited from its status as an 'essential' service. In contrast forestry, construction and most non-food manufacturing were not considered essential and were hit hard by the lockdown.

Retail spending rose slightly, with increased spending at supermarkets offsetting weakness in some other areas. However, accommodation and dining out fell sharply, due to both the lockdown and the travel bans that were introduced earlier in the quarter. The transport sector also saw a steep decline as a result of the drop in international travel.

The services sectors were the most subject to adjustments to account for the lockdown period. That included changes to healthcare services, education, sports and recreation, travel services, waste collection, and rental and hiring services. Many of these will have sprung back quickly as the lockdown was lifted, though some (such as international education and travel agencies) will remain depressed.

It's likely that Stats NZ will have to make some major adjustments to the June quarter GDP figures as well, in order to capture these effects. For example, the June quarter QES was held in mid-May, so it will have missed the impact of the move to Alert Level 1 in early June.

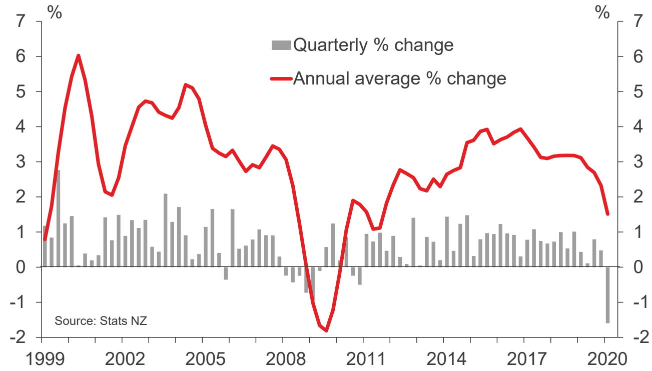
The expenditure measure of GDP saw a slightly smaller 1.3% decline for the quarter. Household spending fell by 0.3%, residential building fell 5.5%, and business investment was down 2.2%. As we saw in yesterday's current account figures, goods imports and overseas travel fell, while goods exports largely held up. Government consumption was flat for the quarter, but next quarter should be boosted by fiscal stimulus measures such as the additional funding for the health sector.

## Looking ahead.

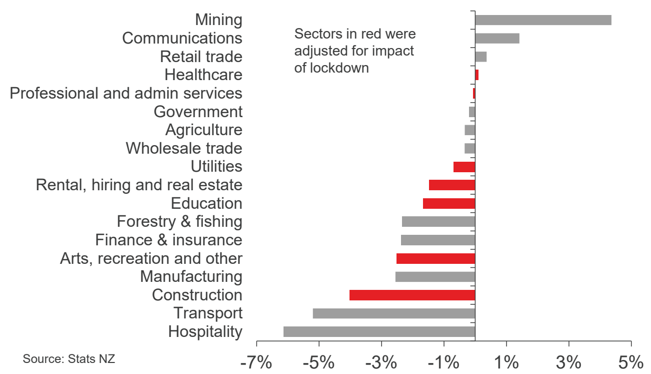
Today's result, the biggest quarterly drop in almost 30 years, is just a taste of what's to come. Forecasters widely agree that June quarter GDP will see a double-digit decline, with the economy in Level 4 lockdown for the first month of the quarter. But there's a huge range around those estimates – our current forecast of a 13.8% decline is one of the less dire predictions out there, while the Treasury and the RBNZ have both forecast declines of more than 20%. The range of market forecasts is likely to go through some substantial revisions, as we get more information on how the economy fared under the lower alert levels.

Looking further ahead, we expect an equally off-the-scale 14% rise in GDP for the September quarter (assuming that the country remains at Level 1). But that would still leave GDP well below its pre-Covid trend. International tourism will be out of action for some time, and the economic 'scarring' from the outbreak, including increases in debt, business closures and a rise in unemployment, will be a drag on activity for an extended period. Today's figures, on their own, don't provide much insight as to where the level of activity will settle.

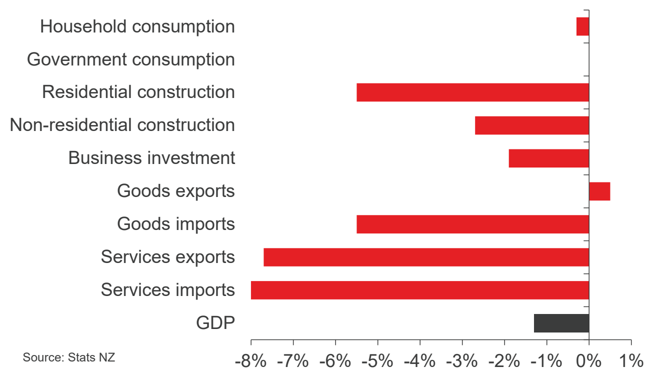
**GDP growth**



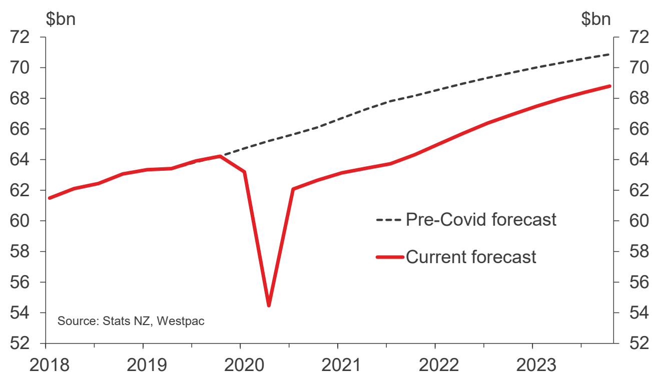

**Q1 GDP changes by production**




**Q1 GDP changes by expenditure**




**Westpac GDP forecasts**



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