# Economic Bulletin.

**17 September 2020**

## NZ GDP, June quarter 2020.

- GDP fell by 12.2% in the June quarter, reflecting both the impact of the Covid-19 lockdown and the subsequent reopening of the economy.
- The result bears out our more moderate assessment of the ongoing effects of Covid-19 restrictions, compared to some of the more extreme forecasts from the market or other agencies.
- We expect a strong rebound in GDP over the second half of this year, although the ongoing closure of the international borders will limit the extent of the recovery beyond this.

**Michael Gordon,** Senior Economist
+64 9 336 5670

| Key results | Jun 2020 | Mar 2020 | Westpac f/c | Market f/c |
|---|---|---|---|---|
| GDP qtr % | **-12.2** | -1.4 | -11.5 | -12.5 |
| GDP ann % | **-12.4** | -0.1 | -11.8 | -12.8 |
| GDP ann avg % | **-2.1** | 1.5 | -1.9 | -2.1 |

Today's GDP figures provide the most complete picture to date of the economic impact of the Covid-19 pandemic, and the measures taken to control it. It's well known that New Zealand implemented one of the strictest lockdowns in the world in late March, effectively shutting down about a third of the economy under Alert Level 4. But it was also one of the most successful, allowing the economy to rapidly restart as the restrictions were lifted.

As a result, our assessment of the lockdown's impact on GDP has consistently been on the more moderate side. And while the 12.2% decline in the June quarter was close to market forecasts on the day, it was only in the last few weeks that those forecasts converged on something closer to our view.

The details of the release were broadly in line with what we expected. The biggest declines were in those sectors that were affected by the closure of the international borders, such as transport (-39%) and hospitality (-47%). These sectors have seen a modest uptick recently as domestic tourism and travel has resumed. But the ongoing spread of the virus around the world means that international borders are likely to remain closed for some time.

Next off the rank were industries that were deemed non-essential at Alert Level 4, including construction (-26%), non-food manufacturing (-19%) and forestry (-13%). Since these sectors were effectively shut down for a third of the quarter, these figures in themselves give a strong indication of how quickly activity rebounded as the alert level was lowered.

Finally, sectors that were able to continue operating under lockdown, such as agriculture, non-food manufacturing and finance, saw little or no decline.

The expenditure measure of GDP fared better than the production measure, with a smaller drop of 9.8%. The production measure is usually considered to be more reliable on a quarterly basis, and the gap between the two is unusually large this time, highlighting the difficulty of measuring economic activity in these unusual times. But it does provide a useful lens on how the economy fared.

Household consumption fell by 12%, some of which was due to the loss of outbound tourism. The bigger declines were in construction (again a product of the lockdown), business investment (reflecting both the lockdown and the uncertain environment) and services exports (including the hit to inbound tourism).

## How do we compare?

New Zealand's 12.2% fall in June quarter GDP was larger than the average of OECD countries, although by no means an extreme result. Cross-country comparisons need to be made with caution, not just because of the differences in how each country responded – differences in the structure of the economy, or in how GDP is measured, mean that the same policy response could produce different GDP outcomes.

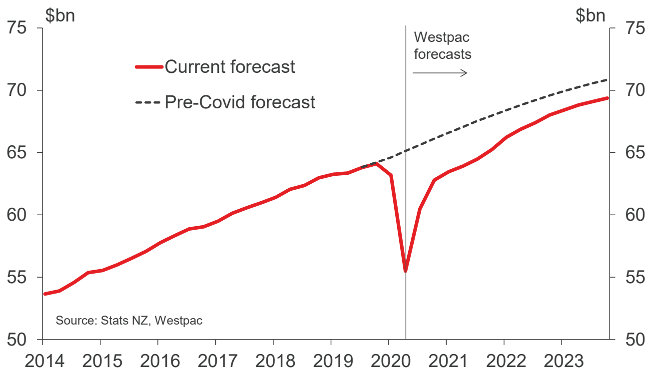
As an example, let's compare New Zealand to our nearest neighbour. Australia reported a 7% drop in June quarter GDP, one of the smaller declines among the OECD. In the details we can see some differences in economic structure – both countries closed their borders at the same time, but tourism is a larger share of New Zealand's economy. There also appear to be some differences in the approach to measuring GDP – Australia reported no decline in the education sector, despite the loss of international students.

But for the most part, the distinguishing factor was the stringency of the lockdown. Construction, retail, non-food manufacturing and recreational services all fared much worse in New Zealand than in Australia during the quarter. In other areas that were able to keep operating at Level 4 – such as agriculture, food manufacturing, professional services, finance and healthcare – New Zealand fared just as well or even better than Australia. Interestingly, the expenditure measure of GDP was closer between the two countries, and the 12% fall in household spending was identical.

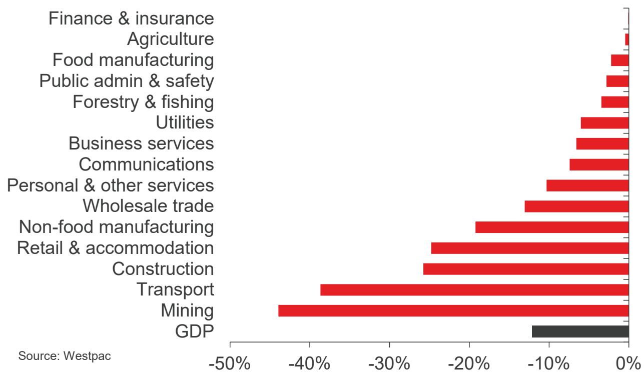
Of course, the real test is not how the economy held up during the lockdown, but what level of activity it can operate at on an ongoing basis. With New Zealand now operating under less restrictive conditions overall than Australia (though with some regional differences), we're expecting a more vigorous rebound in the following quarters. And we're likely to fare much better than countries that have failed to manage the spread of the virus and will face ongoing restraints on activity.

We expect New Zealand's GDP to rise by around 8.5% in the September quarter (held back somewhat by the renewed restrictions in August), and to have returned to within 5% of its pre-Covid trend by the end of the year. At that point the shortfall will largely be due to the closure of the international borders, which will put a cap on the pace of recovery through 2021.

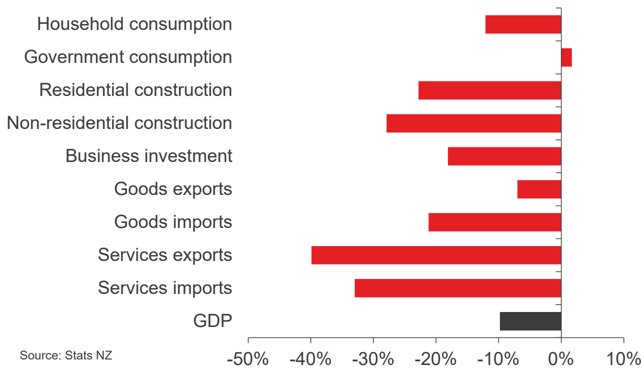
### Level of quarterly GDP




### Q2 GDP by production




### Q2 GDP by expenditure



# Contact the Westpac economics team.


**Dominick Stephens,** Chief Economist
+64 9 336 5671

**Michael Gordon,** Senior Economist
+64 9 336 5670

**Satish Ranchhod,** Senior Economist
+64 9 336 5668

**Nathan Penny,** Senior Agri Economist
+64 9 348 9114

**Paul Clark,** Industry Economist
+64 9 336 5656

**Any questions email:**
economics@westpac.co.nz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