WESTPAC ECONOMIC BULLETIN

Preview of March quarter GDP (16 June, 10:45am).

10 June 2022

Michael Gordon, Acting Chief Economist
+64 9 336 5670
michael.gordon@westpac.co.nz

Riddled with Covid.

- We estimate that GDP was flat in the March quarter. This is a downgrade from our earlier forecast of a 0.6% rise, due to some softness in the final batch of sectoral data releases.
- Covid continues to act as a handbrake on the economy. While the December quarter was marked by ongoing Government-mandated restrictions, the March quarter included the peak of the Omicron wave, with worker absenteeism being a substantial issue.
- We expect a stronger pickup in the June quarter, and our forecast for growth in 2022 overall remains broadly unchanged.

	Dec-21 actual	Mar-21 Westpac f/c	Mar-21 RBNZ f/c
GDP			
Quarterly % chg	3.0	0.0	0.7
Annual % chg	3.1	1.8	2.5
Annual average % chg	5.6	5.2	5.3

The March quarter national accounts are shaping up to be a mixed bag, with Covid disruptions of one kind or another riddled through the data. We estimate that GDP was flat for the March quarter, leaving it again below the peak seen in the June 2021 quarter, the last Covid-free period.

Our final forecast is a downgrade from our earlier estimate of a modest 0.6% rise. The final batch of data, released today, showed particular weakness in the manufacturing sector over the quarter, and some distinctly mixed results in the services sectors. Our forecast is also below the 0.7% rise that the Reserve Bank forecast in its May *Monetary Policy Statement* (again, without the benefit of the full set of data).

A flat forecast does mean there's a good chance that GDP could go backwards for the quarter. But that wouldn't tell us anything about the prospects of a recession this year. For one thing, the economy is already running well above its sustainable potential, so a brief pullback in GDP would still leave us outside the realm of what could sensibly be called a recession. But moreover, the recent softness in growth is more a product of the Covid handbrake than of any weakness in demand. What we've taken out of our forecast for the March quarter, we've added back into the June quarter.

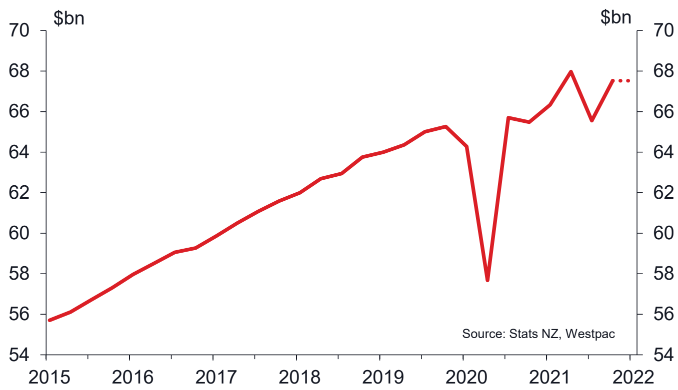
The December quarter was marked by ongoing Government-imposed Covid restrictions following the Delta outbreak last August. In contrast, the March quarter was more a story of self-imposed restrictions as the Omicron wave reached its peak. People stayed away from retail spaces out of caution, and the surge in infections meant that worker absenteeism proved to be a major headache for many businesses.

This shift played out in different ways for different sectors. Those that were still depressed during the December quarter (transport, hospitality, some personal services) fared relatively better in the March quarter. On the other hand, some sectors that experienced a rapid recovery in the December quarter appear to have suffered as a result of staff shortages during the Omicron peak.

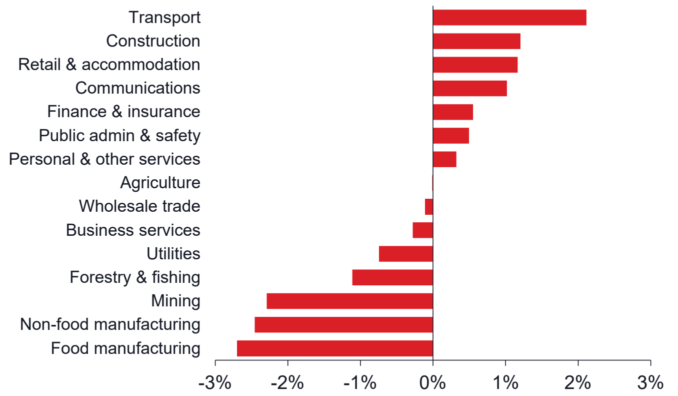
As a bellwether for the economy, retail spending (excluding hospitality) was about flat for the quarter. The monthly card spending figures show that this included a pullback in spending in February and March, during the Omicron peak, which has now been mostly reversed in the April and May figures. So we expect to see a reasonable pickup in June quarter GDP, aided by the border reopening and the start of the gradual return of international tourism.

Notwithstanding this short-term outlook, we expect GDP growth for 2022 as a whole to be substantially softer than the 5.6% rise over 2021. As the year progresses, we expect that falling house prices and higher interest rates will see consumer spending flatten out. This is a necessary part of the process of bringing inflation pressures to heel, by bringing domestic demand back in line with the economy's capacity to meet it.

Level of quarterly GDP



Q1 GDP forecast by production



Contact the Westpac economics team

Michael Gordon, Acting Chief 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

Disclaimer