ECONOMIC BULLETIN

Preview of March quarter GDP (20 June, 10:45am).

10 Jun 2024 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Drawn-out decline

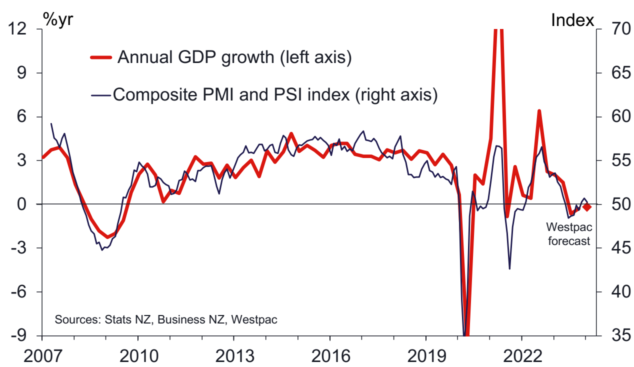
- **We expect a 0.2% fall in GDP for the March 2024 quarter. This would be the fifth (modest) decline in the last six quarters.**
- **Considering how overheated the economy had become in previous years, it's likely that we're only just moving into 'cool' territory.**
- **Our forecast is below the Reserve Bank's estimate of a 0.2% rise. A weaker result would support an earlier start date for OCR cuts, though it may be tempered by uncertainty around the economy's growth potential.**

	Dec-23 actual	Mar-24 Westpac f/c	Mar-24 RBNZ f/c
GDP			
Quarterly % chg	-0.1	-0.2	0.2
Annual % chg	-0.3	-0.2	0.3
Annual average % chg	0.6	0.1	0.2

Next Thursday's GDP release is likely to show that the New Zealand economy remained in the doldrums at the start of this year. We expect a 0.2% drop in March quarter GDP – a downward revision from our earlier estimate of a 0.1% rise, with last week's flurry of sectoral data pointing to weaker than expected outcomes in areas such as construction and manufacturing.

Stats NZ is still updating its estimates of the seasonal patterns in GDP in the post-Covid era, which puts some uncertainty around the precise quarterly number. To get around this issue, we'd put more weight on our forecast of year-on-year growth. That's also looking weak – we expect a 0.2% decline. But that would be a slight improvement on the 0.3%yr decline in December and is consistent with the small uptick in activity indicators such as the PMI and PSI surveys in the early months of this year.

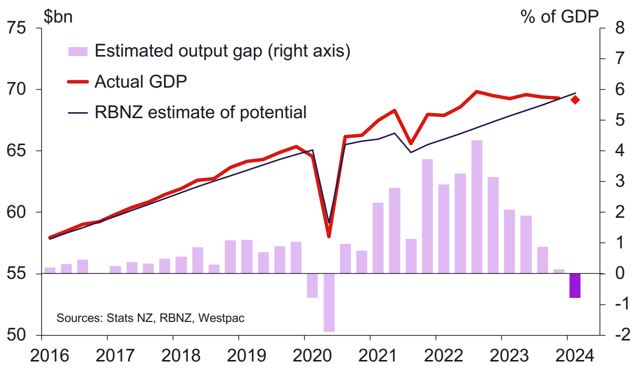
Real GDP vs activity indicator



On our forecast, GDP will have fallen in five of the last six quarters. All those declines have been quite modest, but they've come at a time when the country has seen the strongest population growth in its modern history, with inward migration playing catch-up after three years of the border being closed. As a result, GDP per person has fallen by 4% from its 2022 peak and is set to fall further over this year.

But rather than signalling a deep recession, that decline reflects how overheated the economy had become in the first place. Indeed, on the RBNZ's estimates, the economy is only just now falling below its non-inflationary potential, an essential condition for bringing inflation back to target. We get a similar message from the unemployment rate, which has so far risen to 4.3% – historically, a rate that has been more consistent with steady rather than falling inflation. It will take a sustained period of sub-par activity before the RBNZ can be confident that inflation has been knocked on the head.

Economic output vs potential

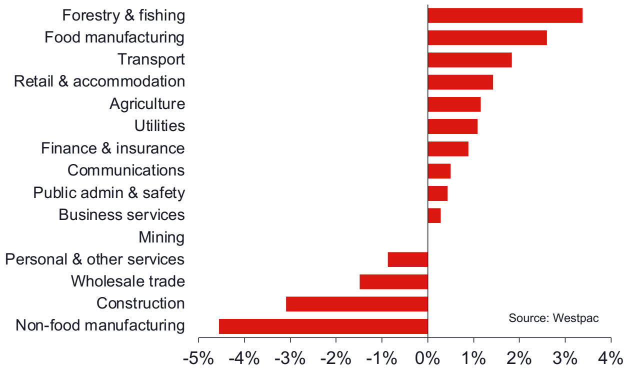


Turning to the details of the March quarter, the picture is quite mixed. We're actually expecting most sectors to do better (or less bad) than they did in the December quarter, but with some pronounced weakness in a few areas driving the overall result.

Manufacturing (outside of food, which is more tied into exports than domestic demand) has been in decline for the last two years straight, and the March 2024 quarter looks to have been particularly soft, with large declines in chemicals and machinery. Construction activity was also weaker, as the pipeline of work that was consented in past years has been run down. We also saw further weakness in wholesale trade, which is something of a bellwether for the wider economy given how many other sectors it touches upon.

On the positive side of the ledger, agriculture and food manufacturing benefited from a lift in milk production and the recovery from the devastation of Cyclone Gabrielle last year. We expect areas such as transport and hospitality to receive a boost from the ongoing rebound in tourism (in seasonally adjusted terms, overseas visitor numbers were weaker in the December quarter, but improved in the March quarter). And log harvesting rose strongly for the quarter – though that will almost certainly unwind next time, as we're now seeing a glut of logs on Chinese wharves that have pushed prices down sharply.

March quarter GDP forecast by sector



Our -0.2% forecast is weaker than the 0.2% rise that the RBNZ expected in its May *Monetary Policy Statement*. On its own, a weaker GDP result would favour an earlier start to OCR cuts – that is, earlier than the mid-to-late 2025 timing that the RBNZ was projecting in May. That said, any surprise on GDP could be tempered by the uncertainty around where the economy's potential actually is. Given that hours worked were up 0.4% over the March quarter, a negative GDP result would be another black mark against the country's already-bleak productivity record.

CONTACT

Westpac Economics Team | **westpac.co.nz/economics** | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

DISCLAIMER

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment recommendations disclosure.

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

(i) Chinese Wall/Cell arrangements;

(ii) physical separation of various Business/Support Units;

(iii) and well defined wall/cell crossing procedures;

(iv) a "need to know" policy;

(v) documented and well defined procedures for dealing with conflicts of interest;

(vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

Westpac Banking Corporation.