



ECONOMIC BULLETIN

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



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Drawn-out decline

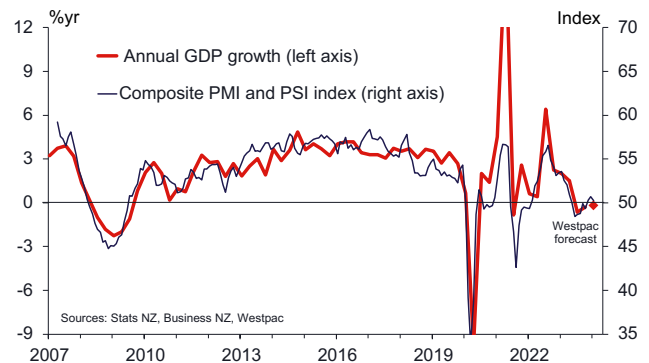
- We expect a 0.2% fall in GDP for the March 2024 quarter. This would be the fifth (modest) decline in the last six quarters.
- Considering how overheated the economy had become in previous years, it's likely that we're only just moving into 'cool' territory.
- Our forecast is below the Reserve Bank's 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.

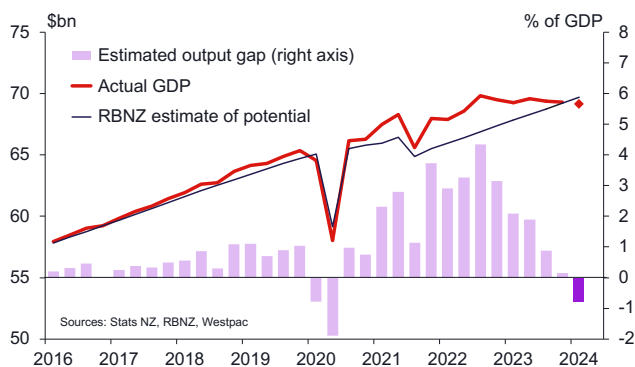
Real GDP vs activity indicator



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



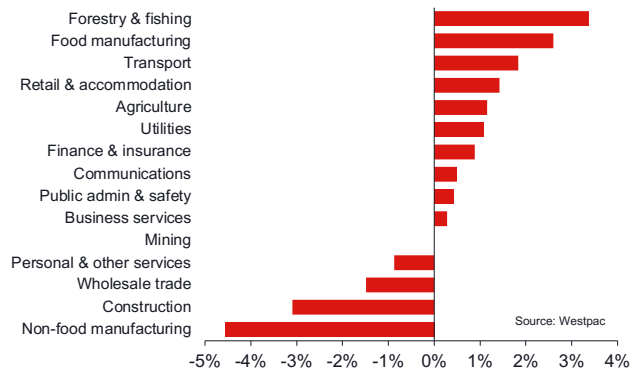
Turning to the details of the March quarter, the picture is quite mixed. We're actually expecting most sectors to do better (or less bad) than they did in the December quarter, but with some pronounced weakness in a few areas driving the overall result.

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.

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