ECONOMIC BULLETIN

Preview of June quarter GDP (19 September, 10:45am).

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

Rolling maul, but not rolling over

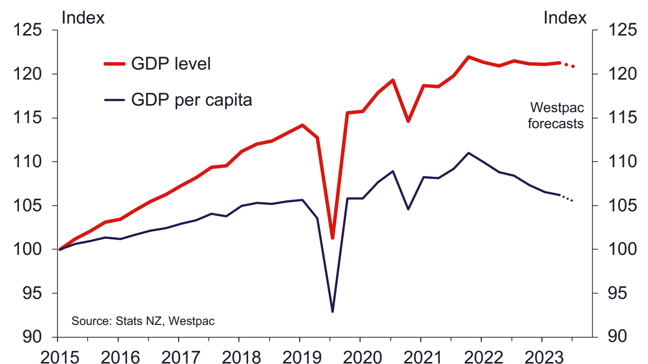
- **We expect a 0.4% fall in GDP for the June 2024 quarter, continuing the "rolling maul" recession of the last couple of years.**
- **Spending in retail and tourism-related sectors looks to have been particularly soft.**
- **Changes in the timing of tax payments have driven some of the GDP 'surprises' in recent quarters – we expect this to be a negative for the June quarter.**
- **Our forecast is slightly above the Reserve Bank's estimate of -0.5%. The RBNZ noted a deterioration in the monthly activity data at the end of the quarter, but this weakness appears to have been short-lived.**

	Mar-24 actual	Jun-24 Westpac f/c	Jun-24 RBNZ f/c
GDP			
Quarterly % chg	0.2	-0.4	-0.5
Annual % chg	0.3	-0.6	-0.7
Annual average % chg	0.2	-0.3	-0.3

Next Thursday's GDP release is likely to show a continuation of the New Zealand economy's "rolling maul" recession, where one quarter of flat or slightly negative growth has merged seamlessly into another. Following the insipid (though better than expected) 0.2% rise in GDP in the March quarter, we expect to see a 0.4% fall for the June quarter.

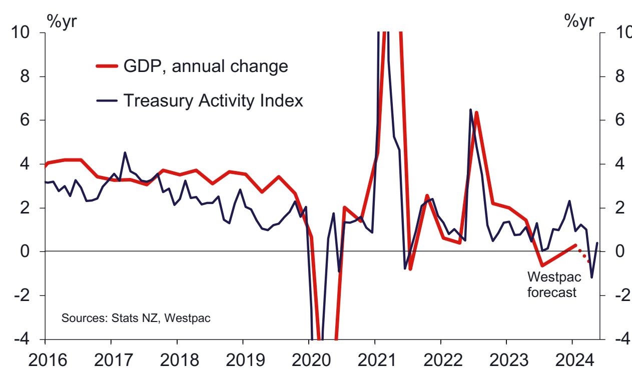
That's a modest upgrade from our earlier forecast of -0.6%, because of the final sectoral indicators that were released yesterday – which included a remarkably strong bounce in manufacturing activity. The overall picture remains soft though, with most sectors expected to record declines for the quarter, and consumer spending remaining particularly weak as they continue to grapple with high interest rates and the rising cost of living.

Real GDP level



Our forecast is now slightly stronger than the -0.5% that the Reserve Bank expected in its August *Monetary Policy Statement*, though if our forecast proves correct, it's unlikely that it would influence the RBNZ's thinking much. In its decision to start cutting the OCR much sooner than previously signalled, the RBNZ cited a range of high-frequency activity indicators that had lurched sharply lower in the June month. While those June results all but ensure a weak GDP outturn for the quarter as a whole, that weakness doesn't appear to have carried through into July and August. With the risk of a sharper than expected downturn now fading, we think the RBNZ will return its focus to the inflation data to determine how far or fast it will be able to reduce interest rates.

GDP growth indicator



Turning to the details of what we expect from next week's release, we should note one technical point up front. In the March quarter, all the upside surprise relative to our forecast came in the 'unallocated' category – an item that captures the value of indirect taxes such as GST and fuel and tobacco excise. Stats NZ has noted that timing of tobacco excise has changed significantly in recent years, which in turn has changed the seasonal pattern of this category – providing more support in the March quarter, at the expense of the surrounding quarters.

That means that this timing issue contributed to the 0.1% fall in December quarter GDP, the stronger than expected 0.2% rise in the March quarter and is likely to make a sizeable negative contribution to June quarter growth as well. In other words, the true path of the economy over the last few quarters has probably been flatter than the official figures suggest.

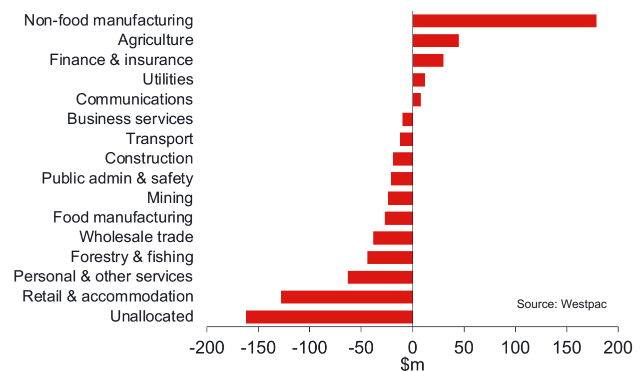
Apart from the 'unallocated' category, the most significant drag on growth is expected to come from consumer spending. Retail spending, especially on accommodation and hospitality, fell further in the June quarter. Tourism-linked sectors, such as transport and arts & recreation, also appear to have been soft, as the recovery in overseas visitor numbers has stalled in recent months.

Forestry is also expected to see a sharp fall. This sector saw a strong pickup in the March quarter, but a sharp drop in export prices in April saw harvesting pull back again. We also expect to see smaller declines in areas such as mining, food manufacturing (mostly in beverages), wholesaling, and construction.

On the positive side, non-food manufacturing is expected to be the standout. As noted above, yesterday's manufacturing survey showed surprising strength – even more so given that the monthly PMI survey had been very weak over the quarter. In particular, machinery manufacturing and wood and paper processing saw both a strong lift in sales and a rebuilding of inventory levels. While we suspect that there is some volatility going on in the quarterly survey, it is nevertheless what will be used to prepare the GDP figures.

We also expect a strong lift in the agricultural sector, with the main contribution coming from horticulture. This sector is typically only updated once a year, so this will be the first time that the GDP figures capture the rebound in fruit volumes compared to last year's cyclone-ravaged harvest.

Forecast contributions to Q2 GDP change



We expect to see some similar themes in the expenditure measure of GDP: soft household spending, a modest fall in construction, and a buildup of inventories. One thing we'd note is that revisions to the trade data will help to resolve some of the puzzling aspects of the March quarter figures, though without changing the total. Services exports – specifically tourism earnings – have been revised up sharply for the March quarter. This will see a matching downward revision to consumption, as spending that had been attributed to New Zealand households will now be correctly attributed to tourists.

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