ECONOMIC BULLETIN

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

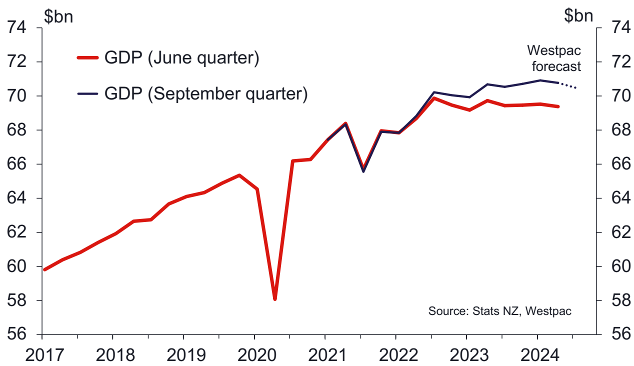
12 Dec 2024 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Last gasp

- **We expect a 0.4% fall in GDP for the September 2024 quarter, continuing the New Zealand economy's prolonged slowdown.**
- **Our forecast reflects general softness across a range of sectors, along with an unwinding of some stronger than expected outturns in the previous quarter.**
- **The GDP release will include substantial revisions to the recent history, which means there's a greater degree of uncertainty than usual around both the quarterly and annual growth rates.**
- **And regardless of how the September quarter turns out, more recent evidence suggests that we are now likely past the worst of it.**

	Jun-24 actual	Sep-24 Westpac f/c	Sep-24 RBNZ f/c
GDP			
Quarterly % chg	-0.2	-0.4	-0.2
Annual % chg	-0.5	-0.5	-0.3

Quarterly GDP with indicative revisions



Next Thursday's GDP release is likely to show a continuation of the New Zealand economy's prolonged slowdown. We estimate that GDP fell by 0.4% in the September quarter, a downgrade from our earlier forecast of -0.2%. That revision was prompted by some weak details in yesterday's sectoral data, which were perhaps payback for some upside surprises in the June quarter.

We see more uncertainty than usual around this quarter's release, both in terms of the GDP outcome itself and how we might interpret the data. Stats NZ has signalled some substantial upward revisions to the rate of growth over the last couple of years, though we won't get the full breakdown until next Thursday. Depending on how those revisions are allocated across the quarters, they could end up telling a meaningfully different story about the economy's recent momentum.

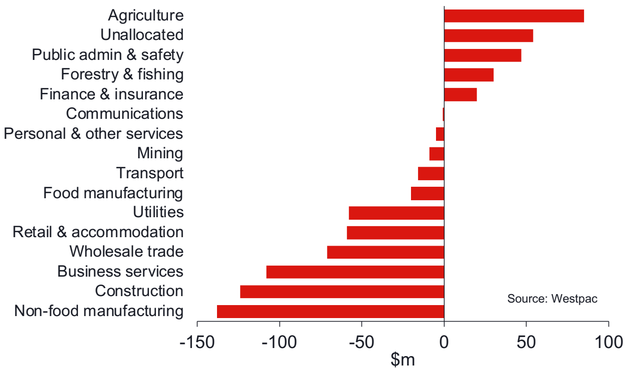
In that respect, it's hard to anticipate how the market might respond to the GDP release on the day. Our forecast of -0.4% for the September quarter is weaker than the -0.2% that the Reserve Bank assumed in its November *Monetary Policy Statement*, and on its own would seem to support the RBNZ's base case for another 50 basis point OCR cut at its February review. However, we will need to consider this alongside the details of the data revisions, and how the RBNZ might choose to interpret them.

Whatever we get out of Thursday's figures, there is growing evidence to suggest that we're now past the worst of it. As detailed in **our GDP nowcast model**, the recent high-frequency data has been consistent with a return to modest GDP growth in the December quarter, though still not outpacing population growth yet. Lower interest rates are sparking some more optimism among businesses and households, but their greatest impact on the economy tends to be felt with a 1-2 year lag – so we're probably looking at the second half of next year before we see some robust growth figures.

Forecast details.

Our forecast of -0.4% for the September quarter reflects softness over a wide range of industries, combined with some idiosyncratic movements that on balance are likely to be a negative for growth.

Forecast contributions to Q3 GDP change



The biggest negative contribution is likely to come from non-food manufacturing, where we expect a 4% decline. While the manufacturing sector has been under pressure for some time, this fall overstates the case – it reverses the 4% gain that we saw in the June quarter, which was wildly at odds with the other indicators for that sector.

The same is true to a lesser degree for the expected declines in construction and professional services. Both of these are sizeable sectors that have seen substantial job losses over the last year or so, according to the Monthly Employment Indicator. They proved to be surprisingly resilient in the June quarter GDP figures, so the large declines that we expect for the September quarter are a correction of this.

Other notable points of weakness include wholesaling, retail and accommodation, and electricity. Wholesaling is something of a bellwether for the wider economy, given its links into so many other sectors, and the 2% decline that we're expecting is a continuation of its recent trend. Retail trade has shown some signs of stabilising, but hospitality was notably weak in Q3. Electricity generators were hit by both low hydro lake levels and limited gas supply during the quarter, which led to a surge in wholesale prices and a drop in demand.

On the positive side, we expect the strongest contribution to come from agricultural output. Milk collections started the new season very strong, and while the September quarter is far from the peak in absolute terms, this translates into a strong rise in seasonally adjusted terms. Forestry also saw a strong rebound in the September quarter, after a sharp drop in harvesting in the June quarter in response to a fall in export log prices.

We expect a solid contribution to growth from the public sector, based on the personnel spending figures in the monthly fiscal accounts. (That said, there's some ambiguity about how to interpret these spending figures, so it's possible that the growth will be attributed to the healthcare sector instead.) We also expect a positive contribution from the 'unallocated' category, which includes the collection of tobacco excise duty – something that has been a source of substantial volatility in the GDP figures recently.

Data revisions.

Next week's release will also incorporate a range of revisions to the recent history of GDP and its components. Most significantly, this includes the annual benchmarking exercise, where Stats NZ aligns the quarterly GDP figures with more detailed (but less timely) annual data sources.

Stats NZ has previewed the impact of these revisions in terms of annual growth rates, though we don't yet know how this will be spread across the quarters. Indicatively, though, we expect to see an additional 2% growth in the economy over the last two years.

Historically, GDP growth has tended to be revised higher over time, but these revisions are larger than average. We suspect a key reason for this is that the GDP figures have been slow to recognise the surge in migration-led population growth over the last couple of years. The revised figures tell a more plausible story about the economy's recent performance – the declines in per-capita GDP and labour productivity, while still large, have not been as severe as previously thought, and are more consistent with the modest increase in labour market slack (as measured by the unemployment rate) over that time.

On their own, the annual revisions are not obviously a challenge to the RBNZ's thinking – they're far enough back in history that they can be treated as a higher-than-expected level of potential output for the economy, rather than a stronger growth pulse. However, it's not clear how the RBNZ might choose to interpret the details.

In terms of the expenditure measure of GDP, there are no obvious conclusions to be drawn from the mix of revisions, which are spread across households, government and business investment. On the production measure it's more mixed, with some of the most notable upward revisions occurring in transport and recreational services – perhaps suggesting an underestimate of the rebound in international tourism once the border was reopened. Construction is also set to be revised higher, reversing the downward revisions that were applied last year.

Stats NZ has also signalled some improvements to how it seasonally adjusts the GDP figures. Estimating the seasonal factors correctly has been especially challenging since Covid, due to both the extreme movements during the Covid lockdowns and the temporary loss of the (extremely seasonal) international tourism industry. Revising the seasonal factors doesn't affect the annual growth rate, but it will change the pattern of quarterly growth rates. That could potentially change the story of when, or even if, the New Zealand economy has met the definition of a technical recession (two consecutive quarters of negative growth).

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