ECONOMIC BULLETIN

Review of September quarter GDP.

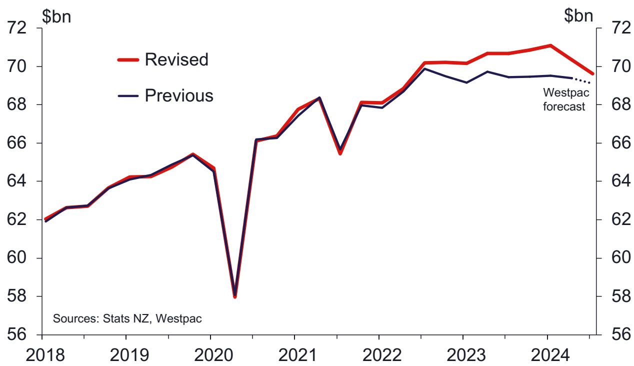
19 Dec 2024 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Coal in the stocking

- **The New Zealand economy shrank by 1% in the September quarter, a much starker downturn than expected.**
- **The result reflected the ongoing cooling in parts of the economy, along with some temporary factors that we don't expect to be repeated.**
- **Annual revisions to the GDP data have lifted the pace of growth over the last couple of years, though they may have also exaggerated the degree of the fall in the June 2024 quarter.**

	Sep 24	Jun 24	Westpac f/c	RBNZ f/c
GDP qtr %	-1.0	-1.1	-0.4	-0.2
GDP ann %	-1.5	-0.5	-0.5	-0.3

Quarterly real GDP



Today's GDP report revealed a number of changes, both expected and unexpected, to the economy's recent track record. Estimates of activity were revised higher over 2022 and 2023, effectively removing any previous suggestions of a 'technical recession'. However, the September quarter proved to be much weaker than expected, and was accompanied by a sizeable downward revision to the previous quarter.

The picture we're now left with is of an economy that was trundling along for a year or so under high interest rates, before turning on a dime in the middle of this year. That's an overly reductive description, though; we think the recent quarterly outturns have been a combination of ongoing trends, one-off changes (or reversals of them) and technical factors in the GDP calculations.

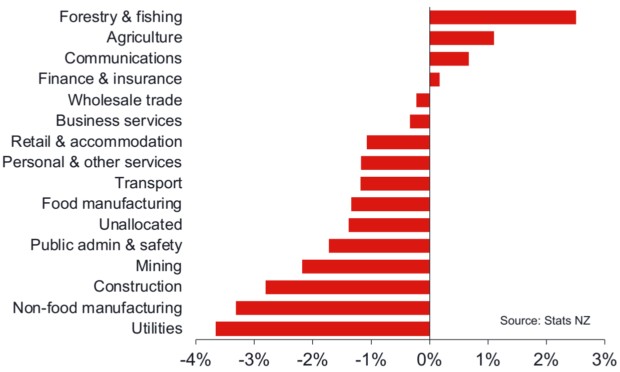
All up, this does leave us with a different understanding of the economy's starting point, which in turn has implications for other aspects of our forecasts – see our separate note today on what we think this means for the Reserve Bank. However, today's figures haven't altered our view that the September quarter is likely to have been the worst of it. The more recent high-frequency data has shown signs of improvement, albeit suggesting only modest growth at this point. We retain our forecast of a 0.3% rise in December quarter GDP – noting that technical factors suggest some upside risk to this.

Quarterly details.

GDP fell by 1% in the September quarter, significantly more than the 0.4% fall that we and most local forecasters were expecting. Moreover, this came on top of a 1.1% fall in the June quarter, which was revised from a previously reported fall of just 0.2%. Together, this would imply the largest two-quarter decline in GDP since the 1991 recession (aside from the Covid lockdown periods).

Focusing on the latest quarter, the decline was spread across a wide range of sectors. In many cases this marks a continuation of recent trends, where the fight against inflation has necessitated a squeeze on consumers and businesses. The September quarter included sizeable falls in retail and hospitality, construction, transport, business services and recreation.

September quarter GDP by industry



Relative to our forecast, the biggest downside surprises were the falls in government and healthcare output. Personnel spending is a key indicator for these sectors for GDP purposes (given that it's otherwise difficult to measure output from these sectors). However, Stats NZ notes that recent personnel spending figures have been boosted by redundancy payments, and has made downward adjustments accordingly. This was also responsible for some of the downward revisions to June quarter GDP.

Some of the larger declines in the September quarter came from temporary factors. Non-food manufacturing fell by 3.3% for the quarter, some of which is likely to have reflected underlying weakness in the economy. But this follows a 4.3% rise in the June quarter, which was reflected in the GDP figures but was markedly out of step with other indicators at the time. Hence, we don't expect this degree of decline to be repeated.

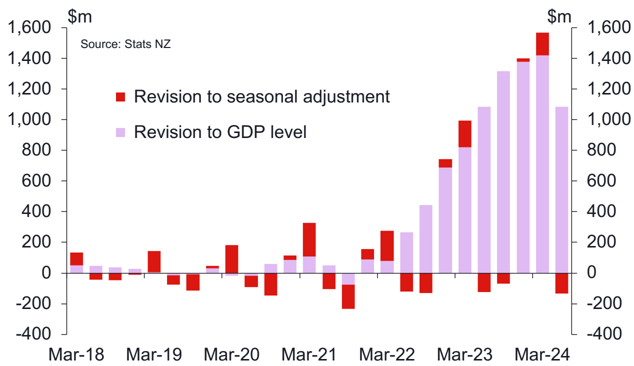
Utilities were down 3.7%, reflecting a sharp fall in electricity generation. Low hydro lake levels and gas shortages led to a surge in wholesale electricity prices during the September quarter (which in turn saw a drop in output as electricity demand was cut back). We know that these issues have since been resolved, so electricity is likely to add to GDP growth in the December quarter.

Revisions.

As we discussed in our GDP preview, today's release included a range of revisions to the recent history of the data, to reflect more detailed but less timely information on the changing structure of the economy. The main result is that GDP has been progressively revised higher since 2022, and now suggests that the economy managed to eke out some modest growth over the last couple of years, whereas the previous figures had been more or less flat. As at the March 2024 quarter, the economy was 2.3% larger than had been previously reported.

Upward revisions to GDP growth are not unusual, though the size of these revisions was. Given that these revisions coincide with a period of very strong migration-led population growth, the new figures still don't tell a very flattering picture about the nation's potential growth or labour productivity, but it's not as dire as it was before.

Revisions to quarterly GDP



Another change included in today's release was an adjustment to how Stats NZ seasonally adjusts the quarterly GDP figures. While seasonal adjustment doesn't affect the overall rate of growth, it does affect the timing of when growth is believed to have occurred throughout the year. This has been an ongoing challenge since Covid, as the extreme movements during the lockdown periods have disrupted our understanding of the 'normal' pattern.

Our assessment is that the problem hasn't been cracked yet. The changes to seasonal adjustment account for around 0.6 percentage points of the downward revision to the June quarter; this can't be attributed to any particular sector, and is simply an artifact of how the total is calculated. Indeed, the overall effect has been to reduce GDP growth rates in every June quarter, while boosting growth rates in other quarters.

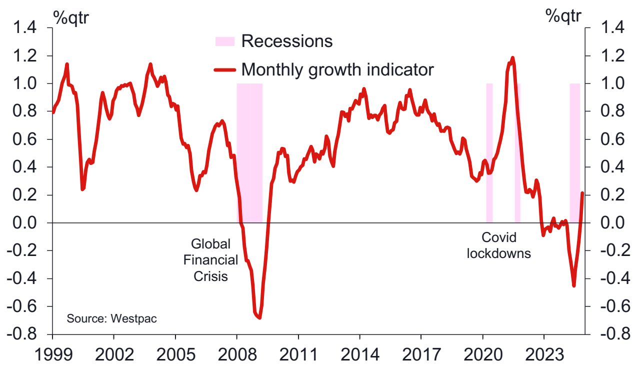
Our existing forecast was for a 0.3% rise in GDP for the December 2024 quarter. These new seasonal factors could add as much as 0.5% to this number – a substantial upside risk, although one that would clearly be overstating the degree of the turnaround in the economy. We suspect that these seasonal factors will be revised further over time.

Looking ahead

Our more positive forecast for the December quarter reflects the tone of the recent economic data as interest rates have fallen from their highs. That's been more apparent in measures of confidence than in real activity so far, but there are signs that the bottom is in for measures such as card spending, building consents and job vacancies.

This is captured in our recently launched GDP 'nowcast' tool. The monthly indicator that underlies the GDP nowcast, which captures the common trend in the high-frequency data, has moved into positive territory since October. So far, we're not looking at much more than population growth – but even that would be markedly different from what the previous six months appear to have delivered us.

GDP nowcast monthly growth indicator



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