

WESTPAC ECONOMIC BULLETIN

Preview of June quarter GDP (21 September, 10:45am).

15 September 2023

Darren Gibbs, Senior Economist

+64 9 367 3368

darren.gibbs@westpac.co.nz



Temporary relief?

- We have pencilled in a 0.8% rebound in GDP for the June quarter, unchanged from the estimate we made in last month's *Economic Overview*.
- However, Statistics NZ has forewarned that it will review the seasonal adjustment of this data this quarter, adding greater uncertainty regarding the quarterly outcome.
- Perhaps a better indicator of the economy's momentum will be annual growth in GDP, which we expect will slow to 1.5% from 2.2% in the March quarter.
- With population growth running at an annual pace of about 2%, our estimate implies that real GDP per capita has contracted over the past year.
- Our estimate is 0.3ppts above the Reserve Bank's most recent published estimate. However, we expect the RBNZ will be relatively insensitive to (small) deviations of the GDP outcome from forecast, instead drawing inference from a wider pool of economic indicators.

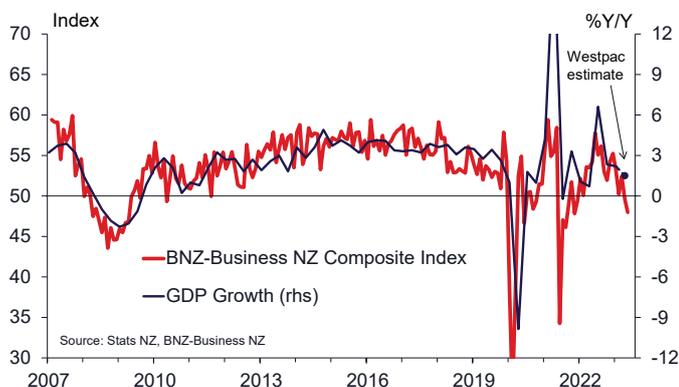
	Mar-23 actual	Jun-23 Westpac f/c	Jun-23 RBNZ f/c
GDP			
Quarterly % chg	-0.1	0.8	0.5
Annual % chg	2.2	1.5	1.2
Annual average % chg	2.9	3.1	3.0

Next Thursday's GDP release is likely to show that the economy rebounded in the June quarter. Indeed, we've pencilled in a solid 0.8% lift in output, which is unchanged from the estimate we made last month in our updated *Economic Overview*. This follows two quarters of contraction, at least as currently measured. Our estimate appears to put us at the upper end of the market expectations. It is also slightly firmer than the Reserve Bank's most recent estimate (the RBNZ's August *Monetary Policy Statement* factored in a 0.5% increase in GDP).

As in previous quarters, we need to provide some health warnings around both our forecast and how to interpret the results. Covid-19 has significantly disrupted the usual patterns in the quarterly GDP figures. At the time of the release of March quarter GDP – which itself included some sizeable historical revisions – Statistics NZ noted that it would undertake a further review of the seasonal adjustment with the June 2023 quarter release (it will now have a full year of data available since the end of Covid-19 disruptions). Together with the impact of the usual revisions, that review could lead to some reinterpretation of recent history. We would not be surprised to see some of the very strong growth recorded in the middle quarters of last year redistributed into the surrounding quarters. And even a minor upward revision to this year's March quarter would remove the 'technical recession' indicated by the data as published at present.

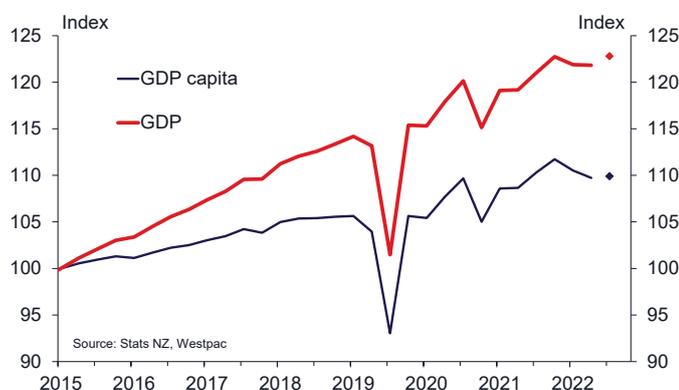
Given the ongoing uncertainties around the quarterly data, we put a little more stock in our year-on-year growth forecast. We have annual growth pegged at 1.5%, down from 2.2% in the March quarter. We note that growth of about this pace seems consistent with that suggested by ‘top-down’ indicators, such as the BNZ-Business NZ survey indexes. As an aside, our forecasts suggest that growth will slow further in the September quarter as the lagged impact of monetary policy tightening continues to put the squeeze on the economy.

Real GDP and Composite Index



With the population growing by about 2% over the past year, our estimate implies that per capita output has declined over the period – a soft outcome to be sure, and consistent with an economy that is beginning to move back into balance. Given the strong annual growth in household employment (4%) and hours worked (3%) over this period, our estimate also implies a decline in labour productivity.

Real GDP level



Given the uncertainties surrounding the quarterly GDP data, the RBNZ will likely be relatively insensitive to (small) deviations of the GDP outcome from its forecast. We expect the RBNZ will choose to draw inference from a wider array of economic indicators, including what labour market, pricing and sentiment survey indicators are suggesting about how excess demand and inflation pressures are evolving. In that regard, the September quarter CPI and labour market reports – both released ahead of the RBNZ’s November MPS meeting – stand out as being of particular importance in determining the near-term outlook for monetary policy.

Looking ahead, given the current position of the economy – including an unemployment rate that at present is still just 0.4ppts above its record low – the RBNZ will require

a sustained period of below-trend growth to be confident that inflation pressures will fall back to levels consistent with achieving its inflation target. So should there be any unexpected weakness evident in this quarter’s GDP report, it will likely be welcomed by the RBNZ rather than viewed as a cause for concern.

Forecast details.

Partial indicators suggest that during the June quarter the main drags on growth will come from the retail trade, wholesale trade and hospitality/accommodation sectors. The impact of Cyclone Gabrielle will probably have continued to weigh on the horticulture sector but milk production and slaughter data suggest that this will be countered by increased value-added in the dairy and meat sectors and the flow-on lift activity in the food manufacturing sector. Non-food manufacturing activity appears to have grown very modestly. Positive contributions to growth also appear likely to have been made by the forestry and fishing sectors. While construction output appears little changed, the recovery in activity in the existing housing market should contribute positively to growth in the real estate and housing services sectors. Indeed, most industries within the service sector are likely to make positive contributions to growth, including central government administration spending.

Finally, we note that recent June quarter GDP outcomes have tended to much print stronger than would be indicated by simply adding together growth in the individually seasonally-adjusted series. We have allowed for a continuation of that ‘residual seasonality’ in constructing our forecast for aggregate GDP growth in the June quarter. It is possible that revisions to previous quarters could lower this residual seasonality in the June quarter, leading to a slightly weaker quarterly outcome while still delivering the 1.5% annual growth that we have estimated.

Contact the Westpac economics team

Kelly Eckhold, Chief Economist

+64 9 348 9382

Nathan Penny, Senior Agri Economist

+64 9 348 9114

Any questions email:

electronics@westpac.co.nz

Satish Ranchhod, Senior Economist

+64 9 336 5668

Paul Clark, Industry Economist

+64 9 336 5656

Darren Gibbs, Senior Economist

+64 9 367 3368

Shania Bonenkamp, Graduate

shania.bonenkamp@westpac.co.nz

Disclaimer

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. 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.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

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 be 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.