



ECONOMIC BULLETIN

Preview of December quarter GDP
(21 March, 10:45am).



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Flat as a pancake

- We estimate that GDP was flat in the December 2023 quarter. This is in line with the Reserve Bank’s view.
- Goods demand remains relatively soft, while the service sectors continue to benefit from the recovery in tourism to some degree.
- Based on our forecast, the New Zealand economy has been flat over the last year, despite a migration-led surge in population growth.
- But this degree of slowdown reflects how overheated the economy had become in the first place, in response to monetary and fiscal stimulus during the Covid period.

	Sep-23 actual	Dec-23 Westpac f/c	Dec-23 RBNZ f/c
GDP			
Quarterly % chg	-0.3	0.0	0.0
Annual % chg	-0.6	0.0	0.0
Annual average % chg	1.3	0.7	0.7

We expect next Thursday’s report to show that New Zealand’s GDP was basically unchanged in the December quarter. While still soft, that would be a modest improvement on the 0.3% contraction that we saw in the September quarter.

This is a slight downgrade from the 0.1% rise that we pencilled in for our recent *Economic Overview*, but is in line with the Reserve Bank’s estimate in its February *Monetary Policy Statement*. Market forecasts haven’t been surveyed yet, but they are likely to end up in the same ballpark.

Our final forecast is in keeping with the recent run of activity indicators that pointed to ongoing softness in areas like construction, manufacturing and retail – just less so than in the September quarter. In contrast, we expect to see some moderate growth in personal and business services. We’re also expecting a pickup in the transport sector, which has been markedly weaker over the last year despite the ongoing recovery in international travel.

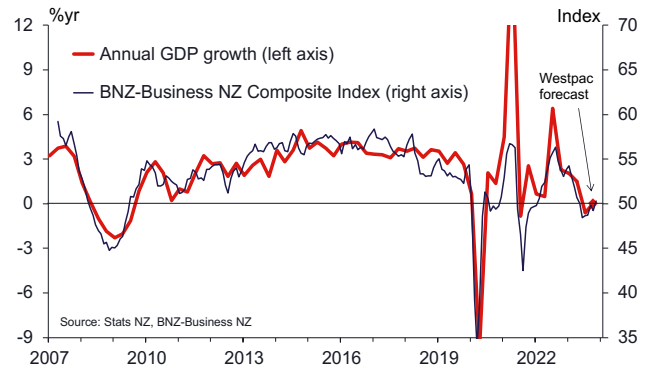
If our pick for the quarter is correct, that will also mean that the economy has been dead flat over the last year. (Indeed, given that the seasonal adjustment factors for GDP are still in flux, we would put more stock in our annual growth forecast than in the quarterly one.) That’s happened at a time 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 almost 4% from its peak.

Normally, a fall of that size would be associated with a severe recession. But in this case it reflects how overheated the economy had become in the first place. The RBNZ estimates that at its peak in 2022, the economy was running almost 4% above its non-inflationary potential; it's only just now returning to something that's more consistent with stable inflation. We see a similar message from the unemployment rate: while it has risen in recent quarters, 4% is still very low by historic standards.

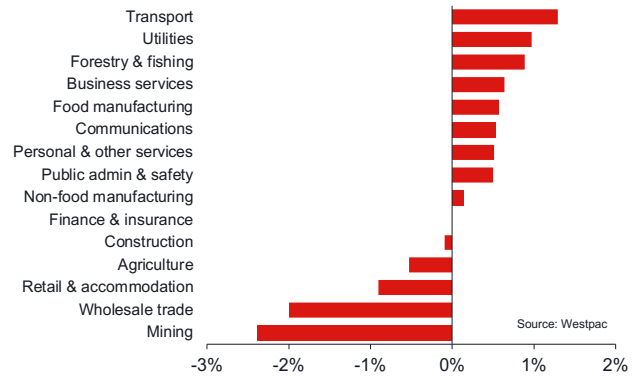
We do expect a further cooling in the economy over the year ahead, as high interest rates continue to have their effect. But it remains an open question as to whether this will be enough to rein in inflation as quickly as the RBNZ is predicting.

It's worth noting Stats NZ will be publishing three measures of GDP in next week's release. As well as the usual production- and expenditure-based measures, they will also produce an income-based measure. (Previously they had provided this as an 'experimental' series, published about a month after the GDP report.) While the three measures provide a useful cross-check on what's happening with GDP in the short term, the production measure is still considered to be the most reliable, and it's the one we've focused on in our forecast.

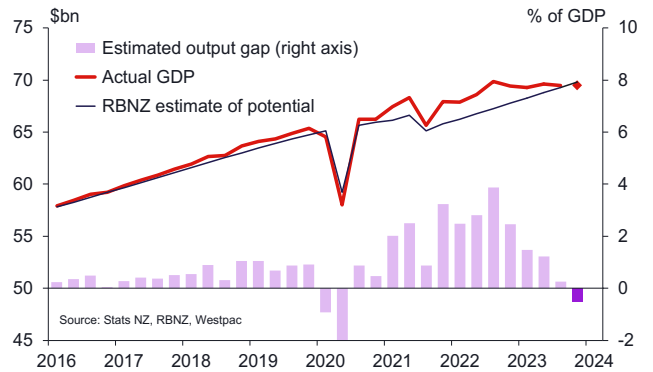
Real GDP vs composite activity indicator



December quarter GDP forecast by production



Economic output vs potential



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