# ECONOMIC BULLETIN

GDP review, December quarter 2023.

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

## In the doldrums

- **GDP contracted by 0.1% in the December quarter, slightly below market forecasts.**
- **Along with some modest downward revisions to recent history, growth was 0.3% weaker over the last year than we and the Reserve Bank were expecting.**
- **That's probably not going to move the dial towards earlier interest rate cuts, especially with other evidence suggesting that inflation is not receding quite as quickly as the RBNZ hoped.**

| | Dec-23 | Sep-23 | Westpac f/c | RBNZ f/c |
|---|---|---|---|---|
| **GDP qtr %** | -0.1 | -0.3 | 0.0 | 0.0 |
| **GDP ann %** | -0.3 | -0.6 | 0.0 | 0.0 |

Today's GDP report showed that the New Zealand economy was broadly flat over the December quarter last year, similar to what we and the Reserve Bank expected. The production measure of GDP, which is considered the most reliable on a quarterly basis, contracted by 0.1%. Both the expenditure and income measures (the latter being a new addition to today's release) were unchanged in inflation-adjusted terms.

There were also some modest revisions to growth in the previous quarters. Largely this was because Stats NZ is still updating its estimates of the seasonal factors, which were severely disrupted by the border closure during the Covid era – the usual influx of tourists during the summer months disappeared for a few years. The easiest way to deal with these shifting seasonal factors is to look at year-on-year growth. And on that basis, the economy was -0.3% smaller than both we and the RBNZ were expecting.

On its own, a downside surprise of this size would suggest slightly less need to keep monetary policy tight – perhaps shaving off the small upside risk that the RBNZ had in its most recent OCR projections, but certainly not making a case for interest rate cuts to come sooner.

The bottom line is that inflation is still proving to be stubborn in places; the RBNZ's long-held view that annual inflation will be back below 3% by September is looking like a line-ball call. And there's a lot more key information about the economy to come between now and the May *Monetary Policy Statement*, including the QSBO business confidence survey (9 April), the March quarter CPI (17 April) and the March quarter labour market surveys (1 May). There's also the crucial first Budget for the new coalition Government – while that will be unveiled after the MPS, the RBNZ will be briefed on the key details. Overall, today's results don't sway our view that OCR cuts are unlikely to come before early 2025.

## Details.

The mix of production GDP was similar to what we expected. Goods-based sectors are tending to do it tougher, with declines in retail, wholesaling, manufacturing and residential construction. These sectors are more subject to domestic demand, which is continuing to feel the squeeze from higher interest rates.

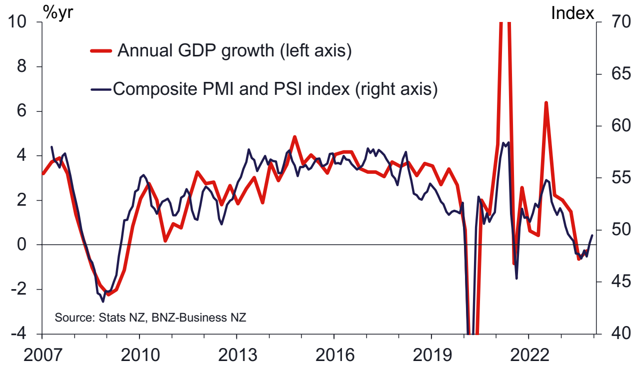
This has been partly balanced by gains in the services sectors, though even here the picture is mixed. Finance, rental services and professional services saw solid gains for the quarter. However, transport and arts and recreational services lost ground, as the recovery in international tourism faltered over the quarter. The biggest lift was in public administration (up 2.8%), though it's likely that at least some of this related to the October election and won't be repeated (indeed, a downward correction would seem more likely than not in the March quarter).

In the context of the very strong population growth that New Zealand is currently seeing, a flat outturn for GDP is quite a soft result. Output was down 0.7% in per capita terms for the December quarter and has fallen by 3.1% compared to a year ago.

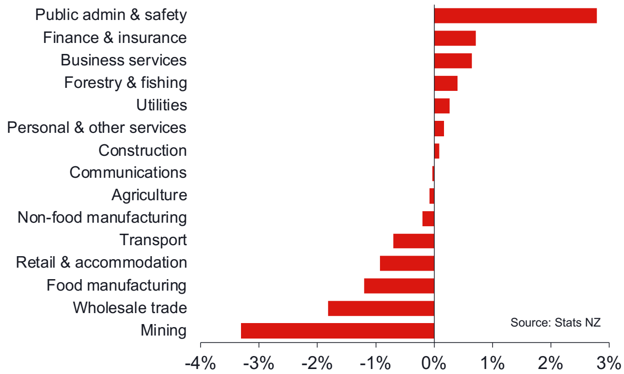
Historically, a per-capita decline of that size would be associated with recession. But in this case, it just demonstrates how overheated the economy had become in the first place. By the RBNZ's estimates, at its peak in 2022 the New Zealand economy was running about 4% above its non-inflationary speed limit. The subsequent decline in per-capita GDP has probably only brought us back to something more sustainable, rather than outright weak. (Another way of looking at this is that a 4% unemployment rate is not weak by anyone's standards.)

Looking ahead, we think that the worst has probably passed in terms of the quarterly GDP outturns. Some of the higher-frequency activity indicators have been looking a bit perkier in the early part of this year, backing up the lift in business confidence that we've been seeing in recent months. We're still not talking a particularly strong upturn though – we're forecasting a mere 0.8% rise in GDP over 2024, which is still almost certain to trail well behind population growth.

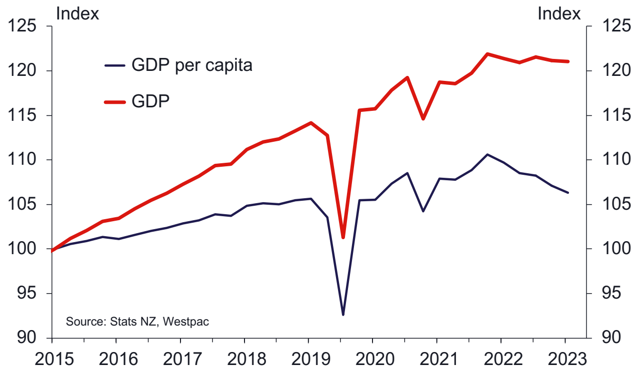
**Real GDP vs composite activity indicator**




**December quarter GDP by production**




**Real GDP level**



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