ECONOMIC BULLETIN

GDP review, June quarter 2024.

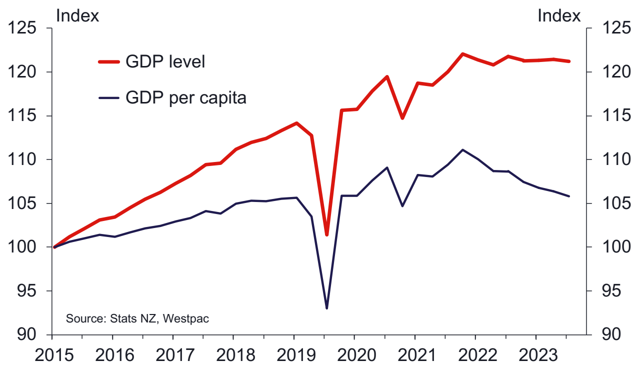
19 Sep 2024 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

More of the same

- **The New Zealand economy remains in a drawn-out slowdown, with GDP falling by 0.2% in the June quarter.**
- **This was a smaller decline than market forecasters and the Reserve Bank were expecting.**
- **While hardly a sign of strength, today's results will help to ease concerns that the economy may have been taking a turn for the worse in the middle part of the year.**
- **We continue to expect a gradual pace of easing from the RBNZ.**

	Jun 24	Mar 24	Westpac f/c	RBNZ f/c
GDP qtr %	-0.2	0.1	-0.4	-0.5
GDP ann %	-0.5	0.3	-0.6	-0.7

Real GDP level



As we expected, the New Zealand economy continued its prolonged slowdown over the June quarter. GDP fell by 0.2%, leaving activity down 0.5% on where it was a year ago (and down 2.7% in per-capita terms). The result for the quarter was a little better than the 0.4% fall that we expected, though with the surprise largely down to some technical factors that offer no real insight into the path ahead.

While today's results were still soft, they will come as something of a relief to the Reserve Bank. Higher-frequency economic data had taken a marked turn lower in May and especially June, raising concerns that the New Zealand economy's slow decline could be entering a new, much darker phase. However, the monthly data has stabilised again in July and August, and GDP itself turned out to be no worse in the June quarter than what we've been experiencing for the last two years.

We continue to expect the RBNZ to cut the OCR by 25bps at each of the October and November reviews. While the

US Federal Reserve's decision this morning might appear to have opened the door for 50bp rate cuts elsewhere in the world, they also emphasised that the size of future moves will be data-dependent. And there hasn't been much in the local data recently that would argue for the RBNZ to step up the pace of easing beyond what it had already signalled in its August statement.

Details.

The 0.2% fall in production GDP was less than the 0.4% fall that we and the majority of market forecasters were expected. Reinforcing that surprise, the less-followed expenditure measure of GDP was flat for the quarter, and the income measure actually rose by 0.2% in real terms.

However, digging into the details reveals a rather underwhelming reason behind this surprise, at least on our part. Stats NZ is continuing to update its seasonal adjustment factors for GDP, with the Covid lockdowns and the border closure having deeply disrupted the usual patterns in areas such as tourism. In this case, the revised seasonal factors meant that GDP growth in June quarters was revised up for the past several years (with other quarters being revised down.) This undoubtedly gave an assist to today's numbers as well.

We can simply get around this seasonality issue by looking at the annual change in GDP. The 0.5% fall compared to a year ago was only slightly better than the -0.6% that we were expecting, or the RBNZ's forecast of -0.7%.

As we signalled in our preview, activity was mixed across industries, with over half of them recording declines. Retail and hospitality fell, with consumers' budgets continuing to be squeezed by high interest rates and rising prices. Forestry saw a slowdown in harvesting after a sharp drop in log export prices. Mining (albeit a small sector) was down on reduced oil and gas extraction.

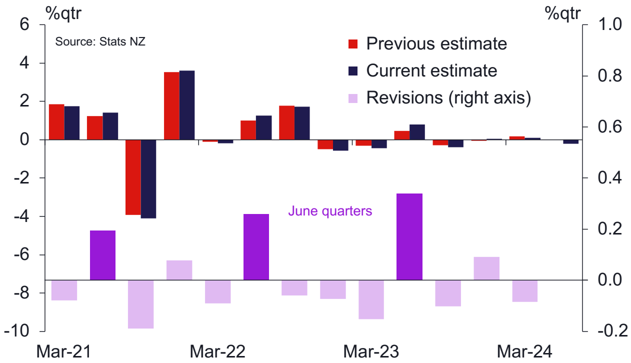
Another sizeable negative came from the 'unallocated taxes' category. This hasn't exhibited a stable seasonal pattern in recent years and was responsible for most of the upside surprise to our GDP forecast in the March quarter (we accounted for it this time). This provides another caution against reading the quarterly GDP growth rates too literally – if we excluded this one item, it would turn the March quarter's 0.1% rise into a minus, and the June quarter decline into a zero.

By far the biggest positive contribution came from non-food manufacturing, up by 4% in the quarter. While we had incorporated this into our forecast, it was in itself a surprising result given that the manufacturing sector has been in decline for the last two years and there were no obvious signs of improvement. The pressure on the sector from high energy prices suggests that this strength won't last into the September quarter.

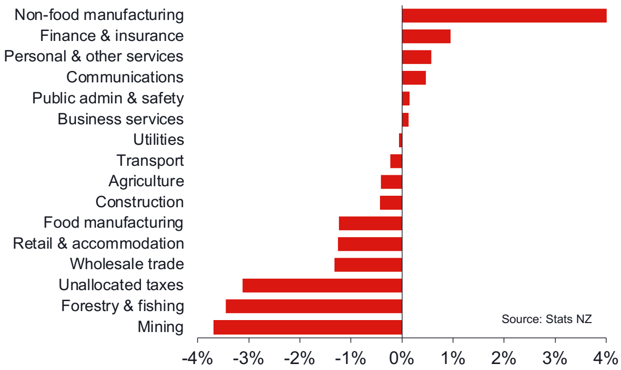
The details of the expenditure measure of GDP provided a perhaps more encouraging picture of the economy.

Household spending rose 0.4% for the quarter, though this was largely on essentials like groceries – spending on durable goods was down sharply. Government consumption (which includes areas like education and healthcare) rose for a second straight quarter, and business investment was up 1.1%. Goods exports were the main drag on growth, falling back 4.4% after a strong rise in the previous quarter.

GDP growth before and after revisions



June quarter GDP by industry



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