ECONOMIC BULLETIN

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

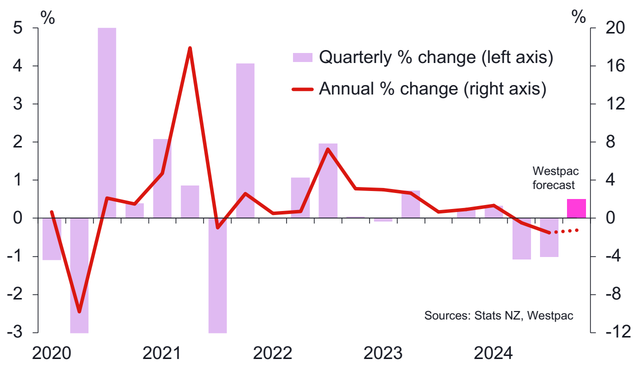
12 Mar 2025 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Growth, on paper at least.

- **We expect a 0.5% rise in GDP for the December 2024 quarter, following sharp declines in the two previous quarters.**
- **However, this is entirely due to issues that we have identified with the seasonal adjustment of the data. Our sector-by-sector forecasts suggest effectively zero growth in activity over the quarter, as does our GDP nowcast model.**
- **As a result, next week's figures will need to be read with caution. Revisions to recent history could come into play as well.**
- **Looking ahead, our nowcast shows that some more genuine positive momentum has been emerging since the start of the year.**

	Sep-24 actual	Dec-24 Westpac f/c	Dec-24 RBNZ f/c
Quarterly % chg	-1.0	0.5	0.3
Annual % chg	-1.5	-1.3	-1.4

Quarterly GDP growth



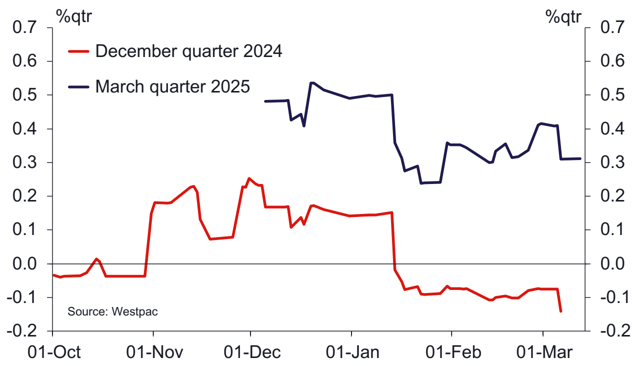
We expect next Thursday's report to show a 0.5% lift in GDP for the December quarter of 2024. On the face of it, that would come as a relief after the sharp declines in activity in the June and September quarters.

Not so fast though. Our forecast consists of zero actual growth in activity, with an estimated 0.5% boost from technical issues in how GDP is calculated. What's more, we can't be sure whether these issues might be dealt with through revisions to previous quarters, rather than affecting the December quarter itself. The bottom line is that next week's numbers will need to be read with caution, regardless of the outcome. At the very least, we would recommend focusing on the annual rate of change rather than the quarterly one.

We're certainly not alone in picking a positive result for the quarter. The Reserve Bank estimated a 0.3% rise in its February *Monetary Policy Statement*, and the other banks' forecasts were in a similar range – at least before yesterday's business financial data, which provided the final inputs to our GDP estimate. Our assessment of those figures is that there were some overs and unders that didn't change our overall view.

The potential for GDP to be thrown around by technical issues highlights the importance of focusing on a broad range of activity indicators, especially if we're looking for signs that the economy has reached a turning point. Our recently launched **GDP nowcast model** provides one way of distilling all of this information, by identifying the common trend across a range of economic indicators. The nowcast for the December quarter closed at -0.14% – similar to our official forecast of effectively no growth outside of statistical issues – but is tracking more positively so far for the March quarter.

Westpac GDP nowcasts

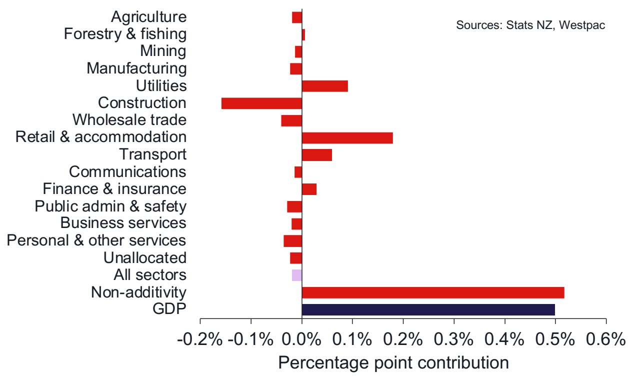


Forecast details.

Our estimate of GDP by production points to ongoing softness in the economy as a whole, with more sectors recording falls than rises. There are a few notable positives for the quarter, although not all of these will persist.

We expect the most positive contribution to come from retailing, with the retail trade survey showing a 0.9% rise in volumes. Hospitality was particularly strong (and this gets upweighted in the GDP calculations), reflecting the strong lift in overseas visitor numbers towards the end of the year. That also contributes to our estimate of a 1.5% lift in the transport sector for the quarter.

December quarter GDP growth forecast



The other major gain is likely to be in electricity, reversing a large 3.7% drop in the previous quarter. Hydro lake levels were running very low in the September quarter, forcing a shift to more expensive fuels such as coal, and hence reducing the value-added from electricity generation. This situation was largely remedied in the December quarter (though is starting to become a concern again for this year).

The biggest negative that we see is in the construction sector, where we expect a sixth straight quarter of decline. While building consents peaked in 2022 after a post-Covid surge, it has taken some time for the pipeline of consented work to run down. We will likely see a similar lag in the other direction – while consents appear to have stabilised over the last year, we don't expect to see a pickup in building activity until later this year.

Some other sectors of note include:

Agriculture: While milk collections are up substantially on last season, they didn't outperform in Q4 as much as they did in Q3, hence we expect a small drop in seasonally adjusted terms.

Manufacturing: There were mixed results overall in yesterday's manufacturing survey. Non-food manufacturing production was down, broadly in line with the ongoing weakness in the manufacturing PMI survey (though this notably picked up above 50 in January). This was partly offset by a lift in food manufacturing, particularly for beverages which rebounded from a weak Q3.

Wholesale trade: This sector is something of a bellwether for the wider economy, given its links to many other sectors. We expect a 0.8% fall in real terms, with a 0.3% rise in sales being offset by a 1.1% rise in prices.

There are two sectors that we've identified as particular risks to our forecast:

Public administration: Normally 'output' for this sector is estimated from government wage and salary spending. However, Stats NZ has made some large ad-hoc adjustments, on the basis that some of this spending reflected redundancy payments. As a result, this sector has recorded 2.2% declines in each of the two previous quarters. We suspect that this adjustment is overdone – the Monthly Employment Indicator shows that jobs in this sector are only down about 1% from their peak and have actually picked up a bit in the last few months. However, the nature of ad-hoc adjustments is that we can't predict where they will go next, or whether they might be revisited.

Unallocated: This group includes the collection of indirect taxes such as GST and excise duty (since they don't count towards value-added for any given sector). Tobacco excise is particular has been quite volatile recently – the timing of tobacco imports has been changing in a way that the seasonal adjustment is struggling to pick up on. We estimate that this item alone added 0.3% to GDP growth in the March 2024 quarter, for instance. It's a little frustrating to have one small item have so much influence on the overall figures, particularly when it's just a timing issue that has nothing to do with real activity. We've pencilled in a small drop for the December quarter, but we don't have a lot of confidence in that.

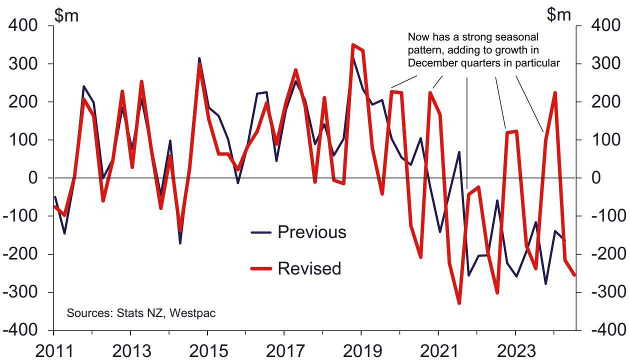
What's this 'non-additivity' about?

For the September quarter GDP release, Stats NZ introduced a new method for seasonally adjusting the quarterly data. Identifying the seasonal components of the data has been especially challenging since Covid, due to both the extreme changes in activity during the Covid lockdowns and the temporary loss of the (extremely seasonal) international tourism industry. Unfortunately, as we discussed in our review of the data at the end of last year, we don't think the problem has been cracked yet.

One way that we can identify the issue is by looking at the non-additivity of GDP. For technical reasons, GDP is not simply the sum of its parts (it uses a method called chain-weighting, which better accounts for changes in the structure of the economy over time). As a result, once we've done our sector-by-sector forecasts, we also need to adjust for this gap in order to get a forecast for total GDP.

This gap should not have a predictable pattern, and previously that had held true. However, with the changes in last quarter's release, the gap now exhibits a strong seasonal pattern, rising in December quarters and falling in June quarters in particular. The implication is that total GDP itself has some seasonality that is no longer being correctly accounted for.

Non-additivity of GDP



This effect is large – it accounted for 0.6 percentage points of the downward revision to growth in the June 2024 quarter. Similarly, we estimate that it will add 0.5 percentage points to growth in the December quarter, if the pattern continues.

That said, we can't be sure that this pattern will persist. Stats NZ recalculates the seasonal adjustment at every GDP release, and the next estimates might prove to be less variable. In that case, December quarter growth could come in below our 0.5% forecast, but it would be the flipside of upward revisions to previous quarters.

Seasonality only affects the timing of activity, not the overall trend. The best way to get around this issue is to look at the annual rate of change. On that basis, we expect a 1.3% annual decline for the December quarter, which would be a modest improvement from the 1.5% annual fall in the September quarter.

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