ANZ Research

NZ GDP: Q2 2024 Review

19 September 2024

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Data summary

	Jun-24	Mar-24
Quarterly % change	-0.2%	0.1%
Annual % change	-0.5%	0.5%
Annual average % change	-0.2%	0.3%

Better than feared

Bottom line

- The New Zealand economy contracted 0.2% q/q in Q2 on a seasonally adjusted basis, close to our forecast of -0.1% q/q and above the RBNZ's forecast of -0.5% q/q.
- Despite an upward surprise for the RBNZ, overall economic momentum remains very weak, consistent with ongoing disinflation and gradual OCR cuts.
- Overall, we don't see these data as a gamechanger for the monetary policy outlook. We continue to expect the RBNZ to deliver 25bp cuts at each meeting, allowing time to assess the economy's responsiveness to easing. Financial markets had been attributing more than 50% odds of a 50bp cut by the RBNZ as soon as October. We've always felt the market was getting ahead of itself, and today's better-than-feared outturn vs the RBNZ's forecast should pour some cold water on the idea of outsized cuts (at least in the near term).

The big picture

The New Zealand economy contracted 0.2% q/q on a seasonally adjusted basis in Q2, close to our forecast of -0.1% q/q and above the RBNZ's August MPS forecast of -0.5% q/q. Despite the slightly stronger print than the RBNZ had anticipated, overall economic momentum remains very soggy. Putting that into perspective, the RBNZ's potential output growth assumption (the economy's growth speed limit before generating inflation) was +0.6% q/q for Q2. Given today's outturn was well below this threshold, it's highly likely that the RBNZ will interpret these data as consistent with rising spare capacity and ongoing disinflation.

Looking ahead, these data haven't materially changed our expectations for the outlook, with growth likely to remain anaemic over the rest of 2024, before a gradual recovery through 2025. The evolution of activity indicators over the coming months will key for gauging the risks to the recovery.

The details

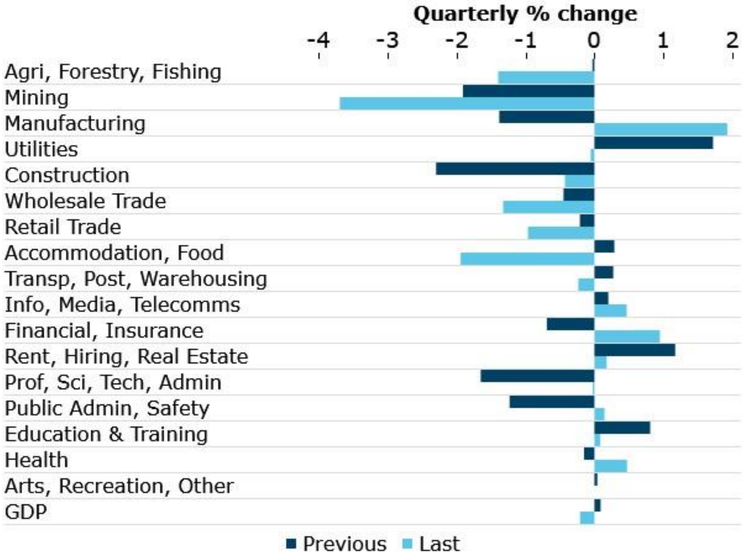
Turning to the details, services industries (about 70% of GDP) were flat (0.0% q/q) in Q2, a touch weaker than our expectation of a 0.1% q/q lift. Weakness was broad-based, though with some overs and unders compared to our expectations. Professional services, one of the more cyclical services industries, and which is useful for getting a sense of monetary traction, came in flat (0.0% q/q), weaker than our expectation of a 0.6% q/q bounce. Also coming in weaker than expectation was public administration and safety, and healthcare and social assistance. Momentum in these industries remains fairly robust, though now looks to be fading. Meanwhile, financial services and wholesale trade were stronger than forecast.

Goods-producing industries expanded 0.7% q/q, above our forecast of a 0.2% q/q rise. Strength reflected a sharp bounce in manufacturing activity, which was up 1.9% q/q. Electricity (0.0% q/q) was also stronger than the fall we had anticipated, while construction (-0.4% q/q) was a little weaker than expected.

Growth in primary industries was weaker than expected, falling -1.6% q/q (ANZ: -0.8% q/q), driven by a sharp contraction in forestry and logging of 10.3% q/q.

The unallocated tax component, which can be volatile on a quarterly basis (though does tend to follow the broader economic cycle over the long run), contracted 3.1% q/q, much more than expected and subtracting 0.3%pts from headline GDP. This contribution was partially offset by a +0.1%pt contribution by the balancing item, going against our forecast. Together, these components, which are volatile from quarter to quarter, made a slightly larger negative contribution to headline GDP than we had anticipated.

Figure 1. Quarterly change in GDP by industry



Source: Stats NZ, Macrobond, ANZ Research

On the expenditure side, headline GDP growth was flat (0.0% q/q), well above the RBNZ's forecast of -0.6% q/q. Significant volatility across the expenditure GDP components, reflecting the disruption to seasonal patterns for travel services exports through the pandemic, makes interpreting quarterly changes across components challenging. While the RBNZ have been reactive to expenditure GDP over recent quarters, we don't have a lot of confidence in the signal these components provide and believe the production measure of GDP is more important for assessing economic momentum.

In terms of the components, quarterly growth in domestic demand components were generally stronger than anticipated, offset by a larger negative contribution from net exports and the change in inventories. It's difficult to gauge how the RBNZ will interpret the expenditure components, and the RBNZ's August MPS forecast may not be a reliable benchmark for this given substantive revisions.

Figure 2. Quarterly change in expenditure GDP

Source: Stats NZ, Macrobond, ANZ Research

On a per capita basis, GDP contracted 0.5% q/q and is now down 4.6% from its peak in Q3 2023.

Monetary policy implications

All up, we don’t see anything in today’s numbers to deter the RBNZ from sticking with its current policy path. A slightly stronger outturn compared to the RBNZ’s August MPS forecast should temper downside growth concerns, but the economy remains very soggy overall. The good news is that for now, it appears to be bouncing along the bottom rather than sinking into a deep hole, that the RBNZ had feared based on the signal from high-frequency indicators. And with the high-frequency data indicating that the economy is responding to easing monetary conditions, we expect the RBNZ will favour its current approach of gradual easing. We continue to expect 25bp cuts at both the October and November meetings before the summer hiatus, giving the RBNZ time to observe the dataflow before it returns to the table in February 2025. Risks to the easing cycle remain two-sided, but we remain comfortable with our current OCR forecast of steady 25bp cuts to 3.5% in Q3 2025.

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