NZ GDP: Q3 2024 Review

19 December 2024

1This is not personal advice nor financial advice about any product or service. It does not take into account your financial situation or goals. Please refer to the Important Notice.

Contact

Henry Russell or Sharon Zollner for more details.

Confused by acronyms or jargon? See a glossary here.

Data summary

	Sep-24	Jun-24
Quarterly % change	-1.0%	-1.1%
Annual % change	-1.5%	-0.5%
Annual average % change	0.1%	0.6%

Thunk.

Bottom line

- The New Zealand economy contracted 1.0% q/q in Q3 on a seasonally adjusted basis, well below our forecast of -0.4% q/q and the RBNZ's November MPS forecast of -0.2% q/q. The previously reported 0.2% q/q contraction in Q2 was revised significantly lower to -1.1% q/q.
- The level of GDP was revised significantly higher, meaning the current level of GDP is not that different from expectations. However, the dramatic change in recent momentum will startle the RBNZ. The economy has experienced a deep slowdown, and how the RBNZ will weigh that against rapidly improving high-frequency data is hard to gauge. However, all else equal, putting this data into their forecasting model will reduce their estimate of inflation pressure and therefore the OCR track.
- In terms of the next OCR decision in late February, the market will now be weighing up odds of a 50bp vs 75bp cut, rather than 25bp vs 50bp. Given the rebound evident in the high-frequency data, we are comfortable at this stage with our expectation of a 50bp cut. There is still significant data to come before then: the QSBO, labour market data and the CPI. A dovish surprise in any of those could put a 75bp cut on the table, but three consecutive 50bp cuts is already pretty rapid, and the news is perhaps best cast in terms of where the OCR will ultimately end up.

The big picture and monetary policy implications

Today's Q3 GDP figures delivered a significant downside surprise that's likely to see a rethink by the RBNZ on how low the OCR will need to go this cycle.

Today's 1.0% q/q fall was significantly weaker than the RBNZ's November MPS forecast of -0.2% q/q, and alongside the revised contraction in Q2 of 1.1% q/q, the current trajectory of economic momentum is far weaker than previously thought (though the level of activity is not, courtesy of revisions). The economy has experienced the largest contraction over a six-month period since 1991, outside of the COVID disruption, which will see the RBNZ reconsider whether the OCR will need to go below neutral (ie into stimulatory territory). On the other hand, timelier activity indicators are rebounding, and for the Committee, weighing up these contrasting signals is not straightforward.

Mechanically, these data are likely to see the RBNZ revise down its near-term growth forecast, output gap, and medium-term inflation forecasts, paving the way for a much lower OCR track, and potentially more outsized cuts (assuming none of the data prints between now and the February MPS deliver significant upside surprises). However, GDP data is for a period that ended nearly three months ago, and is also prone to substantial revision, as today's data also highlighted. The timelier data is telling a very different story. In that context, a 75bp cut would be a big call, so the debate is perhaps better cast in terms of where the OCR will end up. The risk that the OCR will end up lower than our current forecast of a 3.5% trough has clearly risen.

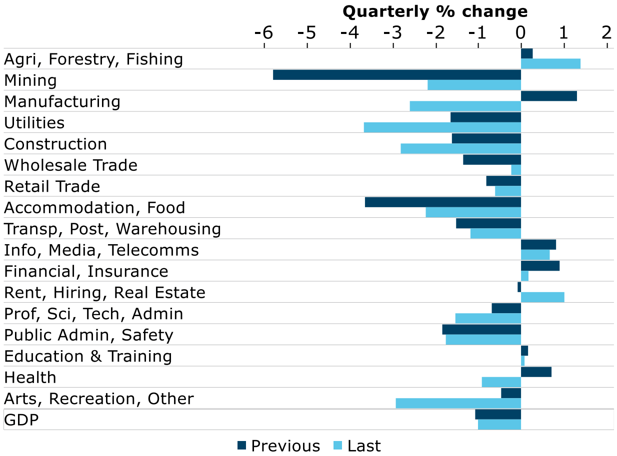
That seems to be how the market is thinking about it: pricing is now -53bp for the February decision (from -46), still implying only a low chance of a 75bp cut. However, the implied OCR by the end of 2025 is now 3.0%, rather than 3.14% before today's market open. Next data: QSBO 14 January and CPI 22 January.

The details

However you cut it, today's GDP release was weak. In the production cut:

- **Services industries** contracted 0.5% q/q, well below our forecast of a 0.1% q/q fall. Q2's flat print was also revised significantly lower to -0.4% q/q, highlighting the slowdown is far deeper than previously estimated. Given momentum in services industries tends to be a slow ship to turn, this raises the risk that the economy will contract further in Q4 (but importantly, high-frequency data are suggesting a rebound). Compared to our forecast, weakness was broad-based, with evidence of the impacts of fiscal consolidation emerging. Public administration and safety fell 1.8% q/q, against expectations for a modest gain, while healthcare was surprisingly weak, down 0.9% q/q, compared to our expectation of a 1.3% q/q lift. The more cyclical services industries were also weak, with professional services down 1.5% q/q, and arts, recreation and other services down 2.9% q/q, much weaker than forecast. These industries tend to be more sensitive to interest rates; hence weakness in these industries will be important for the RBNZ's assessment of the extent of past monetary traction, and their assessment of how fast and how far the OCR will ultimately need to go lower.
- **Goods-producing industries** contracted 2.8% q/q, below our forecast of a 2.1% q/q fall. However, typical volatility in these industries and the impacts of temporary supply disruption mean weakness has fewer implications for the path ahead than services momentum does. As expected, electricity, gas, water and waste services fell sharply, down 3.7% q/q, reflecting disruption to electricity generation. The resulting surge in wholesale electricity prices in Q3 likely also contributed to the 2.6% q/q fall in manufacturing, which was weaker than our expectation. However, these impacts, at least in part, are expected to be temporary, with scope for a bounce-back in Q4. Construction contracted 2.8% q/q, weaker than our expectation for a 2.0% q/q fall.
- **Primary industries** expanded 1.0%, a touch above our forecast of a 0.8% q/q lift, and the one bright spot in today's release. Forestry and logging rose 5.2% q/q after last quarter's sharp contraction, while agriculture rose 1.1% q/q, buoyed by improved milk and horticultural production.
- **The unallocated tax component** can be volatile on a quarterly basis (though it does tend to follow the broader economic cycle over the long run). It contracted 1.4% q/q, detracting 0.1%pts from quarterly growth. Alongside the -0.1%pt contribution from the balancing item, these two components detracted 0.2%pts from headline growth, compared to our expectation that they would broadly offset.

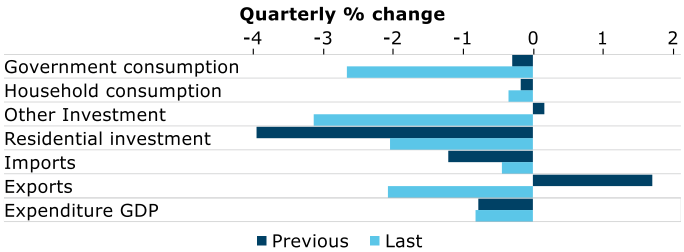
Figure 1. Quarterly change in GDP by industry



Source: Stats NZ, Macrobond, ANZ Research

On the expenditure side, headline GDP growth contracted 0.8% q/q, well below the RBNZ's forecast of -0.2% q/q. Significant volatility across the expenditure GDP components due to revisions and changes to seasonal patterns mean caution is required when comparing these components against the RBNZ's November MPS forecasts, which aren't likely to be a reliable benchmark. Private consumption fell 0.3% q/q, with Q2's previously reported expansion being revised to a 0.1% q/q contraction. Public consumption was also significantly weaker than forecast, signalling that the impacts of the Government's reductions to government spending are now emerging in the GDP data.

Figure 2. Quarterly change in expenditure GDP



Source: Stats NZ, Macrobond, ANZ Research

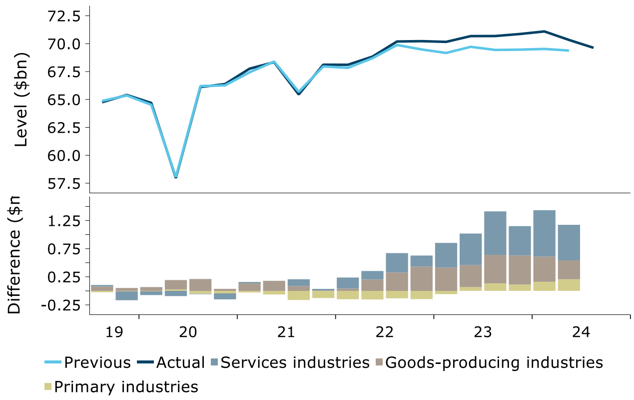
Revisions

Alongside the Q3 release, and as was signalled in advance, Stats NZ revised the level of GDP significantly higher over history, reflecting data improvements following the annual benchmarking process.

While these revisions have revised the level of GDP higher over history, given the RBNZ has already observed inflation data over history, it's likely the RBNZ will allocate these upward revisions to potential output, as opposed to a narrower output gap.

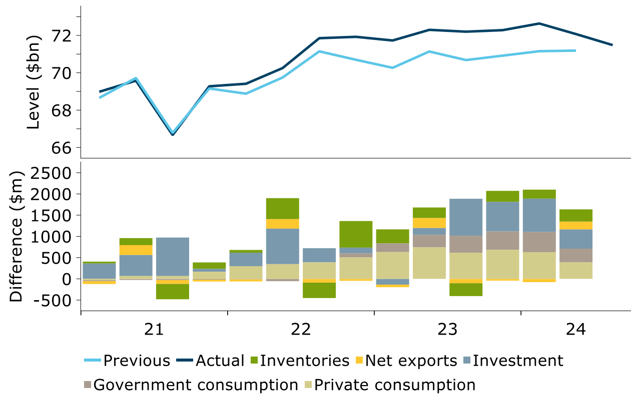
However, the changes to the recent trajectory of GDP are likely to be far more of a worry for the RBNZ, signalling the economy was in a much deeper slowdown through the middle of this year. The RBNZ's November MPS forecasts showed its output gap estimate troughing in Q3/Q4 this year. The downward revisions to GDP growth in Q2 and Q3 are likely to challenge that forecast, suggesting the output gap is still widening. NZIER's Q4 Quarterly Survey of Business Opinion, out 14 January, will be important for determining this.

Figure 3. Contributions to Production GDP revisions



Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Contributions to Expenditure GDP revisions



Source: Stats NZ, Macrobond, ANZ Research

Markets

The 1-year swap moved around 10bp lower on the data release, while the NZD/USD fell from 0.5660 to 0.5625. The kiwi has had a rough morning, with an unexpectedly hawkish Federal Reserve this morning also giving it a significant knock.

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, economic developments, labour market dynamics, inflation, fiscal and monetary policy.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Henry Russell
Economist

Macroeconomic forecasting, economic developments, GDP and activity dynamics and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 221 7438
Email: natalie.denne@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Important notice

Last updated: 19 November 2024

The opinions and research contained in this document (in the form of text, image, video or audio) are (a) not personal financial advice nor financial advice about any product or service; (b) provided for information only; and (c) general in nature and do not take into account your financial situation or goals.

This document may be restricted by law in certain jurisdictions. Recipients must observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared by ANZ Bank New Zealand Limited (ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand). This document is distributed in your country/region by Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**), a company incorporated in Australia or (if otherwise stated), by its subsidiary or branch (herein collectively referred to as **ANZ Group**). The views expressed in it are those of ANZ Economics and Markets Research, an independent research team of ANZ Bank New Zealand Limited.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing in it is intended to be an invitation, solicitation or offer by ANZ Group to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ Group would be subject to additional licensing or registration requirements. Further, any products and services mentioned in this document may not be available in all countries.

ANZ Group in no way provides any personal financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate and made on reasonable grounds on the date it was published, ANZ Group does not represent or warrant the accuracy or completeness of the information. Further, ANZ Group does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

This document may contain forward looking statements or opinions including statements regarding our intent, belief or current expectations regarding economic and market conditions, financial instruments and credit markets. Such statements are usually predictive in character, may not be accurate once the future becomes known and should not be relied upon when making investment decisions. Past performance is not a reliable indicator of future performance. ANZ does not accept any responsibility to inform you of any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ Group does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Any products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ Group expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise (including infringement of any third party rights) out of or in connection with this document and your use of it to the extent permissible under relevant law. The contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ Group may have an interest in the subject matter of this document. They may receive fees from customers for dealing in any products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in any products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ Group's policies on conflicts of interest and ANZ Group maintains appropriate information barriers to control the flow of information between businesses within the group.

Your ANZ Group point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click here or request from your ANZ point of contact.

Brazil. This document is distributed on a cross border basis and only following request by the recipient. No securities are being offered or sold in Brazil under this document, and no securities have been and will not be registered with the Securities Commission - CVM.

Brunei, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. The information contained in this document is confidential and is provided solely for your use upon your request.
This does not constitute or form part of an offer or solicitation of any offer to engage services, nor should it or any part of it form the basis of, or be relied in any connection with, any contract or commitment whatsoever. ANZ does not have a licence to undertake banking operations or securities business or similar business, in Cambodia. By requesting financial services from ANZ, you agree, represent and warrant that you are engaging our services wholly outside of Cambodia and subject to the laws of the contract governing the terms of our engagement.

Canada. This document is general information only, is intended for institutional use only – not retail, and is not meant to be tailored to the needs and circumstances of any recipient. In addition, this document is not intended to be an offer or solicitation to purchase or sell any security or other financial instrument or to employ a specific investment strategy.

Chile. You understand and agree that ANZ is not regulated by Chilean Authorities and that the provision of this document is not subject to any Chilean supervision and is not guaranteed by any regulatory or governmental agency in Chile.

Important notice

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This document is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Israel. ANZ is not a holder of a licence granted in Israel pursuant to the Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 1995 ("Investment Advice Law") and does not hold the insurance coverage required of a licensee pursuant to the Investment Advice Law. This publication has been prepared exclusively for Qualified Clients as such term is defined in the First Schedule to the Investment Advice Law. As a prerequisite to the receipt of a copy of this publication a recipient will be required to provide confirmation and evidence that it is a Qualified Client. Nothing in this publication should be considered Investment Advice or Investment Marketing as defined in the Investment Advice Law. Recipients are encouraged to seek competent investment advice from a locally licensed investment adviser prior to making any investment.

Macau. Click here to read the disclaimer for all jurisdictions in Mandarin. **澳门. 点**击此处阅读所有司法管辖区的免责声明的中文版。

Myanmar. This document is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This document is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

New Zealand. This document is distributed in New Zealand by ANZ Bank New Zealand Limited. The material is for information purposes only and is not financial advice about any product or service. We recommend you seek advice about your financial situation and goals before acquiring or disposing of (or not acquiring or disposing of) a financial product.

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman (**CBO**) or Oman's Capital Market Authority (**CMA**). The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. So, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Peru. The information contained in this document has not been, and will not be, registered with or approved by the Peruvian Superintendency of the Securities Market (Superintendencia del Mercado de Valores, **SMV**) or the Lima Stock Exchange (Bolsa de Valores de Lima, **BVL**) or under the Peruvian Securities Market Law (Legislative Decree 6 861), and will not be subject to Peruvian laws applicable to public offerings in Peru. To the extent this information refers to any securities or interests, it should be noted the securities or interests may not be offered or sold in Peru, except if (i) such securities or interests were previously registered with the Peruvian Superintendency of the Securities Market, or (ii) such offering is considered a private offering in Peru under the securities laws and regulation of Peru.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar, and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC.

The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. To the extent that this document contains any statements of opinion and/or recommendations related to an investment product or class of investment product (as defined in the Financial Advisers Act 2001), this document is distributed in Singapore by ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act 2001 of Singapore). ANZ is licensed in Singapore under the Banking Act 1970 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act 2001 of Singapore. In respect of any matters arising from, or in connection with, the distribution of this document in Singapore, please speak to your usual ANZ contact in Singapore.

Important notice

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (**DIFCML**) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules.

United Kingdom. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited (**ANZ**) solely for the information of persons who would come within the Financial Conduct Authority (**FCA**) definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ considers this document to constitute an Acceptable Minor Non-Monetary Benefits (**AMNMB**) under the relevant inducement rules of the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

United States. Except where this is a FX-related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use our website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use our website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is a FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.