WESTPAC ECONOMIC BULLETIN

GDP review, March quarter 2023.

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On a technicality.

- GDP fell by 0.1% in the March quarter. That was ahead of our -0.4% forecast, but was offset by downward revisions to previous quarters.
- Whether today's result constitutes a 'technical' recession is a moot point, as the GDP data will be revised for years to come.
- But it's safe to say that the economy is cooling off from its previously overheated levels. That's to be expected after an extended series of interest rate hikes.

Key results	Mar 23	Dec 22	Westpac f/c	RBNZ f/c
GDP qtr %	**-0.1**	-0.7	-0.4	0.3
GDP ann %	**2.2**	2.3	2.2	3.0

Today's GDP report shows that the New Zealand economy is steadily cooling down. That's entirely to be expected in the wake of more than 500 basis points of cash rate increases over the last two years – indeed it would be startling if we weren't seeing some braking effect on the economy by now. But this simply marks a pullback from what was an overheated starting point. There is still a long road ahead before we can be sure that the inflation pressures in the economy have been tamed.

GDP dipped by 0.1% in the March quarter, which was in line with the average market forecast but a little stronger than our forecast of -0.4%. The Reserve Bank had forecast a 0.3% increase in its May *Monetary Policy Statement*.

The 'miss' on our forecast was entirely due to a technical issue. With New Zealand's border open and international travel recovering, Stats NZ has resumed updating the seasonal adjustment factors that it applies to the GDP figures. This update had the effect of boosting growth rates in March quarters – so for instance, the previously reported 0.5% fall in the March 2022 quarter has now been revised to a 0.1% rise. But this came at the expense of the other three quarters, which were revised down by 0.4% in total last year.

The simplest way to cut through this issue is to look at the annual growth rate. On this measure, GDP was up by 2.2% on the same time last year, right in line with our forecast. It was, however, substantially lower than the 3.0% annual increase that the RBNZ was expecting. That will no doubt leave the RBNZ comfortable with its decision to pause after a long series of interest rate hikes.

The difficulty with calculating seasonal adjustments is one reason (and certainly not the only one) why it's fruitless to debate whether today's result constitutes a recession, 'technical' or otherwise. The GDP figures will continue to be revised for years to come, and there's a reasonably good chance that today's negative outturn will disappear next time.

We've found that the single best real-time indicator of how the economy is faring is the unemployment rate, as this isn't subject to the same kinds of revisions as the GDP figures. The unemployment rate was 3.4% in the March quarter, compared to a record low of 3.2% the same time a year ago. That tells us that the economy is still running quite hot, but that things have turned a corner – again, much as you would expect after a long period of rising interest rates.

What remains to be seen is whether the economy is slowing by enough to put us on a path back to low and stable inflation. That's likely to be a drawn-out process – both we and the RBNZ aren't expecting inflation to be back within the 1-3% target range until the second half of next year. And some of the developments that we're seeing overseas – where measures of 'core' inflation are proving to be stubbornly high or even rising again – offer reasons for caution about what might happen here.

Details.

The March quarter results were highly mixed across sectors, with no clear theme emerging behind the overall GDP decline. This fits with the idea of an economy that is in a transition phase rather than in outright recession.

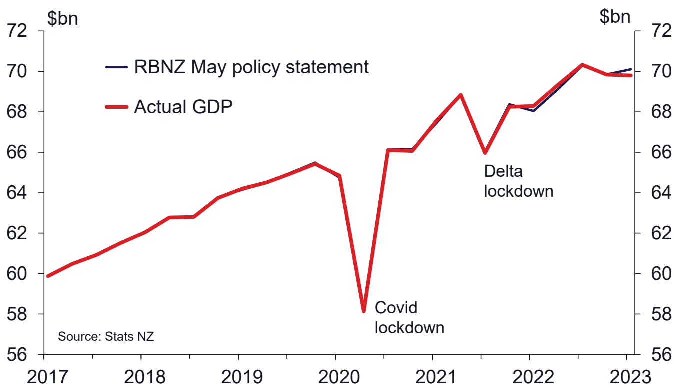
The biggest decline was seen in professional services, which were down by 3.6%. However, that followed a 4.2% rise in December, which suggests a degree of noise in the figures for this sector. Education was down by 1.9% due to the teacher strikes, which have continued and even escalated in the June quarter.

Non-food manufacturing was down by 2.3% and retail trade was down 1.1%, both plausibly reflecting the braking effect of higher interest rates. We're less convinced by the 2.2% drop in the transport sector and the 0.9% fall in hospitality, which seem more like issues with seasonal adjustment given the ongoing recovery in tourist arrivals.

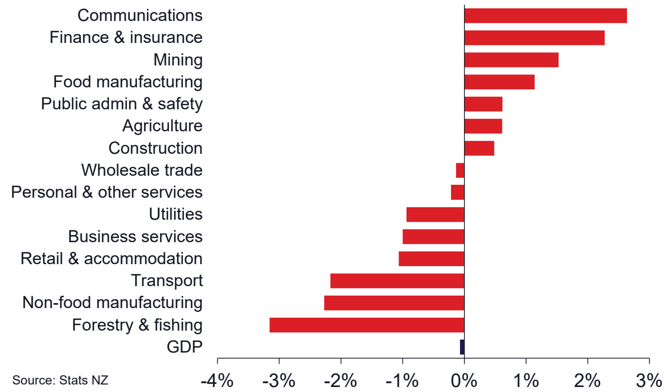
On the positive side, the agriculture sector was up 0.6%, as a rise in dairy and meat production more than offset the hit to horticulture from Cyclone Gabrielle. Information, media and communications rose 2.7%, due to a lift in film and TV production. Finance and insurance rose by 1.1%, and construction grew by 0.5%.

The expenditure measure of GDP fell by 0.2% for the quarter. However, we feel there's not much to be gained from parsing the details which include, among other things, a reported 2.4% rise in household consumption, led by a 32% rise for restaurants and hotels. That points more to the difficulty of identifying the seasonal impact of tourist spending.

Level of quarterly GDP



Q1 GDP change by production



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