WESTPAC ECONOMIC BULLETIN

Preview of June quarter GDP (21 September, 10:45am).

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Temporary relief?

- We have pencilled in a 0.8% rebound in GDP for the June quarter, unchanged from the estimate we made in last month's *Economic Overview.*
- However, Statistics NZ has forewarned that it will review the seasonal adjustment of this data this quarter, adding greater uncertainty regarding the quarterly outcome.
- Perhaps a better indicator of the economy's momentum will be annual growth in GDP, which we expect will slow to 1.5% from 2.2% in the March quarter.
- With population growth running at an annual pace of about 2%, our estimate implies that real GDP per capita has contracted over the past year.
- Our estimate is 0.3ppts above the Reserve Bank's most recent published estimate. However, we expect the RBNZ will be relatively insensitive to (small) deviations of the GDP outcome from forecast, instead drawing inference from a wider pool of economic indicators.

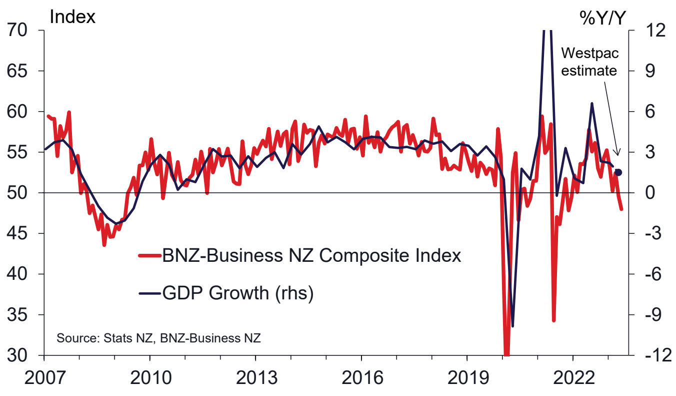
	Mar-23 actual	Jun-23 Westpac f/c	Jun-23 RBNZ f/c
GDP			
Quarterly % chg	-0.1	0.8	0.5
Annual % chg	2.2	1.5	1.2
Annual average % chg	2.9	3.1	3.0

Next Thursday's GDP release is likely to show that the economy rebounded in the June quarter. Indeed, we've pencilled in a solid 0.8% lift in output, which is unchanged from the estimate we made last month in our updated *Economic Overview*. This follows two quarters of contraction, at least as currently measured. Our estimate appears to put us at the upper end of the market expectations. It is also slightly firmer than the Reserve Bank's most recent estimate (the RBNZ's August *Monetary Policy Statement* factored in a 0.5% increase in GDP).

As in previous quarters, we need to provide some health warnings around both our forecast and how to interpret the results. Covid-19 has significantly disrupted the usual patterns in the quarterly GDP figures. At the time of the release of March quarter GDP – which itself included some sizeable historical revisions – Statistics NZ noted that it would undertake a further review of the seasonal adjustment with the June 2023 quarter release (it will now have a full year of data available since the end of Covid-19 disruptions). Together with the impact of the usual revisions, that review could lead to some reinterpretation of recent history. We would not be surprised to see some of the very strong growth recorded in the middle quarters of last year redistributed into the surrounding quarters. And even a minor upward revision to this year's March quarter would remove the 'technical recession' indicated by the data as published at present.

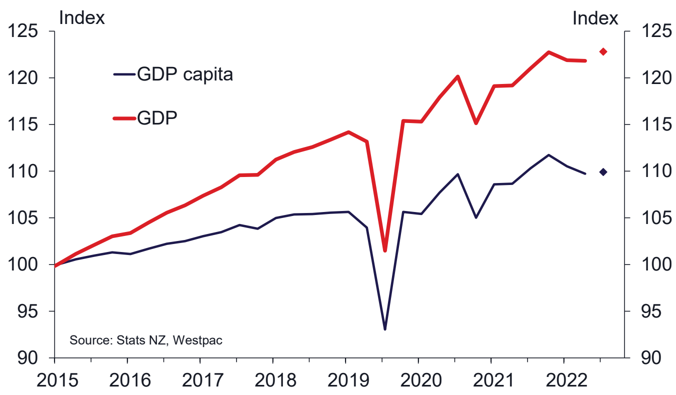
Given the ongoing uncertainties around the quarterly data, we put a little more stock in our year-on-year growth forecast. We have annual growth pegged at 1.5%, down from 2.2% in the March quarter. We note that growth of about this pace seems consistent with that suggested by 'top-down' indicators, such as the BNZ-Business NZ survey indexes. As an aside, our forecasts suggest that growth will slow further in the September quarter as the lagged impact of monetary policy tightening continues to put the squeeze on the economy.

Real GDP and Composite Index



With the population growing by about 2% over the past year, our estimate implies that per capita output has declined over the period – a soft outcome to be sure, and consistent with an economy that is beginning to move back into balance. Given the strong annual growth in household employment (4%) and hours worked (3%) over this period, our estimate also implies a decline in labour productivity.

Real GDP level



Given the uncertainties surrounding the quarterly GDP data, the RBNZ will likely be relatively insensitive to (small) deviations of the GDP outcome from its forecast. We expect the RBNZ will choose to draw inference from a wider array of economic indicators, including what labour market, pricing and sentiment survey indicators are suggesting about how excess demand and inflation pressures are evolving. In that regard, the September quarter CPI and labour market reports – both released ahead of the RBNZ's November MPS meeting – stand out as being of particular importance in determining the near-term outlook for monetary policy.

Looking ahead, given the current position of the economy – including an unemployment rate that at present is still just 0.4ppts above its record low – the RBNZ will require a sustained period of below-trend growth to be confident that inflation pressures will fall back to levels consistent with achieving its inflation target. So should there be any unexpected weakness evident in this quarter's GDP report, it will likely be welcomed by the RBNZ rather than viewed as a cause for concern.

Forecast details.

Partial indicators suggest that during the June quarter the main drags on growth will come from the retail trade, wholesale trade and hospitality/accommodation sectors. The impact of Cyclone Gabrielle will probably have continued to weigh on the horticulture sector but milk production and slaughter data suggest that this will be countered by increased value-added in the dairy and meat sectors and the flow-on lift activity in the food manufacturing sector. Non-food manufacturing activity appears to have grown very modestly. Positive contributions to growth also appear likely to have been made by the forestry and fishing sectors. While construction output appears little changed, the recovery in activity in the existing housing market should contribute positively to growth in the real estate and housing services sectors. Indeed, most industries within the service sector are likely to make positive contributions to growth, including central government administration spending.

Finally, we note that recent June quarter GDP outcomes have tended to much print stronger than would be indicated by simply adding together growth in the individually seasonally-adjusted series. We have allowed for a continuation of that 'residual seasonality' in constructing our forecast for aggregate GDP growth in the June quarter. It is possible that revisions to previous quarters could lower this residual seasonality in the June quarter, leading to a slightly weaker quarterly outcome while still delivering the 1.5% annual growth that we have estimated.

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