

New Zealand Economic Watch

GDP preview: The landing flare

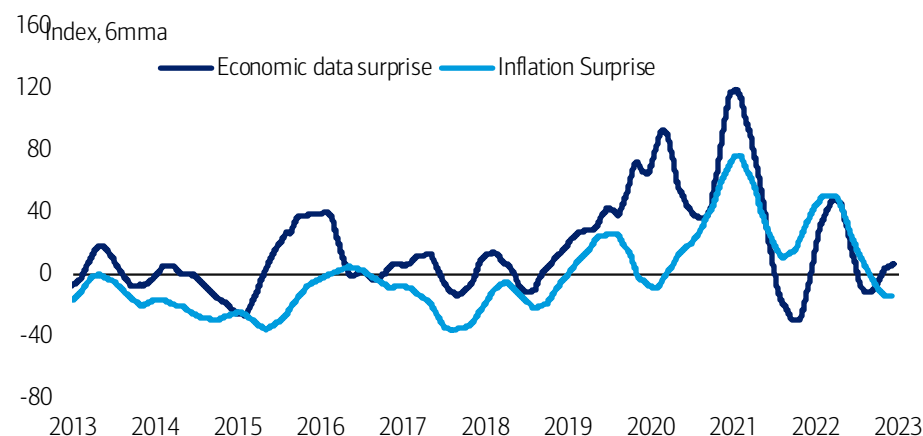
GDP to rise slightly in 3Q

GDP data for the September quarter will be released on December 14 and we expect a modest 0.2%qoq rise that would push annual growth down to 0.6%yoy (from 1.8%) on the back of base effects. If our forecasts materialise, GDP will decline to the lowest level since September 2021. Our estimation is below the Reserve Bank of New Zealand (RBNZ) assumption of 0.3%qoq/0.6%yoy.

Risks are for a softer outcome driven by weaker external and manufacturing sectors. Ongoing public work to repair the damage from the severe weather events earlier in the year is likely to provide some offset while uncertainty is around household spending given the ongoing impact from strong population growth. The latter has kept domestic demand slightly more resilient than anticipated in 1H 2023. Traction from high interest rates should continue to dampen activity and inflation into 2024.

Exhibit 1: Economic and inflation data has surprised to the downside in 2023

But population growth has added to demand of late.



Source: Citi, Macrobond

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The economy is set to weaken into 2024

We highlight several risks ahead for New Zealand in 2024. See: [New Zealand Economic Watch: RBNZ review: hawks emerge again 29 November 2023](#). High rates, political uncertainty, the impact of El Nino (See: [Global Economic Viewpoint: Don't take disinflation for granted 25 October 2023](#)) and slower global growth will continue to weigh on the outlook.

The RBNZ has retained a hawkish bias as inflation remains well above target, despite recent downside surprises (Exhibit 1). The Bank projects CPI to reach the 3% top of the target in 3Q 2024. A stronger recovery in house prices, increases in government investment, stronger global growth and more resilient than expected domestic demand could delay this. However, we think softening demand along with softer energy prices could see the RBNZ reaching its inflation target earlier than anticipated.

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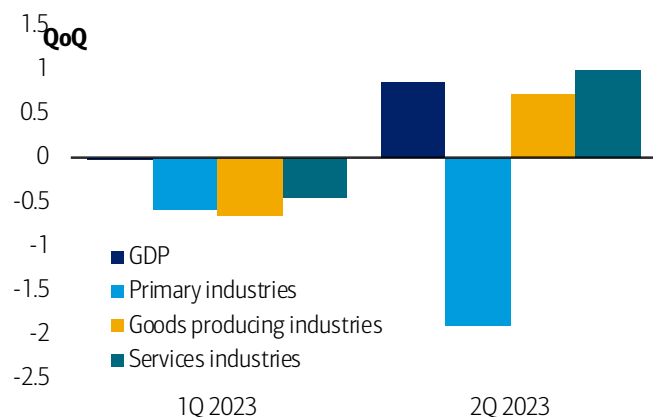
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Heading for a hard landing

Economic activity increased by 0.9% in the June 2023 quarter. This was higher than expected by the RBNZ, but also boosted by transitory factors. See: [New Zealand Economic Watch: GDP review: Too good to be true 21 September 2023](#). Growth in 2Q was driven by strong manufacturing, business services and public administration, partially offset by a decline in primary industries and wholesale and retail trade (Exhibit 2)

Exhibit 2: The composition of growth

Primary industries remain weak

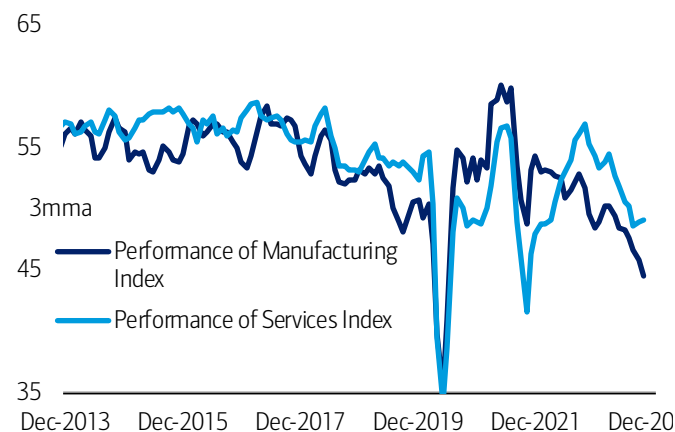


Source: StatsNZ, Macrobond

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Exhibit 3: Strong population growth supports services

Yet both manufacturing and services sector conditions are declining



Source: Business NZ, Macrobond

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High population growth from net immigration has been an important driver of strong near-term aggregate demand, particularly household spending. Notably though, household spending per capita has slowed, reflecting the impact from higher rates in 1H 2023 and we expect soft consumption in 2H 2023. The RBNZ will continue to watch these measures to assess traction from rates on the household sector. We think constraints in households' budgets will be evident in 3Q data.

Transitory impacts from a run-down of inventories due to reduced agricultural production boosted exports in 2Q, but this is unlikely to be sustained. Indeed, merchandise trade data suggest goods exports have fallen due to weaker dairy exports to China. Some offset comes from a rebound in services exports.

Higher frequency indicators for the manufacturing sector recorded declines in 3Q while services held up on the back of solid spending. We would expect the services sector to continue to trend lower from here (Exhibit 3).

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