Our Take
Kiwibank economics.

A cruel summer, and a cruel year. Kiwi growth flat on the surface. But fundamentally in decline.

- Next Thursday we will see how the Kiwi economy performed over Q4. And with the September quarter shocking us with an unexpected 0.3% contraction, there'll be a bit of extra attention to next week's number.
- The question to be answered: Did NZ enter another recession? By our calculations, it looks like the Kiwi economy manged to dodge a double-dip recession. We expect that the Kiwi economy stood still, recording flat growth in the December quarter. Technically avoiding another technical recession.
- It's no cause for celebration though. The impact of our strong migration continues to support output. But given a larger population, output will be soft on a per capita basis.
- Our outlook for the Kiwi economy remains largely unchanged. We continue to expect 2024 to be a year of low growth, as high interest rates continue to depress demand. It's what the RBNZ needs to tame inflation. But with our view of rate cuts commencing in November, growth should start to pick up into 2025.

After the September quarter's shocker of a report, all eyes will be on December's GDP numbers next Thursday. In the wake of breaking record migration growth, we were all stunned to see the economy contract 0.3%. On top of that, there were massive downward revisions to history. The technical recession we had over the Dec22-Mar23 summer, that was technically revised away, was revised back in. And all up the Kiwi economy was shown to be nearly 2% smaller than all us economists, including the RBNZ had believed it to be.

With the September quarter already in contraction, it would only take next week's numbers to show another contraction for the Kiwi economy to be in another technical recession. It would be, as we have coined it, a double-dip recession. But as more data has come to light, we now expect that economic growth was flat over the December quarter. So technically, the Kiwi economy avoided another technical recession. The RBNZ is expecting the same. But hold the champagne. Regardless of whether or not we were 'technically' in a recession, flat growth is still not a pretty result. A flat print, as we are expecting would mean the Kiwi economy was completely stagnant since this time last year. And in the year ended December 2023, we're expecting growth of just 0.7%. It's even uglier if we look at growth on a per capita (per person) basis. On a per capita basis we are already in a recessionary environment. In the September quarter alone GDP per capita contracted 0.9%. And a painful 3% decline over the year. Last year likely ended on the same sour note. Aggregate output may be unchanged, but for the average Joe or Jane, the numbers will likely show a shrinking slice of the economic pie. So, on the ground, it will still feel like a recession.

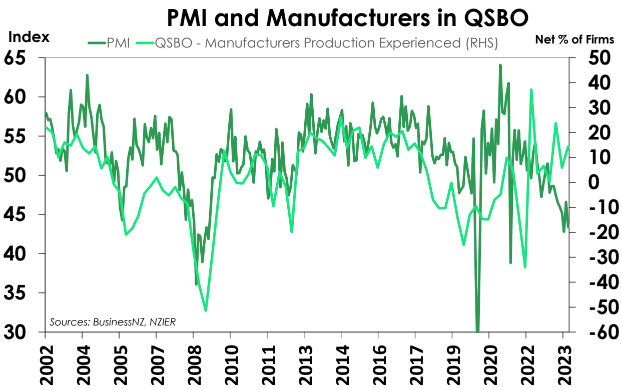
Weakness will be notable across the board. We are expecting the goods producing industry to continue in decline as manufacturing remains a sore spot and a still-lukewarm housing market weighs on construction. Activity within the primary production industry is also expected to be weak. Meanwhile, service industry also continues to be weighed down by businesses and households that continue to pull back.

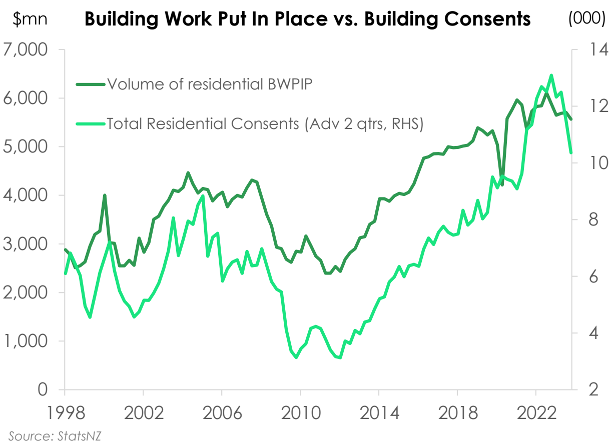
It must be noted, the weakness we see and feel is all by RBNZ design. The RBNZ needs to see subdued growth in their fight against the inflation beast. And subdued growth is what they'll see. The RBNZ's heavy hand has hurt households and businesses. Restrictive monetary policy is clearly working. So long as interest rates remain elevated, growth will remain subdued. And that is the outlook for majority of this year. However, the silver lining is that we see the RBNZ being in a position to deliver rate cuts from November. As the interest rate settings are relaxed, confidence among households and businesses should build. The economy should regain momentum into 2024.

Weak across the board.

Of all three industry groupings, the goods producing sector is expected to record the largest fall in Q4. We've pencilled in a 1% contraction following last quarter's hefty 2.6% decline. The downward momentum across the goods producing sector continues. Weak PMIs, and shrinking manufacturing sale volumes – down 0.6% over the Dec quarter – point to yet another decline in manufacturing. We're expecting activity was down 4% from a year ago, which would mark the 10th consecutive annual decline for the manufacturing industry.

Construction likely followed suit, with around a 0.6% quarterly decline. The continued downtrend in new dwelling consents is a clear sign of the ongoing weakness in the industry. And according to Stats NZ, building activity was weak over the quarter. Seasonally adjusted, the volume of activity declined 0.1% over the quarter with residential construction falling by nearly 2.5%. High interest rates are still weighing heavily on the housing market. And going forward, we expect more of the same. Residential building activity is coming under pressure with a soft housing market and tough financial conditions. But rapid population growth as well as changes in government policy, including the reintroduction of the interest deductibility, may soon see an improvement across the housing market, and flow through to construction.





Beyond the goods producing group we are also expecting to see a -0.3% contraction in the primary sector. The impacts of the wild weather events on primary production from last year have mostly passed. But a soft global backdrop and weak Chinese economy – our largest trading partner – has seen exports for both dairy and forestry products fall at the end of last year.

The services industry looks to have gone against the grain, posting an expansion, albeit modest, of 0.1% over the quarter. Softening demand and weakness is prevailing across a number of services, most pronounced within retail trade. We're expecting a 1.5% contraction in retail and accommodation group over the December quarter as preliminary data from Stats NZ showed a 1.9% decline in sales volumes over the quarter and a 4.1% decline over the year. Kiwi households and businesses are tightening their belts and pulling back. In the same vein, we also expect declines across wholesale trade and arts & rec. However, a 1.2% lift in the transport industry and a 0.4% lift across the rental, hiring and real estate industry should provide some offset. There are some seasonal effects at play, with the December quarter marking the start of the tourist season and boosting output across both these industries.

The silver lining ahead.

While we love seeing how the Kiwi economy performed, we have to acknowledge this data for what it is. It's old data. We're coming up towards the end of the March quarter and still looking at data from the December quarter! We economists prefer to focus on what's ahead. The outlook is what's most important. High interest rates have weakened both domestic and global demand causing an environment not conducive of growth. But the turning point is on the horizon. 2024 may not be the year of growth but it is the year of central bank rate cutting. Offshore central banks like the Fed are likely to beat us to it but their move to lower rates will help boost global demand and in turn feed through onto our export volumes. Here at home, it shouldn't be too much longer before the RBNZ can cut rates themselves. We're pencilling in November. And expect to see growth pick up into 2025 as rate cuts are delivered and stimulate domestic demand.