

Economic Note

Q3 2021 GDP Preview

10 December 2021

Delta’s damage could be relatively moderate

- We expect Q3 GDP declined 3.3% due to the Delta community outbreak; our final forecast suggests GDP declined by much less than experienced in the 2020 Alert Level 4 lockdown.
- Economic data released over recent weeks suggest that activity held up much better than we had expected, supported by strong momentum prior to the outbreak and possibly a stronger-than-expected regional performance under Alert Level 2 settings.
- Ultimately, it’s not the size of the fall that matters, but how quickly activity returns to pre-Delta levels. We expect this to be sometime over the first half of next year.

Summary & implications

We forecast that Q3 GDP contracted just 3.3% due to the Delta community outbreak, as data released over recent weeks have been consistently stronger than expected and point to a much smaller contraction than experienced in the previous Alert Level 4 lockdown. Our forecast 3.3% decline compares with the previous Alert Level 4 lockdown which drove an 11.2% decline in GDP over the first half of 2020. Our earlier forecast for Q3 GDP was for a decline of 7-8% over the quarter, in line with the RBNZ’s November MPS expectation of a 7% contraction. Ultimately, it is not the size of the fall, but how quickly the NZ economy recovers to pre-Delta levels that will matter to policymakers: that information won’t be known until early next year.

Uncertainty remains elevated around quarterly GDP releases, with StatsNZ official figures often varying from market median expectations by more than a full percentage point. This quarter is further muddled by historical revisions which StatsNZ incorporates annually, which have at times materially changed the starting point estimate of the level of GDP

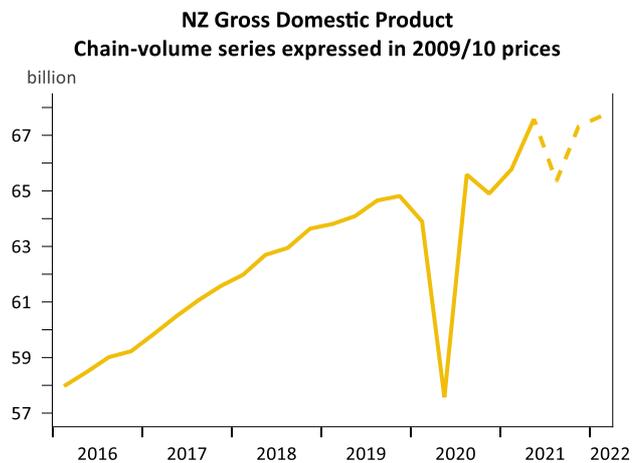
GDP - September 2021	Previous	ASB	RBNZ
quarterly % growth	2.8	-3.3	-7.0
annual % growth	17.4	-0.4	-4.2
annual average % growth	5.1	4.7	

Delta outbreak and lockdown halts GDP growth

Q3 GDP figures are released by StatsNZ on Thursday 16th December at 10.45am. We expect that Q3 GDP will contract 3.3% as a result of the community Delta outbreak and the reintroduction of the strict Alert Level 4 lockdown. The Delta variant of COVID-19 was discovered in the NZ community halfway through the quarter, in mid-August. The entire country was swiftly thrust into a strict Alert-Level 4 lockdown, which only allows essential activity to take place. Our previous estimates have suggested that around 29% of the economy is shut down by an Alert Level 4 settings. While most of the country was out of Alert Level 4 within a few weeks, the Auckland region (which accounts for 38% of the economy) remained in Alert Level 4 for 5 weeks, and then Alert Level 3 (which is still highly restrictive) for the remainder of the quarter.

But the decline appears to be less than previously experienced

Early partial data released ahead of GDP suggest that the economy held up much better than we had initially expected over the quarter. A few weeks ago, we had expected GDP to contract around 7-8%, as did the Reserve Bank of New Zealand which at the November Monetary Policy Statement had a 7% decline pencilled in. For comparison, the early 2020 lockdown saw the NZ economy contract 11.2% over two quarters – 1.4% in Q1 2020 followed by a further decline of 9.9% over Q2. Furthermore, we had expected the disruption from an Alert Level 4 lockdown would have been further exacerbated by the abrupt end to the Trans-Tasman bubble, which had boosted Q2 economic activity significantly.



Source: Macrobond, ASB

Strong first half of the quarter and regional support limits Delta's damage

Activity held up well across the board and the resilience likely stems from two sources. Firstly, GDP growth over the first half of the quarter (before Delta was discovered) was likely very strong, building on momentum from the strong Q2 GDP growth. Second, the strength of regional activity (i.e. regions outside of Auckland which were quickly returned to Alert Level 2 settings), must have been considerably stronger than expected. We have previously assumed the inability for some activity to take place due to AL2 settings would crimp economic output in the regions – indeed hospitality and domestic tourism were likely hit relatively hard. But it appears that this weakness was more than offset by strong growth in other industries less impacted by the restrictions.

Another key difference appears to have been the attitude and expectations of businesses heading in (and out) of the August lockdown – with many confident the impact will be temporary and poised for demand to catch up once restrictions eased. Business confidence remained very high throughout September and October, although it started to slip in November as it became apparent that elimination is not possible and the whole country would have to learn to deal with COVID-19 over summer.

GDP recovery to be spread over Q4 2021 and Q1 2022

We expect a partial rebound in activity over Q4. With Auckland (and, at times, the Waikato and Northland) remaining in Alert Level 3 for most of the quarter, a lot of services activity remained restricted. However, a stronger than expected lift in regional activity should largely offset this. There is a bit of uncertainty heading into summer, including how people will adapt to the traffic light system. But the relaxation of the Auckland border should ensure that summer domestic tourism revenue continues to take place.

Medium-term outlook remains dependent on the virus

We have a fairly bullish view for 2022 GDP growth – largely due to international borders gradually opening up. The uncertainty of the Omicron variant and the swift response in shutting down international travel highlights how precarious this outlook remains. The household sector will remain supported by the very tight labour market, but the rapidly rising cost of living along with higher interest rates will present some headwinds.

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Economist

Nick Tuffley
Jane Turner
Mark Smith
Mike Jones
Chris Tennent-Brown
Nat Keall

nick.tuffley@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
mike.jones@asb.co.nz
chris.tennent-brown@asb.co.nz
nathaniel.keall@asb.co.nz

Phone

(649) 301 5659
(649) 301 5957
(649) 301 5657
(649) 301 5661
(649) 301 5915
(649) 301 5720

www.asb.co.nz/economics

 [@ASBMarkets](https://twitter.com/ASBMarkets)

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.