

# Economic Note

Q3 2021 GDP Review

16 December 2021

## Delta hits Q3 GDP, but damage less than earlier feared

- NZ GDP contracted 3.7% qoq over Q3 2021 largely due to the COVID-19 Delta outbreak which sent NZ back into Alert Level 4 lockdown, hampering non-essential business activity.
- The size of the fall was close to our final forecast and market expectations, although it was considerably less than the decline experienced during the first Alert Level 4 lockdown over the first half of 2020.
- Once again, the NZ economy has demonstrated remarkable resilience in the face of COVID-19 and we expect NZ economic activity will return to pre-Delta levels over the first half of 2022.

### Summary & implications

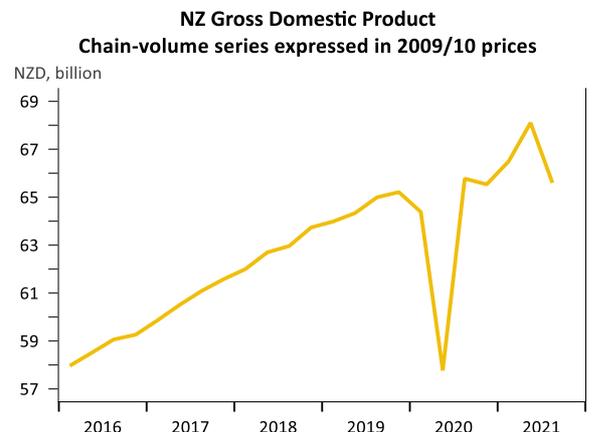
NZ Q3 GDP fell 3.7% over the quarter as the community COVID-19 Delta outbreak in mid-August sent the NZ economy back into lockdown over the second half of the quarter. The fall was close to our final forecast and market expectations (-3.3% qoq and -4.1% qoq respectively) but the size of the fall was considerably smaller than earlier expectations and falls experienced during the first Alert Level 4 lockdown back in March and April of 2020. The NZ economy has once again demonstrated remarkable resilience, with the strong result likely reflecting strong economic momentum over the first half of the quarter (before Delta was discovered) and a strong catch up in regional activity over September as restrictions outside of Auckland were relaxed. We expect NZ economic activity will recover back to pre-Delta levels over the first half of 2022. For the RBNZ – the key question going forward is how much momentum can be maintained over 2022, particularly as NZ must now adjust to living with COVID-19 and growing headwinds from the sharp increase in the cost of living and rising interest rates.

GDP - September 2021	Previous	Actual	ASB	RBNZ	Market
quarterly % growth	2.4	-3.7	-3.3	-7.0	-4.1
annual % growth	17.9	-0.3	-0.4	-4.2	-1.4
annual average % growth	5.4	5.0	4.7		

### Delta lockdown drives fall in GDP

Q3 GDP contracted 3.7% qoq, a little bit more than ASB’s final forecast of a 3.3% decline but more than the market median expectation (-4.1% qoq). The 3.7% fall compares to the RBNZ’s November Monetary Policy Statement Forecast of a 7% qoq Q3 decline - at the time when the RBNZ had finalised this forecast we had a similar GDP forecast but recent data have held up better than we anticipated.

Along with the smaller-than-expected Q3 decline (relative to market expectations), there was a number of historical revisions which cumulatively revised the level of GDP higher by 0.8% by



Source: Macrobond, ASB

June 2021. Most of these revisions extend back to 2019 – prior to the COVID-19 outbreak. However, the 1% contraction earlier reported in the December 2020 quarter has been revised to just a 0.4% qoq fall. Meanwhile, the pace of Q2 GDP growth was shaved back fractionally from 2.8% qoq to 2.4% qoq - but still an incredibly strong quarter of growth.

Q3 economic output was just 0.3% below the same quarter of the previous year. This is a phenomenal result given the impact of the Alert Level 4 lockdown over the second half of the quarter and considering that in the September 2020 quarter the NZ economy was in the full swing of recovery from the initial 2020 lockdown and many industries were working a large amount of overtime to catch up. Moreover, the relatively small decline in Q3, coupled with some historical revisions reinforces the underlying momentum heading into the lockdown and the resilience of the NZ economy.

### Delta hits non-essential business hardest

As expected, the industries most impacted by the Delta outbreak were those which were forced to shut down through the Alert Level 4 lockdown, including construction, retail trade and accommodation, manufacturing and arts, recreation and other services (see table).

Meanwhile, **professional, scientific, technical, administration, and support services** held up well, only contracting 1.2% over the quarter – compared to an 11% decline back in Q2 2020. This suggests many businesses were better prepared to

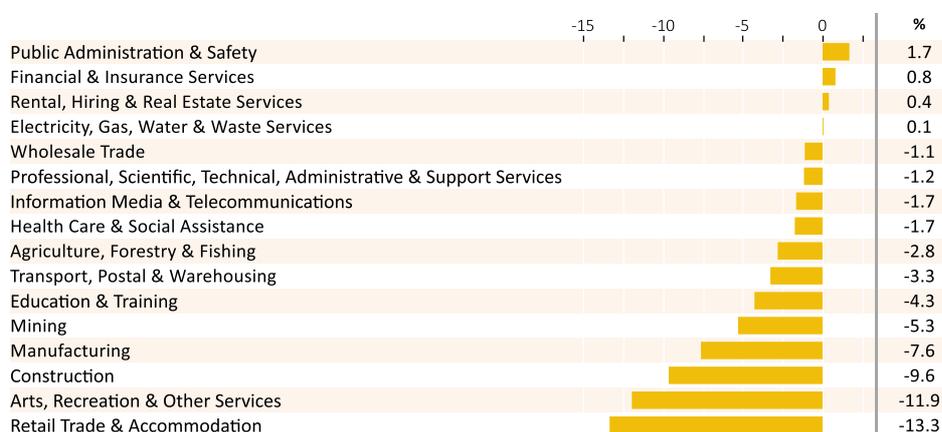
switch to working remotely during this year’s lockdown compared to the initial lockdown in 2020.

**Transport, postal and warehousing** also held up better than we had expected, only falling 3.3% through the quarter. We had expected to see a larger fall due to the disruption in the transport sector – particularly given the collapse of the Trans-Tasman bubble during the quarter which had contributed to this sector’s 14% growth recorded in the previous quarter. StatsNZ also noted that imports also held up in Q3, which saw rises in both the warehousing and transport services subindustries.

### Outlook for 2022

The Q3 GDP data confirms the NZ economy got through the Delta-induced lockdown better than hoped. Our early forecasts were for a quarterly decline closer to 7% or 8% (similar to the RBNZ’s forecast in the November Monetary Policy Statement) and compares to the 11.4% contraction over the first half of 2020 as a result of the first Alert Level 4 lockdown. To date, the NZ economy has fared COVID-19 relatively well, with a strong economy supporting high levels of employment and labour market participation. The strong labour market sets NZ up well for 2022, but it is also contributing to rising inflationary pressures. From the RBNZ’s perspective, how high to lift the OCR over the coming year (to keep inflation pressures in check) will depend on how much economic momentum continues. While NZ appears to remain on strong footing through 2021, there remains some uncertainty as to how New Zealanders and the economy adjusts to living with COVID-19 over 2022 – along with growing headwinds from the sharp increase in the cost of living and higher interest rates. We expect the RBNZ will continue to lift the OCR over 2022, to a peak of 2%.

NZ GDP by sector - quarterly %



Source: Macrobond, ASB

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