

# NZ GDP: Q4 2021 Review

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## Getting real

### Bottom line

- Economic activity rebounded 3.0% q/q in the final quarter of 2021. That's solid, but shy of the 3.5% rebound we had pencilled in and certainly not a full recovery to Q2 2021 levels.
- For the RBNZ, this is a positive surprise compared to the February MPS forecast of 2.3% q/q. That may go some way to explaining very strong inflation, but gauging the degree of capacity stretch in these data is no easy feat, given volatility. And when inflation is threatening to breach 7% y/y, a miss on a volatile GDP quarter doesn't seem particularly important. The RBNZ has clear work to do.
- Even looking beyond the near-term wobbles associated with the Omicron outbreak, a rather potent combo of high inflation and rising interest rates (to hopefully contain inflation) is set to erode household incomes from both ends. To prevent a hard landing, a lot depends on the revival of international tourism and education, and the labour market holding it together.

### Summary

The Q4 GDP data was mixed, but robust. That's good news, but old news. And in an ironic twist, this solid starting point actually lowers the hurdle for a softer expansion (and possibly even a technical recession) over 2022. Indeed, headwinds to the growth outlook have intensified recently:

- The Omicron outbreak is constraining people's mobility, shifting the demand impulse away from face-to-face services, and adding to labour and goods scarcities. That's more near-term inflation pressure to add to the pile. But if the international experience is anything to go by, Omicron disruption should fade in a matter of months.
- But more broadly, [extreme inflation](#) pressures are gobbling up household incomes, [weighing on consumer sentiment](#) and demand. Indeed, it's going to be difficult to distinguish the impacts on household behaviour of falling real (CPI-adjusted) incomes, and rising interest rates. But to prevent the former from becoming a permanent feature and damaging the longer-term outlook, the RBNZ must act – even if that means inflicting some near-term economic pain. One way or another, it's time to pay the piper.
- [Housing has decisively turned a corner](#), and has further to go. That'll likely take the shine off demand for both durable goods and housing-related services.
- Debt-servicing burdens are rising along with interest rates, but even with an [OCR at 3.5% as we now expect](#), this [should be manageable for most households](#).
- [Businesses confidence has fallen sharply](#) as Omicron cases surge. Employment intentions have slipped, but are holding up better. This will be worth keeping an eye on.

### Data summary

	Latest	Prev
Quarterly % change	3.0%	-3.6%
Annual % change	3.1%	-0.2%
Annual average % change	5.6%	4.9%

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- The Russian invasion of Ukraine is exacerbating the global supply shock, pushing key commodity prices higher and weighing on global economic sentiment.

It's a pretty grim mix, but there are some positives out there:

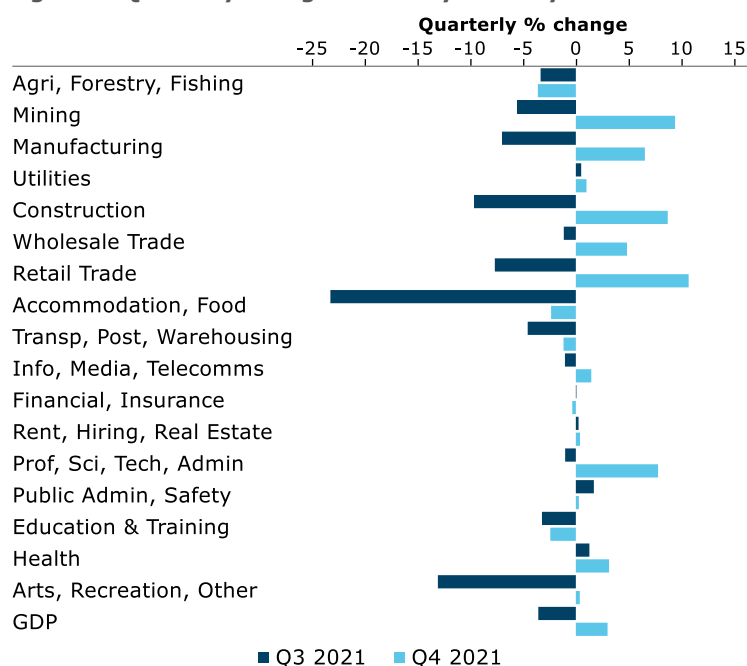
- The labour market is tight, and should remain that way. Particularly if [open borders drive a significant net migration outflow](#) in the near term, making labour even scarcer. If CPI inflation eventually slows as we expect, and the labour market remains tight, real household income growth will turn positive again.
- NZ will open its border to international tourists a little earlier than previously signalled (13 April for Australia, and 2 May for other visa-waver countries). NZ makes the bulk of its tourist receipts during the summer months, but this will at least increase the chances of a "normal" season over the 2022/23 summer. Further, winter havens such as Queenstown should feel the difference with a few more Aussie weekend-trippers on the ski fields this winter. This is undoubtedly a positive development, but may not make a significant dent until late in the year.
- It might be pro-cyclical, and therefore inflationary, but yet another [significant increase in Government spending come Budget 2022](#) will (if nothing else) act as a hedge against the risk of spare capacity in the economy opening up. But make no mistake, expansionary fiscal policy means inflation and interest rates are going to be higher than otherwise. Through the lens of the business cycle, this is not the time for further fiscal stimulus (whether spending or tax cuts). However, looking at the details of today's data, there is certainly need for targeted support for those who are hurting most.

Overall, it's difficult to take too much comfort from the solid Q4 GDP data. Sure, it's better than it could have been, but 2022 is shaping up to be a tough year. With today's data in tow, and in light of our recent OCR call change, we'll publish our updated thinking on the medium-term outlook next week.

Turning to the details of the Q4 release, quarterly growth by industry shows a very mixed rebound. Primary industries fell 2.2% q/q on the back of a 3.6% decline in Q3 – that's just as much weather related as it is lingering supply disruption. Goods production posted a decent bounce, up 6.5% following a 7% fall in Q3. Services industries rebounded 2.5% from a 2.5% fall in Q3. The surprise relative to our expectation came from weaker activity in primary industries, chiefly agriculture. Accommodation and food services makes up a very small share of total production GDP, but the 2.3% q/q decline in Q4 following a 23.2% fall in Q3 shows just how much the industry is struggling (figure 1).

Q1 is likely to be another wonky quarter across industries as the Omicron outbreak meets the continued rebound from the Delta-induced lockdown (which stretched over Q4 into the early part of Q1).

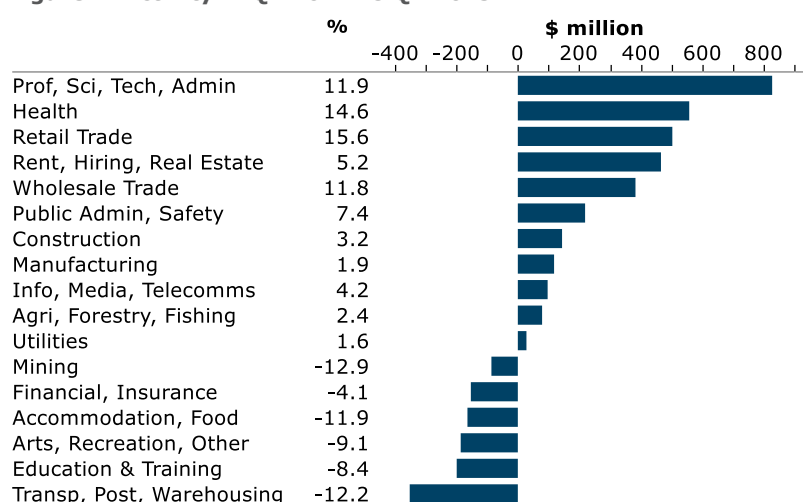
**Figure 1. Quarterly change in GDP by industry**



Source: Stats NZ, Macrobond, ANZ Research

Comparing Q4 2021 activity to that recorded in Q4 2019 (pre-pandemic) provides a sense of how different industries have performed through the pandemic (of course this misses the lockdown-induced holes in between these two points in time, which varied a lot by industry). Broadly, there isn't a lot of new news here. Industries hit hardest by closed borders have underperformed, while those closer to the housing cycle and can work from home with relative ease have flourished. 2022 should see some recalibration here as rates rise, housing slows and foreign tourists return.

**Figure 2. Activity in Q4 2021 vs Q4 2019**



Source: Stats NZ, Macrobond, ANZ Research

All up, the Q4 GDP data reflect a robust, albeit very stimulated economy (via both fiscal and monetary policy). But the [outlook has a lengthy list of turning points](#) that suggest we shouldn't expect more of the same going forward.



## Contact us

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