Te Waka
Anga Whakamua Waikato

Quarterly Economic Update Q2 : 2020

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Blair Keenan has an undergraduate degree from the University of Otago. Keenan worked at ANZ as a macro-economist and industry analyst for five years before heading overseas as a researcher for Japan's External Trade Organisation in the UK. While in the UK, he also received his Master's degree in applied environmental economics from the University of London and was an economist at the National Farmers Union of England and Wales.

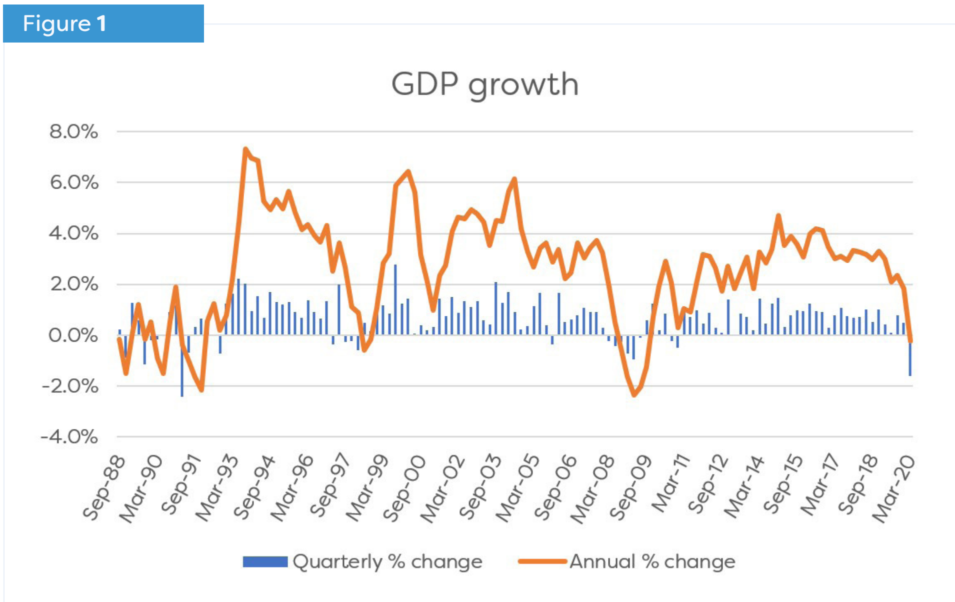
Back in New Zealand, he held several policy roles at Landcare Research, Department of Internal Affairs and Housing New Zealand before his current role as principal economist at Waikato Regional Council. He also continues to collaborate on projects with the University of Waikato, CRIs, central and local government, and a variety of industry groups.

March quarter GDP

In the first quarter of 2020, real Gross Domestic Product (GDP) was 1.6 percent lower than in the December 2019 quarter.

This represents the largest quarterly fall since 1991, and resulted in annual growth (that is, the March quarter compared to the same period a year ago) of -0.2 percent – the first negative annual figure since mid-2009 in the wake of the 'great financial crisis'. Real GDP per capita fell by 2.2 percent.

Figure 1



But if the March quarter seems bad, the June quarter will surely be much worse. The Level 4 lockdown only took effect in the final few days of the March quarter, but its full impact will be evident in the June quarter (which is now in its final few weeks, but for which we won't have official data until 17 September). It is not difficult to envisage a scenario where GDP falls by 20 percent in the June quarter.

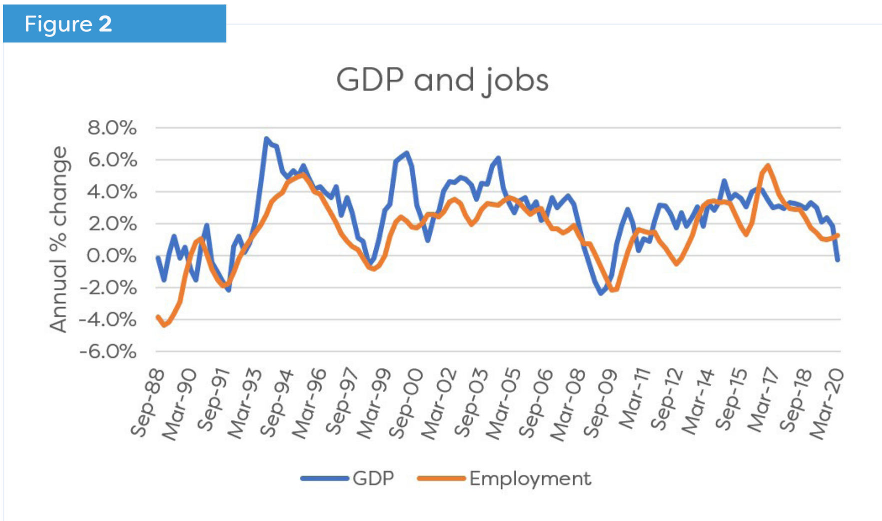
While GDP is not always a useful measure of wellbeing, it is a relatively good leading indicator of employment trends. Given the effects of the pandemic on jobs, GDP is, for the moment at least, an important indicator.

SIGNS OF A REBOUND

More recent indicators of activity have suggested that the economy may have bounced back relatively well from Alert Level 4 activity. Retail spending activity has largely returned to pre-lockdown levels, although this, to some extent, reflects a catch-up on the reduced spending over the lockdown period. The number of additional people enrolling for Jobseeker support has also fallen from the highs seen in April (see Figure 3). It is noted, however, that this has ticked up in recent weeks, and given that unemployment generally lags GDP, significant further falls in employment are expected – especially when the latest round of wage subsidies expires.

The economy may have bounced back relatively well from Alert Level 4

Figure 2



GDP BY INDUSTRY

While a few industries – mining, information, media and communications, as well as healthcare and social assistance – saw increases in activity over the quarter (see Figure 4), these were relatively small contributors to GDP and did little to offset the falling activity in most areas. Taking account of the size of the industry as a share of the wider economy, the March quarter decline was driven mostly by the construction, manufacturing, retail trade and accommodation, and logistics[1] industries.

Figure 3

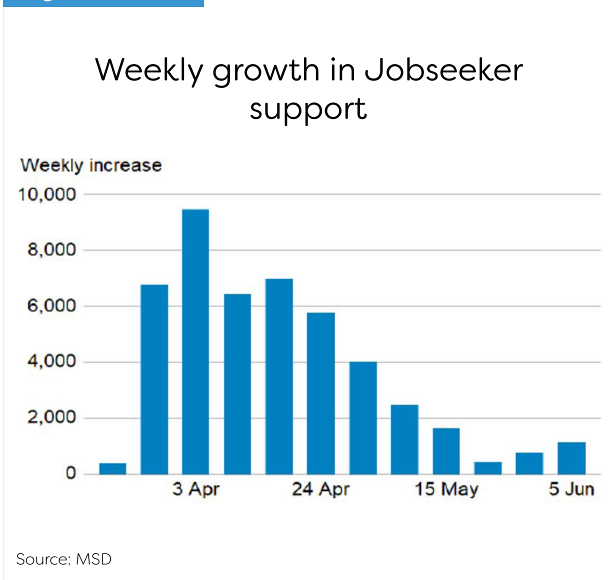
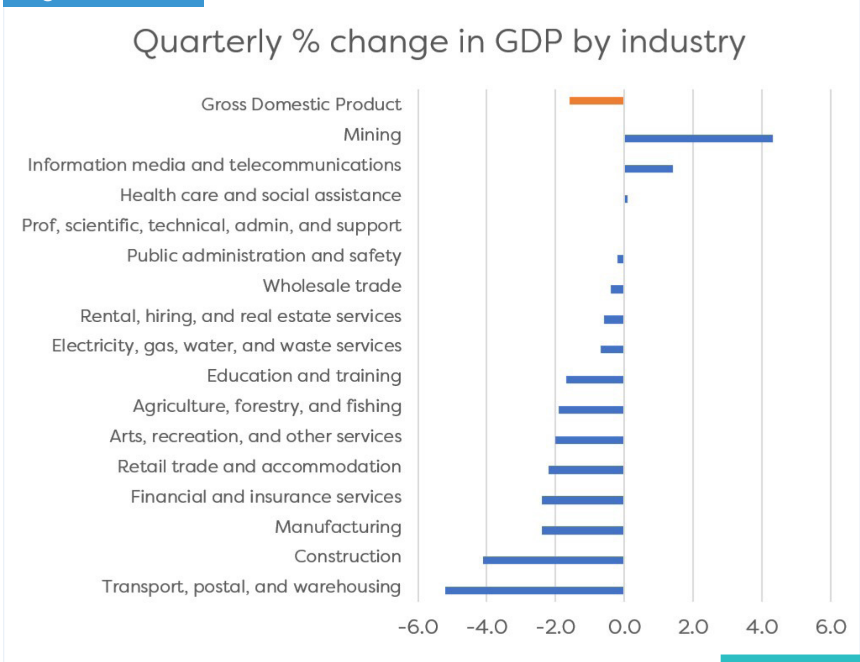


Figure 4



[1] Transport, postal and warehousing.

Exports of goods have held up encouragingly

EXPENDITURE MEASURES

An alternative way of measuring GDP is to sum up final expenditure on consumption, investment, and net exports (see Figure 5). All of the major components of this measure recorded falls in the March quarter[2], and there was significant de-stocking of inventories over the quarter too (which also detracts from measured GDP). In part, this de-stocking may be a reflection of the disruptions to supply chains that had begun at that time. While the fall in private consumption expenditure was only small, it will be much larger in the next quarter. This will be offset, at least to some extent by the government's fiscal stimulus policies.

The fall in investment (gross capital formation) was particularly large, and was driven by falling expenditure on residential construction and business investment (particularly transport equipment). While net exports made a positive contribution, offsetting the weaker consumption and investment components, this was not so much a reflection of export sector strength as it was an even larger fall in imports (see Figure 6).

While exports of services can be expected to fall further (reflecting the lack of international tourists and students), exports of goods have held up encouragingly, with fruit and dairy exports performing particularly well (see Figure 7). However, economic weakness in key trading partners may continue to affect global food prices, and limit the contribution that the export sector is able to make to our recovery. •

[2] Net exports recorded an increase, but this was because exports fell by less than imports, as can be seen on the next chart.

Figure 5

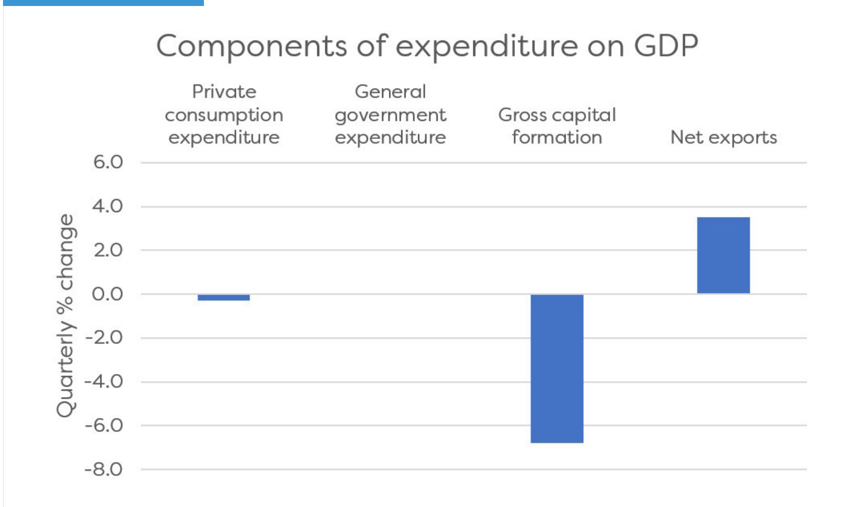


Figure 6

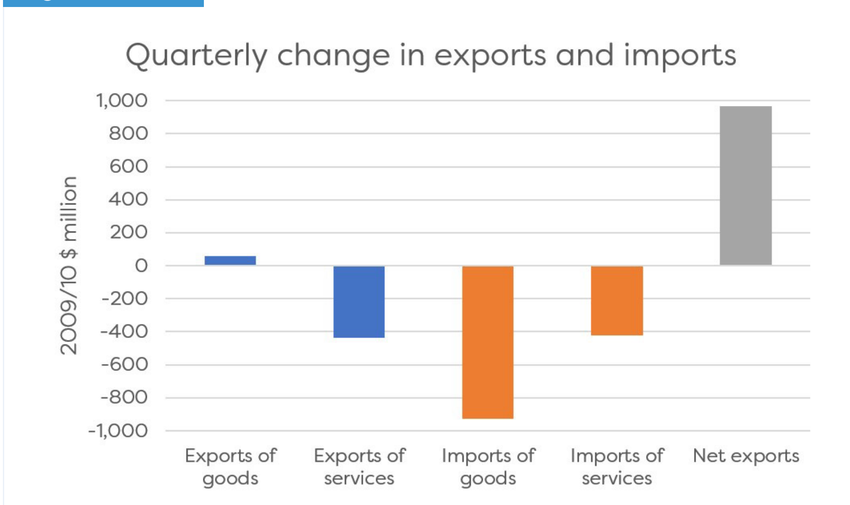
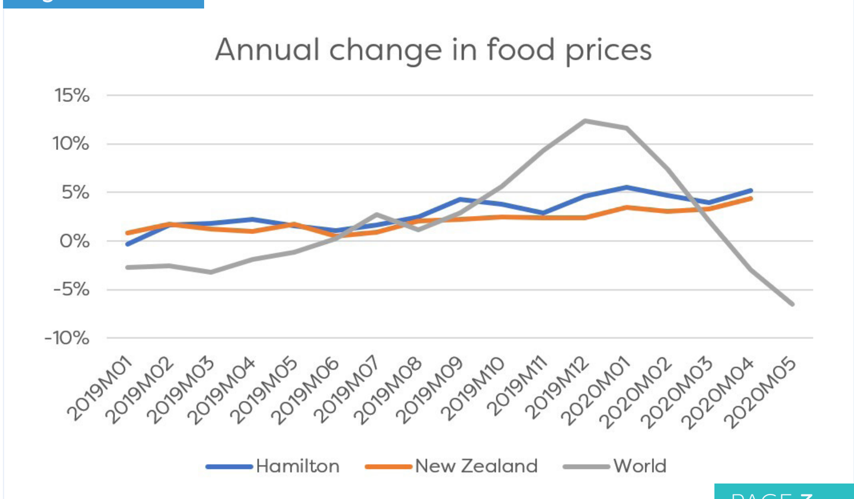


Figure 7



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