

# Economic Bulletin.

16 September 2021



## GDP June quarter 2021 review and OCR forecast update.

- GDP rose by 2.8% in the June quarter, following a 1.4% rise in March.
- That was above our top-of-the-market forecast and well above the RBNZ's prediction.
- With the June quarter GDP result pointing to strong momentum in the economy before the current lockdown, a sharp V-shaped recovery now looks even more likely when lockdown conditions are eased.
- We've brought forward our expectation of the first OCR hike from November to October.

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Key results	Jun 21	Mar 21	Westpac f/c	Market f/c
GDP qtr %	2.8%	1.4%	1.7%	1.1%
GDP ann %	17.4%	2.9%	16.8%	16.2%
GDP ann avg %	5.1%	-1.4%	4.2%	4.2%

New Zealand's GDP rose by 2.8% in the June quarter. The result was stronger than our forecast of a 1.7% rise, which was already at the top end of market estimates. The Reserve Bank had assumed a 0.7% rise in its August *Monetary Policy Statement*.

We now expect the Reserve Bank to raise the OCR by 25 basis points at its next review on 6 October. When the current Covid lockdown began we shifted our view to a November rate hike, noting that there were enough uncertainties around how this outbreak would play out that we couldn't be confident about an October move.

As time has passed, the risks of a more prolonged Australian-style lockdown have reduced, even if not all the way to zero. This, combined with the stronger than expected starting point for GDP and the RBNZ's clear determination to start hiking rates, means that we now see an October move as the most likely. We expect that to be followed by hikes in November, February and May, after which we'll be back on the OCR track that we were previously forecasting.

### Details.

The 2.8% rise in the June quarter followed a strong 1.4% rise in the March quarter. In addition, Stats NZ has revised up the level of GDP over the past year, reflecting better data on the impact of Covid and last year's lockdown. Put together, the level of GDP is now 4.3% higher than it was at the end of 2019, before the pandemic.



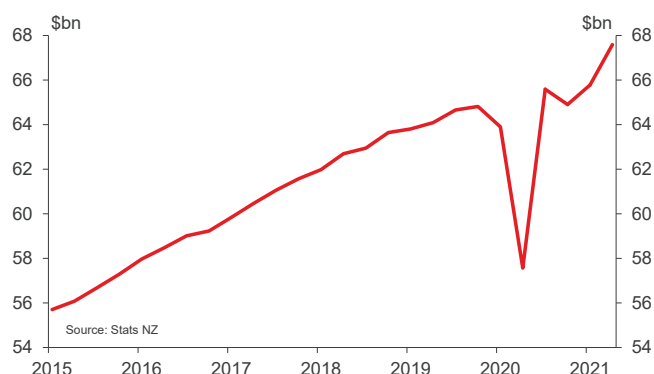
The sources of growth in the June quarter were mostly in line with our forecast. The services sectors, particularly travel-related ones, saw huge increases. Part of this was a continuation of the strong domestic consumption which we saw in the March quarter. The opening of the trans-Tasman travel bubble will have bolstered this further over the June quarter.

Construction related sectors continued to see solid expansion as strong house prices, low interest rates and rising incomes continue to provide support.

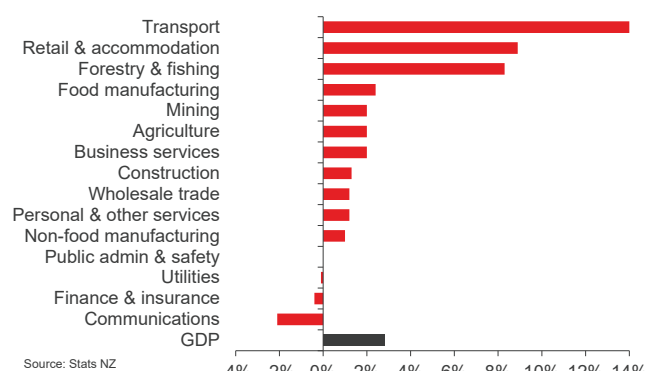
What surprised us was the magnitude of the gains rather than the drivers. Some sectors saw even stronger growth than what earlier indicators had suggested. The challenge has been that in some cases Stats NZ has had to move away from the traditional indicators and use new data sources to better capture the disruptive impact of Covid-19. That in turn has introduced an extra degree of uncertainty into the estimates.

Nonetheless, today's results further illustrate that the economy was running hot going into this lockdown. Some of that momentum will be derailed for a while, but a V-shaped rebound looks likely later this year when the current lockdown conditions are eased. And that suggests we'll soon be dealing again with issues of capacity constraints and growing inflation pressures.

## Level of quarterly GDP




## Q2 GDP growth by sector



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