New Zealand

New Zealand's 'go hard and early' Covid policy reaps economic rewards

Australia also posts strong figures as both countries benefit from reining in virus

New Zealand's sunnier economic outlook, with a record 14% jump in GDP in the third quarter, is thanks to its success in suppressing the pandemic © Bloomberg

Jamie Smyth in Sydney YESTERDAY

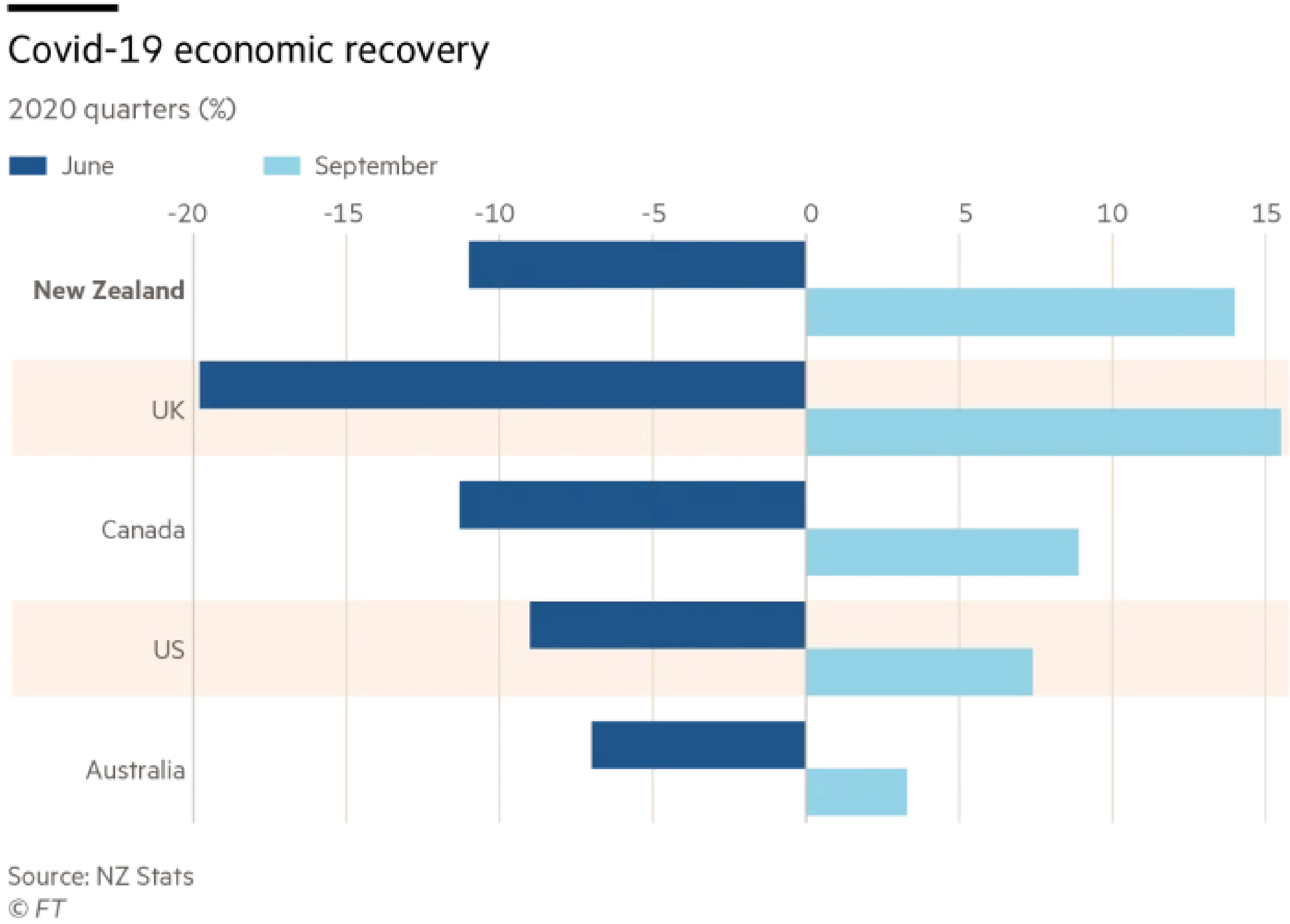
New Zealand's economy has accelerated out of a coronavirus-induced recession to grow a record 14 per cent in the third quarter, reflecting authorities' adept handling of the pandemic.

Figures published on Thursday showed a resurgence in household spending drove the country's recovery. The easing of some of the world's toughest social-distancing restrictions prompted 11.1 per cent growth in service industries and 26 per cent growth in the goods producing sector.

New Zealand's statistics agency also revised the decline in gross domestic product in the June quarter to 11 per cent, from previous estimates of a 12.2 per cent contraction. However, the damage wrought by a nationwide lockdown remained evident in the annual growth figure, which shows economic activity fell 2.2 per cent in the year to the end of September.

Grant Robertson, New Zealand's finance minister, attributed the record growth to the government's decision to "go hard and early" during the Covid-19 pandemic and offer support through a comprehensive wage subsidy scheme covering 1.8m workers.

"While New Zealand's economy contracted in 2020, it is expected to rebound strongly in 2021, in line with countries we compare ourselves to, like Australia and the United States, and outperforming the United Kingdom and Japan relative to these countries' 2019 starting point," he said.



The UK posted a [15.5 per cent increase] in GDP in the third quarter, although its economy contracted 19.8 per cent in the June quarter. Economic activity in Australia grew 3.3 per cent in the September quarter following a contraction of 7 per cent in the June quarter.

The stronger than expected economic recovery in New Zealand was mirrored in Australia on Thursday, where the government upgraded its economic and budget forecasts to reflect a faster rebound.

Canberra expects to report a budget deficit of 9.9 per cent of GDP in 2020-21, compared with a forecast of 11 per cent outlined in October's budget. Overall growth this year is now forecast at 0.75 per cent, up from minus 1.5 per cent predicted in the budget, prompting Josh Frydenberg, Australia's treasurer, to declare he economy is "rebounding strongly".

Economists have linked Australia and New Zealand's ability to suppress the spread of Covid-19 to the countries' improving financial outlook. Both nations have reported only a handful of new cases in recent weeks, with most infected people in hotel quarantine.

Saul Eslake, an economist and fellow at University of Tasmania, said it was now abundantly clear from the past nine months that there could be no sustainable economic recovery unless the virus was kept at bay.

"Because if it isn't, then either governments will be forced to reimpose lockdowns [of varying severity], or even if they don't, people will voluntarily impose restrictions on themselves — and that will remain the case until a vaccine has been widely distributed," he said.

Nevertheless, both nations face challenges from the continued closure of international borders until the rollout of vaccines can suppress the virus in other countries.

Australia is also weathering diplomatic and trade tensions with China, its biggest trading partner, with sanctions imposed on several export sectors.

Cameron Bagrie, economist at Bagrie Economics, said New Zealand's impressive rebound had been stoked by the unleashing of pent-up demand, with government disbursements compounding public spending en masse.

"There are some causes for caution still: the impact of border restrictions is still being felt and it's hard to imagine consumer spending being maintained at September levels," he said. "So I'd expect GDP to pull back a bit in the near-term."