**Finding a floor**

**Bottom line**

- We expect the New Zealand economy expanded 0.5% q/q in Q3, with growth in services once again leading the charge.
- The annual benchmarking and improvements process could result in meaningful historical GDP revisions (affecting the annual growth profile), which from a momentum perspective could be just as significant as the quarterly growth print.
- The seasonally adjusted current account deficit is expected to remain broadly stable at $2.4bn in the quarter, as a widening goods deficit is offset by a narrowing income deficit. The annual current account deficit is expected to hold steady at 3.4% of GDP.

**Key points**

September quarter New Zealand Balance of Payments and GDP figures are released at 10:45am next Wednesday and Thursday respectively.

We expect the economy expanded 0.5% q/q in Q3, which, absent revisions, would see annual growth lift 0.2%pts from 2.1% in Q2 to 2.3% y/y.

Turning to the details, we expect goods production to lift 0.4% q/q (making a 0.1%pt contribution to headline growth), reflecting modest growth in core manufacturing (ex meat and dairy) and construction.

Primary industries are expected to fall 0.2% q/q, weighed down by weaker forestry volumes following previous inventory build-up in China (with more weakness in the pipeline for Q4).

Growth across the services industries (which account for around two thirds of the economy) is expected to come in at 0.6% q/q (making a 0.4%pt contribution to growth). Retail sales volumes growth of 1.6% q/q shows households are continuing to spend, and that typically bodes well across a number of services industries.

The expenditure measure of GDP is also expected to lift 0.5% q/q.

- Private consumption is expected to lift a solid 1.1% q/q following Q2’s weak 0.5% read. Government consumption is expected to lift 0.9% q/q.
- Residential investment is expected to fall 0.2%, while the relatively volatile ‘other fixed asset investment’ component is expected to lift 2.4% q/q, rebounding from Q2’s -1.3% read.
- Net exports are expected to drag on quarterly growth, with total exports set to fall around 2% (owing largely to weaker goods exports), and total imports lifting around 1%, reflecting buoyant domestic demand.

So that’s the September quarter. However, the national accounts annual benchmarking and improvements process can result in meaningful historical revisions that can change the profile of growth over the past year or so. Some indicators, particularly the domestic trading activity component of the NZIER’s Quarterly Survey of Business Opinion and the Light Traffic Index, suggest the profile could shift towards a sharper deceleration in real activity in recent quarters (but possibly from a higher level in 2017-18).
In practice, historical revisions could provide just as much signal on economic momentum as the quarterly growth read in Q3. A stronger quarterly growth print than the RBNZ’s November MPS forecast of 0.3% might provide little comfort if the annual growth profile shows a sharper deceleration in recent quarters, as that could suggest that a sharper-than-otherwise turnaround in momentum is required in order to get the economy back into inflation-building territory. That said, historical GDP revisions will also affect the RBNZ’s potential growth estimate, offsetting the impact on their inflation forecasts.

But looking forward, we think the recent slowdown in economic momentum is finding a floor. Annual growth is looking set to bottom out in the second half of 2020 before gradually lifting as previous monetary stimulus provides support.

Risks around this outlook now feel a little more balanced, with activity indicators in the ANZ Business Outlook lifting strongly in November, the PMI flipping back into expansionary mode, the terms of trade remaining elevated, and the housing market showing signs of life. All the while, households remain heavily indebted but in good heart, with unemployment low and income growth decent. Any bump in government spending on the infrastructure front, although unlikely to be timely, will support the medium-term outlook.

Turning to the Balance of Payments, we expect the Q3 seasonally adjusted current account deficit to remain broadly stable at $2.4bn. The goods deficit is expected to widen by around $0.3bn, driven largely by softer export volumes, which will more than offset the quarterly lift in the terms of trade (the Q3 OTI terms of trade rose 1.9%). The services surplus is expected to hold steady in the quarter, with both exports and imports up $0.1bn q/q. The primary income deficit is expected to narrow $0.1bn, reflecting lower global interest rates. The secondary income deficit is expected to narrow around $0.2bn.

On an annual basis, the current account deficit is expected to hold steady at 3.4% of GDP, with risks tilted towards it coming in a touch lower as the income deficit narrows by more in the quarter. On an unadjusted basis, we’ve pencilled in a quarterly deficit of $6.1bn.

### ANZ Q3 GDP industry-level forecast

<table>
<thead>
<tr>
<th>Industry</th>
<th>q/q%</th>
<th>%pt cont.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, and fishing</td>
<td>0.3</td>
<td>0.02</td>
</tr>
<tr>
<td>Mining</td>
<td>0.5</td>
<td>0.01</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.3</td>
<td>0.03</td>
</tr>
<tr>
<td>Electricity, gas, water, and waste services</td>
<td>-0.6</td>
<td>-0.02</td>
</tr>
<tr>
<td>Construction</td>
<td>1.0</td>
<td>0.06</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>-0.2</td>
<td>-0.01</td>
</tr>
<tr>
<td>Retail trade and accommodation</td>
<td>1.4</td>
<td>0.10</td>
</tr>
<tr>
<td>Transport, postal, and warehousing</td>
<td>0.7</td>
<td>0.03</td>
</tr>
<tr>
<td>Information media and telecommunications</td>
<td>0.5</td>
<td>0.02</td>
</tr>
<tr>
<td>Financial and insurance services</td>
<td>0.5</td>
<td>0.03</td>
</tr>
<tr>
<td>Rental, hiring, and real estate services</td>
<td>0.3</td>
<td>0.04</td>
</tr>
<tr>
<td>Prof, scientific, technical, admin, and support</td>
<td>1.0</td>
<td>0.10</td>
</tr>
<tr>
<td>Public administration and safety</td>
<td>1.0</td>
<td>0.04</td>
</tr>
<tr>
<td>Education and training</td>
<td>0.1</td>
<td>0.00</td>
</tr>
<tr>
<td>Health care and social assistance</td>
<td>0.5</td>
<td>0.03</td>
</tr>
<tr>
<td>Arts, recreation, and other services</td>
<td>-0.1</td>
<td>0.00</td>
</tr>
<tr>
<td>Unallocated</td>
<td>0.4</td>
<td>0.03</td>
</tr>
<tr>
<td>Balancing item</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Gross domestic product</strong></td>
<td><strong>0.5</strong></td>
<td><strong>0.5</strong></td>
</tr>
</tbody>
</table>

Source: Statistics NZ, ANZ
This document is intended for ANZ’s Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all Jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (ANZ); or its relevant subsidiary or branch (each, an Affiliate), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (recipients).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy. Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information. Further, ANZ does not accept any responsibility to inform you of any subsequently forthcoming change to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ’s policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (ANZ).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ’s Financial Services Guide please click here or contact your ANZ point of contact.

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (ANZ Royal Bank). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

European Economic Area (EEA): United Kingdom. ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of “eligible counterparty” or “professional client”. It is not intended for and must not be distributed to any person who would come within the FCA definition of “retail client”. Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (PRA) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Myanmar. This publication is intended to be general and part of ANZ’s customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).
New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (FAA).

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman’s Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People’s Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (ANZ China). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the promissory undertakings of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:
- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (QCB), the Qatar Financial Centre (QFC) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (Qatar); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:
- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of “accredited investors”, “expert investors” or (as the case may be) “institutional investors” (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser’s licence under Section 116(1)(b) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (DIFC) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCLM) No. 12 of 2004; and (d) a financial product or service under the DIFC Financial Services Act 2000. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA). The financial products or services described in this document are only available to persons who qualify as “Professional Clients” or “Market Counterparty” in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office (ANZ Representative Office) in Abu Dhabi regulated by the Central Bank of the UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

United States. Except where this is a FX-related document, this document is distributed in the United States by ANZ Securities, Inc. (ANZ SI) which is a member of the Financial Regulatory Authority (FINRA) (www.finra.org) and registered with the SEC. ANZSI’s address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, and not for US Persons (as “US person” is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is a FX-related document, it is distributed in the United States by ANZ’s New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64-9-357 4094, e-mail nz economics@anz.com, http://www.anz.co.nz