ANZ Research

Q3 GDP and Balance of Payments Preview

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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).

Data summary

	Last	ANZ exp
GDP		
Quarterly % change	0.5%	0.5%
Annual % change	2.1%	2.3%
Annual average % change	2.4%	2.3%
Balance of Payments		
Current account ($m, actual)	-1,106	-6,175
Current account ($m, sa)	-2,381	-2440
Annual CAB ($bn)	-10.2	-10.2
% of GDP	-3.4%	-3.4%

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.

But that's not to say we're out of the woods. Although supply-side factors are supporting our commodity prices, the global backdrop is still looking highly uncertain, with growth among our key trading partners continuing to slow and policymakers running low on ammo. Just how long New Zealand can swim against the global tide remains a key question. History suggests not long.

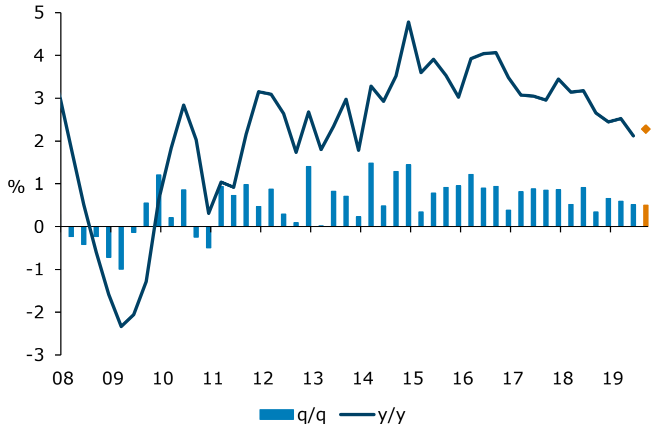
Turning to the Balance of Payments, we expect the Q3 seasonally adjusted current account deficit to remain broadly stable at $2.4bn. The goods deficit is expected to widen by around $0.3bn, driven largely by softer export volumes, which will more than offset the quarterly lift in the terms of trade (the 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

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

Real GDP growth



Source: Statistics NZ, ANZ

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