

NZ GDP: Outlook and Q4 Preview

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Don't look back – trouble ahead

Bottom line

- GDP data for Q4 will fly under the radar, and rightly so. The more pertinent concern right now is how GDP will fare over the coming year, in light of the significant global demand slowdown taking place.
- We will be updating our forecasts in our ANZ Weekly Focus on Monday, with a domestic recession and a more prolonged slowdown now looking highly probable.

The view

The release of Q4 GDP will pass with little attention. We think the economy expanded 0.4% q/q (at a soft 1.6% y/y pace) in Q4 (details at the end of the note). But the landscape has changed dramatically since December. And naturally, the focus is on where to from here.

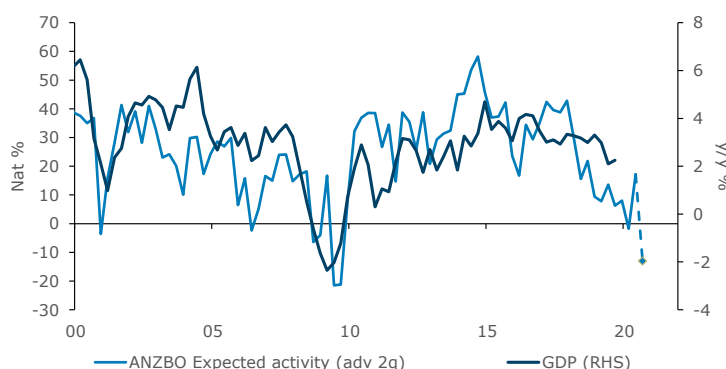
There is considerable uncertainty about the impacts the inevitable global slowdown will have on the domestic economy, but risks are rising. The global extent of the COVID-19 outbreak is worryingly worsening, with global growth clearly in jeopardy. While new cases in China are falling sharply, they are increasing rapidly elsewhere. Stresses in financial markets are also starting to emerge: volatility is high, liquidity is low, and credit spreads are widening. What was initially characterised as a “supply shock” is now predominantly a significant global demand slowdown.

Clearly, New Zealand exports are being hit hard by supply disruption and increasingly by reduced global demand, especially in pockets like tourism, meat and forestry. This will have flow-on effects to employment and other industries. Imports are being affected too, with a wide range of industries reliant on imported intermediate goods. And cash flows are strained as businesses wait to see how conditions will pan out. We are starting to see an impact on business sentiment (as shown in our [ANZBO preliminary estimate](#), figure 1). This deterioration in sentiment may not be a great steer on the exact path of GDP from here (it overshot on the downside last year). But it highlights the seriousness of the situation we are dealing with, with increasing risks that the downturn becomes more synchronised domestically. In other countries we've seen consumer confidence take a hit, as well as business sentiment.

Data summary

	Last	ANZ exp
GDP		
Quarterly % change	0.7%	0.4%
Annual % change	2.3%	1.6%
Annual average % change	2.7%	2.2%
Balance of Payments		
Current account (\$m, actual)	-6,351	-2,995
Current account (\$m, sa)	-2,681	-2,360
Annual CAB (\$bn)	-10.3	-9.6
% of GDP	-3.3%	-3.1%

Figure 1: GDP and ANZBO activity expectations (advanced 2Q)



Source: ANZ Research, Statistics NZ

We will be updating our views very regularly as developments unfold, with another update of our forecasts in our ANZ Weekly Focus on Monday. We hope that the domestic economy will be resilient, and our commodity prices robust. But a domestic recession and a more prolonged slowdown are now looking probable, and we must be prepared for that.

In light of the worsening outlook, policy needs to respond. Targeted measures announced by the Government are helpful, but we think moving to a more economy-wide approach sooner rather than later would be prudent, given the fact that no sector of the economy is likely to be left untouched. The Government has plenty of room to move here, and we think that putting the foot on the accelerator and perhaps even doing more than necessary would have very little downside.

Likewise, monetary policy needs to act aggressively to ease pressure on households and businesses, and reassure markets. We expect the OCR will be lowered 50bp at the 25 March meeting. After that, we see the OCR being lowered another 25bps in May, but risks are clearly increasing that a more sizeable policy response will be needed, potentially taking monetary policy into unconventional territory.

The details

New Zealand Balance of Payments and GDP figures are released at 10:45am next Wednesday and Thursday respectively. The current account deficit is expected to narrow slightly, and we think the New Zealand economy expanded 0.4% q/q in Q4, with annual growth softening from 2.3% to 1.6% y/y. A print of 0.4% q/q for GDP is 0.2%pt softer than our previous forecast but in line with the RBNZ's expectations at the time of the February MPS. Per capita GDP is estimated to have gone broadly sideways over the year.

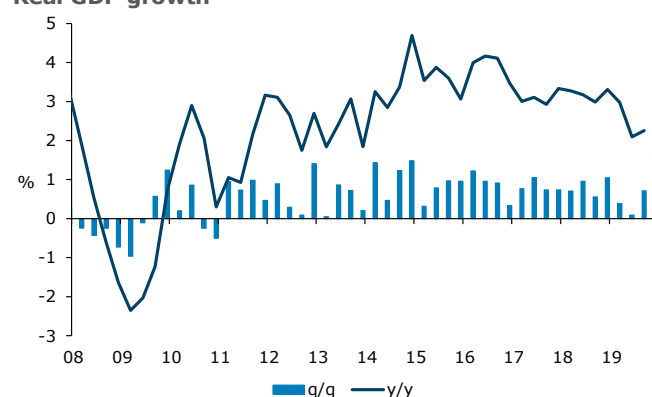
Following a strong Q3, primary sector production and manufacturing are expected to have had a softer quarter. On the other hand, services industries are expected to have seen good broad-based momentum into the end of the year, with household sentiment positive and the housing market strong into the year. See the industry-level forecast for more details. The annual current account deficit is expected to have narrowed by 0.2%pts of GDP to 3.1%, with solid goods export earnings driving a narrowing in the seasonally adjusted current account deficit. See the Data Summary for more details.

ANZ Q4 GDP industry-level forecast

Industry	q/q%	%pt cont.
Agriculture, forestry, and fishing	-0.5	0.00
Mining	0.5	0.01
Manufacturing	-0.8	0.00
Electricity, gas, water, and waste services	1.0	0.03
Construction	0.4	0.03
Wholesale trade	0.3	0.02
Retail trade and accommodation	0.9	0.00
Transport, postal, and warehousing	0.9	0.04
Information media and telecommunications	0.8	0.03
Financial and insurance services	0.5	0.03
Rental, hiring, and real estate services	0.8	0.00
Prof, scientific, technical, admin, and support	0.5	0.05
Public administration and safety	0.8	0.04
Education and training	0.1	0.00
Health care and social assistance	0.8	0.05
Arts, recreation, and other services	0.9	0.03
Unallocated	0.4	0.03
Balancing item	--	0.00
Gross domestic product	0.4	0.4

Source: Statistics NZ, ANZ

Real GDP growth





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