ANZ Research

NZ GDP: Q3 2020 Preview

9 December 2020

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Contact

Miles Workman for more details.

Welcome to the rebound

Bottom line

- Buckle in for another doozy GDP print as the NZ economy shows off its resilience with a double-digit bounce in Q3 out of lockdown one.
- It's very uncertain just how much renewed lockdown measures (particularly in Auckland) during Q3 hampered the rebound. But the partial GDP indicators suggest it was by less than our initial estimates – that means more rebound in Q3 and less in Q4 than we previously thought.
- Just to add another layer of uncertainty, revisions to history are expected to be more significant than usual, and that could throw the quarterly growth rates around.
- For that reason, we recommend keeping a close eye on the level of GDP. Of particular interest will be how the seasonally adjusted level compares to Q4 2019 (ie the rebound relative to the pre-COVID days of old).
- These data will be noisy. It needs to be borne in mind that all else equal, an "overshoot" in Q3 growth relative to our expectation will make low or even negative growth in Q4 more likely.
- Nonetheless, we tip our hats to the resilience of the NZ economy, the success of virus containment, and the efficacy of the macroeconomic-policy response. The economy has proven more robust than we initially thought (thanks in particular to the housing-induced bump to domestic demand and the generosity of the wage subsidy). It's truly fantastic stuff, but unfortunately that doesn't fully mitigate the significant challenges that lie ahead. It does, however, make the outlook for additional monetary stimulus more nuanced.
- The annual current account deficit (released the day before GDP) is expected to narrow to its lowest share of GDP in almost 20 years, in part owing to supply disruptions, which have been hampering imports.

Data summary

	Last	ANZ exp
GDP		
Quarterly % change	-12.2%	14.0%
Annual % change	-12.4%	-0.8%
Annual average % change	-2.1%	-2.9%
Balance of Payments		
Current account ($m, actual)	1,828	-3,864
Current account ($m, sa)	482	-821
Annual CAB ($bn)	-5.8	-3.0
% of GDP	-1.9%	-1.0%

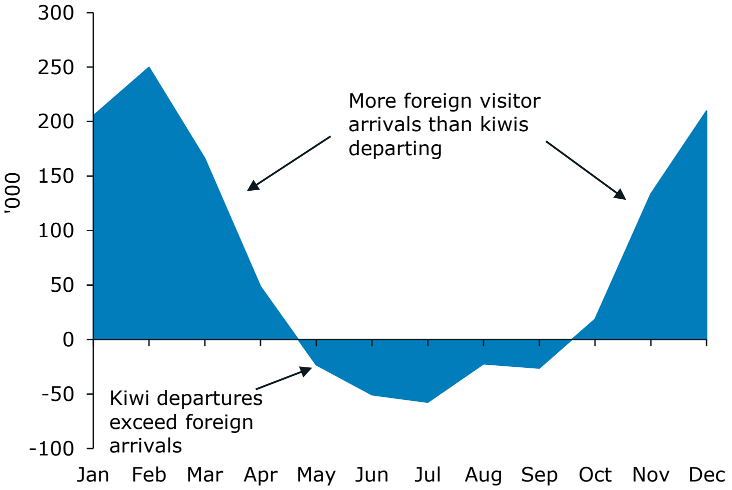
The view

New Zealand Q3 Balance of Payments and GDP figures are released at 10:45am next Wednesday and Thursday respectively.

"Boing!" should sum up Q3 pretty well. Our expectation for a 14% q/q rebound wouldn't take GDP back to its pre-crisis (Q4 2019) level, but it'd fall just 1.3% short. That's pretty impressive given the border remains closed, the global economy is facing significant virus-induced headwinds, and parts of the country were under either Alert Level 3 or Alert Level 2 at some point during the quarter.

It's always been unclear just how much renewed lockdown measures (particularly in Auckland) would hamper the Q3 rebound from lockdown 1. And the partial GDP indicators suggest this was less than we previously assumed. That implies more rebound in Q3 and less in Q4. So while we've revised up our Q3 quarterly growth expectation (from 10% q/q to 14%), we've downgraded Q4 (from 2.5% q/q to -0.5%) – that would mark the beginning of a technical recession as our forecasts stand. However, recession is a growth concept with very little meaning in the current environment of highly volatile data. In fact, the stronger starting point actually leaves our forecast for the level of GDP slightly higher than previously. But the very strong rebound in Q3 retail trade certainly lends itself to a Q4 retracement, as pent-up demand unwinds and difficulty getting product into the country weighs. It's worth noting that the very sharp bounce out of lockdown in Q3 has occurred at a time when closed borders were yet to really become a significant hindrance – that's more of a Q4 story that will only intensify in Q1 (figure 1).

Figure 1. Seasonality of NZ international tourism (average 2016-2019)



Source: Stats NZ, ANZ Research

Overall, the medium-term outlook is expected to be only marginally stronger because of the better starting point – certainly not enough to tip the balance for monetary policy (at least at this stage). That said, the economy appears to have come through the lockdowns in better shape than we initially thought it would. But while the data flow has been more positive than earlier expectations on a relative basis, the absolute story still warrants caution.

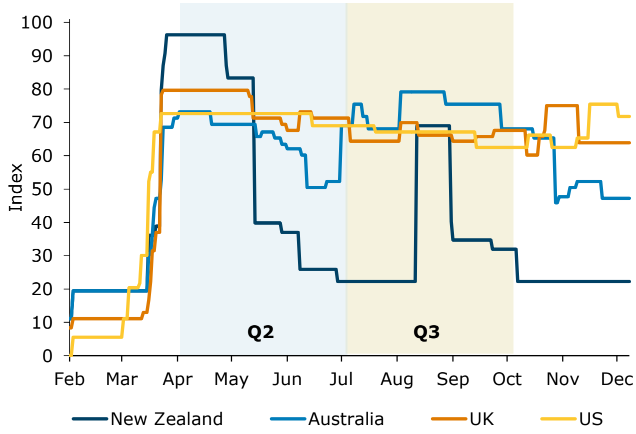
We think the RBNZ will look through the noise in Q3. For monetary policy settings, it's the medium-term outlook for inflation and employment that matters. And there are still significant headwinds on both fronts to navigate before policy makers can declare the job done. The lockdown-induced contraction in Q2 and rebound from it in Q3 is only the first phase of this economic shock. Now, we're watching as the lost summer of international tourism and a near-term growth wobble in the Northern Hemisphere goes up against housing-induced domestic activity, improving business sentiment and positive vaccine news. The policy outlook is certainly more nuanced than it was, but let's not lose sight of the fact that the Q3 data is just as noisy as it was in Q2.

Fiscal policy has provided tremendous support to activity through Q2 and Q3, with the Government essentially putting a decent whack of Q2's lost production on its balance sheet (for future tax-payers to deal with), preventing incomes from deteriorating anything like as much as GDP. And so far, it seems to have worked a treat! But now, the time has come to wean the economy off the sweet taste of sugar-hit fiscal support, and transition towards something a little more sustainable and lower GI: chiefly increased infrastructure spending. But with construction one of the few industries where capacity constraints are biting, we think it will be challenging for the Government to get what it wants done within the timeframe it intends. But the need to forge ahead is significant.

Broadly speaking, there's no shying away from the fact that the impetus to growth from fiscal settings is only going to diminish from here and even turn negative in the not-too-distant future. The key question is: is the private sector ready to take the reins of growth? That'll be part of the test in 2021.

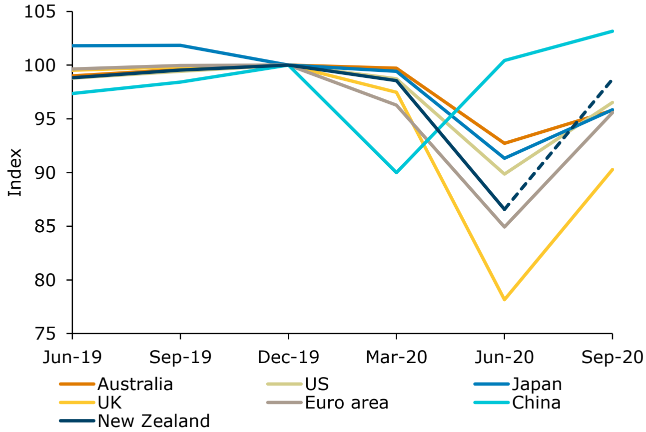
But despite the significant headwinds that lie ahead, New Zealand's successful virus containment (figure 2) in combination with the aggressive policy response has still made us a relative good-news story, and that's expected to show up in an outperforming economy over the coming quarters compared to many of our trading partners (starting with Q3, figure 3).

Figure 2. Oxford Government Response Stringency Index



Source: Oxford University, Bloomberg

Figure 3. GDP index (Q4 2019 = 100)



Source: Macrobond, ANZ Research

Turning to the details of the Q3 release, goods-producing industries are expected to lead the rebound (after leading the decline in Q2), with services and primary industries also rebounding in proportion to their Q2 trip to the South Pole.

Digging deeper into the industry-level data, most industries are expected to bounce sharply in Q3 (see table over), but ongoing divergence by industry is expected to remain evident in the levels. And that's likely to persist for a while yet, with closed borders weighing on industries exposed to international tourism, such as transport, accommodation & food services and arts, recreation & culture, while others exposed to housing-induced domestic demand and government capital expenditure, such as construction and related goods manufacturing remain buoyed. Primary production tends to react more to weather conditions than global price signals in the near term, and should remain relatively insulated in the next few quarters – though getting fruit picked, packed and exported will be no mean feat given current labour and freight disruptions, comprising a key risk to the outlook.

Real expenditure GDP will rebound in a similar fashion, but conceptual and timing differences are likely to keep a wedge between these two measures for a little while yet. But that's inconsequential in the grand scheme of things.

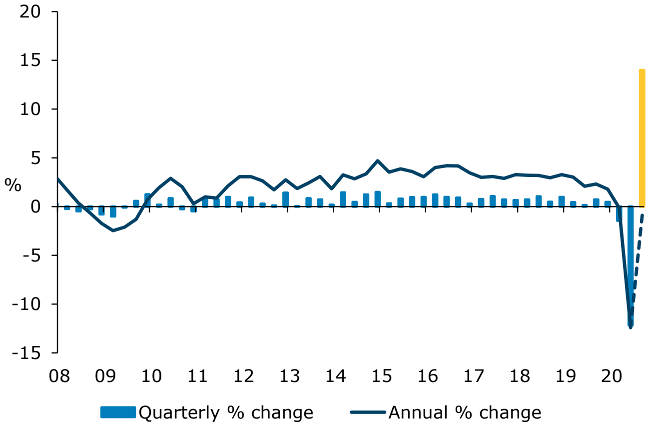
Regarding the balance of payments, we expect the quarterly seasonally adjusted current account deficit to widen. The goods surplus is expected to narrow as import values rebound more than exports. But the broader theme here is that weak imports (hampered by shipping delays) and relatively robust exports are keeping the goods balance squarely in positive territory – and well above year-ago levels. Meanwhile, the services balance is expected to flip back into surplus as exports rebound more than imports. However, with closed borders weighing on tourism earnings, the overall levels will remain suppressed, with exports expected to hurt more than imports on balance for as long as borders remain closed. Meanwhile, the income deficit is expected to widen, but risks are that this is by less than we expect, as the low global interest rate environment and domestic credit conditions keep a lid on things. Overall, we expect the annual current account deficit to narrow 0.9%pts of GDP to 1.0%. That would be the smallest annual deficit as a share of the economy in almost 20 years! And given the degree of uncertainty, the hurdle isn't that high for a 30-year low.

ANZ Q3 GDP industry-level forecast

Industry	q/q%	%pt cont.	% diff from Q4 2019
Agriculture, forestry, & fishing	2.9	0.17	-1.3
Mining	48.0	0.43	-6.2
Manufacturing	17.2	1.60	-0.3
Electricity, gas, water, & waste services	3.5	0.10	-4.2
Construction	40.0	2.10	-0.4
Wholesale trade	17.0	0.86	1.5
Retail trade & accommodation	38.1	2.29	1.4
Transport, postal, & warehousing	60.0	1.76	-7.0
Information media & telecommunications	7.0	0.27	0.3
Financial & insurance services	0.9	0.06	-0.3
Rental, hiring, & real estate services	4.3	0.64	0.1
Prof, scientific, technical, admin, & support	10.0	1.06	-1.4
Public administration & safety	4.0	0.20	1.0
Education & training	7.0	0.28	-2.1
Health care & social assistance	5.5	0.35	-0.2
Arts, recreation, & other services	25.0	0.67	-7.3
Unallocated	15.5	1.18	-1.9
Balancing item	--	0.00	--
Gross domestic product	**14.0**	**14.0**	--

Source: Statistics NZ, ANZ Research

Real GDP growth



Contact us

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We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 27 432 2769
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Liz Kendall
Senior Economist

Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.

Telephone: +64 27 240 9969
Email: elizabeth.kendall@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

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