NZ GDP: Q1 2021 Preview

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Contact

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Something for everyone

Bottom line

- Q1 GDP is likely to have something for everyone. From some angles the data will look robust, from others it'll look soft.
- We expect production GDP to lift 0.5% q/q, pushing annual growth 1.8%pts higher to 0.9%. Expenditure GDP will likely post a weaker quarterly growth rate, as it'll better reflect closed border impacts (chiefly MIA international tourists).
- Overall, the Q1 data will remain pretty noisy under the hood, but policy makers will look through it – particularly when there's no evidence to suggest the underlying demand pulse is turning. We think these data are less relevant for monetary policy settings than the evolution of the labour market from here, and the magnitude and persistence of the supply shock (which is challenging to quantify).
- The annual current account deficit (released the day before GDP) is expected to widen as a share of the economy by 1.3%pts (to 2.1%). The annual services balance is expected to post its first deficit since 1998, courtesy of the closed border.

The view

New Zealand's Q1 Balance of Payments and GDP figures are due to be released at 10:45am next Wednesday and Thursday respectively.

We've pencilled in a small economic expansion for Q1 (0.5% q/q, 0.9 y/y), but many of the industry-level indicator models that didn't do so well last quarter still haven't settled down enough to start putting too much weight on them.

Stepping back, the economic vibe looks healthy enough – all things considered. In fact, biting capacity constraints (such as difficulty finding labour, global shipping delays and supply bottlenecks) have arguably become a larger constraint on activity than the demand and income shock. And that means we need to be careful when interpreting Q1 GDP with regards to monetary policy implications, whatever side it surprises on.

Q1 is when international tourism (NZ's largest export earner) typically peaks, so MIA tourists are likely to result in some pockets of weakness, particularly across key services industries such as accommodation and travel. But it's fair to say closed border impacts have become harder to identify in the aggregate data of late – the surprisingly strong Q1 labour market release (with the unemployment rate falling to 4.7%) is testament to that. Expenditure GDP will be the best place to see closed border impacts, with travel services exports extremely weak for this time of year. Information released by Statistics NZ suggests that divergence between production GDP – considered NZ's headline measure – and expenditure GDP could be significant. Our bottom-up indicators suggest the latter is likely to come in a little weaker.

Data summary

	Q4 2020	ANZ Q1 2021 exp
GDP		
Quarterly % change	-1.0%	0.5%
Annual % change	-0.9%	0.9%
Annual average % change	-3.0%	-2.8%
Balance of Payments		
Current account ($m, actual)	-2,695	-2,470
Current account ($m, sa)	-2095	-4,370
Annual CAB ($bn)	-2.55	-6.9
% of GDP	-0.8%	-2.1%

Importantly, we think the Q1 GDP data is unlikely to have much bearing on monetary policy settings, due to underlying data volatility, the likelihood of non-trivial data revisions, and the lengthy path towards normalisation (whatever the new normal turns out to be). But given the RBNZ's May MPS forecast of -0.6% q/q, a read close to our expectation (or above it) is likely to keep markets trading with a relatively optimistic tone. However, with capacity pressures biting across many parts of the economy, we're actually in a funny state of the world where a weaker print could be indicative of even less spare capacity than previously expected. That is, this crisis has delivered a significant supply shock, making potential GDP a bit of a moving feast (and highly uncertain to boot), so it's not as simple as more growth in Q1 equals stronger and sooner inflation.

We think one of the most significant hurdles to eventual OCR hikes lies in the evolution of the labour market from here. It's very hard to argue that inflation pressures are sustainable until the labour market is "tight" and wages are lifting solidly and sustainably. But again, there's that hard-to-measure COVID-induced supply shock that's changing the economic landscape – including labour supply. Longer run, we expect the supply shock will fully (or almost fully) dissipate, and that a normalising demand pulse (with the consumption basket widening to include more international travel etc) will take some of the wonkiness out of the data (see our latest Quarterly Economic Outlook for more).

Our expectation for a 0.5% q/q expansion in Q1 is a bit stronger than our recently published forecast of 0.0%. Some indicators are pointing to a slightly larger expansion than this while some suggest the historical data could be revised a little higher. Importantly, the latter has the potential to alter the signal in the quarterly growth rate a bit – ie. weaker growth from a higher base could mean a larger overall economy than stronger growth off a weaker base. And with volatility heightened across many GDP components, we're not quite in a situation where we should be taking too much signal from q/q growth rates. Momentum in the core drivers of growth (eg housing, fiscal stimulus, buoyant business confidence, and high export commodity prices) are arguably just as important right now.

Turning to the details of next week's release, goods-producing industries are expected to lift a solid 1.4% q/q, led by a sharp rebound in construction GDP (following Q4's 8.7% q/q decline). However, we wouldn't be surprised to see construction GDP revised up in Q4, given revisions to building work put in place. Services industries (which account for around two thirds of GDP) are always relatively difficult to pin down, and the redesign on the Quarterly Employment Survey (a key indicator for services activity) makes this even more uncertain than usual. We expect services industries lifted a modest 0.4% q/q in Q1 as closed border impacts went head to head with very robust domestic demand. Primary production is expected to lift 0.1% as solid forestry offsets weakness elsewhere.

Expenditure GDP is typically regarded as a secondary indicator to its production equivalent, but these data could be pretty interesting in Q1. Very strong quarterly growth in goods imports (reflecting the strong domestic demand pulse and some lumpiness in landing goods in NZ) will meet an absence of international tourists (very weak travel services exports). And this could see quarterly growth in expenditure GDP with a negative handle despite very robust consumption and investment expenditure. So while the NZ economy might avoid a second 'technical recession' title at the production level, it may well pick one up at the expenditure level. Overall, we've pencilled in a 0.5% q/q contraction in expenditure GDP. That'll see the expenditure measure converge towards its production equivalent (in levels terms) following its outperformance in 2020.

Regarding the balance of payments, we expect the annual deficit to widen 1.3%pts of GDP to 2.1% as the services balance posts its first annual deficit since 1998. The goods surplus is expected to narrow (as the strong domestic demand pulse sucks in imports), and the income deficit should remain broadly stable as a share of the economy. On a quarterly seasonally adjusted basis, goods imports are expected to come in very strong (up around 9% q/q). Goods exports are expected to fall around 2% q/q, resulting in a quarterly goods deficit of around $1.4bn. Seasonally adjusted services exports are in for a very weak quarter (down around 20% q/q) reflecting missing international tourists, which is going to push the services deficit further into the red (to around $1.5bn). Meanwhile, the income deficit should be contained by low global interest rates.

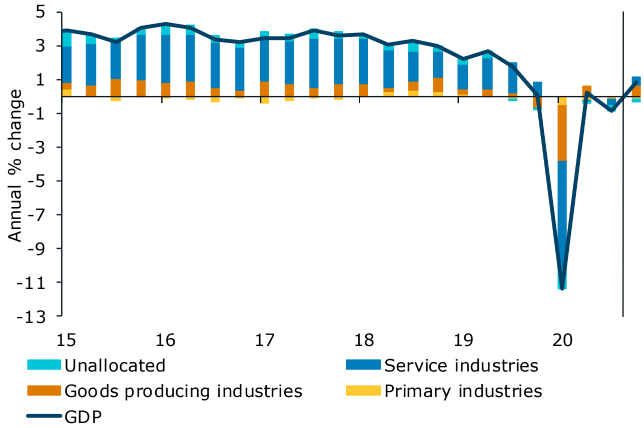
Overall, the data released next week are very unlikely to challenge the broader narrative that the economy is recovering well. While the data are still very noisy, underlying demand momentum remains solid.

ANZ Q1 GDP industry-level forecast

Industry	q/q%	%pt cont.	y/y%
Agriculture, forestry, and fishing	0.3	0.01	1.8
Mining	-0.5	0.00	-23.1
Manufacturing	0.8	0.08	3.8
Electricity, gas, water, and waste services	-3.0	-0.08	-2.1
Construction	4.0	0.26	6.0
Wholesale trade	3.0	0.15	4.5
Retail trade and accommodation	1.7	0.12	5.9
Transport, postal, and warehousing	-0.5	-0.02	-22.0
Information media and telecommunications	0.2	0.01	-1.8
Financial and insurance services	0.4	0.02	3.9
Rental, hiring, and real estate services	-0.1	-0.01	3.3
Prof, scientific, technical, admin, and support	0.0	0.00	-2.2
Public administration and safety	0.4	0.02	4.0
Education and training	-0.2	-0.01	-0.3
Health care and social assistance	0.1	0.01	3.5
Arts, recreation, and other services	-0.6	-0.02	-1.1
Unallocated	0.0	0.00	-1.4
Balancing item	--	--	--
Gross domestic product	**0.5**	**0.5**	**0.9**

Source: Statistics NZ, ANZ Research

Real GDP growth



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