

NZ GDP and Balance of Payments: Q2 2021 Preview

9 September 2021



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Rollercoaster

Bottom line

- We've pencilled in a respectable 1.2% q/q rise in Q2 GDP, but these data feel like old news given the return to level 4 lockdown in Q3.
- The big picture: Q2 data should show the economy was on a solid trajectory before lockdown, but with some industries still struggling courtesy of the closed border. Q3 GDP (released December) will contract sharply, hopefully followed by a strong rebound in Q4. We learned from the last lockdown that provided the Government puts the bulk of lost production on its balance sheet, then underlying economic momentum should hold up through all the noise.
- The annual current account deficit (released the day before GDP) is expected to widen as a share of the economy by 1.0%pts to 3.2%.

The view

New Zealand's Q2 Balance of Payments and GDP figures are due to be released at 10:45am next Wednesday and Thursday respectively.

We've pencilled in a 1.2% q/q lift in GDP, which will see annual growth come in at a lofty 16.2% (due to the very weak base brought about by the Great Lockdown of 2020).

Given all that's come to pass since Q2, the market is likely to look past next week's data to some extent. Arguably, the importance of getting on top of Delta and lifting lockdown restrictions means daily case numbers are probably more important right now for the monetary policy outlook. Not that lockdowns are enough on their own to [derail OCR hikes](#), but the risk of more lasting economic damage does increase the longer lockdown measures are in place. That said, to elicit further monetary accommodation, or prevent further tightening, lockdowns would need to induce a net demand shock, ie hit demand more seriously and persistently than supply. And if the past 18 months have taught us anything, it's not to underestimate persistent supply-side impacts. Inflation pressures and labour market tightness are expected to come through this lockdown more or less intact.

Overall, we expect the Q2 GDP data to show the economy was on a tear before Delta reared its ugly head, necessitating renewed lockdown measures. We think that strong momentum going into lockdown will be worth something coming out. But as we outlined in our recent [Quarterly Economic Update](#), we're going to see GDP thrown around a lot over the coming quarters, with a sharp drop in Q3 and, hopefully, a sharp bounce in Q4. Importantly, provided the fiscal response is just as potent as last time around, we think household incomes will hold up well through this lockdown too.

Indeed, when it comes to gauging the impact of lockdowns on underlying economic momentum, production GDP is a bit of a red herring. Here, getting a handle on the income measures of GDP, and net household disposable income in particular, will be important. Lucky for us, Stats NZ are now releasing these [data](#) (in experimental form) on a quarterly basis, but with around a month's delay from the production measure.

Data summary

	Q1 2021	ANZ Q2 2021 exp
GDP		
Quarterly % change	1.6%	1.2%
Annual % change	2.4%	16.2%
Annual average % change	-2.3%	4.2%
Balance of Payments		
Current account (\$m, actual)	-2,895	-1,700
Current account (\$m, sa)	-5,022	-3,660
Annual CAB (\$bn)	-7.24	-10.80
% of GDP	-2.2%	-3.2%

Turning to the details, the 1.2% q/q lift in production GDP is expected to reflect pretty broad-based strength across primary (up 1.0% q/q), goods (up 0.8% q/q) and services (up 1.4% q/q) industries. But while the aggregated cuts of data will look robust, particularly from a growth perspective, some industries continue to operate well below pre-crisis levels. Education and training and transport are expected to remain the weak spots in levels terms, as the closed border continues to weigh.

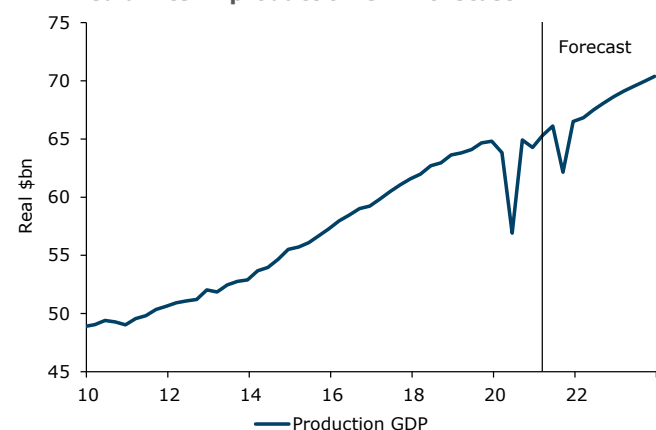
Regarding the balance of payments, we expect the annual deficit to widen 1.0pts of GDP to 3.2% as the annual goods balance flips into deficit. This reflects the strong recovery in domestic demand, which has driven solid growth in imported goods (despite supply disruptions). The annual services balance is poised to slip a little further into deficit, reflecting MIA international tourists. Meanwhile, the annual income deficit should remain broadly stable as a share of the economy. On a quarterly seasonally adjusted basis, growth in services exports should look pretty phenomenal, with a 72% q/q rise reflecting the impact of the trans-Tasman bubble. However, very strong quarterly growth will be off a very weak base, with the level remaining well below pre-pandemic levels. Services imports are expected to lift a solid 13% q/q. On the goods side, a 10% q/q rise in exports is expected to outpace a 5.8% rise in imports, reflecting both the higher terms of trade and an uptick in volumes.

Overall, the Q2 GDP and Balance of Payments data should reflect an economy that was performing strongly (at least at an aggregated level) prior to renewed lockdown measures. But the next few quarters of GDP data are going to be noisy. Best to focus on household incomes, labour market statistics, business and consumer confidence surveys, the global demand pulse, and of course COVID developments over the rest of 2021 rather than production GDP.

ANZ Q2 GDP industry-level forecast

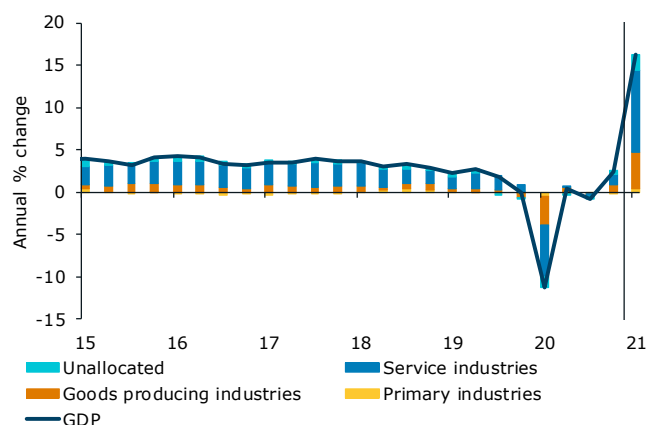
Industry	q/q%	%pt cont.	y/y%
Agriculture, forestry, and fishing	1.3	0.06	5.3
Mining	0.5	0.00	10.3
Manufacturing	0.4	0.04	17.6
Electricity, gas, water, and waste services	-0.5	-0.01	4.0
Construction	2.0	0.13	51.4
Wholesale trade	-0.2	-0.01	21.9
Retail trade and accommodation	3.6	0.27	42.3
Transport, postal, and warehousing	4.0	0.12	29.8
Information media and telecommunications	1.1	0.04	12.0
Financial and insurance services	1.5	0.09	1.3
Rental, hiring, and real estate services	0.4	0.05	5.6
Prof, scientific, technical, admin, and support	2.0	0.21	15.0
Public administration and safety	1.0	0.05	4.7
Education and training	0.5	0.02	8.3
Health care and social assistance	0.5	0.03	10.9
Arts, recreation, and other services	2.0	0.06	34.4
Unallocated	1.0	0.08	24.7
Balancing item	--	--	--
Gross domestic product	1.2	1.2	16.2

ANZ medium term production GDP forecast

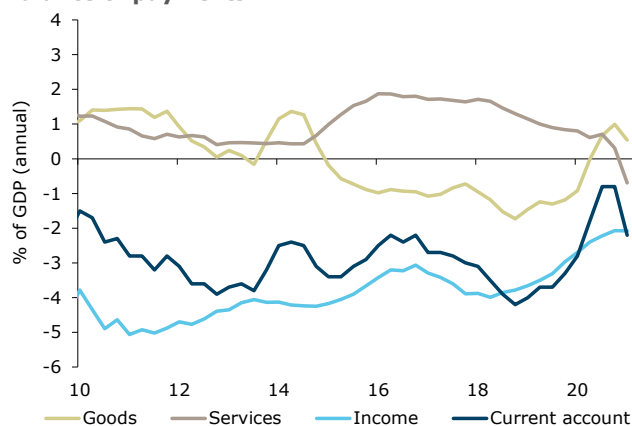


Source: Statistics NZ, ANZ Research

Real GDP growth will look a little nutty in y/y terms



Balance of payments





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Last updated: 9 April 2021

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