

NZ GDP and Balance of Payments: Q3 2021 Preview

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Dale dug a(nother) hole

Bottom line

- Production GDP dug another hole in Q3 (we've pencilled in a 4.5% q/q decline), but the Government has put a decent share of that on its balance sheet for us all to worry about another day.
- Broadly speaking, the lockdown-induced GDP contraction is a lot less important than the rebound, but we won't see the full extent of that in these data until well into 2022.
- Looking forward, 2022 will hopefully be the year that the baton of growth is passed seamlessly from housing-driven demand and fiscal lifelines to a robust household sector and gradually reopening border. But this post-COVID mini-cycle has been nothing if not nutty, meaning "seamlessly" could be a very big ask. Policy makers need to be ready for anything.
- 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 4.6%. The closed border has made the annual services balance pretty sick, and it's going to get worse before it gets better.

The view

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

Q3 GDP contracted sharply, but will begin rebounding sharply in Q4. The size of the Q3 contraction looks considerably less severe than we saw in 2020, and is arguably less important than the strength of the rebound on the other side. But given lockdown timing, that rebound looks like it'll be spread over Q4 and Q1.

For monetary policy, there won't be a lot of forward-looking signal to be had in the Q3 GDP data. The quarterly contraction won't reflect falling underlying demand (and inflation pressures). And while the headline numbers will look bad, the Government has hopefully limited the wider economic fallout by putting a decent chunk of Q3's lost production on its balance sheet via the business support and wage subsidy payments. The experience to date has been that well-supported lockdowns are as much of a supply shock as a demand hole, and provided the efficacy of the fiscal response holds up, we're hopeful there won't be too much economic scarring brought about by this recent lockdown. Monthly employment data suggests underlying economic momentum has remained solid through this lockdown.

A very big test for the economy still lies ahead, however: after direct fiscal support has ended, the housing market has slowed, and higher interest rates are biting. We're hopeful the very tight labour market (a robust household sector) and gradually reopening border will guide the economy to a sustainable growth path in 2022 and beyond, but with so much economic distortion to work through there could easily be a few bumps along the way. Indeed, the economy has evolved extremely rapidly over past 18 months or so, and the eventual turn in the cycle could be just as rapid. That's something of which the RBNZ seems well aware as it continues to withdraw stimulus in considered steps.

Data summary

	Q2 2021	ANZ Q3 2021 exp
GDP		
Quarterly % change	2.8%	-4.5%
Annual % change	17.4%	-1.6%
Annual average % change	5.1%	4.3%
Balance of Payments		
Current account (\$m, actual)	-1,396	-8,200
Current account (\$m, sa)	-2,975	-4,500
Annual CAB (\$bn)	-11.2	-15.6
% of GDP	-3.3%	-4.6%

Turning to the details, the 4.5% q/q contraction in production GDP is expected to reflect sharp declines across primary (down 4.5% q/q), goods (down 5.1% q/q) and services (down 4.3% q/q) industries. As table 1 shows, Q3 data is expected to largely be varying shades of bad news as each industry is impacted by lockdown in its own way. Hospitality and transport-related industries will hurt the most, but will hopefully experience a larger recovery on the other side (although with some lingering pain owing to the closed border).

On a technical note, the Q3 release will also incorporate changes from the [annual benchmarking process and other improvements](#). This has the potential to change our understanding of history. Statistics NZ has already signalled some changes to average annual growth by industry to March 2021, but what really matters for policy makers is the pace of momentum going forward.

Regarding the balance of payments, we expect the annual deficit to widen 1.3%pts of GDP to 4.6% – that would be the widest deficit since 2009. The closed border is really hurting our services exports (chiefly tourism and education), with the services balance (normally in surplus) currently posting a deficit that’s poised to widen over coming quarters (given Kiwis will be able to travel abroad before [visitors are allowed in](#)). Despite the rising terms of trade, our goods deficit will widen too, as domestic demand continues to suck in plenty of imports (despite supply disruptions). Rising global interest rates don’t bode well for NZ’s income deficit, but that’s probably more a story for another day – we’ve pencilled in a relatively stable income deficit in Q3. Looking forward, NZ could easily see the current account deficit approach 6% of GDP in 2022.

ANZ Q3 GDP industry-level forecast

Industry	q/q%	%pt cont.	y/y%
Agriculture, forestry, and fishing	-3.2	-0.16	12.4
Mining	-10.0	-0.10	-11.9
Manufacturing	-4.1	-0.38	19.3
Electricity, gas, water, and waste services	-1.5	-0.04	-2.4
Construction	-8.0	-0.53	-11.2
Wholesale trade	0.0	0.00	3.6
Retail trade and accommodation	-12.3	-0.98	49.6
Transport, postal, and warehousing	-17.0	-0.65	-0.2
Information media and telecommunications	-2.0	-0.07	-1.3
Financial and insurance services	-1.0	-0.06	-2.7
Rental, hiring, and real estate services	-0.7	-0.10	5.2
Prof, scientific, technical, admin, and support	-4.0	-0.43	3.2
Public administration and safety	1.0	0.05	2.8
Education and training	-4.5	-0.16	-3.5
Health care and social assistance	-0.5	-0.03	1.8
Arts, recreation, and other services	-15.0	-0.45	-7.4
Unallocated	-5.5	-0.43	-1.5
Balancing item	--	--	--
Gross domestic product	-4.5	-4.5	-1.5

Source: Statistics NZ, ANZ Research

GDP forecast





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