

# NZ GDP: Q4 2020 Preview

11 March 2021



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## Contact

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## It's complicated

### Bottom line

- Forecasting GDP hasn't got any easier as the impacts of lockdown abate. We've pencilled in modest growth of 0.5% q/q, but wouldn't be surprised to be surprised on the day. Our indicator models produced a plausible range of -2% q/q to +2% q/q.
- These data will show some industries struggling; some doing well but recoiling from a pent-up-demand-driven "overshoot" in Q3; some industries gradually recovering; and some trucking along like lockdowns and closed borders never happened. There's going to be a lot going on under the hood.
- The year-on-year % change will provide the best indication of how each industry is holding up compared to the good old days before COVID-19.
- The big picture: Our expectation is that 2021 is going to be a broadly sideways year for economic activity, as some industries struggle with capacity constraints and others remain suppressed on the back of the closed border. A miss on either side in Q4 2020 is unlikely to change this view much.
- Policymakers are unlikely to be swayed much by the Q4 release either. Vaccine efficacy and rollout, and the persistence of housing-induced domestic momentum from here, are arguably more important than how the economy capped off 2020. We know the recovery from lockdown has been impressive but that significant headwinds and uncertainty remains.
- The annual current account deficit (released the day before GDP) is expected to remain stable as a share of GDP (0.8%).

### The view

New Zealand Q4 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 Q4 (0.5% q/q, 0.7% y/y), but the possible range of outcomes is wide and spread over both sides of zero. For example, a stronger Q4 lift could be supported by the fact that Q3 contained renewed lockdown measures (including level 3 in Auckland) whereas Q4 did not. To be fair, growth in Q3 didn't appear to be hampered by lockdowns, but that doesn't mean there isn't some positive rebound impact still on the cards for Q4. Conversely, the pent-up demand-driven rebound in Q3 was so strong in some industries that they are due a recoil in Q4 (or a revision to history). That doesn't necessarily signal a "weaker" underlying economy, but it could lead to weaker quarterly growth than we expect.

While expectations for a relatively stable quarterly growth rate (following two quarters of double digit quarterly moves) may suggest the data are settling down at the headline level, there is still plenty of noise under the hood – and that's making forecasting particularly difficult.

Policymakers will be well aware of lingering noise in these data, and are unlikely to put too much weight on the outturn. The RBNZ's February MPS has Q4 growth pencilled in at 0.0% q/q, but their focus is rightly on the medium

### Data summary

	Last qtr	ANZ exp
<b>GDP</b>		
Quarterly % change	14.0%	0.5%
Annual % change	0.4%	0.7%
Annual average % change	-2.3%	-2.5%
<b>Balance of Payments</b>		
Current account (\$m, actual)	-3,521	-2,854
Current account (\$m, sa)	-438	-2,672
Annual CAB (\$bn)	-2.55	-2.56
% of GDP	-0.8%	-0.8%

term, where the persistence of both housing-induced domestic momentum and supply disruption, as well as vaccine efficacy and rollout, are much more important for policy settings than precisely how 2020 ended.

Turning to the details of the release, we expect to see ongoing divergence across industries depending on their exposure to housing-induced domestic demand and international tourism.

The annual percent change will provide the best indication of how each industry is holding up compared to the good old days before COVID-19. Construction is expected to be top of the pops (up around 8% y/y), followed by health care and retail trade (up around 5% y/y). Looking forward, the scope for these industries to support headline growth will be limited by capacity constraints (via both imported goods and labour). Conversely, transport, postal and warehousing is expected to be the relative underperformer (down over 20% y/y), dragged down by air transport. That's something that'll continue for as long as borders remain closed.

There are a few industries that have been relatively unaffected by the impacts of lockdowns and closed borders – namely primary production, financial services, and public administration and safety. Primary production tends to react more to weather conditions than global price signals in the near term, though labour shortages, particularly in horticulture, are going to hurt somewhat.

All up, it's extremely unlikely that Q4 GDP will challenge the narrative that New Zealand's rebound from lockdown has been very impressive – even if the data surprise us with a small negative q/q read (which we'd put around a 30% probability on). Ultimately, it's all going to come down to whether or not the housing impulse has more than offset the start of the non-existent international tourist season – but revisions to history could be just as material. There's also a non-trivial possibility that Q4 marks the beginning of a technical recession (after all, Q1 is peak international tourist season), but again, recession is a growth concept and NZ is still operating at a relatively high level (in aggregate) given everything we went through in 2020.

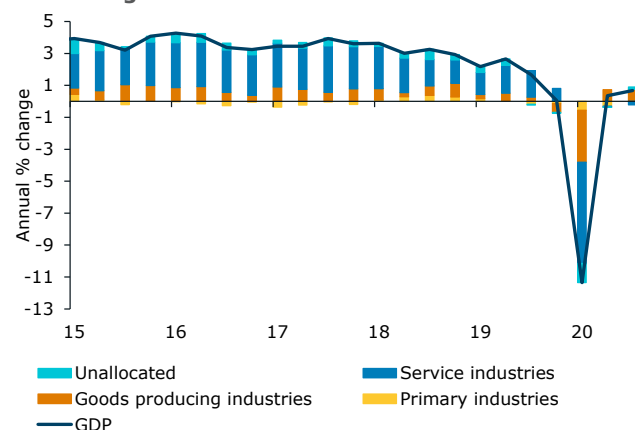
Turning to the balance of payments, we expect the annual deficit to remain stable as a share of GDP at 0.8%. The quarterly data are expected to show the seasonally adjusted goods balance flip from deficit to surplus, as exports outpace imports. The services deficit is expected to persist as travel services exports remain extremely low. The income deficit is expected to widen, largely reflecting higher global interest rates.

#### ANZ Q4 GDP industry-level forecast

Industry	q/q%	%pt cont.	y/y%
Agriculture, forestry, and fishing	1.0	0.05	0.8
Mining	15.0	0.14	-5.9
Manufacturing	0.5	0.05	2.4
Electricity, gas, water, and waste services	2.0	0.05	0.0
Construction	-0.5	-0.04	8.4
Wholesale trade	-4.0	-0.21	-0.8
Retail trade and accommodation	-3.6	-0.27	4.6
Transport, postal, and warehousing	15.0	0.43	-22.8
Information media and telecommunications	1.0	0.04	0.6
Financial and insurance services	1.3	0.08	2.2
Rental, hiring, and real estate services	0.1	0.01	3.0
Prof, scientific, technical, admin, and support	0.0	0.00	-3.5
Public administration and safety	0.5	0.02	3.7
Education and training	0.5	0.02	-2.5
Health care and social assistance	-0.5	-0.03	4.7
Arts, recreation, and other services	3.0	0.09	-0.9
Unallocated	0.5	0.04	0.2
Balancing item	--	--	--
<b>Gross domestic product</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>

Source: Statistics NZ, ANZ Research

#### Real GDP growth





## Contact us

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[1 February 2021]

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