

NZ GDP and Balance of Payments: Q4 2021 Preview

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Rebound 3.5

Bottom line

- Brace for volatility. Q4 GDP data will show a mix of pent-up demand and a partial normalisation in activity following Q3's 3.7% q/q lockdown-induced contraction. We've pencilled in a 3.5% q/q bounce.
- But let's not get out the bubbly just yet. After all, these data are already ancient history in a rapidly changing and geopolitically tumultuous world. And while growth may well come in ahead of the RBNZ's February MPS forecast of 2.3% q/q, with Omicron now rife, extreme inflation gobbling up household incomes, geopolitical tensions weighing on global sentiment, and housing having turned definitively downwards, strong growth in Q4 will only lower the hurdle for a technical recession over the first half of 2022. But with inflation so extreme, and additional fiscal stimulus adding to that, the RBNZ will likely find themselves having to hike interest rates despite softening activity.
- The annual current account deficit is poised to widen further, driven by over-stimulated domestic demand (sucking in imports), a closed border (annihilating most of our travel-related exports), and rising global interest rates (increasing the cost of servicing all that net external debt NZ tends to carry). We expect the deficit to come in at 5.9% of GDP – a post-2009 high.

The view

New Zealand's Q4 Balance of Payments and GDP figures will be released at 10:45am next Wednesday and Thursday respectively.

GDP will bounce out of Q3's lockdown-induced hole, and probably by a little more than our previous forecast of 2.5% q/q (and the RBNZ's February MPS forecast of 2.3%). Indeed, the partial indicators (such as [retail trade](#)) suggest the Q4 bounce was pretty decent. We've pencilled in a 3.5% q/q expansion, which would see annual growth come in at 3.6% and annual average growth at 5.8%.

While some indicators suggest there might be upside risk to our GDP pick, there are still good reasons to think there were limits to growth in Q4. Chief among them, Auckland spent 63 days under alert level 3 in Q4. Previously that fact had led us to phase the rebound from Q3 over Q4 and Q1, but now with Omicron wreaking havoc and Q4 looking stronger than previously thought, further solid expansion in Q1 is looking less likely.

Indeed, the outlook for economic activity is souring. Living cost pressures are extreme right now. And there's more [inflationary pain to come](#), with global developments adding more petrol to the fire, and the Omicron outbreak adding to labour scarcity. Inflation is now running laps around wage growth, meaning households are going backwards at an alarming rate. Meanwhile, many businesses are facing reduced demand as people stay home, and the [housing market softens](#). While Omicron wobbles will hopefully be short lived (as has been the case abroad), it's clear that economic momentum has turned.

Data summary

	Q3 2021	ANZ Q4 2021 exp
GDP		
Quarterly % change	-3.7%	3.5%
Annual % change	-0.3%	3.6%
Annual average % change	5.0%	5.8%
Balance of Payments		
Current account (\$m, actual)	-8,300	-7,600
Current account (\$m, sa)	-4,804	-6,280
Annual CAB (\$bn)	-15.4	-20.7
% of GDP	-4.6%	-5.9%

However, unlike past economic cycles, a softening demand pulse on its own may not be enough to derail OCR hikes – especially given that one reason for demand falling is the impact of surging cost pressures, with more in the pipeline given the incredibly tight labour market. It won't be comfortable, but [aggressive rate hikes](#) may well be the best option to prevent inflation expectations from becoming unanchored, avoid a damaging wage-price spiral, and lean against the inflationary impacts of upcoming additional [fiscal stimulus](#). There is of course a risk that the RBNZ ends up oversteering and causing a hard landing, but taking that risk is looking like a lower-regret scenario than being behind the curve for much longer and risking compromising inflation-targeting credibility.

Turning to the details, the 3.5% q/q rebound in production GDP is expected to be relatively strong across the industries that contracted sharply in Q3 – hardly surprising. Services industries (around two thirds of GDP) are expected to recover 2.7% q/q following Q3's 2.7% contraction. We've pencilled in a 7.0% q/q rebound (Q3: -7.3%) for goods-producing industries, and primary industries are expected to lift 0.4% (Q3: -3.1%). Recent weakness in the latter has been more a function of the weather than lockdown.

Once again, COVID restrictions have had [some impact on how Stat NZ's collect the input data](#) over the quarter. It's hard to say if or how this might impact the overall read, but it's a potential source of data volatility and adds to already-high forecast uncertainty.

Regarding the balance of payments, we expect the annual deficit to widen 1.3%pts of GDP to 5.9% – that would be the widest deficit since 2009. Like many other advanced economies, over-stimulated domestic demand combined with a constrained consumption basket (in particular no international travel) has led to significant growth in goods imports. This has driven a widening goods deficit despite solid export prices. On the services side, the closed border has annihilated most of our travel-related exports, pushing the services balance (which is typically a solid surplus) into deficit. Finally, rising global interest rates are pushing the cost of servicing NZ's debt with the rest of the world higher – that'll be reflected in a widening income deficit. The trifecta of widening pressures on NZ's current account will comfortably see it pick up a 6-handle over coming quarters – especially as higher global rates bite and kiwis are free to travel (import travel services) before foreigners are allowed to visit NZ (travel services exports).

ANZ Q4 GDP industry-level forecast

Industry	q/q%	%pt cont.	y/y%
Agriculture, forestry, and fishing	0.0	0.00	1.4
Mining	2.5	0.03	-2.6
Manufacturing	7.3	0.65	1.4
Electricity, gas, water, and waste services	1.0	0.03	2.2
Construction	9.0	0.58	5.7
Wholesale trade	3.3	0.17	7.9
Retail trade and accommodation	7.2	0.50	2.0
Transport, postal, and warehousing	4.5	0.18	14.4
Information media and telecommunications	1.0	0.04	-0.3
Financial and insurance services	1.3	0.07	-0.7
Rental, hiring, and real estate services	0.9	0.12	1.9
Prof, scientific, technical, admin, and support	2.2	0.24	7.1
Public administration and safety	0.9	0.04	3.7
Education and training	3.6	0.12	-1.2
Health care and social assistance	1.2	0.08	4.3
Arts, recreation, and other services	9.2	0.26	2.6
Unallocated	5.0	0.38	5.8
Balancing item	--	--	--
Gross domestic product	3.5	3.5	3.6

Source: Statistics NZ, ANZ Research

GDP forecast





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