ANZ Research

NZ GDP and Balance of Payments: Q1 2023 Preview

8 June 2023

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Contact

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Many moving parts

Bottom line

- We've pencilled in a 0.2% q/q economic expansion for Q1, unchanged from our previously published forecast and a touch weaker than the RBNZ's May MPS forecast of 0.3%.
- Economic momentum has clearly slowed, but the Q1 data will have its fair share of noise, complicating the diagnosis. Some of the partial GDP indicators suggest cyclone Gabrielle impacts could be a little more significant (and negative) than our assumption, but very strong population growth (on the back on net migration) and less seasonal pressure on economic resource in Q1 could more than offset that.
- The annual current account deficit is expected to narrow to 8.7% of GDP, but there is a risk that historical revisions cause it to print wider.

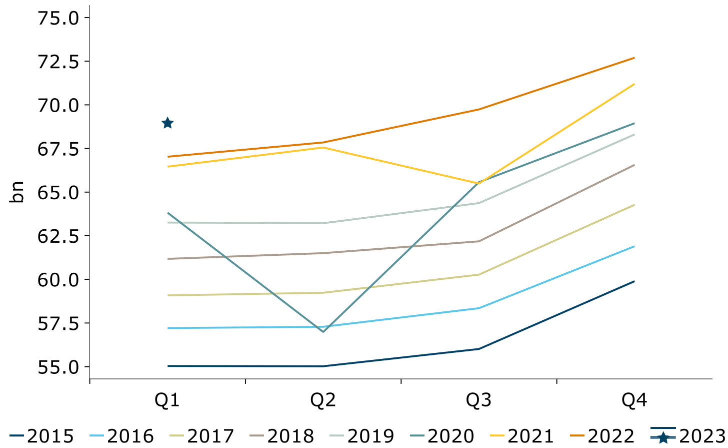
The view

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

Economic momentum is clearly slowing on the back of the 525bp of hikes delivered by the RBNZ since late 2021, but as we note below, there's a lot going on with the GDP data currently that widens the scope for a surprise on the day:

- **Some potential bounce from the 0.6% q/q contraction in Q4.** As we noted in our Q4 GDP Review, there was some genuine softness in the Q4 GDP figures, but there was also some payback from Q3's whopper +1.7% q/q read. Further, given Q4 is when the NZ economy is at its seasonal peak (figure 1), capacity constraints (particularly labour) would have been biting hard, hindering growth in seasonally adjusted terms. To the extent that capacity pressures and general data 'noise' were to blame for weak growth in Q4, there could be some pre-phasing of activity into Q1 (typically a softer quarter in non-seasonally adjusted terms), **suggesting upside risk to Q1 growth**.

Figure 1. Unadjusted GDP



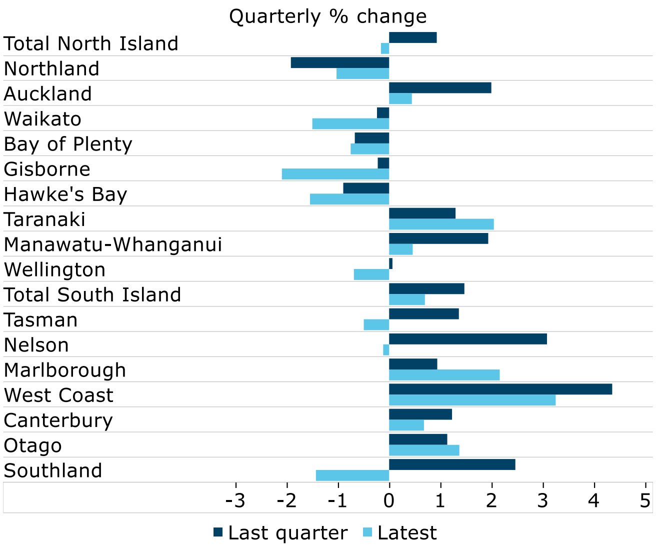
Source: Stats NZ, Macrobond, ANZ Research

Data summary

	Q4 2022	ANZ Q1 2023 exp
GDP		
Quarterly % change	-0.6%	0.2%
Annual % change	2.2%	2.9%
Annual average % change	2.4%	2.9%
Balance of Payments		
Current account ($m, actual)	-9,458	-6,850
Current account ($m, sa)	-8,514	-8,800
Annual CAB ($bn)	-33.8	-34.1
% of GDP	-8.9%	-8.7%

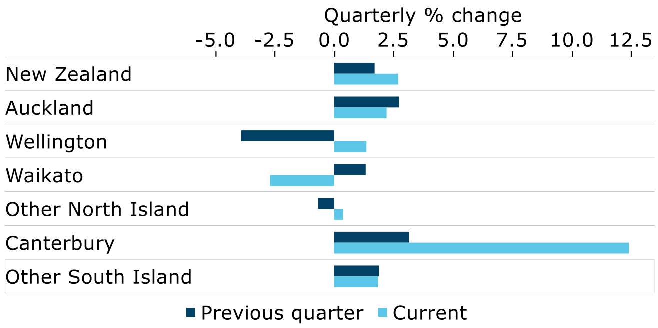
- **The recent surge in net migration** has seen population growth come in quite strong for the quarter. The population grew 0.7% q/q in Q1 vs its post-1987 average growth rate of 0.3% q/q and Q4's pace of 0.4% q/q. More people in the country demanding goods and services and supplying labour means more headline economic activity. But if headline GDP growth comes in weaker than population growth (which is our forecast), we'll be marking **a per-capita recession in Q1.** In other words, **strong population growth is an upside risk to aggregate activity**, but the per-capita data (ie the economic reality for people on the street) is likely to be much soggier.
- **Cyclone Gabrielle.** The Q1 GDP release will not include a regional cut of the data, so we will be left guessing about the impacts of cyclone Gabrielle on headline growth. Regional GDP data for the year to March 2023 won't be released until March 2024. However, some of the partial GDP indicators do provide a regional cut (in nominal terms only), and these suggest cyclone Gabrielle has had a material (and negative) impact on quarterly growth. The Q1 retail trade survey, where volumes contracted 1.4% q/q, shows quarterly growth in sales values across the cyclone-affected regions was particularly weak (figure 2). Meanwhile, the value of building work put in place (where the regional cut of the data isn't quite as detailed) suggests cyclone-affected regions were likely softer than the rest of the country too (figure 3). All up, **to the extent that weak growth in Q1 is a result of cyclone impacts, there should be some payback in Q2**.

Figure 2. Retail trade values



Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Value of building work put in place



Source: Stats NZ, Macrobond, ANZ Research

Putting it all together, there's a lot to get your head around in the Q1 GDP figures. A weak read could be a signal that Q2 growth will bring a solid rebound (cyclone impacts), while a strong read could reflect more bounce from Q4's weakness than expected (a noise/easing capacity story). Or perhaps both these scenarios will play out and offset. Either way, we do expect to see evidence that underlying momentum is subpar, particularly in per-capita terms.

While our forecast is for the economy to avoid picking up a technical recession handle in Q1 (ie two consecutive quarters of negative growth), this is certainly within the realm of plausible outcomes. Should that occur, it's important to note that a lack of economic resource (particularly labour) is at least partly to blame for current growth headwinds. The sniff test for a genuine economic downturn is an elevated unemployment rate. That may yet happen, but unemployment in Q1 was near a record low.

Turning to the details, the partial indicators have been mixed:

- The retail trade survey showed trade volumes fell 1.4% q/q. Values fell just 0.3%, showing that strong inflation continues to gobble up a decent share of household spending.
- The volume of building work put in place lifted 0.6% q/q in Q1, as a solid uplift in non-residential construction (+3.6% q/q) more than offset a small decline (-0.8% q/q) in residential.
- The quarterly manufacturing survey showed volumes fell 2.1% q/q.
- After adjusting for price changes, wholesale trade lifted around 0.2% q/q.
- Transport looks like it's in for a relatively stable quarter after a bout of quarterly volatility.

Table 1 shows our industry-level forecasts. Overall, our expectation that the economy expanded 0.2% in Q1 is driven by:

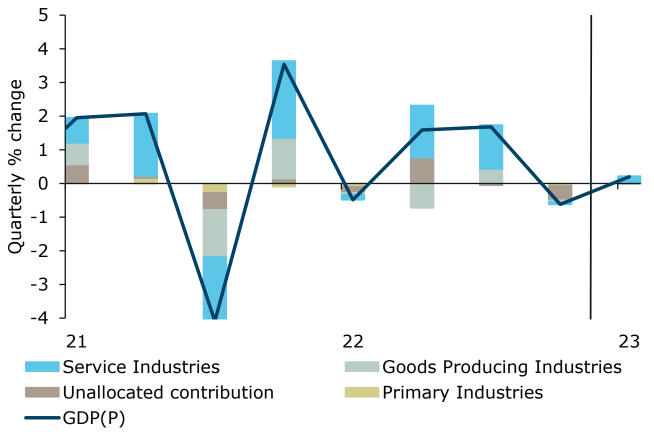
- **Services industries** lifting a modest 0.3% q/q (making a 0.2ppt contribution to headline growth). At around two thirds of GDP, services industries have a huge influence on headline GDP. But indicator models for some services industries are not great at the best of times.
- **Goods-producing industries** are expected to come in little changed as a contraction in manufacturing meets a rise in construction. However, construction GDP indicators have not performed well in recent quarters, so a surprise here wouldn't surprise.
- **Primary industries** are expected to contract slightly (-0.3% q/q) as weather-related disruption bites.

All in all, the details of the Q1 GDP release are shaping up to be very mixed, with plenty of scope for surprise on the day. Surprisingly, (given recent data volatility) the RBNZ's May MPS appeared to take more signal from weak growth in Q4 than we did, revising down their starting point estimate for the output gap. That suggests the RBNZ may be just as responsive to a surprise in Q1 GDP. But given the extra $5bn of near-term fiscal stimulus earmarked in Budget 2023 didn't alter their strategy to 'watch, worry, and wait' with the OCR at 5.5%, perhaps the hurdle for Q1 GDP to move the RBNZ one way or another is higher than we think. That said, we do think the RBNZ will be back in hiking mode by November. By then, evidence that sticky domestic inflation risks are materialising is expected to be a lot stronger.

Table 1. ANZ Q3 GDP industry-level forecast

Industry	q/q%	%pt cont.	y/y%
Agriculture, forestry, and fishing	-0.4	-0.02	-1.4
Mining	0.4	0.00	-0.5
Manufacturing	-1.1	-0.09	-9.0
Electricity, gas, water, and waste services	-0.5	-0.01	2.4
Construction	1.4	0.10	5.3
Wholesale trade	0.2	0.01	1.5
Retail trade and accommodation	-0.7	-0.05	0.6
Transport, postal, and warehousing	0.2	0.01	21.5
Information media and telecommunications	1.0	0.04	3.4
Financial and insurance services	0.6	0.03	3.3
Rental, hiring, and real estate services	0.8	0.11	2.0
Prof, scientific, technical, admin, and support	-0.6	-0.07	6.7
Public administration and safety	1.2	0.06	2.2
Education and training	0.8	0.03	2.9
Health care and social assistance	0.6	0.04	5.6
Arts, recreation, and other services	-0.5	-0.01	4.7
Unallocated	0.4	0.03	2.8
Balancing item	N/A	0.0	N/A
Gross domestic product	**0.2**	**0.2**	**2.9**

Figure 4. GDP forecast



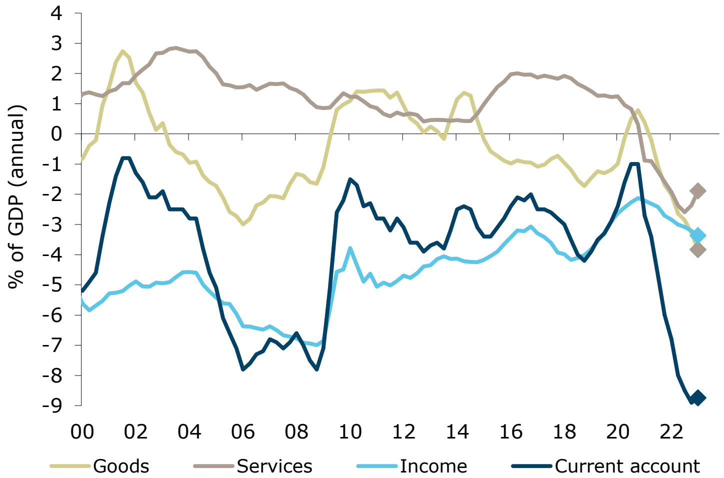
Source: Statistics NZ, ANZ Research

Turning to the Balance of Payments, we expect the annual current account deficit to narrow 0.2%pts of GDP from Q4 to 8.7%. However, trade data released ahead of the Q1 Balance of Payments suggests Q4's record-wide deficit is at risk of being revised even wider (possibly picking up a 9-handle as a share of the economy). We're not including these potential revisions in our official pick for the Q1 current account as there could easily be offsetting revisions made to nominal GDP, but risks seem skewed towards these data suggesting New Zealand's external imbalance is even more severe than our previous understanding.

The big picture for the current account is little changed:

- The annual goods deficit has widened because imported goods have lifted strongly on the back of over-stimulated domestic demand and a greater dependence on refined fuel imports (after domestic refining became a thing of the past a few quarters ago). Meanwhile, exports of goods have struggled on the back of bad weather, labour shortages and logistical challenges.
- The annual services balance (which tends to be in surplus) is in deficit thanks to closed-border impacts on tourism and education exports. The good news is that services exports are now recovering (lifting around 24% q/q in Q1) and that should see the services deficit narrow in the quarter. But there's a decent way to go before services exports are outpacing imports once again on an annual basis.
- As a net borrower from the rest of the world, the higher global interest rate environment is putting widening pressure on the income deficit.

Figure 5. Current account deficit



Source: Statistics NZ, ANZ Research

Looking forward, we see the annual current account deficit narrowing from here as demand for imports softens and the recovery in travel-related exports continues. But higher global interest rates are expected to become a significant offset, keeping the income deficit under widening pressure.

New Zealand's external imbalance shows that high inflation isn't the only reason to get the economy back onto a sustainable path through monetary tightening and fiscal consolidation. We've been living beyond our means, becoming more dependent on foreign capital in the process. The path to something more sustainable isn't a fun one (as it involves weaker domestic demand), but medium-term macroeconomic stability is at stake.

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