Preview: NZ GDP and Balance of Payments – Q1 2024

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Contact

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Bouncing along the bottom

Bottom line

- Now we have all the GDP partials, our forecast for a 0.2% q/q expansion in Q1 production GDP is unchanged. It is in line with the RBNZ's May MPS forecast (we were there first).
- For the RBNZ, the details will matter, with the underlying state of domestic demand and services momentum key for assessing sticky CPI inflation risks.
- All in all, the Q1 GDP data are expected to provide further confirmation that underlying economic momentum is weak and consistent with continued disinflation. But as always, there will be some noise to look through.
- The annual current account deficit is expected to narrow 0.2%pts of GDP to 6.7% – still too wide to call sustainable.

The big picture

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

Economic momentum has slowed significantly on the back of past monetary tightening, but as we note in our recent Quarterly Economic Outlook, previous fiscal expansion and surging net migration have been key offsets to the impacts of contractionary monetary conditions and softening global demand. But that's changing.

Once the small, temporary bump to household income growth owing to tax cuts is out of the way, discretionary fiscal policy settings appear poised to become a better ally to monetary policy overall, with lower government spending likely to impact the labour market (and therefore non-tradable inflation) harder and faster than any positive bump associated with tax cuts, given where we are in the business cycle. And given the Government's tighter fiscal strategy and signalled commitment to living within lower operating allowances going forward, the risk that we continue to get inflationary fiscal policy surprises going forward appears mitigated.

Meanwhile, the net migration cycle has turned, the labour market is loosening, consumers and businesses are downbeat, the housing market is subdued, the terms of trade is well below its peak, and global demand is sub-par. Slowing inflation and gradually falling fixed mortgage rates are providing some offset, but overall we'd characterise the numerous drivers of economic momentum as becoming more synchronised to the downside than they have been in recent years.

In big-picture terms, while we may well see the occasional upside surprise in the GDP data over the near next year or so (given typical volatility), there doesn't appear to be a lot of scope for a sharp and sustained recovery any time soon. While growth is expected to find a floor this year, it is expected to remain sub-par for a while yet. We think this backdrop is consistent with the RBNZ cutting the OCR sooner than signalled in the May MPS. We expect cuts from February 2025.

Data summary

	Q4 2023	ANZ Q1 2024 exp
GDP		
Quarterly % change	-0.1%	0.2%
Annual % change	-0.3%	0.3%
Annual average % change	0.6%	0.2%
Balance of Payments		
Current account ($m, actual)	-7,837	-4,500
Current account ($m, sa)	-6,866	-6,500
Annual CAB ($bn)	-27.8	-27.6
% of GDP	-6.9%	-6.7%

Q1 GDP implications for monetary policy

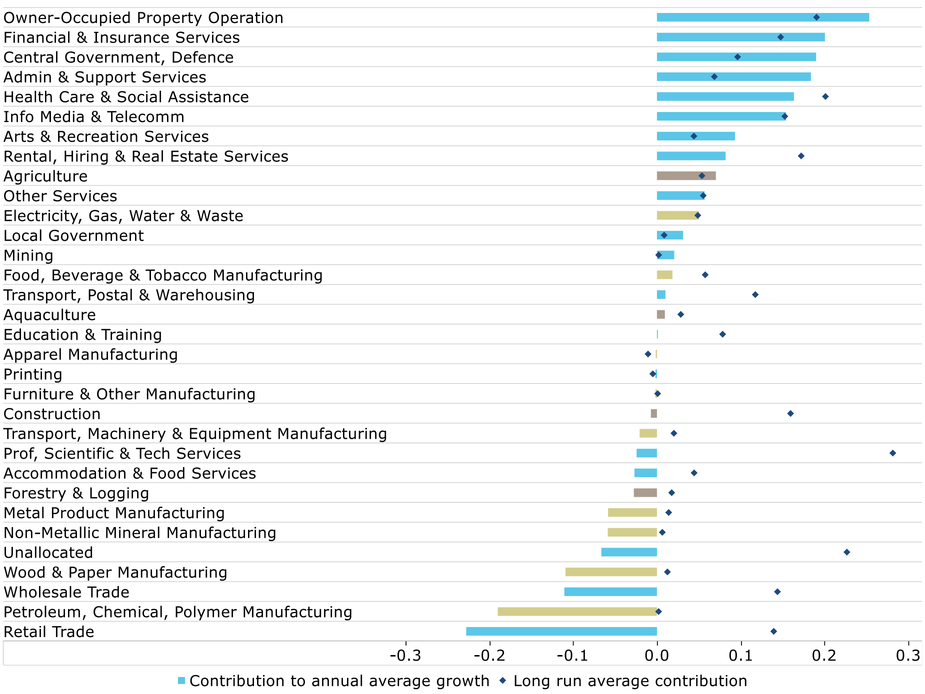
The RBNZ's May MPS forecasts are for a 0.2% q/q expansion in both the production and real expenditure measures of GDP. But as is always the case, it'll be the underlying details that inform their view of what it all means for economic momentum and CPI inflation pressures.

Private consumption is a good place to start, given its importance for the non-tradable inflation outlook. On this score, the RBNZ have pencilled in a 0.4% q/q expansion, which is half its historical average pace.

Variances versus the RBNZ's forecasts for business investment (-2.0% q/q), residential investment (-2.8% q/q), exports (+0.6% q/q), imports (+0.8% q/q), and government spending (-0.2% q/q) will also be important for gauging how the Committee are likely to view the underlying state of domestic demand. And as always, the volatile 'changes in inventories' component has plenty of scope to surprise.

The RBNZ does not publish its forecasts for the industry-level components that make up total production GDP, but this cut of the data will be important too. Just as the signal on underlying domestic demand will be key in the expenditure cut, services industries in production GDP are a must-watch. Indeed, services inflation is a key upside risk to CPI inflation, and the RBNZ will be looking for confirmation that momentum across services industries is softening. As at the end of 2023, the strongest contributions to growth came from services industries (light blue in the chart), possibly due to fiscal policy settings outweighing monetary policy settings for this sector for a time. We'll be looking for evidence of moderation across these components in Q1.

Figure 1. Industry contributions to growth (Q4 2023)



Bars are coloured according to industry group: Services (light blue), Goods (lemongrass), Primary (brown)
Source: Stats NZ, Macrobond, ANZ Research

Lastly, it's important to note that the GDP data is not the be-all and end-all for determining what activity momentum means for CPI inflation. There's the supply side to consider too. The RBNZ's Q1 potential GDP growth assumption is 0.7% q/q, meaning any growth rate below that will likely be considered disinflationary.

The details

Turning to the details of the GDP release, key partial indicators have been mixed:

- **Retail trade** bounced 0.5% q/q, suggesting the industry is finding a tentative floor after underperforming the broader economy for quite some time. That said, our card spending data has softened again over April/May, so it may be a brief renaissance.
- The **volume of building work put in place** fell 4% q/q, with both residential and non-residential work contracting.
- The quarterly **manufacturing** survey showed volumes fell 0.4% q/q, with higher food manufacturing offset by lower manufacturing elsewhere.
- After adjusting for price changes, **wholesale trade** appears little changed.

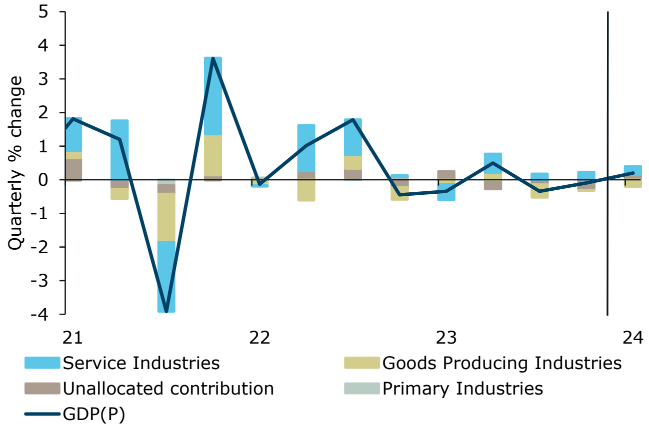
Table 1 shows our industry-level forecasts. Overall, our expectation that the economy expanded 0.2% in Q1 is driven by:

- **Services industries** (around two thirds of GDP) lifting 0.4% q/q (making a 0.3%pt contribution to headline growth).
- **Goods-producing industries** contracting 1.2% q/q (making a -0.2%pt contribution to headline growth).
- **Primary industries** expanding 0.3% q/q (with its contribution to headline GDP coming in flat (0.0%pts) at one decimal place).

Table 1. ANZ Q1 GDP industry-level forecast

Industry	q/q%	%pt cont.	y/y%
Agriculture, forestry, and fishing	0.7	0.04	0.9
Mining	0.4	0.00	-1.8
Manufacturing	-0.4	-0.03	-3.7
Electricity, gas, water, and waste services	0.8	0.02	1.7
Construction	-3.0	-0.19	-2.0
Wholesale trade	-0.1	-0.01	-4.4
Retail trade and accommodation	0.6	0.04	-1.7
Transport, postal, and warehousing	1.1	0.04	-1.8
Information media and telecommunications	1.5	0.06	2.7
Financial and insurance services	0.5	0.03	3.1
Rental, hiring, and real estate services	1.2	0.17	3.9
Prof, scientific, technical, admin, and support	-0.4	-0.05	1.5
Public administration and safety	-2.0	-0.10	3.9
Education and training	0.1	0.00	3.5
Health care and social assistance	0.7	0.05	3.3
Arts, recreation, and other services	0.3	0.01	2.5
Unallocated	0.6	0.04	-7.6
Balancing item	N/A	0.05	N/A
Gross domestic product	**0.2**	**0.2**	**0.3**

Figure 2. Production GDP forecast



Source: Statistics NZ, ANZ Research

Regarding the expenditure cut, we've pencilled in a 0.3% q/q expansion for GDP. Further contraction in residential (-4.5% q/q) and other fixed investment (-1.5% q/q), combined with weak private and government consumption (0.3% q/q and 0.2% q/q respectively), are expected to paint a soft picture for domestic demand. Net exports and changes in inventories are expected to make a positive contribution to quarterly growth.

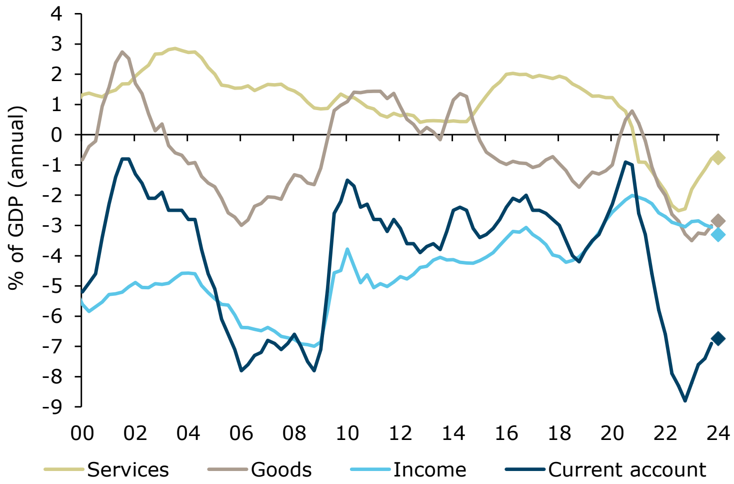
Turning to the per capita story, population growth of 0.5% q/q in Q1 suggests another GDP per capita contraction is on the cards – that would mark six in a row, taking per capita GDP 4.3% below Q3 2022 levels. For context, per capita GDP contracted for seven consecutive quarters (4.2% peak to trough) following the Global Financial Crisis.

Turning to the Balance of Payments, we expect the annual current account deficit to narrow from 6.9% of GDP in Q4 to 6.7% (in line with our previous published forecast). Trade data released for Q1 suggest the annual goods deficit will continue to narrow, but the annual services deficit will be little changed. Meanwhile, the income deficit, which is always the harder part to forecast given limited indicators, is expected to widen slightly as foreign-held NZ investments outperform NZ-held foreign investments.

On a quarterly seasonally adjusted basis:

- We expect the goods deficit to narrow, with exports down around 7% q/q and imports up 3.5%.
- The services deficit is expected to widen in the quarter as exports lift around 3% q/q and imports rise around 5%. However, it's important to note that the seasonal adjustment of these data (particularly exports) is highly uncertain given Stats NZ are still working through the fact that the international tourism recovery from closed borders is not complete, and that makes disentangling the "seasonal component" from the "trend" and the "irregular component" all the more difficult.
- The income deficit (which isn't seasonally adjusted) is expected to remain broadly stable, as high global interest rates continue to weigh on the primary deficit.

Figure 3. Current account deficit



Source: Statistics NZ, ANZ Research

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 partially offset a narrowing in the goods and services deficits.

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