The new norm

Bottom line

- The New Zealand economy is expected to have expanded 0.6% q/q in Q4.
- This would see annual growth moderate 0.1%pt from Q3 to 2.5%.
- The seasonally adjusted current account deficit is expected to widen $0.3bn in the quarter, with the annual deficit as a share of GDP widening by 0.3%pts to 3.9%.

Key points

December quarter Balance of Payments and GDP figures are released at 10:45am next Wednesday and Thursday respectively.

We expect GDP expanded 0.6% q/q in Q4, which would see annual growth moderate 0.1%pt from Q3 to 2.5%. If GDP comes in as expected, per capita growth is poised for another weak print. However, per capita measures have become more uncertain since the implementation of outcomes-based migration data.

Overall, we expect the economy grew moderately in Q4, following a 0.3% q/q lift in Q3. Economic momentum has softened, though domestic demand is being supported by elevated (but likely easing) net migration inflows and healthy household incomes (on the back of the tight labour market, Families Package, low interest rates, and recent retracement in oil prices).

Beyond Q4 and looking through the quarterly volatility, we see economic growth travelling around 0.6% q/q over the next year or so – a decent step down from 0.8% on average over the past three years. And in this environment, we think inflationary pressures will lack the oomph required to maintain core inflation close to the RBNZ’s 2% target midpoint, with capacity pressures expected to wane. However, while we expect Q4 growth to disappoint the RBNZ’s February MPS forecast of 0.8% q/q, a Q4 growth “miss” is not essential to our call that the next move in the OCR will be a cut. We expect it will take some time before growth headwinds make themselves felt in core inflation indicators, which is why we have pencilled in the first OCR cut for November.

Turning to the details of next week’s release, key partial GDP indicators have provided a mixed steer. The Retail Trade Survey contained a decent rebound in core spending (+2.0% q/q) and the volume of building work put in place came in above expectations. But on the other hand, the Economic Survey of Manufacturing showed ex-primary manufacturing contracted, and the Wholesale Trade Survey was on the weaker side.

Services industries make up almost 70% of the economy. So it’s no wonder that a 0.6% q/q rise here is expected to make the largest contribution to quarterly growth (0.4%pts). Retail trade and accommodation (up 2% q/q), and rental, hiring and real estate services (up 0.8% q/q) are expected to lead the quarterly rise. We expect migration-led population growth has continued to support demand for services, but changes to the migration data make this more uncertain than usual.
Goods production is expected to have risen 0.6% q/q, making a 0.1%pt contribution to quarterly growth. A 2.6% q/q lift in construction is expected to make a 0.15%pt contribution. Higher food manufacturing is expected to largely offset weaker ex-food manufacturing and electricity production is expected to dip.

Primary industries are expected to make a broadly neutral contribution, as seasonally adjusted dairy and forestry largely holds on to strength from earlier in the year. We’ve pencilled in a further, but modest, rebound in mining (2.0% q/q) following weakness earlier in the year. Looking forward, we expect higher-than-usual slaughter weights will boost primary production from Q1.

The expenditure measure of GDP is expected to lift a solid 0.8% q/q, driven by domestic demand. Private consumption is expected to have increased a robust 0.8%, with residential investment up 1.7%. The relatively volatile ‘other fixed asset investment’ component is expected to lift 1.0% following two consecutive quarters of decline. Net exports are expected to be a drag on growth as goods exports and imports remain broadly in balance, but growth in services imports outpaces that of exports. Government consumption is expected to make a small positive contribution to growth, while inventories are neutral.

Turning to the Balance of Payments, we expect the seasonally adjusted deficit to widen around $0.3bn from Q3. The goods deficit is expected to widen by a little more than $0.2bn as import values lift around 3% q/q and exports fall around 1%. The 3% fall in the Q4 OTI terms of trade suggests prices were a significant driver of the quarterly change. A slight narrowing of the services surplus and widening of the income deficit are expected make up the remaining $0.1bn widening in the current account deficit. On the income side, the deficit is expected to widen as primary income outflows lift on the back of growing international equity liabilities. The annual current account deficit is expected to widen 0.3%pts of GDP to 3.9%, which is more a function of base effects than the quarterly change.

<table>
<thead>
<tr>
<th>Industry</th>
<th>q/q%</th>
<th>%pt cont.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, and fishing</td>
<td>-0.1</td>
<td>0.00</td>
</tr>
<tr>
<td>Mining</td>
<td>2.0</td>
<td>0.02</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.1</td>
<td>0.01</td>
</tr>
<tr>
<td>Electricity, gas, water, and waste services</td>
<td>-1.7</td>
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<tr>
<td>Construction</td>
<td>2.6</td>
<td>0.15</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>-0.3</td>
<td>-0.02</td>
</tr>
<tr>
<td>Retail trade and accommodation</td>
<td>2.0</td>
<td>0.15</td>
</tr>
<tr>
<td>Transport, postal, and warehousing</td>
<td>1.4</td>
<td>0.06</td>
</tr>
<tr>
<td>Information media and telecommunications</td>
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<td>0.03</td>
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<tr>
<td>Financial and insurance services</td>
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<tr>
<td>Rental, hiring, and real estate services</td>
<td>0.8</td>
<td>0.11</td>
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<tr>
<td>Prof, scientific, technical, admin, and support</td>
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<tr>
<td>Public administration and safety</td>
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<tr>
<td>Education and training</td>
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<td>0.01</td>
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<tr>
<td>Health care and social assistance</td>
<td>0.6</td>
<td>0.04</td>
</tr>
<tr>
<td>Arts, recreation, and other services</td>
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<tr>
<td>Unallocated</td>
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<td>0.05</td>
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<tr>
<td>Balancing item</td>
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<tr>
<td><strong>Gross domestic product</strong></td>
<td>**0.6</td>
<td><strong>0.61</strong></td>
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</table>

Source: Statistics NZ, ANZ
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