ANZ Research

# NZ GDP and Balance of Payments: Q4 2022 Preview

10 March 2023

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Contact

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Data summary

| | Q3 2022 | ANZ Q4 2022 exp |
|---|---|---|
| **GDP** | | |
| Quarterly % change | 2.0% | -0.3% |
| Annual % change | 6.4% | 3.2% |
| Annual average % change | 2.7% | 2.6% |
| **Balance of Payments** | | |
| Current account ($m, actual) | -10,205 | -8,800 |
| Current account ($m, sa) | -5,937 | -7,650 |
| Annual CAB ($bn) | -29.6 | -30.9 |
| % of GDP | -7.9% | -8.1% |

## Payback

### Bottom line

- We've pencilled in a 0.3% q/q contraction for Q4 GDP, due next Thursday. That's weaker than our previously published forecast of +0.3% q/q and the RBNZ's February MPS forecast of +0.7%.
- At the risk of sounding like a broken record, given ongoing noise in the data, we're not convinced a weak read in Q4 can be considered much more than payback from the whopper pace of growth in Q3 (+2.0% q/q). We didn't take the full signal from Q3 GDP because the data are still normalising post-COVID. We (and the RBNZ) are likely to look through some of the weakness in Q4 (if the data print broadly as we expect).
- But the economy is slowing – just perhaps not at the pace quarterly GDP growth in Q4 may suggest.
- The annual current account deficit is expected to widen to 8.1% of GDP – the widest deficit since these data began in the late 1980s.

### The view

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

Following surprisingly strong GDP growth in Q3 (+2.0% q/q), we wouldn't be surprised to see some payback in the Q4 GDP figures in the form of a negative quarterly outturn (assuming Q3 isn't revised). While the normalisation around the reopening border is progressing well, the data are still very vulnerable to sizable revisions and significant forecast misses.

The New Zealand economy is quite seasonal, with summer activity typically benefiting from Christmas spending, more people getting out and about, peak international tourist flows, and the spring/summer uplift in the housing market. But lockdowns and closed borders have messed with the usual order of things over the past few years, and the data are still recovering from that. While much of this seasonal uplift did indeed occur in Q4, the big question is how it occurred relative to normal seasonal patterns. With international visitor arrivals coming in around 32% below their pre-pandemic (2019) level in December 2022, and the housing market still in retreat, it simply wouldn't pass the sniff test to see strong seasonally adjusted economic activity in Q4. That, combined with the fact that seasonally adjusted growth in Q3 likely overstated economic momentum, suggests there is a risk GDP comes in weaker than our forecast.

Should the Q4 GDP release surprise to the downside, the hurdle to call that anything other than noise is higher than some realise. A +2.0% print in Q3 together with a 0.3% contraction would still average out at about 0.9% per quarter (ie above-trend growth). And while it seems likely that Q4 activity will come in considerably weaker than the RBNZ's 0.7% q/q forecast, strong inflationary pressures remain evident in other data. From an inflation-fighting perspective, softer GDP doesn't necessarily suggest much spare capacity has opened up. Capacity constraints limit economic expansion too – eg cafes not able to get enough staff, so they reduce operating hours. So we can't just assume lower growth means lower inflation pressures.

Turning to the details, the partial indicators have been quite weak:

- The retail trade survey showed trade volumes fell 0.6% q/q. Values lifted 1.7%, reflecting strong inflation (people getting less bang for their buck), and suggesting nominal GDP could come in significantly stronger than real GDP.
- The volume of building work put in place fell 1.6% q/q in Q4, led by a 2.6% decline in residential construction.
- The quarterly manufacturing survey showed volumes fell 4.7% q/q.
- After adjusting for price changes, wholesale trade fell around 0.5% q/q.
- Transport looks like it's in for some quarterly payback; we're forecasting it to be down around 5% following a rise of nearly 10% in Q3.

Table 1 shows our industry-level forecasts. Overall, our expectation that the economy contracted 0.3% in Q4 is driven by:

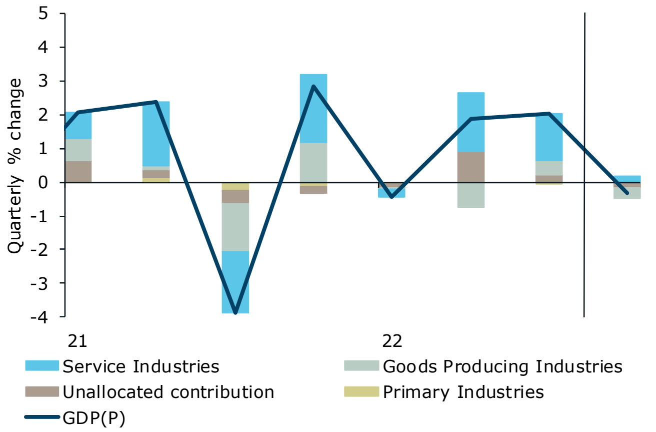
- **Services industries** lifting a modest 0.3% q/q (making a 0.2ppt contribution to headline growth). At around two thirds of GDP, services industries have a huge influence on headline GDP. But indicator models for some services industries are not great at the best of times. If we see a positive surprise on the day, it'll likely come from services.
- **Goods-producing industries** are expected to contract 1.7% q/q following Q3's 2.4% rise (making a -0.3ppt contribution). The drivers: weaker manufacturing and construction.
- **Primary industries** are expected to go sideways (0.0% q/q) – a relative win, following five consecutive quarters of contraction.

Clearly there are a number of indicators that suggest economic growth could come in weaker than our -0.3% q/q forecast. But we're cognisant that the relatively stable services industries could show some persistent momentum and provide a significant offset to that. With this much noise in the data, we certainly wouldn't be surprised to be surprised on the day.

**Table 1. ANZ Q3 GDP industry-level forecast**

| Industry | q/q% | %pt cont. | y/y% |
|---|---|---|---|
| Agriculture, forestry, and fishing | -0.1 | 0.00 | -1.0 |
| Mining | 0.3 | 0.00 | -9.5 |
| Manufacturing | -2.6 | -0.21 | -9.0 |
| Electricity, gas, water, and waste services | -0.7 | -0.02 | 0.3 |
| Construction | -1.0 | -0.07 | 3.0 |
| Wholesale trade | -0.6 | -0.03 | 3.6 |
| Retail trade and accommodation | 0.1 | 0.01 | 2.0 |
| Transport, postal, and warehousing | -5.0 | -0.21 | 15.0 |
| Information media and telecommunications | 1.0 | 0.04 | 2.9 |
| Financial and insurance services | 0.7 | 0.04 | 2.1 |
| Rental, hiring, and real estate services | 0.4 | 0.05 | 1.9 |
| Prof, scientific, technical, admin, and support | 1.0 | 0.12 | 4.2 |
| Public administration and safety | 1.2 | 0.05 | 2.4 |
| Education and training | 0.6 | 0.02 | 3.6 |
| Health care and social assistance | 0.6 | 0.04 | 7.3 |
| Arts, recreation, and other services | 1.2 | 0.04 | 13.6 |
| Unallocated | -0.3 | -0.02 | 4.6 |
| Balancing item | N/A | -0.1 | N/A |
| **Gross domestic product** | **-0.3** | **-0.3** | **3.2** |

**Figure 1. GDP forecast**

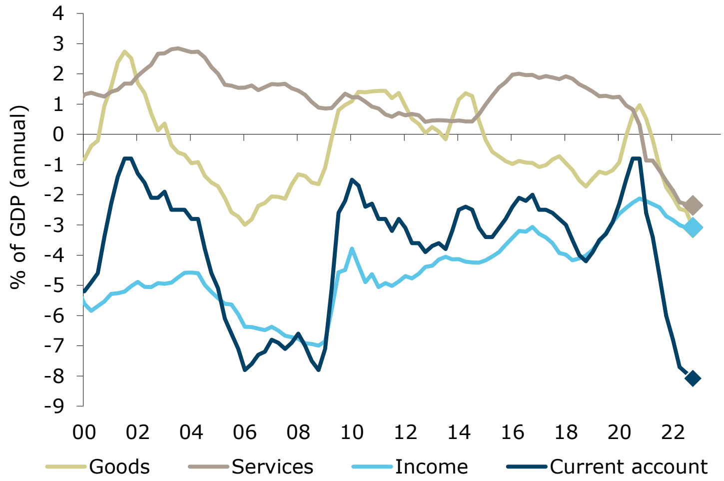



Source: Statistics NZ, ANZ Research

Turning to the balance of payments, we expect the annual current account deficit to widen 0.2ppt of GDP to 8.1% – that would mark the widest annual deficit in the history of these data (going back to the late 1980s). 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. 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, 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 rising global interest rate environment is expected to put widening pressure on the income deficit. That's a headwind that's expected to persist for a while yet.

**Figure 2. Current account deficit**




Source: Statistics NZ, ANZ Research

Looking forward, we see the annual current account deficit narrowing from the second half of 2023 as demand for imports softens and the recovery in travel-related exports continues. But higher-for-longer global interest rates could act as a significant offset, keeping the income deficit under widening pressure.

In big-picture terms, external imbalance (a record-wide current account deficit) 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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Last updated: 1 September 2022

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