

Preview: NZ GDP and BoP – Q4 2024

12 March 2025

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Data summary

	Previous	ANZ	RBNZ
GDP			
Quarterly % change	-1.0%	0.4%	0.3%
Annual % change	-1.5%	-1.4%	-1.4%
Annual average % change	0.1%	-0.5%	-0.5%
Balance of Payments			
Current account (\$m, actual)	-10,581	-6,382	N/A
Current account (\$m, sa)	-6,202	-5,118	-5,240
Annual CAB (\$bn)	-27.0	-25.5	-25.5
% of GDP	-6.4%	-6.0%	-6.0%

Gradual recovery underway

- We expect the New Zealand economy expanded 0.4% q/q in Q4, close to the RBNZ's February MPS forecast of 0.3% q/q, though given volatility in the GDP data, our forecast carries a large degree of uncertainty (in both directions).
- The annual current account deficit is expected to narrow 0.4%pts to 6.0% of GDP, aided by stronger export returns and still-subdued import demand for goods.
- All up, these data are expected to confirm that a gradual recovery is underway in the economy. The RBNZ's guidance in February was for 25bp cuts at the next two meetings, and it's unlikely the GDP data will challenge that guidance, given these data are very much ancient history, other indicators for the output gap in Q4 remain negative (and in line with the RBNZ's expectation), and the fact that separating the noise from the signal in these data amid recent volatility has been challenging. Given this, the RBNZ appears to be placing more weight on high-frequency indicators in order to gauge the trajectory for economic recovery.

The big picture

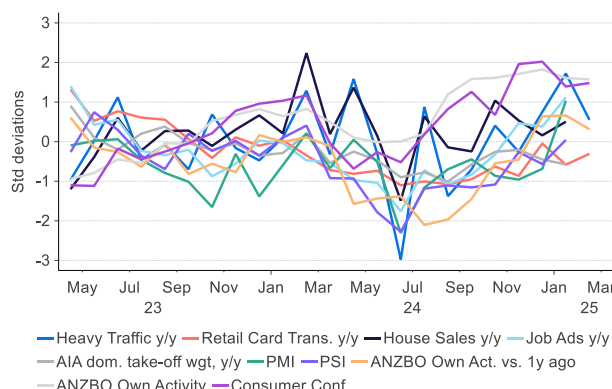
The Q4 Balance of Payments and GDP data are released at 10:45am next Wednesday and Thursday, respectively.

The Q4 GDP data are expected to confirm a gradual recovery in the economy is underway. As discussed in our recent [Quarterly Economic Outlook](#), lower interest rates and easing credit conditions, improving terms of trade, a recovery in the housing market and a lower NZD have created the conditions for economic recovery, though it won't be instant.

The economy is climbing out of a deep hole, with the modest growth we expect in Q4 coming off the back of a cumulative decline of 2.1% over the preceding six-month period, which was the weakest economic performance outside of COVID disruption going back to 1991. As a result, the economy continues to operate with significant spare capacity, meaning there's plenty of scope for the economy to grow in the near term without threatening domestic disinflation progress.

The RBNZ will certainly want to see evidence that a recovery is underway, and while we expect the Q4 GDP data will confirm that, there's a wide range of uncertainty surrounding our forecast, in both directions. In the case that the recovery is not evident to the extent that we and the RBNZ expect, it's worth noting that these data cover a period that ended nearly three months ago. It will take time for the full impacts of lower interest rates to be felt, but high-frequency indicators suggest momentum is indeed building (figure 1).

Figure 1. High-frequency activity indicators and GDP growth



Source: Stats NZ, BusinessNZ, AIA, REINZ, Seek NZ, Macrobond, ANZ Research

The details

Turning to the details of the Q4 GDP release, key partial indicators released in advance were, on balance, a little weaker than we had thought:

- **Retail trade** volumes rose 0.9% q/q, with accommodation bouncing strongly.
- The **volume of building work put in place** fell 4.4% q/q in Q4, with large contractions across both residential and non-residential activity.
- The **quarterly manufacturing survey** showed volumes rose 1.1% q/q in Q4, as a strong lift in meat and dairy processing offset continued weakness in non-food manufacturing.
- After adjusting for price changes, **wholesale trade** appears to have contracted in the quarter.

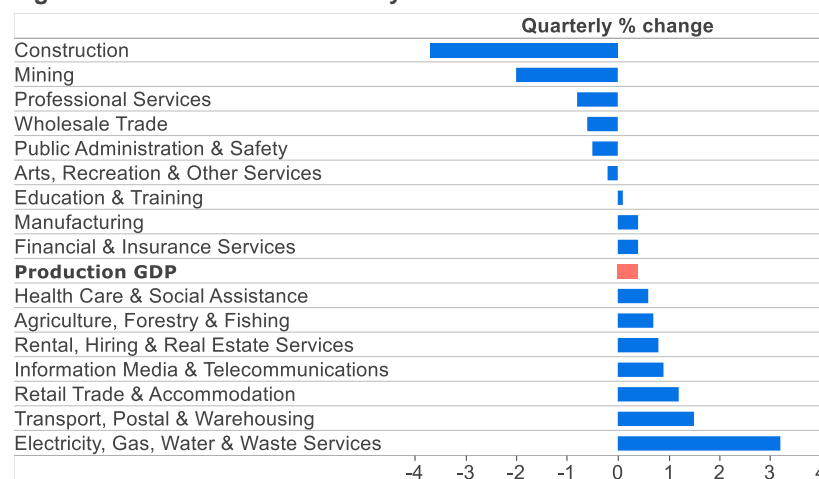
Overall, our production GDP forecast of a 0.4% q/q expansion is driven by:

- **Services industries** (nearly 70% of GDP) expanding 0.3% q/q (contributing 0.2%pt to headline growth). Retail sales and accommodation, transport, postal & warehousing, and rental hiring & real estate services are expected to be the bright spots. On the flip side, public administration & safety, professional services and wholesale trade are expected to weigh on growth.
- **Goods-producing industries** contracting 0.8% q/q (detracting 0.1%pts from headline growth), as a sharp drop in construction activity (a reflection of past weakness in the economy drying up the pipeline of projects), is partially offset by a rebound in electricity, water, gas & waste services as Q3's supply disruption in the electricity market faded, as well as a modest improvement in manufacturing activity driven by meat and dairy processing.
- **Primary industries** expanding 0.4%, contributing 0.0%pts to growth (to one decimal place).
- The **unallocated tax component** and the **balancing item** contributing 0.3%pts to growth. These components are volatile on a quarterly basis, and after the contribution to headline growth swung negative in Q3, there's scope for reversal. Over the past five years, the balancing item's contribution to growth in the December quarter has averaged 0.6%pts, which could make for a surprise on the day.

Given differences in the sensitivity of industries to interest rates, the recovery won't be synchronous. Of the 16 industry groups that we forecast, we've pencilled in contractions for six (figure 2). While the economy may have returned to growth, it's very early days into the recovery, and underlying momentum in the GDP data is likely to remain soggy.

All up, there's plenty of scope for a surprise in either direction and unpacking the signal from the noise will be key on the day.

Figure 2. Production GDP industry level forecast



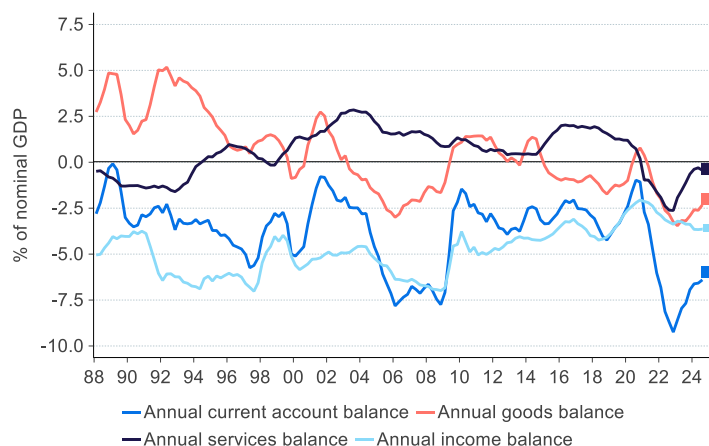
Source: Macrobond, ANZ Research

Q4 Balance of Payments Preview

Turning to the Balance of Payments, we expect the annual current account deficit narrowed 0.4%pts to 6.0% of GDP, largely reflecting a reduction in the goods deficit due to stronger export prices and a lift in volumes, while import demand fell. The services deficit is expected to narrow marginally, owing to the ongoing recovery in international tourism, while the income deficit is expected to remain broadly unchanged.

Overall, the current account deficit continues to move in the right direction, but that in part reflects cyclical weakness in import demand, and it remains uncertain how the recovery in domestic demand will impact the required continued narrowing in the medium term, given production constraints in our key export industries. Our medium-term forecast continues to be that the annual deficit will stabilise near 5%, well above the 3.0% of GDP level it averaged last decade.

Figure 3. Annual current account deficit forecast



Source: Stats NZ, Macrobond, ANZ Research

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