# Economic Bulletin.

12 June 2020

## Preview of Q1 GDP (18 June, 10:45am) and current account (17 June, 10:45am).

- We expect a 1% drop in GDP for the March quarter.
- The lockdown in the last week of the quarter, in response to the Covid-19 outbreak, will have had a very large but very uncertain impact on activity.
- There's also a great deal of uncertainty as to how this will be captured in the official statistics.
- We expect the current account deficit to narrow to 2.7% of GDP, with imports down sharply while exports largely held up.

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| | Dec-19 actual | Mar-20 Westpac f/c | Mar-20 RBNZ f/c |
|---|---|---|---|
| **GDP** | | | |
| Quarterly % chg | 0.5 | -1.0 | -2.4 |
| Annual % chg | 1.8 | 0.3 | -1.1 |
| Annual average % chg | 2.3 | 1.6 | 1.3 |
| **Balance of Payments** | | | |
| Current account balance $m, s.a. | -1,877 | -1,630 | -1,980 |
| Current account balance $m | -2,657 | 1,570 | - |
| Annual balance $m | -9,233 | -8,420 | -8,730 |
| Annual balance % of GDP | -3.0 | -2.7 | -2.8 |

The March quarter national accounts, released next week, will bear some of the impact of the escalating Covid-19 pandemic – though nowhere near as much as the June quarter will. We expect a 1% contraction in GDP, and a narrowing of the current account deficit due to a drop in imports.

The New Zealand economy looked to be in reasonable shape through much of the March quarter, though with pockets of weakness emerging in tourism and education as restrictions on international travel were imposed from early February. But as global Covid-19 cases soared and the virus started to make its way to our shores, the Government introduced an alert level system and then swiftly moved to its highest level, requiring self-isolation and a shutdown of non-essential businesses. We estimate that over the last week of the March quarter the economy was running at only two-thirds of its potential.

Our best guess is that without the lockdown period, we would have been forecasting a small positive for GDP growth for the quarter. But gauging the impact of the lockdown itself is difficult, in terms of both its true impact and of how it will be captured in the official series. Stats NZ has identified a number of issues for the measurement of GDP – for instance, some surveys are held before quarter-end, so will have missed the crucial lockdown period. They note that they have reviewed alternative data sources, and will adjust the activity figures where they feel it's appropriate (as they did with the building work survey earlier this week).

Consequently, the range of forecasts will vary widely. For example, the Treasury's Budget forecasts assumed a 0.7% decline, while the Reserve Bank's May *Monetary Policy Statement* projected a 2.4% drop. We suspect that our forecast of -1% will be around the middle of the range.

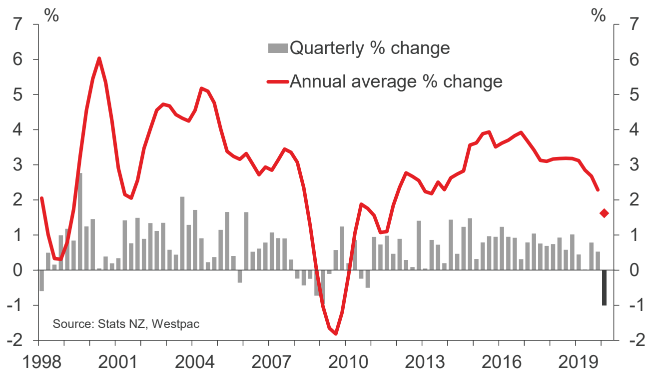
Turning to the details, we expect the drop in output to be widespread across sectors, though obviously with the greatest impact occurring in those areas that were directly affected by the travel restrictions (transport, hospitality, education) and those deemed non-essential during the lockdown (construction, non-food manufacturing, forestry, retail other than supermarkets). In contrast, we expect some pockets of growth in areas that actually saw increased demand during the lockdown (e.g. telecommunications) or had enough momentum beforehand to record a rise for the quarter as a whole (e.g. real estate).

We expect a drop in agricultural output due to the developing drought over the quarter. That aside, food production was one of the bright spots for the New Zealand economy during the lockdown, as much of it was declared to be 'essential' – especially among those producing for the export market.

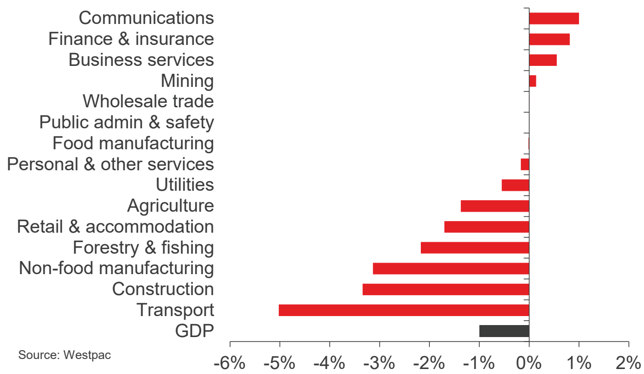
That will also shine through in Wednesday's current account release, where we expect the deficit to narrow from 3.0% to 2.7% of GDP. Exports actually rose over the quarter in seasonally adjusted terms, partly due to higher commodity prices and partly due to stronger volumes. Despite some concerns about closures in China early on, New Zealand has largely maintained its access to export markets during the pandemic.

In contrast, imports fell sharply in March (and have fallen further since), likely due to a combination of weaker domestic demand and global supply chain disruptions. The international travel restrictions saw both inbound and outbound tourism take a hit during the quarter, with the net result a small reduction in the services trade surplus.

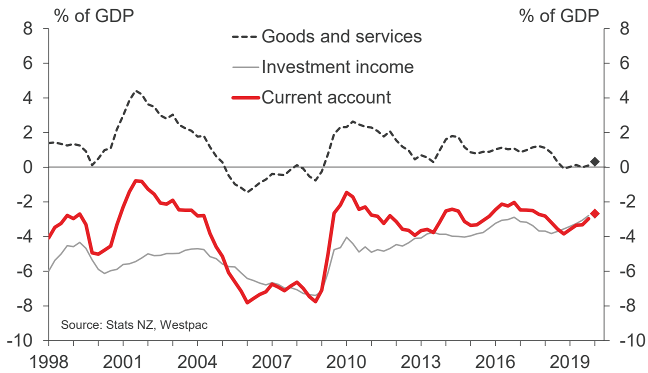
### GDP growth




### Q1 GDP forecasts by sector




### Annual current account balance



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