Economic Bulletin.

11 December 2020

Preview of Q3 GDP (17 Dec, 10:45am) and current account (16 Dec, 10:45am).

- We expect a 13% rise in GDP for the September quarter.
- New Zealand's economy rapidly bounced back into action as Covid-19 restrictions were lifted.
- Fiscal and monetary stimulus have helped to supercharge areas such as retailing, which has partly balanced out the weakness in those sectors exposed to the loss of international travel.
- We expect the current account deficit to narrow to just 0.8% of GDP. Import demand has slowed, while exports have been relatively steady.

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	Jun-20 actual	Sep-20 Westpac f/c	Sep-20 RBNZ f/c
GDP			
Quarterly % chg	-12.2	13.0	13.4
Annual % chg	-12.4	-1.7	-1.3
Annual average % chg	-2.0	-3.0	-2.9
Balance of Payments			
Current account balance $m	1,828	-3,440	-
Annual balance $m	-5,765	-2,570	-3,120
Annual balance % of GDP	-1.9	-0.8	-1.0

Next week's national accounts data will provide the most complete picture to date of the economy as it emerged from the Covid-19 lockdown. What we've seen so far points to a rapid rebound; we're expecting a 13% rise for the September quarter. While the Covid alert levels were temporarily increased during August and September, it appears that the impact this time around was largely to defer spending rather than prevent it.

On our forecasts, that would see GDP about 2% below where it was at the end of last year before the Covid shock. If we consider trend growth over that time, that puts the economy about 4-5% below where it would have been in the absence of Covid. That's about the size of the hole left by the loss of international travel while the country's borders remain closed. In other words, the rest of the domestic economy is already operating at something close to full speed.

Our forecast is close to the Reserve Bank's estimate of 13.4%, and is likely to be similar to other market forecasts. However, there seems to be some scepticism about whether this level of activity is sustainable, with some forecasters (including the RBNZ) predicting GDP declines over the next one or two quarters. We don't see any evidence to support that so far, but it is fair to say that further growth will be harder to eke out from here while the border remains closed.

Q3 GDP, 17 December.

We expect a 13% rise in the production measure of GDP, following a 12.2% plunge in the June quarter (and a 1.5% drop in the March quarter, with the Covid lockdown starting in the last week of March). The expenditure measure of GDP fared noticeably better in the June quarter with a drop of just 9.8%, so we expect the rebound on that measure to be somewhat smaller as well.

On the whole, our forecasts suggest that GDP is almost back to where it was at the end of last year, before the Covid shock. But the experience has varied greatly across sectors. Some areas such as forestry, construction and professional services are now back at pre-Covid levels or even higher. Some sectors like agriculture, food manufacturing and finance were deemed essential during the lockdown, and have been able to keep operating more or less as normal through this year.

The worst-performing sectors are those affected by the closure of the international border. That includes transport (especially air travel), hospitality, and administrative services (a category that includes travel agencies). While each of them will see some pickup from their June quarter lows, they remain down significantly on last year.

Meanwhile, some parts of the economy are running red-hot – particularly retail, which we estimate is about 9% up on its pre-Covid level. Some of this will be due to substitution. The closure of the border has also halted outbound tourism, so it appears that Kiwis are spending up in areas such as homewares and renovations instead.

In a way this is what government policy, and especially monetary policy, was meant to achieve. No amount of stimulus will revive international tourism, so it was necessary to supercharge other parts of the economy in order to avoid unacceptably low inflation and employment outcomes. That stimulus can be wound down as the border reopens, but we think it will be some time before visitor numbers return to their previous levels.

The September quarter GDP release will include a range of revisions going back several years, including the latest annual benchmarks and new data sources for some sectors. The biggest change will come from incorporating the 2018 Census results, which revealed a larger population (and hence more growth in recent years) than previously assumed.

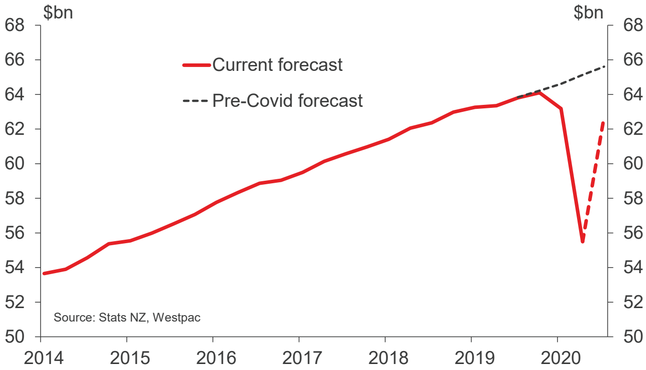
Q3 current account, 16 December.

The current account deficit narrowed by more than we expected in the June quarter, reaching 1.9% of GDP. We expect it to shrink further in the September quarter to just 0.8% of GDP, which would make it the smallest deficit since 2001.

The deficit tends to shrink during downturns as import demand falls, and that's been the case once again. While imports did pick up substantially in September compared to June, they were still well below pre-Covid levels. At the same time, goods exports have held up relatively well.

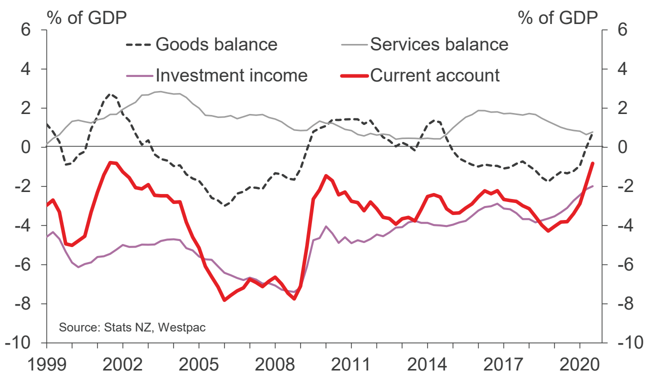
The balance of services improved slightly in the September quarter, after a sharp deterioration in June. Tourism and education have been hit hard by the border closure, but exports of business services picked up as the country moved out of lockdown.

Level of quarterly GDP



Annual current account balance

Annual current account balance



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