Economic Bulletin.

11 March 2021

Preview of Q4 GDP (18 Mar, 10:45am) and current account (17 Mar, 10:45am).

- We expect a 0.3% drop in GDP for the December quarter, after a 14% lift in September.
- Domestic activity has already returned to around pre-Covid levels, making further gains hard to come by while the international border remains closed.
- The absence of international tourism has disrupted the seasonal patterns in the data.
- We would expect to see weaker outturns in the spring and summer months, and higher than normal growth in winter.
- We expect the current account deficit to widen in the December quarter, due to the loss of tourist earnings and a rebound in demand for imports.

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	Sep-20 actual	Dec-20 Westpac f/c	Dec-20 RBNZ f/c
GDP			
Quarterly % chg	14.0	-0.3	0.0
Annual % chg	0.4	-0.1	0.3
Annual average % chg	-2.3	-2.8	-2.7
Balance of Payments			
Current account balance $m	-3,521	-3,300	-
Annual balance $m	-2,554	-3,150	-3,286
Annual balance % of GDP	-0.8	-1.0	-1.0

Q4 GDP, 18 March.

We estimate a 0.3% decline in GDP for the December quarter. That would leave it about the same level as a year ago, and more significantly, about 3% shy of where we would have expected the economy to be if Covid-19 hadn't happened. The more domestically focused sectors largely held their ground, but retailing and hospitality in particular saw a substantial pullback from their September quarter levels as the lack of international tourists hit home.

Our forecast appears to be at the low end of the market range. Many are picking a positive result, while the Reserve Bank assumed a zero in its most recent *Monetary Policy Statement*. A negative outturn may help to dampen the recent market enthusiasm towards 'inflation trades' and drag interest rates lower – indeed, they have already come off their highs in the last few days.

New Zealand saw one of the swiftest economic rebounds from the Covid shock last year, thanks to its successful elimination strategy. GDP rose by 14% in the September quarter, more than reversing the 11% drop during the lockdown and taking it to slightly above its pre-Covid level.

However, that momentum was always going to be difficult to maintain. The whopper September quarter result was partly because of catch-up spending as Covid restrictions were lifted, and partly because the loss of international tourism was less of an issue during the winter months.

Both of those factors had come home to roost by late 2020. Spending on credit and debit cards, which surged up until September, has drifted lower for the last five months in a row. The absence of international tourists has been much more noticeable over summer, when the number of people in the country normally peaks.

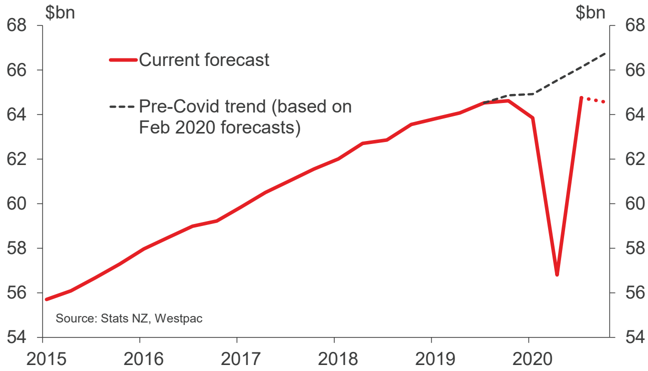
Our forecast is a bit stronger than our early estimate of a 0.7% decline. But at the same time, it's looking more likely now that we'll see a second consecutive drop in the March quarter. To be clear, that does not imply a second recession. We're still in the same downturn that began a year ago, coupled with a disruption to the usual seasonal patterns of activity. The flipside of this is that growth will look stronger than usual during winter, when there would normally have been a net outflow of people from the country. We're currently forecasting a 1.9% increase in GDP for the June quarter.

Q4 Balance of Payments, 17 March.

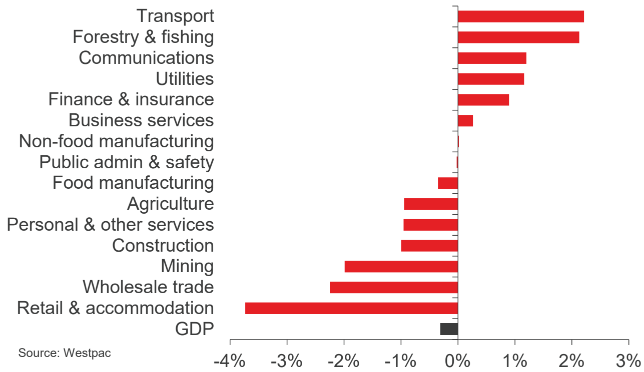
We expect the annual current account deficit to widen to 1.0% of GDP in the December quarter, after having narrowed to a 19-year low of 0.8% in September. The main factor is the lack of the usual lift in overseas visitor spending at this time of year. This will see the deficit widen further over 2021, with a broad-based resumption of overseas travel not expected to begin until early next year.

The balance of trade in goods remains – unusually – in surplus, although the gap is narrowing. We estimate that export volumes saw a solid 2.5% gain, lifting them above pre-Covid levels. However, this was outweighed by a further rebound in import volumes. Consumer and business demand has returned as the country has moved out of Covid restrictions, and firms that ran down their stocks in anticipation of a severe downturn are now having to restock.

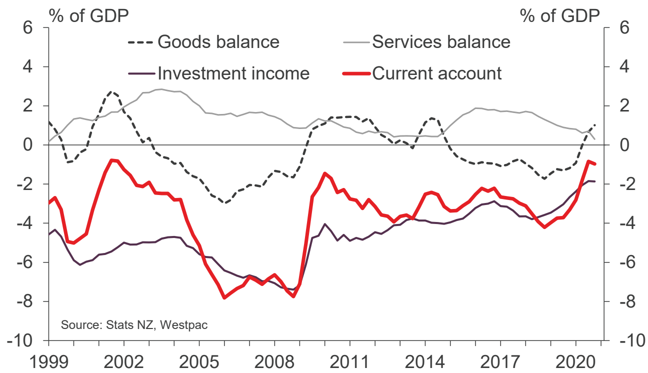
Level of quarterly GDP



Q4 GDP forecasts by production



Annual current account balance



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