

Economic Bulletin.

10 September 2021

Preview of Q2 GDP (16 September, 10:45am) and current account (15 September, 10:45am).

- We expect a 1.7% rise in GDP for the June quarter, after a 1.6% rise in March.
- Strong domestic demand continues to push growth higher with services now also joining the party.
- We expect the current account deficit to widen in the June quarter, due to the loss of tourist earnings and a continued rebound in demand for imports.

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	March-21 actual	June-21 Westpac f/c	June-21 RBNZ f/c
GDP			
Quarterly % chg	1.6	1.7	0.7
Annual % chg	2.4	16.8	15.6
Annual average % chg	-2.3	4.2	4.0
Balance of Payments			
Current account balance \$m	-5,021	-3,768	-3,940
Annual balance \$m	-7,241	-11,238	-11,500
Annual balance % of GDP	-2.2	-3.3	-3.4

Q2 GDP, 16 September.

We estimate that GDP rose by 1.7% in the June quarter, off the back of a 1.6% rise in the March quarter. The domestic economy continues to be a key engine for growth as demand for housing and durables remains strong. Figures for spending on services has also indicated it has continued the momentum we saw in the March quarter. This was likely helped by the Trans-Tasman travel bubble which was open for most of the June quarter.

There's a high degree of uncertainty around our forecast, given the challenges that Stats NZ faces in measuring the impact of Covid on activity. Stats NZ has also noted that there will be upward revisions of as much as 0.9% to the level of GDP since the pandemic, which will lift it even further above its pre-Covid levels.

Our forecast is at the high end of the range of market estimates. Financial markets appear to be braced for another solid lift in activity over the quarter, with a median forecast of 1.2%. An outcome of below 1% is likely to result in a larger move in swap markets than if it surprised to the upside.



In addition, a strong result would give the market greater confidence of a V-shaped recovery in Q4 as we head out of the latest lockdown.

We expect a much stronger result than the 0.7% rise that the Reserve Bank forecast in its August *Monetary Policy Statement* (which didn't have the benefit of the activity indicators that have been published recently). A result in line with our view would further bolster the RBNZ's willingness to start lifting interest rates once the risks around the current Covid outbreak have cleared.

In terms of the details, we expect the strongest contributions to come from sectors that benefited when the trans-Tasman bubble was open. These were transport (up 10.0%) and retail trade and accommodation (up 3.3%).

Household demand has continued to be an engine for economic growth, and we've continued to see strong figures from those sectors. Wholesale trade (up 3.0%), non-food manufacturing (up 1.8%) and construction (up 1.8%).

The main weak spots in March quarter activity were in a range of sectors which showed comparatively weaker growth rather than any meaningful contraction. Utilities are estimated to decline slightly as continued low hydro lake levels meant a greater reliance on more expensive sources such as coal. Other relatively subdued sectors include agriculture and finance.

Even though the figures from the June quarter GDP may seem stale, they still provide some value in telling us how hot the economy was running before we returned to a nationwide lockdown. Going into it, we were already facing capacity pressures due to supply constraints despite strong demand.

There is a great degree of confidence that economic activity will again recover sharply coming out of this year's lockdown. This is a sharp contrast than what was expected during the first lockdown of 2020. The expectation was we would see the largest fall of demand in history and that a recovery would take many years. But the successful elimination of Covid, along with highly accommodative monetary and fiscal policy, went a long way to limiting the shock to demand.

Q2 Balance of Payments, 15 September.

We expect the annual current account deficit to widen to 3.3% of GDP in the June quarter, from 2.2% in the March quarter. Essentially after the Covid distortions over 2020, the current account deficit is returning to around pre-pandemic levels.

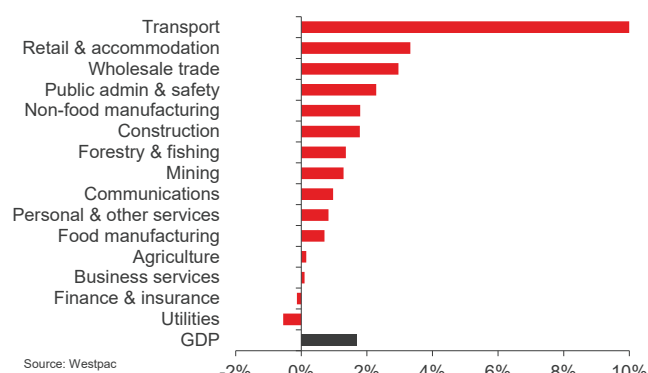
Looking at the detail, we expect the seasonally adjusted June quarter goods balance to narrow on a strong quarter for goods export values. That said, goods import values continue to be firm on the strength of the domestic economy.

Looking ahead (and through the current lockdown), we expect the current account to widen further on the strength of the domestic economy and the associated lift in import values. We expect the deficit to reach its widest point of around 4.4% in the second half of 2022.

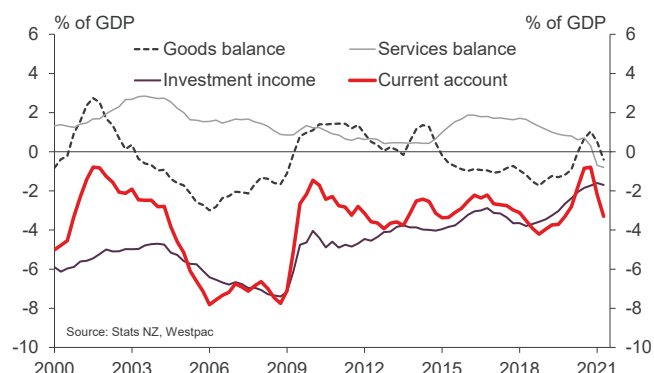
Level of quarterly GDP



Q2 GDP forecasts by production




Annual current account balance



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