WESTPAC ECONOMIC BULLETIN

GDP and BoP preview.

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Preview of Q3 GDP (16 December, 10:45am) and current account (15 December, 10:45am).

- We expect a 3% fall in GDP for the September quarter due to the Delta-induced lockdown. That comes after a 2.8% rise in the June quarter.
- Recent data has shown that the hit to activity in many sectors was far less than we saw last year, indicating that businesses were better prepared to operate under Covid restrictions this time around.
- We expect the current account deficit to widen in the September quarter, due to the ongoing absence of tourism earnings and a continued rebound in demand for imports.

	Jun-21 actual	Sep-21 Westpac f/c	Sep-21 RBNZ f/c
GDP			
Quarterly % chg	2.8	-3.0	-7.0
Annual % chg	17.4	-0.6	-4.2
Annual average % chg	5.1	4.7	3.7
Balance of Payments			
Current account balance $m	-2,975	-4,590	-3,970
Annual balance $m	-11,225	-15,050	-14,427
Annual balance % of GDP	-3.3	-4.4	-4.3

Q3 GDP, 16 December.

We estimate that GDP fell by 3% in the September quarter, off the back of a 2.8% rise in the June quarter. Economic activity was clearly running hot through the middle part of this year, until the discovery of an outbreak of the Delta variant saw the country go back into a strict lockdown from 18 August.

While a 3% drop in GDP would be a major concern in normal times, the context for it is well understood by now: activity was supressed due to public health restrictions, rather than a large hit to demand. As restrictions are eased, pent-up demand will again be unleashed and we'd expect to see a solid recovery in GDP in the following quarters.

Our final estimate of a 3% fall is a sizeable upgrade from our initial forecast of a 6% fall, which we detailed in our last Economic Overview. That earlier forecast was based on our assessment of how much activity would be restricted at Alert Level 4, Level 3 and so on. But as the data has rolled in, it's proven to be much less negative than we expected, which suggests that businesses were much better prepared to operate under Covid restrictions this time around.

It's worth noting that we saw a similar dynamic in Australia, which was also dealing with the spread of Delta over the September quarter. Our early estimate was for a 4% decline, later revised to a 2.5% drop as more data arrived, and the final result was -1.9%. New Zealand's lockdown conditions were tighter than in Australia, so it makes sense that the hit to activity would be larger here, while still being smaller than it was during last year's lockdown.

Our pick is likely to be at the less severe end of the range of forecasts. Financial markets appear to be braced for a drop in activity over the quarter of around 4%. The Reserve Bank forecast a 7% drop in its November Monetary Policy Statement, which didn't have the benefit of the activity indicators that have been published more recently.

An outcome of -3% or better is likely to result in a larger move in market interest rates than if it surprised to the downside, say -5% or worse. A strong result would give the market greater confidence the latest round of lockdowns didn't derail the economy, and that the inflation pressures that we've seen over the course of this year could become more persistent.

In terms of the details, the sectors that were most heavily impacted by restrictions will unsurprisingly see the largest declines. This includes accommodation and hospitality (down 16%), non-food manufacturing (down 11%) and construction (down 8.5%). Part of the reason why construction and non-food manufacturing were especially soft is that a large share of activity occurs in Auckland, which was at Alert Level 4 for longer than the rest of the country.

While most sectors will see a decline in activity, recent data suggests a surprisingly subdued impact in some cases. That includes wholesale trade, professional services and personal services. Those sectors most able to continue operating under Covid requirements, such as government, finance, and IT and communications, are expected to record gains.

The September quarter GDP release includes the usual annual benchmarking revisions and other updates, which means that the picture of the economy's recent performance will continue to evolve. Stats NZ has already noted that there will be modest upward revisions to GDP growth over the last few years, most significantly for the year to March 2020, just before the pandemic.

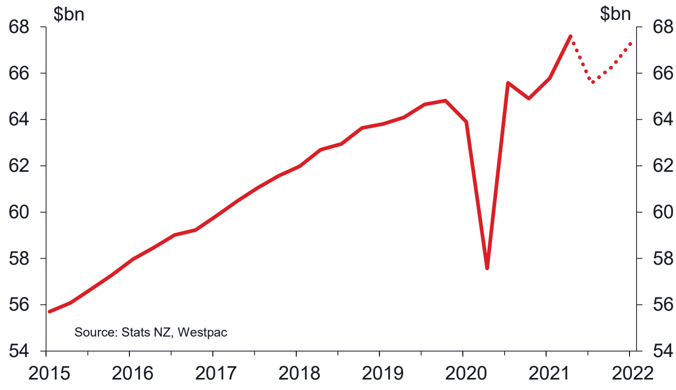
Q3 Balance of Payments, 15 December.

We expect the annual current account deficit to widen to 4.4% of GDP in the September quarter, from 3.2% in the June quarter. The widening of the deficit beyond the average level of recent years essentially reflects the hot New Zealand economy – we are, at least temporarily, living beyond our means.

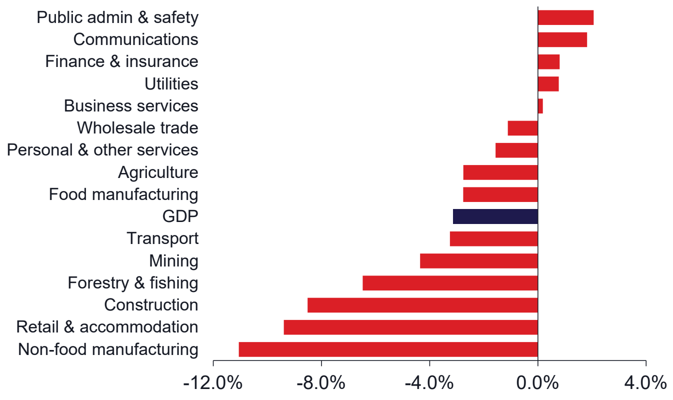
We expect the seasonally adjusted September quarter goods deficit to widen, as growth in imports raced ahead of exports growth over the quarter. The surge in global shipping costs has also added to the imports bill on the services side. Similarly, we expect the investment income deficit to widen, with rising global interest rates part of the catalyst for the wider deficit.

Looking ahead, we expect the current account to widen further on the strength of the domestic economy and the ongoing absence of tourism exports, at least in the short term. We expect the deficit to reach its widest point of around 6% in the second half of 2022.

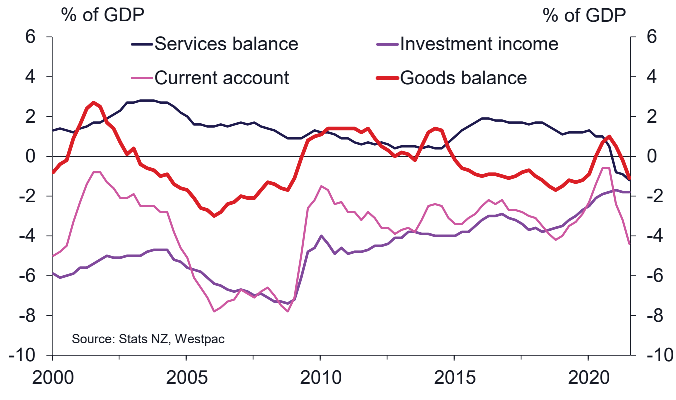
Level of quarterly GDP



Q3 GDP forecasts by production



Annual current account balance



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