WESTPAC ECONOMIC BULLETIN

GDP and BoP preview.

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Preview of Q4 GDP (17 March, 10:45am) and current account (16 March, 10:45am).

- We expect a 3.8% rise in GDP for the December quarter, almost fully reversing the drop that followed the Delta-induced lockdown last August.
- Production of physical goods saw the biggest rebound, while in-person services were more subdued, reflecting the ongoing public health restrictions over the quarter.
- GDP growth is likely to exceed the Reserve Bank's forecast of 2.3%. However, we think this reflects less of a drag from health restrictions than anticipated, rather than stronger than expected demand.
- We expect the current account deficit to widen further in the December quarter, as a rising import bill outstrips export earnings.

	Sep-21 actual	Dec-21 Westpac f/c	Dec-21 RBNZ f/c
GDP			
Quarterly % chg	-3.7	3.8	2.3
Annual % chg	-0.3	3.9	2.4
Annual average % chg	4.9	5.8	5.5
Balance of Payments			
Current account balance $m (s.a.)	-4,804	-5,880	-5,680
Annual balance $m	-15,862	-19,640	-18,740
Annual balance % of GDP	-4.6	-5.6	-5.4

The national accounts for the December 2021 quarter, to be released next week, are expected to show a strong rebound in activity following the Delta outbreak and the move into lockdown last August. We estimate a 3.8% rise in GDP for the December quarter, almost fully reversing the drop over the September quarter, and a further widening in the current account deficit as demand for imports outstripped export earnings.

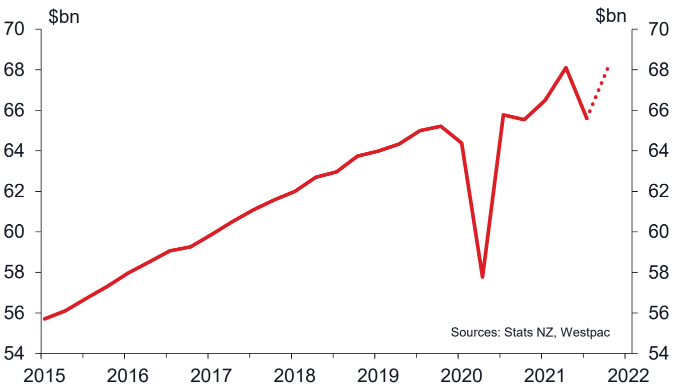
Our final forecast for GDP is a significant upgrade from our earlier estimates, reflecting the surprising strength of the sectoral data that was released in the last few days. We haven't seen how we compare with the range of market forecasts, but there are likely to be some upgrades on this front as well.

The Reserve Bank forecast a 2.3% rise in GDP in its February Monetary Policy Statement. The risks are now clearly to the upside of that, although the implications for monetary policy are less clear-cut. The RBNZ was expecting only a partial recovery in both actual and potential GDP – reflecting the Covid restrictions that were still in place to varying degrees over the quarter – but with activity still running above its non-inflationary potential. A stronger GDP result is more likely to indicate fewer restraints on activity than expected, rather than a greater degree of overheating.

Q4 GDP, 17 March.

The extent of the rebound in the December quarter data has come as a surprise to us. Keep in mind that the previous quarter was a game of two halves – the economy was going great guns in the first half, with the second half spent at varying Alert Levels (with Auckland in Level 4 lockdown for most of that time) in response to the Delta outbreak. That left a 3.7% hit to GDP over the September quarter as a whole.

Level of quarterly GDP



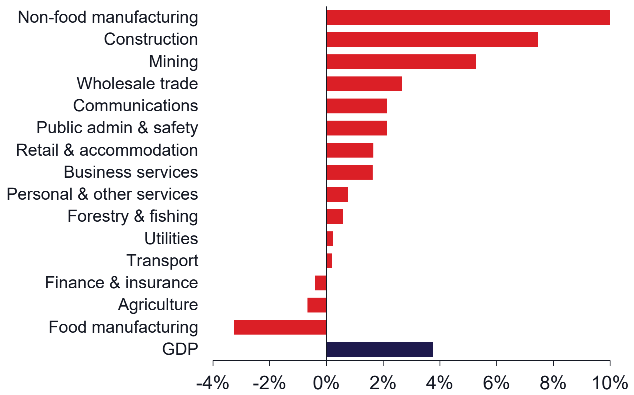
Meanwhile, the December quarter was characterised by a gradual easing of Covid restrictions, including the move from Alert Levels to the 'traffic light' system. However, at no point were health restrictions as permissive as they were prior to the Delta outbreak. This suggested that the average level of activity over the December quarter wouldn't be much higher than the September quarter average, and indeed, early indicators such as card spending seemed to confirm that. But more recent data has shown a marked resurgence in activity across many other sectors, particularly in the goods-producing sectors where Covid restrictions were less inhibiting.

Manufacturing (excluding food) was the biggest beneficiary of this, rebounding by around 10% over the quarter. We suspect that some of this also reflects a demand for stockbuilding, as firms look to shield themselves from potential disruptions to supply chains here and overseas. That's boosting production now, but there will be some payback for it in terms of future growth.

In-person services were more subdued, again reflecting the impact of the remaining Covid restrictions. We estimate that transport was fairly flat, and areas such as hospitality and recreational services appear to have retreated further over the quarter.

The other notable point of weakness is in food production. Milk collections were lower than usual for the quarter due to poor weather, and labour shortages appear to have weighed on output in horticulture and winemaking.

Q4 GDP forecast by production



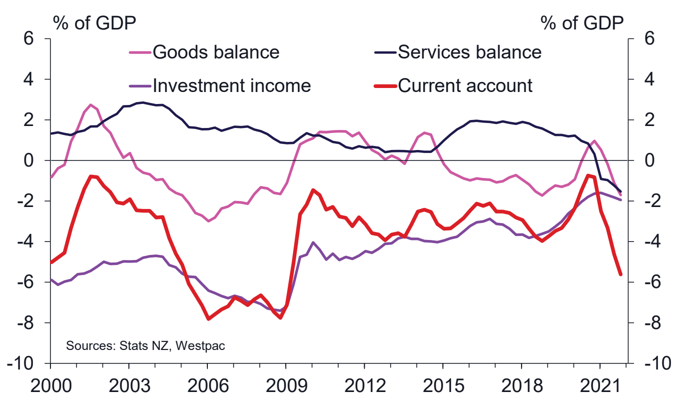
Q4 Balance of Payments, 16 March.

We expect the annual current account deficit to widen to 5.6% of GDP in the December quarter, from 4.6% in the September quarter. The widening of the deficit beyond the average level of recent years essentially reflects the strength of the New Zealand domestic economy and the fact that, at least temporarily, we are living beyond our means.

We expect the seasonally adjusted December quarter goods deficit to widen, as growth in imports continues to outpace exports growth. The surge in shipping costs and general global inflation is also adding to the imports bill on both the goods and services side. Similarly, we expect the investment income deficit to continue its recent widening, with rising global interest rates underlying this move.

Looking ahead, we expect the current account deficit to widen further on the strength of the domestic economy and the ongoing absence of tourism exports, at least in the short term. Rising global interest rates will also add to the deficit. We expect the deficit to reach its widest point of around 6.6% towards the end of 2022.

Annual current account balance



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