

Economic Note

Q4 2019 GDP Preview

12 March 2020

Outdated

- We expect Q4 GDP increased 0.6%, with annual growth slipping to 1.8%.
- The Q4 GDP release is essentially outdated information, with attention focused on how the economy will be impacted by the COVID-19 coronavirus pandemic.
- We expect no growth over H1 2020, uncertainty over the short-term economic outlook is very high and there is a strong risk of the NZ economic slipping into a technical recession.

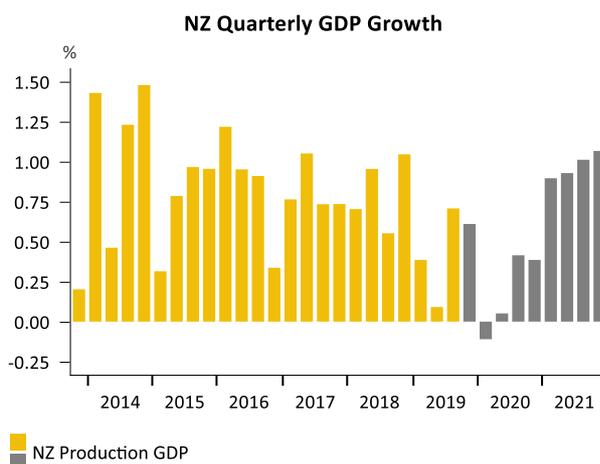
Summary & implications

Q4 GDP is released on Thursday 19th March at 10.45am and we expect quarterly growth of 0.6% vs the RBNZ's February MPS forecast of 0.4%. The COVID-19 coronavirus outbreak over the early months of 2020 has reshaped the NZ and global economic outlook, making Q4 2019 GDP outdated information and its publication will likely have little to no impact on financial markets and carry limited implications for policy makers. We expect no growth over H1 2020 as a result of the global spread of COVID-19. Uncertainties are very high and it's likely that growth may turn out to be even weaker than our current forecasts suggest. We expect the RBNZ will cut the OCR by 25 basis points apiece in March and May but acknowledge that the risks are quickly growing of a 50 basis point cut in March.

GDP - Dec 2019	Previous	ASB	RBNZ
quarterly % growth	0.7	0.6	0.4
annual % growth	2.3	1.8	1.6
annual average % growth	2.7	2.3	

Q4 GDP growth may have held up better than some indicators suggested

We expect Q4 GDP lifted by 0.6%, seeing annual growth slipping to 1.8%. The global coronavirus outbreak over the early months of 2020 has reshaped the NZ and global economic outlook, making Q4 2019 GDP outdated information and its publication will likely have little to no impact on financial markets and carry limited implications for policy makers.



Source: Macrobond, ASB

For the record, **the partial indicators for Q4 GDP were somewhat stronger than we had expected given the low level of business confidence and business activity indicators which prevailed over the quarter.** Business confidence had started to stabilise during Q4, and, on some measures, confidence had started to improve (albeit still at low levels).

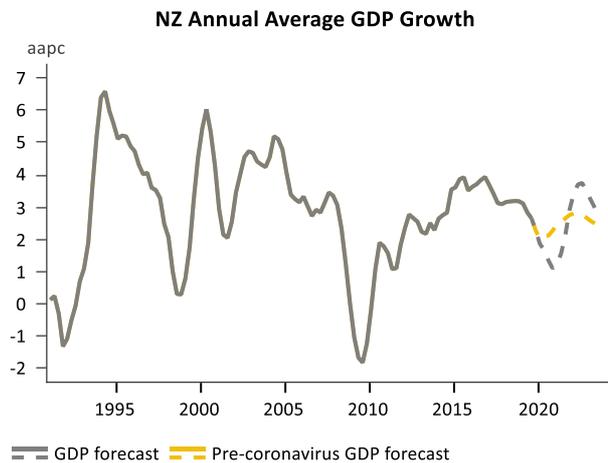
Retail and housing look to be pockets of strength

- **Retail trade** activity growth remained reasonable over Q4, building on top of strong growth in Q3.
- We have assumed some “payback” in **transport, postal and warehousing** after a sharp 2.4% drop in Q3.
- A lift in **housing market activity** is likely to support growth in real estate services.
- However, indicators suggest muted growth for **business services** (professional, scientific, technical, administration, and support) and arts and recreation and other services.
- We expect lower **forestry** output to be a drag on agricultural production. The forestry sector was already under pressure over 2019 due to an unexpected supply increase from Europe.

Coronavirus will halt H1 2020 GDP growth

For Q1 2020 we have pencilled in a 0.1% qoq contraction in GDP growth. This fall is largely due to a contraction in exports of services as the coronavirus outbreak in mainland China prompted a ban on Chinese visitor arrivals which make up 10% of NZ’s visitor arrivals. There will also be some impact on education services.

For Q2, we have pencilled in 0.1% qoq increase in GDP (essentially flat GDP over H1 2020), but it is far too early to say what the impact on NZ economic activity will be over Q2 as the situation continues to change dramatically on a daily basis. In any case, with global tourism demand slumping it’s likely to be another weak quarter for the economy (and quite possibly another negative quarter which would put NZ into a ‘technical’ recession). Only time will tell how the pandemic will impact the broader NZ economy, particularly from virus containment measures such as social distancing, cancelled events and business disruption.



Source: Macrobond, ASB

Policy support required from all

We recently lowered our growth forecasts to account for coronavirus disruption which is likely to weigh on both the NZ and global economy over 2020. Central banks around the world have leapt into action over the past few weeks, and we expect that the RBNZ will join the rate cutting chorus on March 25. The onus will continue to sit with the Government to support those sectors most impacted and help the economy get quickly back on its feet once the virus threat has peaked.

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist
Senior Rural Economist
Senior Economist, Wealth
Data & Publication Manager

Nick Tuffley
Jane Turner
Mark Smith
Mike Jones
Nathan Penny
Chris Tennent-Brown
Judith Pinto

nick.tuffley@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
mike.jones@asb.co.nz
nathan.penny@asb.co.nz
chris.tennent-brown@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5957
(649) 301 5657
(649) 301 5661
(649) 448 8778
(649) 301 5915
(649) 301 5660

www.asb.co.nz/economics

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