Economic Note

Q3 2020 GDP Review

17 December 2020

Truly epic recovery

- StatsNZ estimates that GDP lifted a whopping 14% in Q3, bouncing back from the previous quarter's sharp lockdown-induced decline and stronger than ASB, the RBNZ and the market median expectations.
- StatsNZ revised its estimate of the decline in Q2, to 11% from 12.2% previously published. All up, economic activity held up much better than expected and previously reported. Economic activity is now up 0.4% on year-ago levels, vs the market forecast of a 1.8% decline.
- The NZ economy looks to have been more resilient and has recovered from lockdown much faster than expected earlier this year. The key question going forward is whether momentum can be sustained.

Summary & implications

Q3 GDP was stronger than expected, lifting 14% qoq, vs. the ASB and market expectation of 13% and Reserve Bank of New Zealand (RBNZ) November Monetary Policy Statement (MPS) forecast of 13.4%. In addition, the size of the decline over Q1 and Q2 is now estimated to be smaller by 1.4 percentage points. All up, that leaves the economy up 0.4% on year-ago levels, compared to market expectations centred on a decline of around 1.8%.

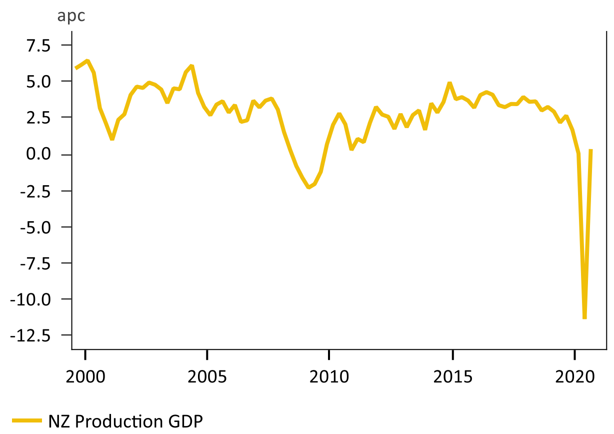
The NZ economy looks to have been even more resilient than expected and has recovered from the impact of the lockdown earlier this year, with quarterly GDP now above pre-COVID levels. This is a phenomenal result, and an achievement made by very few other countries in 2020. The key question going forward is whether the Q3 momentum can be sustained. Early Q4 indicators look promising, particularly retail spending and housing-related sectors. However, there are a number of headwinds, and this summer will test many tourist operators with international borders still effectively closed. Nonetheless, there is light at the end of the tunnel, with travel bubbles back on the agenda for early 2021 and the first wave of vaccines set to roll out over the coming months.

Details

Q3 GDP lifted 14%, compared to the ASB forecast and the market median expectation of 13% and the Reserve Bank of New Zealand's forecast of 13.4%. The larger bounce back, along with upward revisions to Q1 and Q2, means that Q3 GDP is 0.4% above year-ago levels, compared to ASB's expectation of -1.7% and the RBNZ's forecast of -1.3%.

The Q3 lift follows a fall of 11% in Q2, revised from its initial estimate of a 12.2% decline. The upward revisions were primarily in the services and primary industries. Meanwhile, StatsNZ also revised its 2017 estimates of GDP growth higher by about 0.5 percentage points – annual average growth for the year ended March 2018 has been revised higher to 3.6% from 3.1% previously published.

NZ Annual GDP % Growth



Source: Macrobond, ASB

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The key area of surprise in the Q3 data was a much stronger than expected lift in construction activity, up 52.4% vs our expectation of 33% lift (based off the lift in the previously-released building activity survey). StatsNZ noted that construction services were very strong over the quarter.

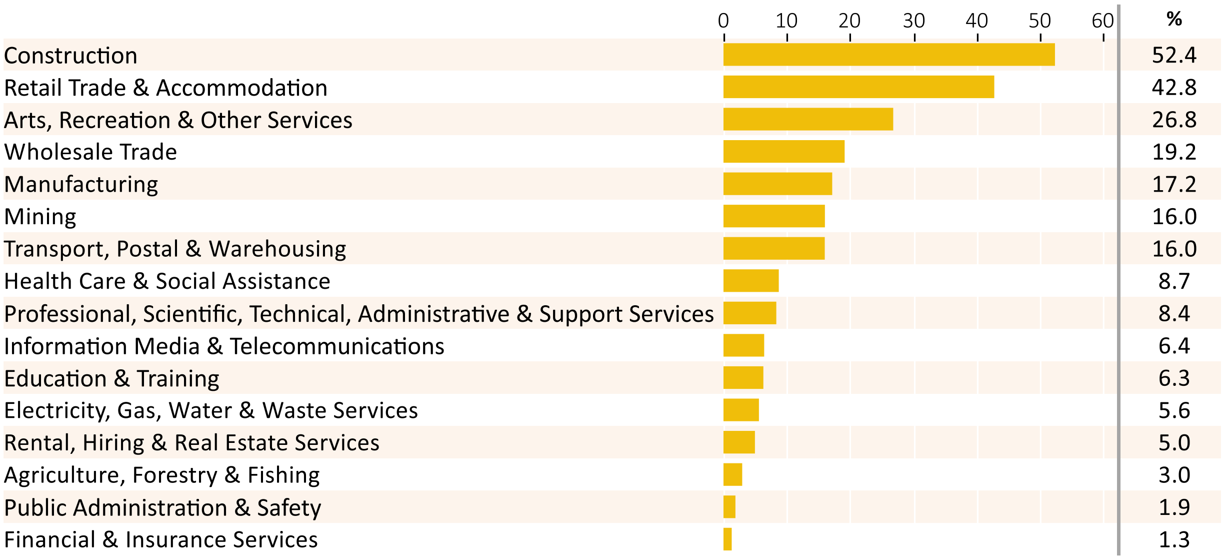
The lift in retail trade and accommodation was also stronger than expected, up 42.8% vs our expectation of a 35% recovery. This surprise strength was led by a stronger recovery in food and accommodation services than we expected (107% vs 64% expected).

Meanwhile, business services (professional, scientific, technical, admin and support) saw a more muted bounce back, up just 8.4% from a revised 11.5% fall. The partial recovery in this sector is somewhat surprising given the generalised strength across the rest of the economy.

Transport, postal and warehousing also saw a limited recovery, with activity only bouncing back 16% from a 39% decline in Q2. This weaker result is not surprising given the disruption to air travel, which continues due to the closure of international borders and the August resurgence reducing travel to and from Auckland.

Looking at activity relative to year-ago levels, the industries that are most impacted by COVID-19 remain a drag on the economic recovery, but this softer performance has been offset by stellar growth in industries elsewhere. The weaker sectors include transport, postal and warehousing (down 33%), mining (down 18%), business services (down 4%), education and training (down 3%) and arts, recreation and other services (down 4%). Meanwhile, construction (up 9%) and retail, trade and accommodation (up 8%) have recorded very strong growth over the past year.

NZ GDP by sector - quarterly %



Source: Macrobond, ASB

NZ's official GDP estimates are based off the production GDP methodology, but the expenditure estimate of GDP was even stronger – up 15.6% over the quarter and up 3.9% on year-ago levels. The lift in residential investment and a stronger net export contribution are key areas boosting growth by more than expected over Q3. There was also a 6.7% recovery in exports of services over Q3, where we expected activity to remain restrained by the lack of fresh overseas tourist inflows. Over the year, government spending and residential investment were the outperformers.

Outlook

The NZ economy recovered from the H1 2020 recession faster than initially expected. However, at the November MPS the RBNZ was unconvinced that this momentum would be sustained and forecast that the economy will re-enter recession over H1 2021. While we are not quite so downbeat, we do acknowledge that further growth over 2021 is likely to be relatively soft given a number of headwinds, including closed international borders and higher unemployment. But there are also a number of tailwinds supporting NZ growth, including a strong (goods) export sector, low interest rates and strong housing demand. Furthermore, many New Zealanders will be looking forward to a nice break over summer and, given the inability to travel overseas this past year, increased spending domestically may help fill in some of the hole left by dramatically fewer international visitors. The outlook still remains highly uncertain and we will be closely monitoring economic indicators and other readings on domestic and global growth. Early indicators for 2021 will be key in determining future policy direction for the RBNZ, but, given the sizeable degree of monetary and fiscal support in place and positive vaccine developments (providing light at the end of the tunnel for firms and households) we believe no further OCR cuts are needed.

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