RESEARCH

# Economy Watch

9 December 2021

# Q3 GDP Nowhere Near as Weak as Anticipated?

- **Today's "partials" point to Q3 GDP fall of "just" 4%**
- **Much less than the 7% drop we (and RBNZ) pencilled in**
- **As manufacturing, services not so negative**
- **Paring the bounce we can expect for Q4/Q1 GDP too**
- **But overall a stronger inflationary baseline**

As we wrote in Monday's BNZ Markets Outlook, "If we were to take a guess at the revision risk for our forecasts, we would say it's for less of a decline in Q3 GDP than we presently estimate." Well, we very likely got the direction right, but it seems we didn't know the half of it. This morning's gamut of "partials" suggest Q3 GDP will contract in the region of 4%, not the 7% we had pencilled in.

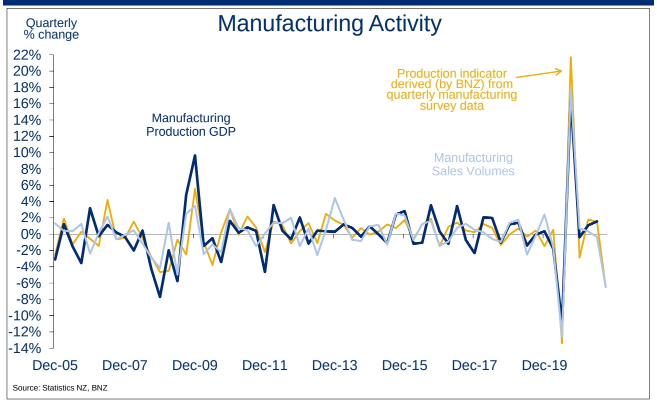
To be sure, this is not to say New Zealand hasn't been hurt that much by the recent round of COVID-related economic and social restrictions. The economy has certainly suffered (and in ways not captured by crude activity measures), and notably so in Auckland. Even if Q3 GDP does fall "just" 4%, or thereabouts, bear in mind half of the quarter pre-dated the COVID restrictions (which began mid-August). So, it would still imply the second half of Q3 must have dropped an awful lot more than 4%.

Rather, our point is that the fall has been not as much as we initially figured on. And, thus, not as much as the 7% drop that the RBNZ also estimated for Q3 GDP, in its November Monetary Policy Statement. A 3% upward revision to GDP forecasts is normally a huge deal when assessing annual growth, and we are doing this for just one quarter.

Yes, this also means we can't now forecast as much of a bounce for Q4 and Q1 GDP (something we'll have a closer look at, in due course). However, we can say with reasonable conviction that the net result is going to be a stronger thread to the level of GDP than we previously imagined. This reinforces the inflationary bias we already see (and helps rationalise the supply issues that businesses continue to lament).

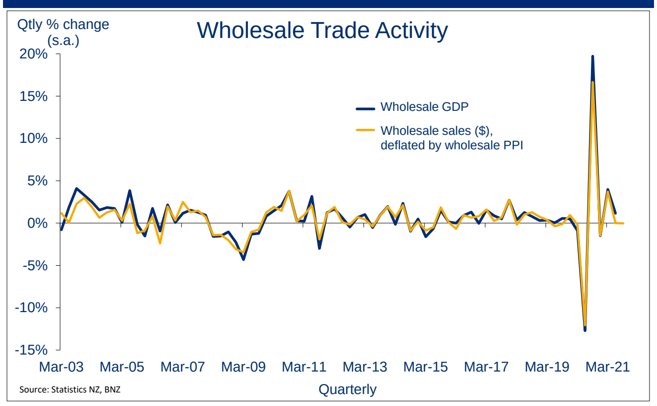
As for what drove our views on Q3 GDP, we can start with the well-known manufacturing sales (and inventory) data – as are now subsumed in the broader Business Financial Data release. These inferred a decline in that industry's output of 6.5%, partly as recovered stock levels offset the 8.6% reported fall in real sales. We anticipated a 10% drop in output.

Not So Bad



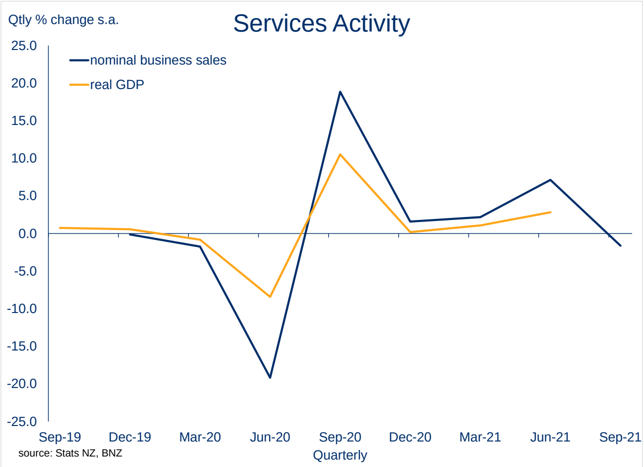

The bigger surprise for us was in wholesale trade. Its nominal sales expanded 1.8% in seasonally adjusted terms, implying a broadly flat result in real terms. We anticipated a sizable fall. This was partly a nod to the way retail trade fell 8.1% in the quarter, although we did wonder out loud if the positive signals on imports for Q3 will fill some gaps in wholesale activity. Turned out, it probably did.

Not Bad at All




Perhaps the most significant "partials", however, were the relatively new series pertaining to the services industry. These are starting to prove themselves as maps to GDP (when for the longest time there were very few indicators that analysts could hang their hat on, with respect to services). Yes, these new services series are expressed in terms of sales values (not volume value-add). And they are not a perfect fit component to component. However, in broad respect they suggested much less of a fall in services activity in Q3 than we had figured on.

## Holding Up




The Q3 GDP result is scheduled for release Thursday next week, 16 December. It will likely beat the Bank, big time – the Reserve Bank, that is. Also note that these national accounts will integrate the usual annual revisions, which look likely to boost the level of GDP over recent years, on balance.

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