

Balance of Payments – 2018Q4

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Bottom line

- The annual current account deficit was a touch narrower than expected in Q4 at 3.7% of GDP.
- **New Zealand's net international liability position** deteriorated by 3.4%pts of GDP to 57%, largely owing to negative valuation changes of offshore assets. To the extent that global equities have since recovered, this should reverse in Q1.

Key points

As is typically the case, the unadjusted quarterly current account deficit narrowed in Q4 (from \$6.2bn to \$3.3bn). The goods deficit narrowed as seasonal agricultural production gave exports a boost and imports remained broadly stable. Meanwhile, the unadjusted services balance flipped from deficit to surplus reflecting the seasonal lift in inbound tourists, and the income deficit narrowed marginally to \$2.5bn.

The annual deficit widened to \$11.0bn in Q4 from \$10.6bn in Q3, which saw the current account as a share of GDP tick up 0.1%pts to 3.7%, which is just a smidgeon above its historical average of 3.6%.

In seasonally adjusted terms, the quarterly current account deficit was unchanged from Q3 at \$2.5bn, \$0.4bn narrower than we had pencilled in. Data revisions accounted for \$0.1bn of the surprise, while a smaller widening in the goods deficit, a stable services surplus (versus expectations for a minor narrowing), and narrowing income deficit (versus expectations for a slight widening) explained the rest. Underpinning this:

- The goods balance narrowed by \$0.1bn with exports falling \$0.2bn to \$14.8bn (broadly as expected and as gains earlier in the year from solid agricultural production was maintained). Imports fell \$0.1bn to \$15.8bn (versus expectations for a small rise).
- The seasonally adjusted services surplus was broadly unchanged q/q, with both exports and imports rising \$0.1bn from Q3.
- The narrower income deficit (by \$0.1bn) was driven largely by the secondary balance shifting from a small deficit in Q3 to being broadly balanced.

New Zealand's net international liability position widened significantly from to \$156.3bn in Q3 to \$167.3bn (or from 53.6% of GDP to 57.0%). This was largely owing to valuation changes of offshore assets reflecting the global equity wobble late last year. Given valuation changes are calculated on a quarter-end basis, this should largely reverse in Q1.

Looking forward, we expect the annual current account deficit will remain around 4% of GDP over the next year or so, but as always there are a number of moving parts:

- The goods deficit is expected to narrow gradually as growth in imports slows and broad-based strength in exports continues. We know there is some price strength in the pipeline on the exports side, with the recent recovery in dairy prices yet to flow through to the trade data. While

Data summary

	Latest	Prev
Current account (\$m, actual)	-3,256	-6,175
Current account (\$m, sa)	-2,471	-2,494
Goods & Services (\$m, sa)	54	148
Primary & Second. Income (\$m)	-2,525	-2,641
Annual CAB (\$m)	-10,974	-10,565
as % of GDP	-3.7%	-3.6%
Net IIP (% GDP)	-57.0%	-53.6%

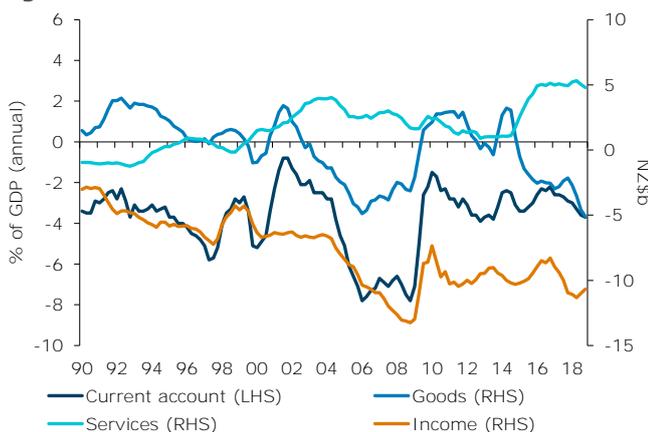
growth in milksolids production is slowing we don't see this providing a huge drag on values. In addition, slaughter weights are expected to be high this season, which should support meat export volumes from Q2. Prices of imported goods are likely to fall in Q1, given we didn't see the full extent of lower oil prices in the Q4 terms of trade. That said, lower prices are likely to support import volumes growth. Overall, migration-led domestic demand has given imports a significant boost this cycle, and with net inflows remaining buoyed, this is not expected to dissipate quickly.

- The services surplus is expected to narrow as tourist spending remains at a high level, but given the sector is bumping into capacity constraints, growth will struggle to accelerate. Meanwhile, demand by New Zealanders for travel abroad is expected to remain strong.
- Rising primary income outflows are expected to drive a gradual widening in the income deficit as higher global interest rates see international debt servicing costs lift.

That said, heightened global growth risks are casting a shadow over the outlook for New Zealand exports. Indeed, the global economy has already shed a bit of momentum over the past few months, but so far export prices have proven resilient. For dairy at least, the recent rebound in prices largely reflects slowing global supply. But typically, New Zealand's terms of trade follows the global economic cycle. So in this environment, caution among exporters is warranted. In addition, the tragic events that took place in Christchurch last week could see the services surplus narrow faster than expected if it deters overseas visitors from coming to New Zealand more than it deters New Zealanders from going on holiday abroad.

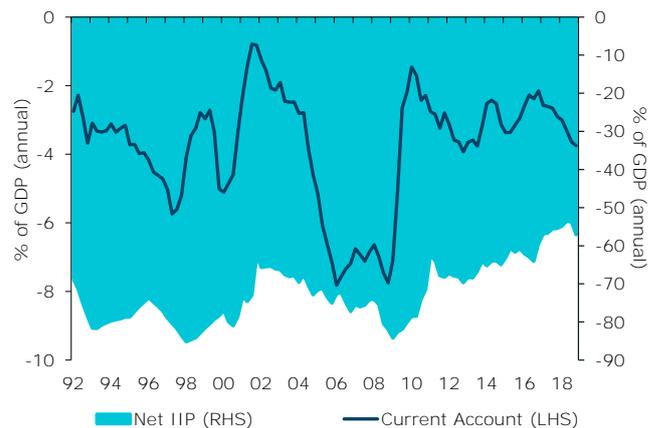
There are no major implications from today's data for tomorrow's real GDP figures. Softer-than-expected goods import values present some upside risk to the net exports contribution. However, not enough to change our expectations for a 0.8% q/q rise in expenditure GDP. We continue to expect a 0.6% q/q expansion in production GDP.

Figure 1. Annual current account balance



Source: Statistics NZ

Figure 2. Net international investment position





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