

Balance of Payments – 2019Q1

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Broadly stable

Bottom line

- The annual current account deficit narrowed from an upwardly revised \$11.2bn in Q4 to \$10.6bn in Q1 (or by 0.2%pts from 3.8% of GDP to 3.6%).
- As expected, **New Zealand's net international liability position** improved from Q4. The reduction of liabilities by \$4bn to -\$164.4bn occurred as quarter-end market valuations captured the recovery in global equities (and **NZ's international assets**) from late last year.

Key points

The annual current account deficit narrowed \$0.6bn from an upwardly revised Q4 to \$10.6bn in Q1. This saw the current account deficit as a share of GDP narrow from 3.8% to 3.6%, which is in line with its historical average. Given **we're late in what's largely been a** migration-led domestic demand-driven economic cycle, this hardly qualifies as a blowout – and we have low global interest rates and a buoyant export sector to thank for that, as well as a more subdued credit cycle.

As is typically the case, the unadjusted quarterly current account transitioned from deficit in Q4 to surplus in Q1 (from -\$3.5bn to \$0.7bn). This was slightly larger than the \$0.2bn surplus we had pencilled in. Much of the variance seems timing related, with revisions appearing to capture a large chunk.

The goods deficit flipped into surplus, reflecting an unwinding in seasonal import demand over the summer months and as exports remained robust on the back of still-high prices and solid agricultural production in recent quarters. While the OTI terms of trade suggest goods export prices did indeed fall in Q1, this was by less than the decline in import prices, with the net impact on the trade balance being positive.

The unadjusted services surplus widened from \$1.0bn in Q4 to \$3.0bn in Q1 as imports dipped (fewer kiwis go on overseas holidays when the weather back home is good) and exports lifted, reflecting the usual seasonal peak international tourism demand.

Contrary to our expectations, the primary income deficit narrowed (by \$0.2bn vs a \$0.3bn widening we had pencilled in), with revisions to Q4 once again causing a bit of noise. As expected, the secondary income balance widened from broadly zero in Q4 to a deficit of \$0.1bn.

In seasonally adjusted terms, the current account deficit was broadly stable in Q1, narrowing by just \$60m. A smaller goods deficit (on slightly softer imports) was offset by a smaller services surplus, which shrank by around \$0.1bn on the back of higher services imports.

As expected, **New Zealand's net international liability position (NILP)** improved (by \$4.0bn to \$164.4bn), largely reflecting a rebound in the value of offshore assets **following Q4's downward revaluation on the back of the** global equity wobble late last year. As a share of GDP the NILP fell 1.9%pts to 55.5%.

Data summary

	Latest	Prev
Current account (\$m, actual)	675	-3,492
Current account (\$m, sa)	-2,614	-2,674
Goods & Services (\$m, sa)	-87	-60
Primary & Second. Income (\$m)	-2,527	-2,615
Annual CAB (\$m)	-10,624	-11,210
as % of GDP	-3.6%	-3.8%
Net IIP (% GDP)	-55.5%	-57.4%

From here, we expect the annual current account deficit to remain broadly stable as a share of GDP for the next year or so, before gradually widening to a little over 4% by the end of 2021.

- On the goods side, recent strength in export volumes (following favourable weather conditions) is likely to unwind over the year ahead as weather conditions normalise, but with genetic gains providing some offset. We maintain a positive outlook for global export prices, but note global demand risks are skewed to the downside. Slowing population growth should see imports growth slow, despite modest growth in household incomes persisting. While a lower NZD is likely to discourage import demand and encourage a little more export production, other headwinds (such as credit conditions, regulation, and uncertain global demand) cap the upside.
- The services balance should get a bump from a weaker NZD, but spill-overs from the US-China trade war into consumer sentiment and discretionary spend (particularly in China), could prove too much of a headwind. Indeed, **visitor arrivals from China have been looking a bit soft of late. And that's not just New Zealand's experience.**
- The recent dovish tilt by global central banks suggests a more gradual widening in the income deficit is on the cards (on lower debt servicing costs). But with the stock of debt expected to keep lifting, income deficits will nonetheless remain a key feature of New Zealand's external accounts.

There are no obvious implications from today's data for tomorrow's real GDP figures. Total net exports (goods and services) are expected to drag on quarterly real expenditure GDP growth, but robust domestic activity should support a modest pickup in economic activity overall. We expect to see a 0.6% q/q lift in expenditure GDP and a 0.4% q/q expansion in production GDP.

Figure 1. Annual current account balance

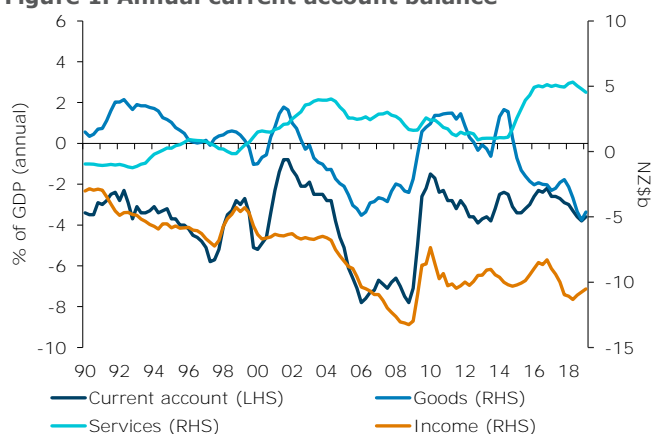


Figure 3. Net international investment position

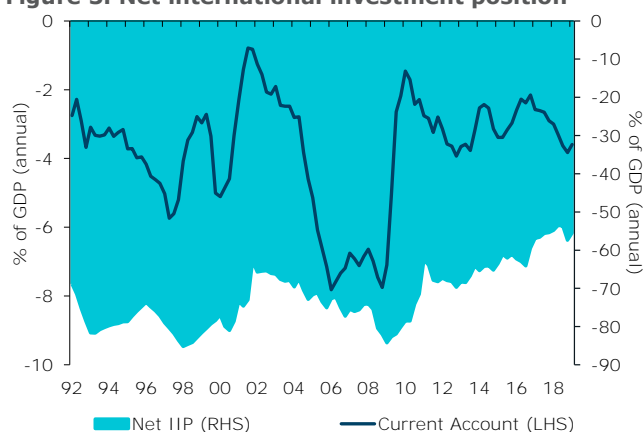


Figure 2. Funding the current account

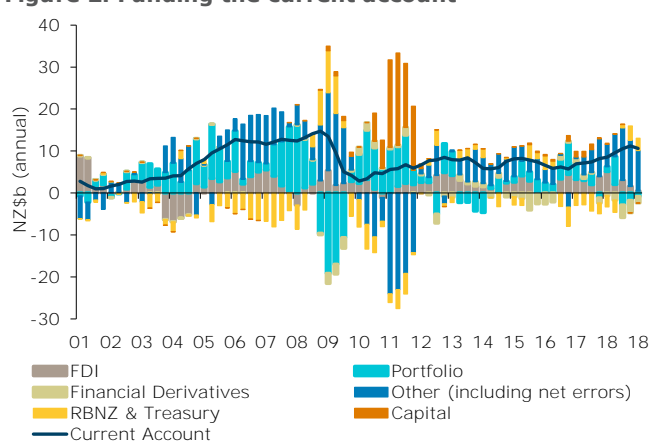
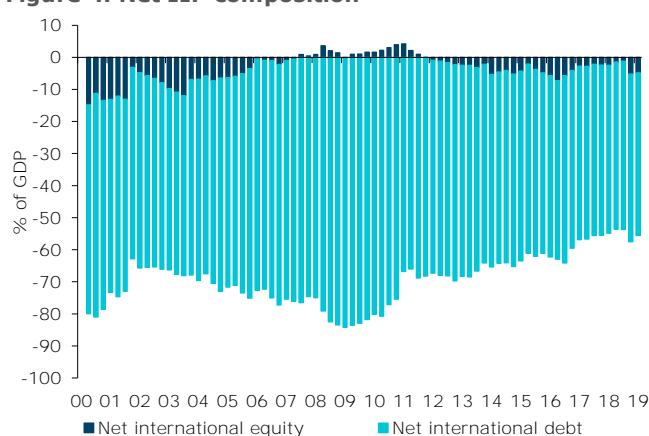


Figure 4. Net IIP composition



Source: Statistics NZ



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