ANZ Research

Balance of Payments – 2019Q2

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Pretty average

Bottom line

- The annual current account deficit narrowed from an upwardly revised $10.8bn in Q1 to $10.2bn in Q2 (or in ratio terms, by 0.2%pts from 3.6% of GDP to 3.4%).
- In seasonally adjusted terms, the current account deficit narrowed $0.1bn from Q1, led by a narrowing goods deficit, with exports posting a decent lift.
- New Zealand's net international liability position widened $2bn from Q1 to $165.9bn, but was broadly stable as a share of GDP at 55.3%.

Key points

The annual current account deficit narrowed $0.6bn in Q2 to $10.2bn from an upwardly revised level of $10.8bn in Q1. This saw the current account deficit as a share of GDP narrow from 3.6% to 3.4%, which was in line with our expectation and slightly below its historical average. That's hardly a blowout, given we're late in an economic cycle where domestic factors (particularly migration-led population growth) have been such a dominant feature.

That said, the composition remains skewed from historical norms. The goods balance posted a deficit of 1.3% of GDP, versus a long-run average of +0.8%, reflecting still-buoyed domestic demand. The services balance posted a surplus of 1.4% of GDP, above its historical average of +0.8%, which is a testament to solid growth in tourism exports over the past few years. And the income deficit of just 3.5% of GDP remains narrower than its historical average of 5.1%, reflecting low global interest rates.

As is typically the case, the unadjusted quarterly current account balance transitioned from surplus in Q1 to deficit in Q2 (from +$0.7bn to -$1.1bn). This was slightly narrower than the $1.3bn deficit we had pencilled in.

The unadjusted goods balance pushed further into surplus (from $0.2bn to $0.9bn), as imports lifted less than exports. Solid seasonal gains for fruit, meat and dairy exports contributed, and so too did the lift in the goods terms of trade (if the OTI is anything to go by), with meat prices benefiting from significant supply disruptions in China's pork industry.

The unadjusted services surplus narrowed from $3.0bn in Q1 to $0.6bn in Q2 as exports dipped from their seasonal peak and more kiwis went on overseas holidays to escape the winter.

The primary income deficit was stable at $2.4bn (we had pencilled in a widening in the quarter), but the total income deficit widened on the back of a $0.1bn widening in the secondary deficit.

In seasonally adjusted terms, the current account deficit narrowed $0.1bn from Q1, led by a $0.2bn narrowing in the goods deficit as the services surplus remained stable and the income deficit widened $0.1bn. The goods and services balance came in very close to our expectation, but the income deficit was narrower than our expectation.

Data summary

	Latest	Prev
Current account ($m, actual)	-1,106	721
Current account ($m, sa)	-2,381	-2,521
Goods & Services ($m, sa)	247	2
Primary & Second. Income ($m)	-2,628	-2,523
Annual CAB		
($m)	-10,234	-10,801
as % of GDP	-3.4%	-3.6%
Net IIP (% GDP)	-55.3%	-55.2%

New Zealand's net international liability position (NILP) was a bit more stable than has recently been the case, widening just 0.1%pt of GDP to 55.3% (or from $163.9bn to $165.9bn). Both assets and liabilities lifted in the quarter.

From here, we expect the annual current account deficit to gradually widen to around 4% of GDP by the end of 2021.

- On the goods side, waning domestic demand and the lower NZD are expected keep imports under pressure, supporting a slight narrowing of the goods deficit. But it's fair to say that the fragile global economic outlook presents a downside risk to our broadly flat terms of trade outlook. Then there's the usual weather-related risks that could impact agricultural production. On that front, we're expecting relatively "normal" weather conditions over the year ahead, which will see export volumes growth moderate somewhat, but ongoing genetics gains should provide an offset.
- Services exports will be supported by the weaker NZD, but with tourism a highly discretionary form of household spending and global growth waning, we expect the services surplus to narrow slightly over time.
- The recent dovish tilt by global central banks suggests the income deficit will remain contained. But with the stock of debt expected to continue lifting, we still foresee a gradual widening.

There are no obvious implications from today's data for tomorrow's real GDP figures. Total net exports (goods and services) are expected to make a small contribution to quarterly real expenditure GDP growth. We've pencilled in a 0.5% q/q lift for expenditure GDP and a 0.4% q/q expansion in production GDP.

Figure 1. Annual current account balance

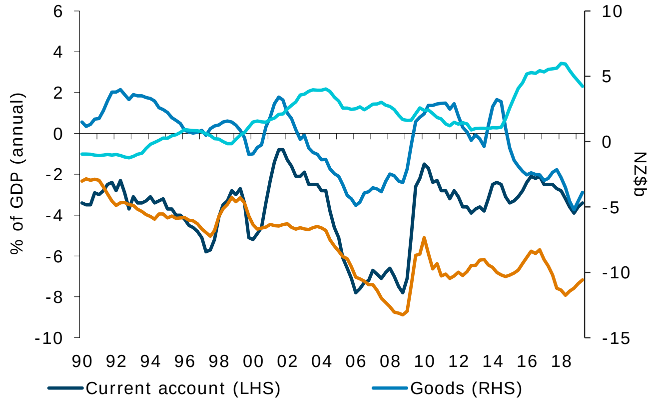


Figure 3. Net international investment position

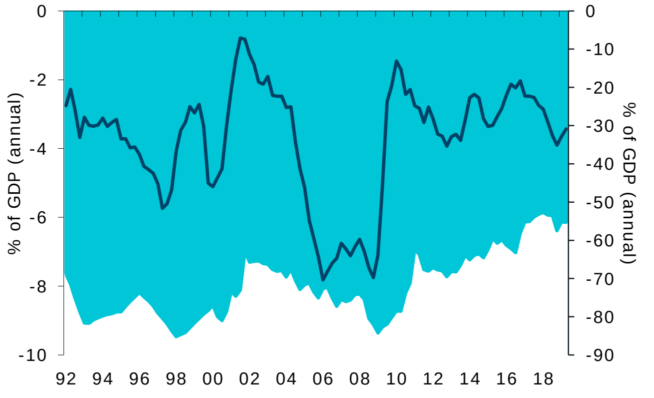


Figure 2. Funding the current account

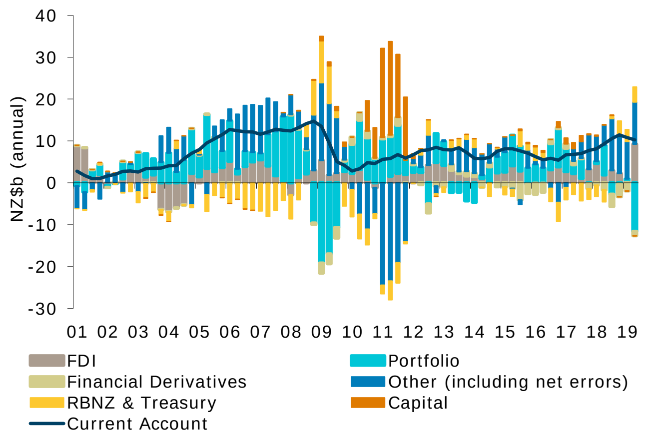
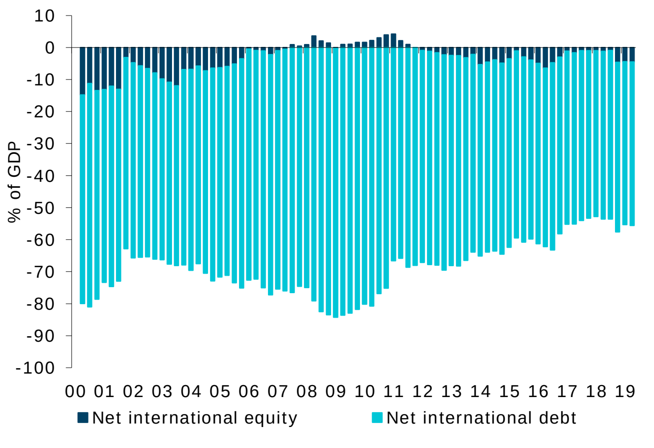


Figure 4. Net IIP composition



Source: Statistics NZ

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