ANZ Research

# Balance of Payments –2019Q3

18 December 2019

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Data summary

| | Latest | Prev |
|---|---|---|
| Current account ($m, actual) | -6,351 | -1,037 |
| Current account ($m, sa) | -2,681 | -2,342 |
| Goods & Services ($m, sa) | -318 | 282 |
| Primary & Second. Income ($m) | -2,363 | -2,624 |
| Annual CAB | | |
| ($m) | -10,280 | -10,164 |
| as % of GDP | -3.3% | -3.3% |
| Net IIP (% GDP) | -56.3% | -54.9% |

## Contained

### Bottom line

- The annual current account deficit widened slightly from $10.2bn in Q2 to $10.3bn in Q3. In ratio terms, it was unchanged at 3.3% of GDP.
- In seasonally adjusted terms, the current account deficit widened $0.3bn from Q2, led by a widening goods deficit, as exports fell and imports lifted.
- New Zealand's net international liability position widened $6bn from Q2 to $172.8bn, and widened 1.4%pts as a share of GDP to 56.3%.

### Key points

The annual current account deficit widened $0.1bn in Q3 to $10.3bn from $10.2bn in Q2. The current account deficit as a share of GDP was unchanged at 3.3% (with Q2 revised down from 3.4%), slightly below its historical average. Considering we're late in an economic cycle where domestic demand has been a key driver, we're in a reasonable position, with our external imbalances looking fairly contained.

Breaking down the composition of the current account, solid services exports and the impact of low interest rates on the income deficit are helping to partially offset a deteriorating goods deficit.

The goods balance posted a deficit of 1.4% of GDP, versus a long-run average of +0.7%, reflecting still-buoyed demand for imports on the back of robust domestic consumption. The services balance posted a surplus of 1.3% of GDP, above its historical average of +0.8%, supported by solid growth in tourism exports over the past few years (despite some recent slowing). And the income deficit of just 3.3% of GDP remains narrower than its historical average of 5.1%, reflecting low interest rates globally.

As is typically the case in the September quarter, the unadjusted quarterly current account balance pushed further into deficit (from -$1.0bn to -$6.4bn). This was slightly wider than the $6.2bn deficit we had pencilled in.

The unadjusted goods balance fell from surplus into deficit (from $0.9bn to -$3.5bn), as we expected, with exports falling and imports lifting. Log and dairy led the decline in goods exports, more than offsetting a lift in the goods terms of trade (if the OTI is anything to go by). Meat prices in particular are benefiting from significant supply disruptions in China's pork industry.

The unadjusted services surplus of $0.6bn in Q2 turned to a deficit of $0.5bn in Q3, almost entirely due to a fall in travel exports, coupled with a lift in travel imports.

The primary and secondary income deficits both narrowed $0.1bn in Q3, as expected, which saw the total income deficit also narrow.

In seasonally adjusted terms, the current account deficit widened $0.4bn from Q2, led by a $0.5bn widening in the goods deficit and a $0.1bn narrowing in the services surplus, partly offset by a $0.2bn narrowing in the income deficit. The goods and income deficits were a touch wider than our expectation, and the services surplus was a touch narrower, contributing to the widening in the current account deficit. That said, the current account deficit remained unchanged at 3.3% of GDP in ratio terms.

New Zealand's net international liability position (NILP) widened in Q3, but was revised a touch lower over history. The NILP widened 1.4%pts from a downwardly revised 54.9% of GDP to 56.3% (or from $166.7bn to $172.8bn). Liabilities lifted more than assets in the quarter.

From here, we expect the annual current account deficit to widen slightly over the year ahead (to a little below 4% of GDP) and remain contained around that level thereafter.

- The goods deficit is expected to remain broadly stable as a share of GDP. The lower NZD should dampen growth in import volumes, but softer global growth should keep world import prices subdued, providing an offset. Still-elevated net migration and a buoyant household sector will suck in the imports. On the exports side, constrained global dairy supply and demand for pork alternatives in China should keep meat and dairy prices elevated (more than offsetting slightly weaker NZ dairy production this season). But downside risks from weaker global demand remain.
- The services surplus is expected to narrow slightly. Despite the weaker NZD, tourism exports are expected to struggle as visitor arrivals from China remain below previous levels.
- Low global interest rates are expected to keep the income deficit contained. But with the stock of debt expected to lift gradually, 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 drag on real expenditure GDP growth in the quarter, owing largely to weak export volumes. We've pencilled in a 0.5% q/q lift for both expenditure and production GDP in Q3.

**Figure 1. Annual current account balance**

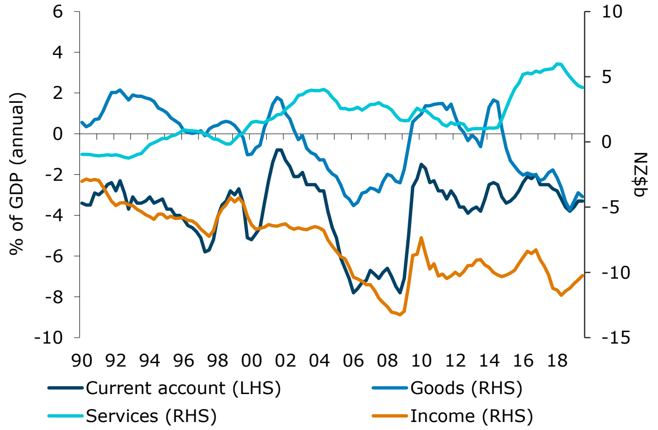



**Figure 3. Net international investment position**

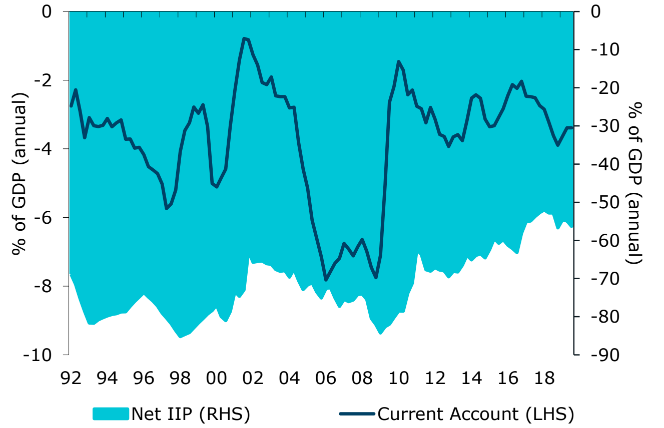



**Figure 2. Funding the current account**

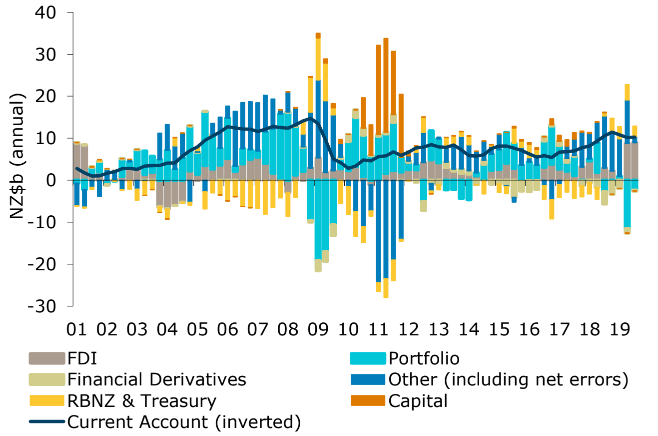
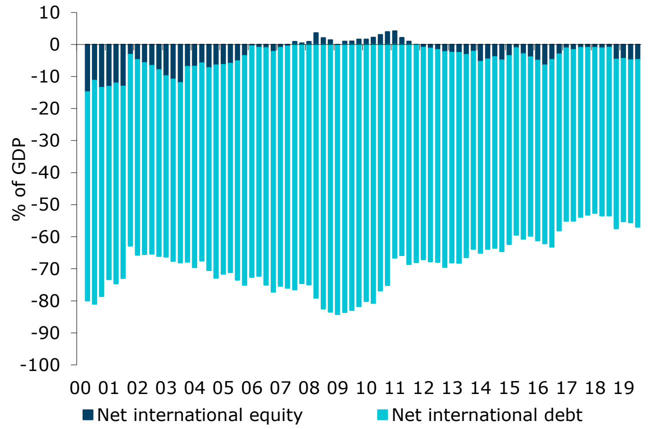



**Figure 4. Net IIP composition**




Source: Statistics NZ

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