

Balance of Payments –2019Q4

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Data summary

	Latest	Prev
Current account (\$m, actual)	-2,657	-6,260
Current account (\$m, sa)	-1,877	-2,522
Goods & Services (\$m, sa)	251	-226
Primary & Second. Income (\$m)	-2,128	-2,296
Annual CAB (\$m)	-9,233	-10,189
as % of GDP	-3.0%	-3.3%
Net IIP (% GDP)	-54.9%	-55.8%

Entering the slowdown

Bottom line

- We have entered this unprecedented global slowdown with a contained current account deficit of 3.0% of GDP in Q4 (from 3.3% in Q3).
- The current account may widen from here as the downturn unfolds, with a significant blow to export industries underway.

Key points

According to the December quarter Balance of Payments:

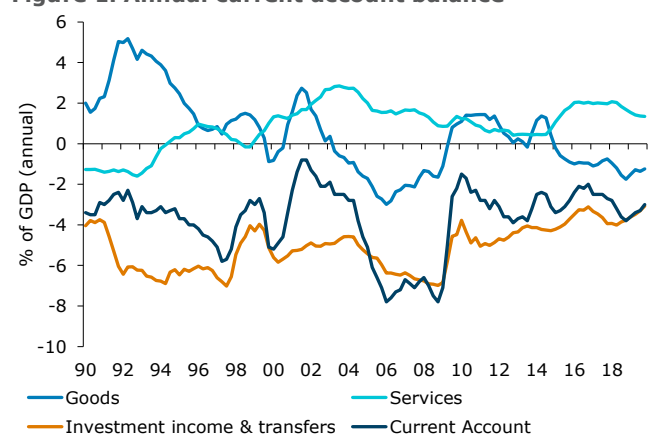
- The unadjusted quarterly current account balance narrowed to \$2.7bn from \$6bn. In seasonally adjusted terms, it narrowed \$0.6bn.
- Goods, services and income balances all narrowed, but stronger goods exports (especially dairy and meat) was the biggest driver.
- The annual current account deficit narrowed to \$9.2bn from \$10.2bn.
- As a share of GDP, it narrowed to 3.0% from 3.3%.
- The NILP narrowed 0.9%pts to 54.9% of GDP.

The external balances have been broadly stable recently. But now we are entering an unprecedented synchronised global slowdown. As this unfolds, the current account is expected to widen over the coming year, though there are a lot of offsetting forces at play. The income deficit will narrow a little with global interest rates now slashed. But this is expected to be overwhelmed by a slump in global trade. Goods export revenues will take a big hit, with weaker volumes and prices offsetting weaker imports. And although we typically run a services surplus, this is expected to vanish with international travel having ground to a halt.

The global impact is of course widespread, so it is a race to the bottom for currencies. The NZD has slid lower and we think further weakness will come, given New Zealand's export dependence and with the RBNZ expected to conduct quantitative easing in the not-too-distant future.

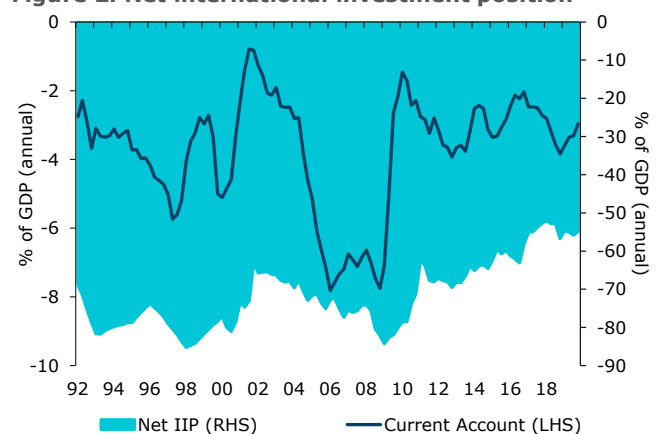
Eventually, we expect a recovery in exports when global demand picks up and trade resumes. But there is a lot of water to go under the bridge before that happens, with the slowdown likely to be protracted.

Figure 1. Annual current account balance



Source: Statistics NZ

Figure 2. Net international investment position





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