ANZ Research

Balance of Payments –Q4 2022

15 March 2023

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Out of balance

Bottom line

- The annual current account deficit hit its widest level in the history of these data in Q4 2022 – at a whopping -8.9% of GDP.
- New Zealand's net international liability position narrowed $1.6bn from Q3 to a still-whopping $192.9bn. As a share of GDP it narrowed 1.4ppt to 50.7%.
- All up, this isn't welcome news from an external balance perspective, but the outlook is for the current account to narrow as domestic demand softens and international tourism and education exports continue to recover.

Key points

The annual current account deficit widened by $1.9bn in Q4 to $33.8bn. As a share of GDP it widened from 8.5% in Q3 (which was revised wider from 7.9%) to 8.9% in Q4. Q4 marks the widest recorded deficit since these data began in the 1980s.

How did we get here?

1. The services balance (exports less imports) flipped from surplus to deficit in the wake of the border closure, which annihilated international tourism and education exports. Fewer Kiwis going on holiday abroad provided a partial offset, but because services imports are less concentrated in travel-related services, the closed border had a smaller impact on imports compared to exports. The good news is that on a seasonally adjusted quarterly basis, the services balance improved in Q4 thanks to the return of international tourists (the quarterly seasonally adjusted deficit was -$1.3bn vs -$1.7bn in Q3). In other words, we're past the worst on the services side now that international tourists are back. But it'll be a long road to recovery. Given ongoing growth in services imports, it's likely that services exports will need to recover beyond their pre-pandemic level before the services balance is back in surplus.
2. The annual goods balance deteriorated after exports have struggled in the wake of bad weather, pending regulatory change, labour constraints, and shipping disruptions. Falling export prices relative to import prices (a weaker terms of trade) have also weighed over the past year. Robust imports have been a key theme post pandemic, as fiscal and monetary stimulus bolstered domestic demand, and a portion of that was met from imported goods. In Q4, annual goods exports came in at $72.8bn vs imports at $85.3bn. On a quarterly seasonally adjusted basis, the goods deficit widened by $1.3bn to $3.9bn.
3. The primary income deficit widened more than we expected on a quarter-on-quarter basis (from $2.8bn in Q3 to $3.4bn in Q4), sitting at -$11.9bn annually. An outlook for rising global interest rates means this is expected to widen further over coming quarters.

Contact

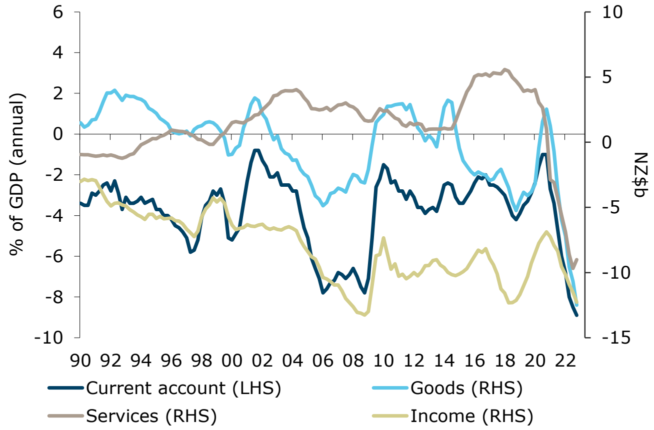
Miles Workman for more details.

Confused by acronyms or jargon? See a glossary here.

Data summary

	Latest	Prev
Current account ($m, actual)	-9,458	-11,401
Current account ($m, sa)	-8,514	-7,130
Goods & Services ($m, sa)	-5,155	-4,263
Primary & Second. Income ($m)	-3,359	-2,867
Annual CAB		
($m)	-33,787	-31,873
as % of GDP	-8.9	-8.5
Net IIP (% GDP)	-50.7	-52.1

Figure 1. Current account



Source: Stats NZ

So why does the current account matter?

New Zealand isn't the best saver in the world, meaning it's an economy dependant on foreign capital to meet some of its investment demand. The result: persistent current account deficits, which have tended to run at around 3-4% of GDP in 'normal times'. Provided this foreign capital is put to productive use, running a deficit may not be a bad thing as it can grow the economic pie, making all parties better off. But when the deficit widens, as it has in the wake of the pandemic, there is a greater risk that foreign capital is allocated less efficiently than otherwise. Should something go wrong and foreign creditors reassess the risks, New Zealand may find itself needing to live within its means very quickly, or face potentially unsustainable borrowing costs. In other words, both private and public sector activity could face a sharp adjustment, damaging confidence.

Bottom line: the current account provides an indication of whether or not an economy is living within its means, and New Zealand's deficit suggests it hasn't been. However, reopened borders and monetary tightening (which will weigh on domestic demand and therefore imports) mean the deficit should narrow over time, and that's something Sovereign credit rating agencies should be keeping in mind as they assess NZ's external sector sustainability.

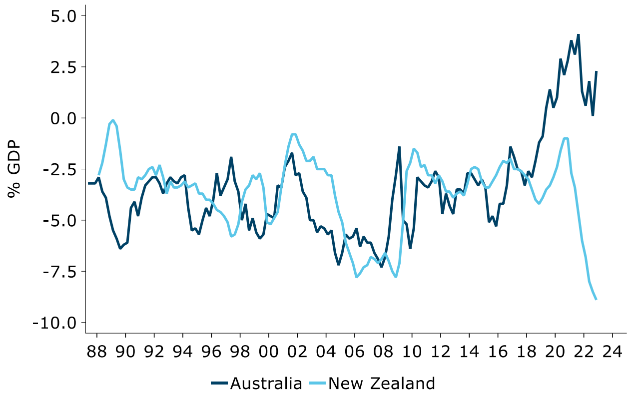
Stocks vs flows

New Zealand is a net borrower from the rest of the world, and this is reflected in the net international investment position (NIIP). All else equal (ie. ignoring valuation changes on both the asset and liability sides of the ledger), the net liability position increases with the current account deficit. That is, the NIIP is the stock measure, and the current account balance is the flow. In practice, valuation changes can be sizable, and have tended to favour New Zealand's NIIP over the past decade (and as it turns drove an improvement in Q4 as well). But in tumultuous times like these, positive net valuation changes can't be relied on to persist. As at Q4 2022, New Zealand's net liability position was sitting at $192.9bn (50.7% of GDP).

Compared to Australia, which has been running sizable current account surpluses for the past few years (figure 2, over), New Zealand's deficits are significant. And from a position of parity in 2019, the gap between New Zealand's and Australia's NIIP has widened – around -36% of GDP vs NZ's -50.7% (figure 3, over).

All up, New Zealand's external balance suggests inflation isn't the only reason for monetary tightening to guide the economy towards a more sustainable path. It should also act as a constraint against excess fiscal expansion, showing that while Government debt is relatively low from an international perspective, NZ-wide debt is not.

Figure 2. Annual current account deficit



Source: Stats NZ, ABS, Bloomberg, Macrobond, ANZ Research

Figure 3. Net international investment position

Source: Stats NZ, ABS, BEA, ONS, Macrobond, ANZ Research

Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Finn Robinson
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: finn.robinson@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

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