20 June 2018

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DATA SUMMARY

<table>
<thead>
<tr>
<th></th>
<th>Latest</th>
<th>Prev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account</td>
<td>182</td>
<td>-2,745</td>
</tr>
<tr>
<td>($m, actual)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account</td>
<td>-3,048</td>
<td>-2,005</td>
</tr>
<tr>
<td>($m, sa)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods &amp; Services</td>
<td>-485</td>
<td>660</td>
</tr>
<tr>
<td>($m, sa)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary &amp; Second.</td>
<td>-2,563</td>
<td>-2,665</td>
</tr>
<tr>
<td>Income ($m)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual CAB</td>
<td>-7,910</td>
<td>-7,697</td>
</tr>
<tr>
<td>($m)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>as % of GDP</td>
<td>-2.8%</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Net IIP (% GDP)</td>
<td>-54.5%</td>
<td>-55.4%</td>
</tr>
</tbody>
</table>

WIDE LOAD

BOTTOM LINE

- The unadjusted current account deficit was slightly larger than expected in Q1, which saw a widening of the annual balance to 2.8% of GDP.
- External balance sheet measures continue to look solid. Net international liabilities shrunk $0.8bn from Q4 to $156.1bn (now at 54.5% of GDP).

KEY POINTS

- As it typically does in Q1, the unadjusted current account balance flipped from deficit to surplus (to +$0.2bn from -$2.8bn in Q4). However, this was a slightly narrower surplus than we expected (by $0.1bn), contributing to a slightly wider annual deficit than we had pencilled in, at 2.8% of GDP ($7.9bn). Despite the small surprise in today’s release, the deficit remains well below its historical average of 3.6% of GDP.
- In seasonally adjusted terms, the current account deficit widened by $1.0bn to $3.0bn. As expected, this was driven entirely by the goods balance, which slipped $1.2bn to a deficit of $0.5bn, as ongoing solid broad-based import demand combined with higher oil prices and volumes, while exports softened on lower dairy prices and meat volumes. The services surplus lifted $0.1bn to $1.3bn, supported by a similar lift in travel services exports, reflecting a solid season for the tourism sector. The income deficit narrowed $0.1bn to $2.6bn, with a $0.3bn narrowing in the primary deficit partially offset by a $0.2bn slip in the secondary balance. At $2.6bn, the income deficit remains the largest component of New Zealand’s current balance, as it always has.
- The external balance sheet continues to look in reasonable shape (by New Zealand’s standards at least). The net international liability position fell by $0.8bn to $156.1bn, driven largely by valuation changes and net exchange rate changes. However, as a share of GDP it lifted 0.1%pts to 54.5%, suggesting the possibility of a soft nominal GDP print tomorrow.
- Whether the current account deficit is on the verge of widening further is looking more like an open question at present. On the one hand, world prices for NZ exports are elevated on the back of strong global demand (particularly from China), and NZD depreciation is supporting exporter incomes and making imports less attractive at the margin. And we expect some of the weakness on the export side in Q1 to be temporary. On the other hand, broadening global inflationary pressures and higher oil prices are keeping the terms of trade in check (the OTI terms of trade fell 1.9% in Q1). And further out, risks of escalating global trade tensions (while there could be some near-term positives for NZ) could see global trade flows slow, driving a material slowdown in global growth and therefore demand for NZ exports.
- In addition to above, rising global interest rates are expected to drive a widening of the income deficit in time. The key question is that given a) we’re in a world of lower global neutral interest rates; b) our international net debt position has significantly improved over the past decade; and c) the maturity profile of our international debt has lengthened considerably from what it was 10 years ago, how much and how quickly will the deficit widen?
- There are no obvious implications from today’s data for tomorrow’s real GDP figures. We expect to see a 0.4% q/q expansion in production GDP, with net exports dragging on real expenditure GDP.
2018Q1 BALANCE OF PAYMENTS

Figure 1. Annual current account balance

Figure 2. Funding the current account

Figure 3. Net international investment position

Figure 4. Net IIP composition

Source: ANZ, Statistics NZ
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