SLIGHTLY WIDER

BOTTOM LINE

- The unadjusted current account deficit was slightly larger than expected in Q4, which saw a widening of the annual balance to 2.7% of GDP.
- External balance sheet measures continue to look solid, by New Zealand’s standards at least, but we still believe there is something of a current account/external balance sheet constraint in play at present, which is acting as a limiting force on growth.

KEY POINTS

- As it typically does, the unadjusted current account deficit narrowed in Q4 (to $2.8bn, from $4.8bn). This was a slightly larger deficit than expectations, leading to a widening of the annual deficit to 2.7% of GDP from a revised 2.5% (previously 2.6%) in Q3. 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 $0.4bn to $2.0bn. The widening was driven entirely by a widening goods deficit to $0.5bn from $0.1bn in Q3, with strong imports offsetting a solid rise in exports. The services surplus remained stable at $1.2bn. Travel services exports lifted 1.4%, reflecting a thriving NZ tourism sector. The income deficit remained broadly stable overall, with offsetting movements across the primary and secondary balance. At $2.7bn, 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). In large part due to valuation changes, the net international liability position fell by almost $1bn to $155.2bn. As a share of GDP, it fell to 54.8% - a new record low.
- We believe external imbalances are acting as a greater constraint on growth than is widely appreciated. That may sound surprising given both the current account deficit and external balance sheet are far healthier than is typical at this point in the cycle. But with more regulator and credit rating agency scrutiny over external borrowing, more onus is falling on saving to fund domestic investment. In the year to March, national saving rose to 8.8% of disposable income – the highest since 2004. It is a theme we see continuing, and typically more saving means less growth.
- There are no obvious implications from today’s data for GDP figures (due tomorrow, when we expect to see a 0.7% q/q expansion in real GDP). Slightly stronger than expected goods imports will likely see net exports drag on growth by more, offset by stronger business investment.
Figure 1. Annual current account balance

![Annual current account balance graph](image1)

Source: ANZ, Statistics NZ

Figure 2. Funding the current account

![Funding the current account graph](image2)

Source: ANZ, Statistics NZ

Figure 3. Net international investment position

![Net international investment position graph](image3)

Source: ANZ, Statistics NZ

Figure 4. Net IIP composition

![Net IIP composition graph](image4)

Source: ANZ, Statistics NZ
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