

## BALANCE OF PAYMENTS – 2017Q1

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## BREAKDOWN

## BOTTOM LINE

- The seasonally adjusted current account deficit was much larger than expected in Q1, coming in at \$2.8bn for the quarter. As a percentage of GDP, the annual deficit widened from 2.8% to 3.1%. The figures are fine, but are now heading in the wrong direction.
- While it was encouraging that external balance sheet metrics improved in the quarter as a share of GDP, in some ways today's figures are still a reminder of the bad old "borrow and spend" days. The economy needs to lift its savings performance and policy settings need to change to encourage it.

## KEY POINTS

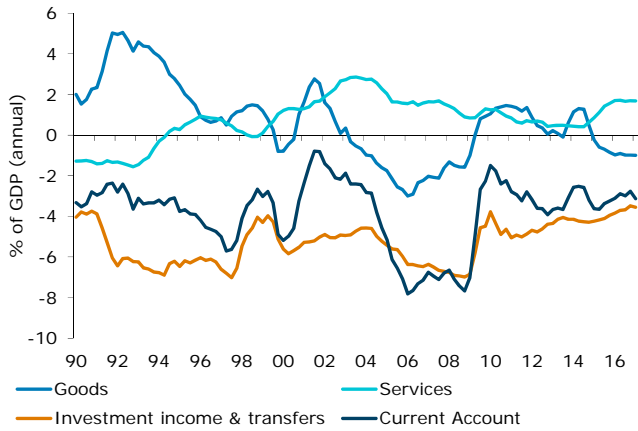
- **The unadjusted current account was in surplus in Q1** to the tune of just \$244m. While that was an improvement from the December quarter's revised \$2.415bn deficit, much larger surpluses have become commonplace in the first quarter, and this result was much lower than expected. As a consequence, the annual deficit widened to 3.1% of GDP in Q1 (from 2.8% of GDP in Q4).
- **In seasonally adjusted terms, the deficit came in at \$2.836bn, which was significantly larger than Q4's -\$1.693bn outcome.** It is the largest quarterly deficit since Q4 2008, and it breaks the trend improvement in the current account that began in 2015.
- **In terms of the components, there was a broad-based deterioration.** The seasonally adjusted goods deficit widened by \$404m (in large part due to strong goods imports), while the seasonally adjusted services surplus deteriorated by \$180m. The investment income deficit also widened (from \$2.079b to 2.639b) as a result of lower returns on New Zealand's overseas investments and higher returns on foreigners' investments in New Zealand.
- **While the data were disappointing overall, New Zealand's net international liability position did improve.** New Zealand's net IIP now stands at -\$154.8bn (58.5% of GDP). While that was largely due to market price changes in the quarter, it is still smaller than its peak of 84.0% in March 2000, and 70.6% as at the end of 2012. As a share of GDP, net external debt fell to 54.7%. However, it did actually rise by over \$700mn in absolute terms. We are not necessarily surprised by that. It reflects the fact that banks have filled a domestic funding gap with increased overseas borrowing.
- **We are always a little reluctant to draw strong conclusions from balance of payments data for GDP figures (due tomorrow).** There are just too many moving parts. But the biggest surprise for us today was the strength in goods imports. They were far higher than expected and suggest **a larger drag from net exports** (and hence a weaker GDP outturn). The uncertainty centres on whether or not this is offset by a more positive contribution from inventories.

## DATA SUMMARY

	Latest	Prev
Current account (\$m, actual)	244	-2,415
Current account (\$m, sa)	-2,836	-1,693
Goods & Services (\$m, sa)	-198	+386
Primary & Second. Income (\$m)	-2,639	-2,079
Annual CAB (\$m)	-8,132	-7,192
as % of GDP	-3.1%	-2.8%
Net IIP (% GDP)	-58.5%	-60.4%

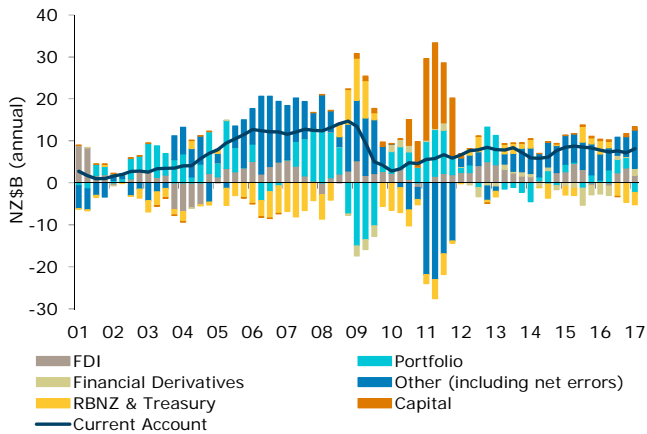
# 2017Q1 BALANCE OF PAYMENTS

**FIGURE 1. ANNUAL CURRENT ACCOUNT BALANCE**



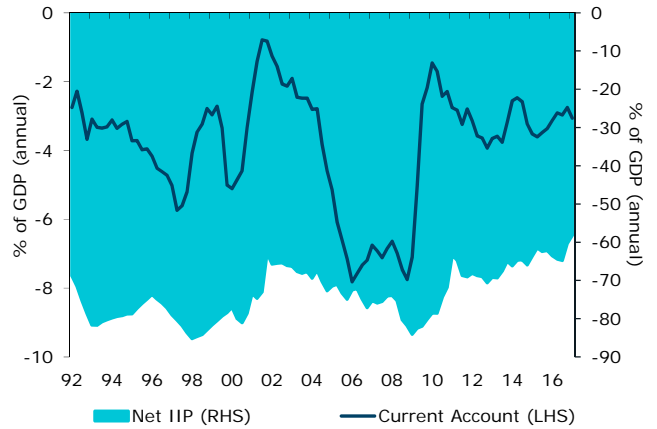
Source: ANZ, Statistics NZ

**FIGURE 2. FUNDING THE CURRENT ACCOUNT**



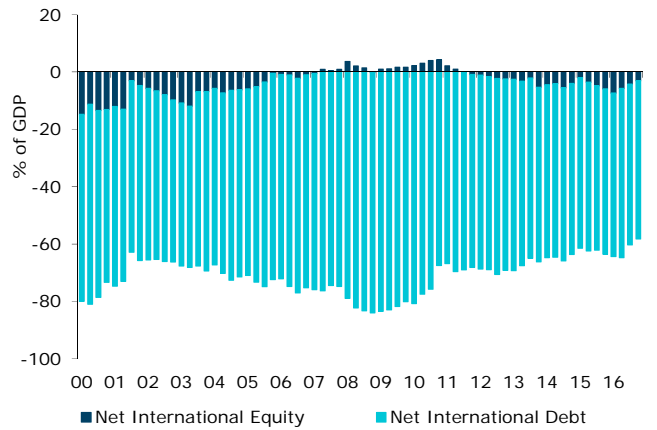
Source: ANZ, Statistics NZ

**FIGURE 3. NET INTERNATIONAL INVESTMENT POSITION**



Source: ANZ, Statistics NZ

**FIGURE 4. NET IIP COMPOSITION**



Source: ANZ, Statistics NZ

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