

NEW ZEALAND ECONOMICS BALANCE OF PAYMENTS – 2016Q2

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CONTRIBUTORS

Philip Borkin
Senior Economist
Telephone: +64 9 357 4065
E-mail: philip.borkin@anz.com

STRONGER IMPORTS SURPRISE

BOTTOM LINE

- Although **the annual current account** deficit narrowed to 2.9% of GDP in Q2, it **surprised by widening in seasonally adjusted terms, led by stronger-than-expected imports**. At the margin this suggests some downside risk to tomorrow's GDP figures (though we previously saw upside risk). Nonetheless, the fact the economy is recording strong growth at the same time as a small current account deficit vs. history speaks to a more sustainable picture than has arguably been evident in the past.

KEY POINTS

- The unadjusted current account deficit was \$945m in Q2, which was meaningfully larger than consensus expectations (\$295m)**. Nevertheless, the annual deficit still narrowed modestly (to \$7.4bn) or 2.9% of GDP (from an upwardly revised 3.1% in Q1) – well below its historical average of 3.7%.
- The seasonally adjusted deficit widened** by \$187m to \$1,826m, surprisingly, **led by a deterioration in the services surplus**, which fell by \$144m, largely on account of record spending by New Zealanders travelling overseas. This offset an improvement in **the goods deficit** (to \$452m), although the latter **did not narrow as much as we had expected** due to stronger-than-expected goods import values. Finally, **the income deficit widened modestly** (to \$2,040m), largely led by increased income earned by foreigners on their New Zealand direct investments (although most of this was reinvested).
- Some external balance sheet metrics also deteriorated modestly** in the quarter. **Net international liabilities rose** to \$163.3bn (or 64.9% of GDP) in large part due to market price changes, while **net external debt rose to \$141.6bn (although fell to 56.3% as a share of GDP)**. While this begins to reverse some of the improvement we've become used to over recent years, **these measures remain at far better levels than was evident in the lead-up to the Global Financial Crisis** and still cast the economy in a better structural light.
- There were some interesting movements in financial account flows over the quarter – which can shed some light on NZD demand etc. Although the financial account showed a balance of \$1.5bn, **there was a net inflow of \$5.1bn in portfolio investment from offshore**, largely into debt securities. This is certainly consistent with anecdotes of strong foreign interest in our bond market **and helps support arguments that yield has been a key source of support underpinning NZD strength**.
- Finally, as always, it is a little tricky to infer too much from this data for tomorrow's GDP figures as there are a number of moving and offsetting parts. But **at face value, stronger import values do suggest a smaller contribution from net exports than initially expected and some downside risk to GDP growth (whereas we previously saw upside risk)**.

DATA SUMMARY

	Latest	Prev
Current account (\$m, actual)	-945	+1,184
Current account (\$m, sa)	-1,826	-1,639
Goods & Services (\$m, sa)	+582	+655
Primary & Second Income (\$m)	-2,408	-2,294
Annual CAB (\$m)	-7,384	-7,821
as % of GDP	-2.9%	-3.1%
Net IIP (% GDP)	-64.9%	-63.9%

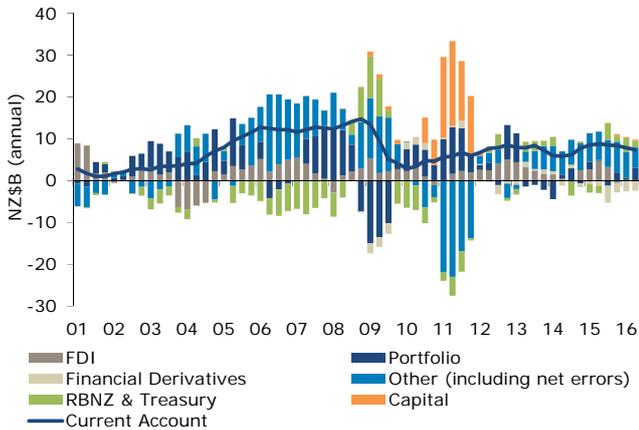
2016Q2 BALANCE OF PAYMENTS

FIGURE 1. ANNUAL CURRENT ACCOUNT BALANCE



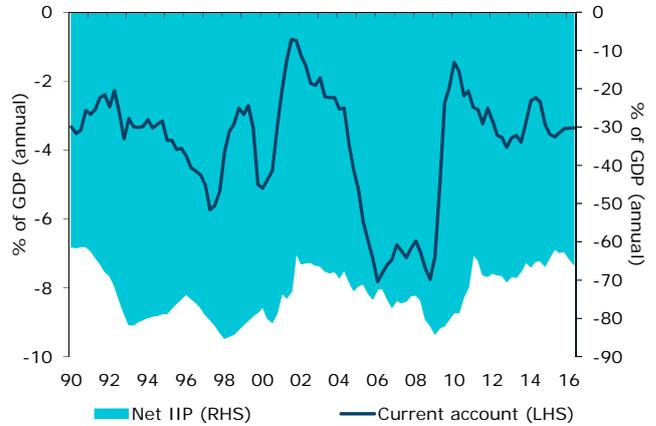
Source: ANZ, Statistics NZ

FIGURE 2. FUNDING THE CURRENT ACCOUNT



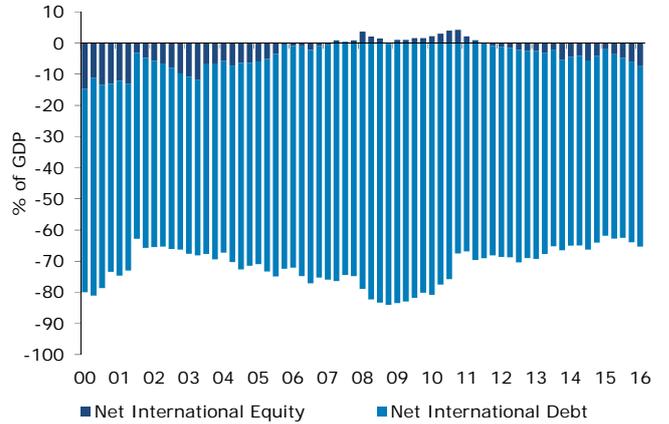
Source: ANZ, Statistics NZ

FIGURE 3. NET INTERNATIONAL INVESTMENT POSITION



Source: ANZ, Statistics NZ

FIGURE 4. NET IIP COMPOSITION



Source: ANZ, Statistics NZ

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