

NEW ZEALAND ECONOMICS

BALANCE OF PAYMENTS – 2016Q1

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CONTRIBUTORS

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WHEN BORING IS GOOD

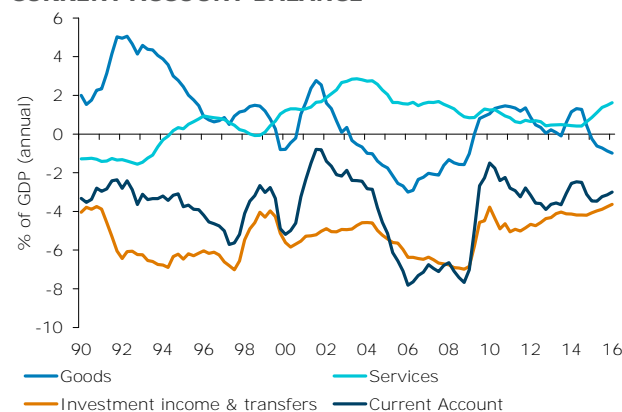
KEY POINTS

- There wasn't a huge amount of news in the Q1 Balance of Payments data, and that's a good thing. You don't really want your external accounts to look "interesting", particularly at a time of global economic unease.
- For the fourth consecutive year, an unadjusted current account surplus was seen in Q1, with the \$1,360m figure larger than consensus expectations. The annual deficit narrowed to \$7.5bn or 3.0% of GDP (courtesy of historical revisions this was close to expectations).
- In seasonally adjusted terms, the deficit narrowed by \$665m to \$1,465m. All the major components contributed to this narrowing, although it was led largely by a smaller income deficit (to \$1.7bn – the smallest since Q3 2009) as foreigners earned less on their direct and portfolio investments in New Zealand. The goods deficit narrowed (albeit by less than we expected), while the services balance again set a new record quarterly surplus (\$1.1bn sa).
- The Balance of Payments figures go to the heart of why we feel the New Zealand economy is structurally in a better place than it has been in the not-too-distant past. At just 3.0% the annual current account deficit is smaller than its historical average (-3.7%), net external debt is lower (although it ticked up to 56% of GDP in Q1), and the maturity profile of international liabilities has lengthened. These metrics have no doubt contributed to the NZD's resilience in the face of recent bouts of global risk aversion.
- That said, a number of factors **mean we shouldn't be complacent**. A current account deficit does still exist, and we expect it to widen towards 5% of GDP; the bounce in the terms of trade in Q1 is likely temporary. External debt is rising again, recording its first lift as a share of GDP since Q4 2012. Moreover, with credit growth expanding faster than incomes and deposit growth, and household debt levels already elevated, pressures are building.
- So while the better starting point for the current account is important, across a number of metrics there has been a weakening in the structural side of the economy. That needs to be watched carefully.
- It is always risky to infer too much from this data about **tomorrow's** GDP figures. Certainly the weaker NZ profits of foreign firms are a warning. But there were offsetting movements elsewhere. Our pick remains 0.5% q/q.

DATA SUMMARY

	Latest	Prev
Current account (\$m, actual)	+1,306	-2,894
Current account (\$m, sa)	-1,495	-2,160
Goods & Services (\$m, sa)	+624	+211
Primary & Second Income (\$m)	-2,119	-2,371
Annual CAB (\$m)	-7,504	-7,989
as % of GDP	-3.0%	-3.2%
Net IIP (% GDP)	-63.1%	-61.8%

CURRENT ACCOUNT BALANCE



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