**Balance of Payments – 2018Q3**

19 December 2018

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**Data summary**

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<th>Latest</th>
<th>Prev</th>
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<tbody>
<tr>
<td>Current account ($m, actual)</td>
<td>-6,149</td>
<td>1,631</td>
</tr>
<tr>
<td>Current account ($m, sa)</td>
<td>-2,560</td>
<td>-2,662</td>
</tr>
<tr>
<td>Goods &amp; Services ($m, sa)</td>
<td>74</td>
<td>75</td>
</tr>
<tr>
<td>Primary &amp; Second. Income ($m)</td>
<td>-2,634</td>
<td>-2,736</td>
</tr>
<tr>
<td>Annual CAB ($m)</td>
<td>-10,539</td>
<td>-9,548</td>
</tr>
<tr>
<td>as % of GDP</td>
<td>-3.6%</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Net IIP (% GDP)</td>
<td>-53.7%</td>
<td>-53.6%</td>
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</tbody>
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**Improving, but upside limited**

**Bottom line**

- All much as expected. The annual current account deficit widened in Q3 to 3.6% of GDP, around its historical average, owing largely to base effects.
- Seasonal factors drove the widening quarterly deficit. Seasonally adjusted, narrowing goods and income deficits were offset by a smaller services surplus.
- New Zealand’s net international liability position rose 0.1%pt to 53.7% of GDP.
- There are no obvious implications from today’s data for tomorrow’s real GDP figures.

**Key points**

The Q3 balance of payments data was much as expected. Seasonal factors drove a quarterly deficit, but seasonally adjusted a narrowing goods and income deficit was offset by a smaller services surplus. The annual current account balance widened a touch from 3.3% to 3.6% of GDP.

The unadjusted quarterly current account balance pushed deeper into deficit in Q3 (from $1.6bn in Q2 to $6.1bn), as it always does in Q3. The goods balance slipped into deficit as exports fell (mirroring seasonal agricultural production) and imports began their seasonal lift (which generally peaks in Q4). The unadjusted services balance dipped into deficit territory (-$0.3bn), with imports up $0.5bn (reflecting the usual pickup in kiwis going on overseas holidays to escape winter) and exports down $0.7bn (reflecting the seasonal lull in inbound tourists). A narrowing quarterly income deficit (from $2.7bn to $2.6bn) provided some offset.

The annual deficit widened to $10.5bn from $9.5bn in Q2, which saw the current account as a share of GDP tick up 0.3%pts to 3.6%. This brings the annual deficit in line with its historical average of 3.6% of GDP.

In seasonally adjusted terms, the quarterly current account deficit narrowed by $0.1bn to $2.6bn. As expected, this was driven by a narrowing goods deficit (by $0.3bn to -$1.0bn), with a narrowing income deficit also lending a hand. A narrowing seasonally adjusted services surplus (by $0.3bn to $1.1bn) provided an offset.

Turning to the detail:

- On the goods balance, the boost to agricultural exports, particularly dairy, from favourable weather conditions made its presence known, with seasonally adjusted goods export values up $0.8bn from Q2 to $15.0bn.
- Providing some offset, seasonally adjusted services exports fell $0.2bn as travel services exports experienced some payback from Q2’s strong lift (down $0.3bn to $3.9bn). Overall, however, travel services data continue to suggest New Zealand tourism had a decent off-season (up 2.8% y/y).
- Total seasonally adjusted imports remained elevated, with goods up $0.4bn to $16bn and services up $0.1bn to $5.1bn.
- With goods and services offsetting, the narrowing income deficit (by $0.1bn) made all the difference in terms of the seasonally adjusted current account narrowing in the quarter.
New Zealand’s net international liability position (NILP) widened $1.7bn to $156.2bn, with the value of offshore assets falling and liabilities higher. As a share of GDP the NILP rose 0.1%pt to 53.7%.

We expect the annual current account deficit to remain broadly stable for the next year or so, with a number of offsetting factors at play:

- Declining prices for some of our key exports recently are yet to be reflected in the trade data, particularly dairy. While this morning’s GDT result suggests the downtrend in dairy prices (which began in May) has found a floor, the global growth cycle is looking less favourable from an export price perspective. So far, however, dairy prices have moderated for the best possible reason: strong spring production, which was running 6% ahead of last year in season to date terms in October. And like softer prices, much of this product is yet to show in the actual (unadjusted) quarterly trade figures. Overall, ongoing broad-based strength across other primary sector exports is expected to drive a slight narrowing in the annual goods deficit over the year ahead, but solid imports growth (on the back of continued population-led growth in domestic demand), will keep the balance in check.

- Likewise, the services surplus is expected to remain buoyed by solid tourist spending, but with services imports growth broadly keeping pace and the balance contained.

- Rising primary income outflows are expected to drive a gradual widening in the income deficit as rising global interest rates see international debt servicing costs lift.

There are no obvious implications from today’s data for tomorrow’s real GDP figures. We expect to see a 0.5% q/q expansion in production GDP. Total net exports (goods and services) are expected to make a small positive (0.1%pt) to real expenditure GDP. Nominal GDP appears to have expanded at a pace a little shy of 1% q/q.
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