

Current account pothole

- Q1 current account deficit widens by more than expected.
- However, we expect this was largely due to temporary factors.
- Indeed, we expect the current account deficit to narrow steadily over 2017.

Summary and Implications

The headline current account deficit surprised over Q1 by widening more than expected on an annual basis. However, **we expect that the current dip is more of the pothole variety as opposed to something deeper.** Indeed, there were several temporary factors weighing down the deficit over Q1.

First up, agricultural production (and thus exports) was weak over recent quarters and has since rebounded. Moreover, NZ's Terms of Trade are likely to set a record high this year. **The combination of these two factors should send the goods balance back towards surplus by year end, lifting the current account balance with it.**

Meanwhile, there are no implications from this release for our GDP or our OCR view. We expect a 0.5% Q1 GDP increase at tomorrow's release.

Comments

The annual current account deficit widened to 3.1% of GDP in Q1 from a revised 2.8% in Q4. This result was larger than the market consensus and our forecast for deficits of 2.7% and 2.8%, respectively. In seasonally-adjusted terms, Q1 had the largest current account deficit since the end of 2008.

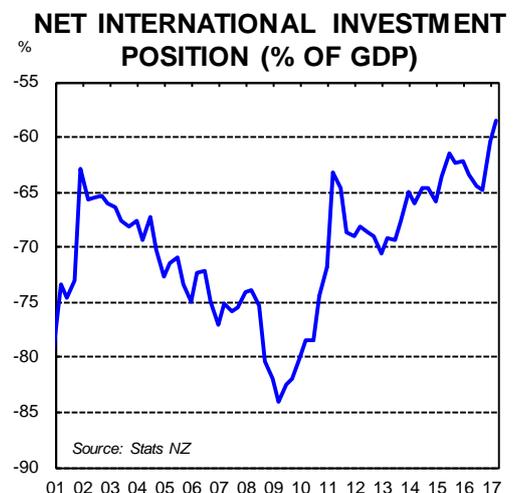
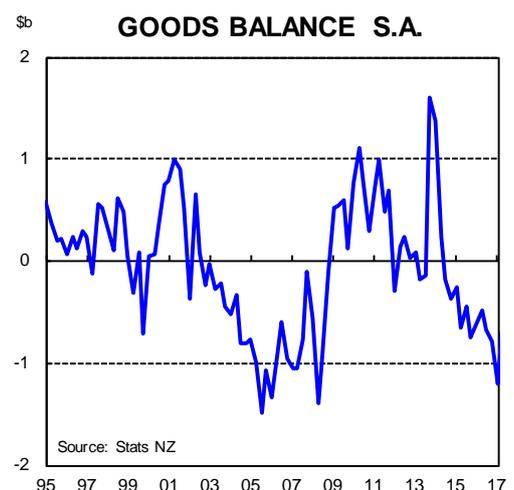
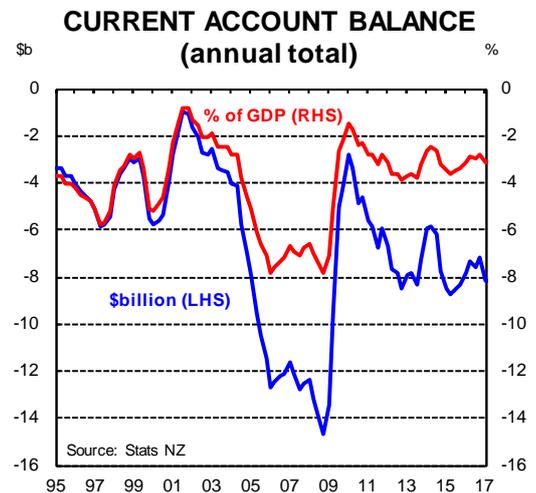
In particular, the goods balance was weak. The seasonally-adjusted Q1 deficit widened to \$1.2bn from \$0.4bn over Q4. Notably, imports of goods were at a record high over Q1.

However, **we anticipate that the weakness in the goods balance will be temporary.** NZ's Terms of Trade are at their highest level since the 1970's and are expected to set a record high over 2017. Moreover, previously weak agricultural production is rebounding and will translate into higher export volumes over coming quarters.

Looking at the services balance, **the surplus softened a touch over the quarter.** However, with the Lions tour underway along with the earlier World Masters Games, we expect this weakness will also prove short-lived.

Meanwhile, NZ's net international liability position decreased over Q1 to its lowest recorded level as a % of GDP. The net liability position was \$154.8bn (58.5% of GDP), down from a revised \$157.5bn (60.4%) in Q4.

In addition, earthquake reinsurance inflows of \$116m slowed from Q3. An estimated \$516m of outstanding claims relating to the Christchurch earthquakes remain. Meanwhile, **November's Kaikoura earthquake reinsurance claims have been revised higher.** At this juncture, these claims have been estimated at \$814m, up from an estimated \$694m last quarter. So far just \$19m of claims have been settled. As a result, combining claims from both earthquakes, gives a total of \$1.311bn in outstanding claims.



ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Senior Wealth Economist	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915	
Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778	
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661	
Publication and Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660	

<https://reports.asb.co.nz/index.html>

[@ASBMarkets](#)



ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.