

# Economic Note

Q1 Balance of Payments

20 June 2018

## Steady as she goes

- Temporary factors aside, NZ’s external accounts remain largely steady.
- Moreover, our central view is that the current account deficit narrows over coming quarters.
- However, the risk of a full-blown US-china trade war poses risk to this otherwise relatively healthy picture.

### Summary

**NZ’s external accounts continue to wax and wane, but remain broadly steady.** Moreover, NZ’s current account deficit is broadly comparable to that of Australia’s and the US.

While Q1 showed a widening in the current account balance, **we expect this is likely to prove temporary, with the current account deficit likely to narrow over coming quarters.** In particular, NZ’s export commodity prices are very high. And despite a recent increase in oil prices, NZ’s Terms of Trade remain near 70-year highs. In addition, NZ’s tourism exports are likely to remain firm, while NZ’s agricultural production and thus exports are already improving following a poor summer growing season.

While this remains our central view, risks to this outlook continue to ebb and flow. In particular, **the recent escalation in trade tensions between the US and China is one such risk that we are monitoring closely.**

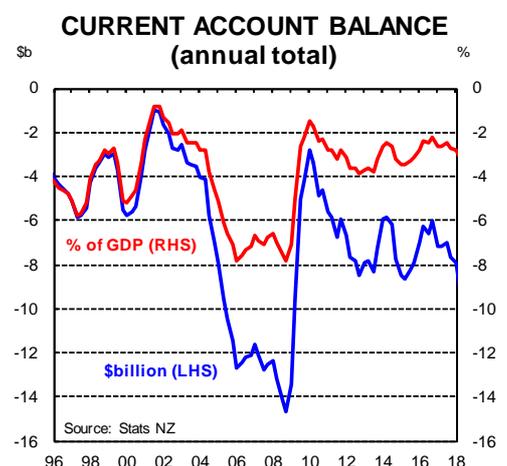
China’s recent proposed tariff increases may actually boost our trade prospects in that market. However, **in the event of a full-blown US-China trade war everyone loses, including NZ.** In short, watch this space!

### Comments

**The annual current account deficit widened** to 2.8% of GDP in Q1 from 2.7% in Q2. This result was in line with our and market expectations.

Over the quarter, **a larger goods deficit drove much of the wider current account deficit.** In seasonally-adjusted terms, the Q1 goods deficit widened to \$1,746m from \$535m in Q4. The weaker goods balance over the quarter was largely due to weak export values, which fell \$849m, with agricultural production weak and exports subsequently weak also.

From here, **we anticipate that much of this fall in the goods balance will prove temporary.** In particular, agricultural production has improved over recent months and this improvement will flow through to



exports over the next quarter or two. In addition, export prices have lifted so this will also boost the goods balance.

Meanwhile, **the services balance recorded another strong seasonally-adjusted surplus, lifting to \$1,261m from \$1,195m back in Q4.** The surplus has exceeded \$1bn in each of the four most recent quarters, highlighting the ongoing strength in the tourism sector. Also, the income balance lifted over the quarter in seasonally-adjusted terms, up \$101m to -\$2,564m for the quarter.

**NZ's net international liability position decreased over Q1 to its lowest recorded level as a % of GDP in records dating back to 2000.**

The net liability position was \$156.1bn (54.5% of GDP), from \$156.9bn (55.4%) in Q4.

## Earthquake Reinsurance Claims

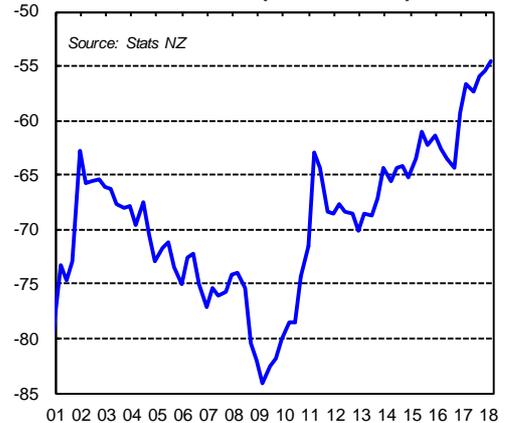
**Christchurch earthquake reinsurance claims remain at \$21.1bn.**

Meanwhile over the quarter, \$218m worth of claims were settled, leaving outstanding claims of \$737m.

**Turning to the Kaikoura earthquake, reinsurance claims were unchanged over the quarter at \$1.1bn.** At this juncture, \$428m worth of claims have been settled, with another \$637m worth of claims outstanding.

As a result, **combining claims from both earthquakes gives a total of \$1.374bn in outstanding claims.**

**NET INTERNATIONAL INVESTMENT POSITION (% OF GDP)**



### ASB Economics & Research

Chief Economist  
Senior Economist  
Senior Economist  
Senior Rural Economist  
Senior Economist, Wealth  
Economist  
Data & Publication Manager

Nick Tuffley  
Jane Turner  
Mark Smith  
Nathan Penny  
Chris Tennent-Brown  
Kim Mundy  
Judith Pinto

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[kim.mundy@asb.co.nz](mailto:kim.mundy@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

### Phone

(649) 301 5659  
(649) 301 5853  
(649) 301 5957  
(649) 448 8778  
(649) 301 5915  
(649) 301 5661  
(649) 301 5660

[www.asb.co.nz/economics](http://www.asb.co.nz/economics)

[@ASBMarkets](https://twitter.com/ASBMarkets)

## 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.