

Economic Note

Q2 Balance of Payments

20 September 2017

Steady as she goes

- Q2 current account deficit narrows in line with our expectations.
- Also, NZ's net liability position as a % of GDP falls to its lowest level since at least 2000.
- Meanwhile, the services balance sets a fresh record high.

Summary

NZ's external accounts are stable. The Q2 current account balance result continues the recent pattern of modest deficits on an historical basis. In fact, the deficit of 2.8% of GDP is equal to the average deficit over 2016 and now the first half of 2017.

Moreover, the stable current account deficit is enhanced by the improving investment position. Indeed, the improvement since the second half of 2016 has been rapid; the net investment position has lifted eight percentage points over this period. In addition, the net position now stands at its highest level since 2000.

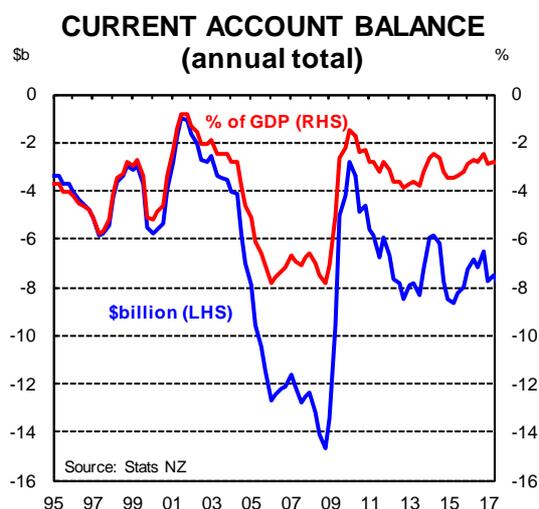
We expect these trends to continue by and large. In particular, NZ's goods Terms of Trade are likely to set a record high this year. In addition, NZ's tourism exports are likely to remain firm. Both of these factors are likely to underpin the current account balance. As a result, **we expect the current account deficit to track near its current level over the remainder of 2017.**

Comments

The annual current account deficit narrowed to 2.8% of GDP in Q2 from a revised 2.9% in Q1. Taking into account the revision to Q1, the current account narrowed as we expected. Meanwhile, the seasonally-adjusted current account deficit narrowed to the smallest deficit since Q1 2014.

Over the quarter, **a smaller goods deficit drove much of the narrower current account deficit.** In seasonally-adjusted terms, the Q2 goods deficit narrowed to \$446m from \$1,123m in Q1. The stronger goods balance over the quarter was largely due to increasing dairy export volumes.

Meanwhile, **the services balance recorded a record-high surplus in seasonally-adjusted terms on the back of the Lions Tour and World Masters Games.** The seasonally-adjusted



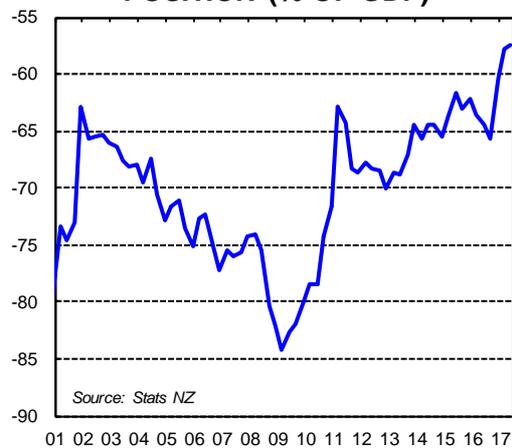
surplus came in at \$1,280m, eclipsing the previous record set back in March 2016.

Meanwhile, NZ's net international liability position decreased over Q2 to its lowest recorded level as a % of GDP in records dating back to 2000. The net liability position lifted to 57.5% of GDP, from 57.8% in Q1.

Lastly, **today's data point to a strong positive net trade contribution that will boost Q2 expenditure-based GDP.** We continue to expect a 1.0%+ GDP outturn.

However, **there were limited implications from today's data for our Q2 pick for real production-based GDP.** On this front, we continue to expect 0.6% growth for the quarter.

NET INTERNATIONAL INVESTMENT POSITION (% OF GDP)



Earthquake Reinsurance Claims

Christchurch earthquake reinsurance claims have been revised \$0.9bn higher to \$21.1bn. Similarly, outstanding claims have been revised higher to \$1.3bn from \$0.5bn in Q1.

The estimate for November's Kaikoura earthquake reinsurance claims have also been revised higher. At this juncture, these claims have been estimated at \$1.1bn, up from an estimated \$1.0bn last quarter. So far just \$75m of claims have been settled.

As a result, **combining claims from both earthquakes gives a total of \$2.265bn in outstanding claims.**

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