

Economic Note

Q2 Balance of Payments

19 September 2018

Sitting relatively pretty

- Taking into account data revisions, NZ's current account deficit remains modest.
- From here, we expect the annual current account deficit to widen further over the rest of 2018.
- That said, the continued ratcheting up of US-China tariff measures poses risk to this otherwise relatively healthy outlook.

Summary

NZ remains modestly indebted to the rest of the world. Moreover, NZ's current account deficit is broadly comparable to that of Australia's and the US.

While we expect the annual current account deficit to widen further over the remainder 2018, there are a number of favourable factors underpinning New Zealand's external position. In particular, NZ's export commodity prices are high and NZ's Terms of Trade remain near 70-year highs. In addition, NZ's tourism exports are growing strongly. And importantly, domestic interest rates are also near record lows.

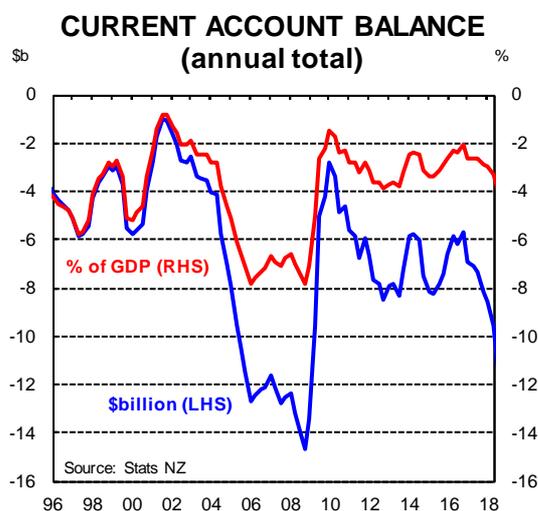
While this remains our central view, risks to this outlook have increased. In particular, **the ratcheting up of tariff measures between the US and China and potential for lower global growth as a result poses risks to our trade outlook.** But for now, NZ, in terms of its external position, is sitting relatively pretty.

Comments

The annual current account deficit widened to 3.3% of GDP in Q2 from a revised 3.0% in Q1. The deficit was larger than market expectations, although the revisions to previous quarters accounts for much of the surprise.

Focusing on just Q2, **the current account balance actually lifted in seasonally-adjusted terms.** The Q2 deficit printed at \$2.7bn, a \$484m lift from Q1.

Over the quarter, **the seasonally-adjusted goods and services balance lifted \$477m to a small surplus of \$95m.** The goods balance drove most of the lift, although the services balance also improved modestly. The stronger goods balance over the quarter was largely due to strong export values, which jumped \$711m, and



included a 7% jump in dairy export prices.

From here, **we anticipate that the improvement in the seasonally-adjusted goods balance will slow.** In particular, oil prices have lifted over recent months and this will flow through to higher import values over coming quarters.

Meanwhile, **the services balance recorded another strong seasonally-adjusted surplus, lifting to \$1,485m from \$1,336m back in Q1.** The strength in the services balance highlights the ongoing strength in the tourism sector. Meanwhile, the income deficit narrowed a touch over the quarter in seasonally-adjusted terms, up \$118m to \$2,521m for the quarter.

In addition, NZ's net international liability position was flat over Q2, equalling the lowest recorded level as a % of GDP (in records dating back to 2000) set back in Q1. The net liability position was \$157.91bn (54.6% of GDP), from \$156.2bn (54.6%) in Q1.

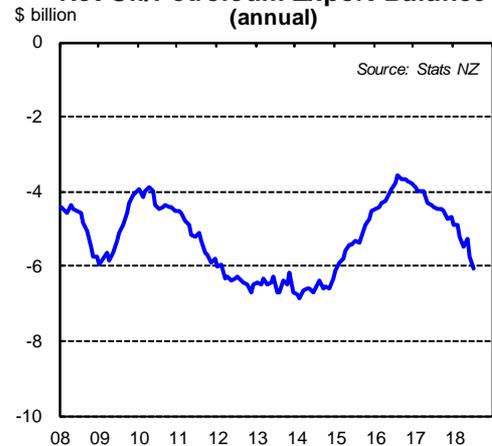
Earthquake Reinsurance Claims

Christchurch earthquake reinsurance claims have lifted \$0.7bn to \$21.8bn. Meanwhile over the quarter, \$48m worth of claims were settled, leaving outstanding claims of \$1,044m.

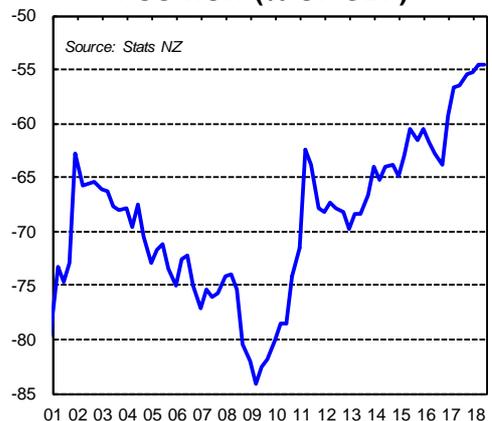
Similarly, Kaikoura earthquake reinsurance claims lifted \$0.2bn over the quarter to \$1.3bn. At this juncture, \$499m worth of claims have been settled, with another \$799m worth of claims outstanding.

As a result, **combining claims from both earthquakes gives a total of \$1.843bn in outstanding claims.**

Net Oil/Petroleum Export Balance (annual)



NET INTERNATIONAL INVESTMENT POSITION (% OF GDP)



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