

Economic Note

Q3 Balance of Payments

20 December 2017

Narrow and narrower

- Q3 current account deficit narrows in line with our expectations.
- With a higher goods balance driving much of the narrower deficit.
- Also, NZ's net liability position as a % of GDP is at lowest level since 2000.

Summary

NZ's external accounts are stable. The Q3 current account balance result continues the recent pattern of modest deficits on an historical basis.

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 (i.e. since records began).

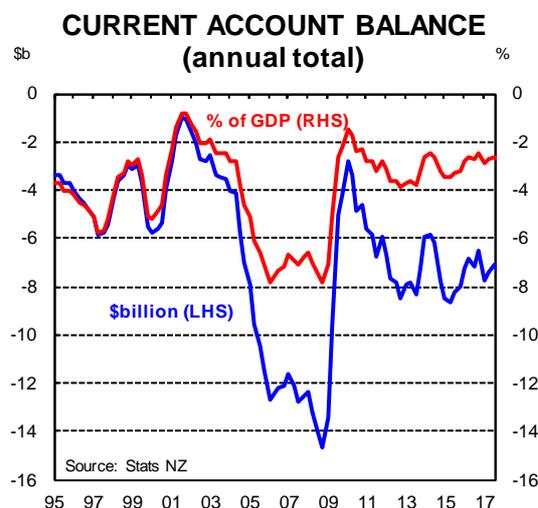
We expect these trends to continue by and large. In particular, NZ's goods Terms of Trade currently sit at a record high. In addition, NZ's tourism exports are likely to remain firm. Both of these factors are likely to underpin the current account balance. As a result, **we expect the current account deficit to track within recent ranges over the last quarter of 2017 and into 2018.**

Comments

The annual current account deficit narrowed to 2.6% of GDP in Q3 from a revised 2.7% in Q2. 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 Q3 goods deficit narrowed to \$26m from \$437m in Q2. The stronger goods balance over the quarter was largely due to a fall in import values over the month.

Meanwhile, **the services balance recorded a strong seasonally-adjusted surplus, albeit back from Q2.** The seasonally-adjusted surplus came in at \$1,186m, the third-highest balance on record. This follows the record-high surplus in Q2, which was boosted by



the Lions Tour and World Masters Games.

Meanwhile, NZ’s net international investment position increased over Q3 to its highest recorded level as a % of GDP in records dating back to 2000. The net liability position was \$156.7bn (56.3% of GDP), from \$157.2bn (57.4%) in Q2.

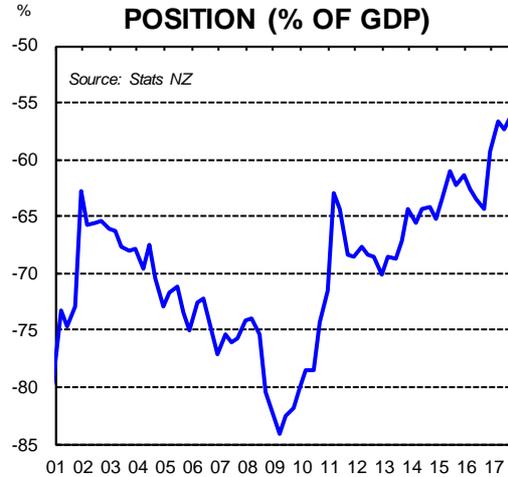
Earthquake Reinsurance Claims

Christchurch earthquake reinsurance claims remain at \$21.1bn. Meanwhile over the quarter, \$62m worth of claims were settled, leaving outstanding claims of \$1.2bn.

Turning to the Kaikoura earthquake, reinsurance claims were unchanged over the quarter at \$1.1bn. At this juncture, \$179m worth of claims have been settled, with another \$886m worth of claims outstanding.

As a result, **combining claims from both earthquakes gives a total of \$2.098bn in outstanding claims.**

NET INTERNATIONAL INVESTMENT POSITION (% OF GDP)



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