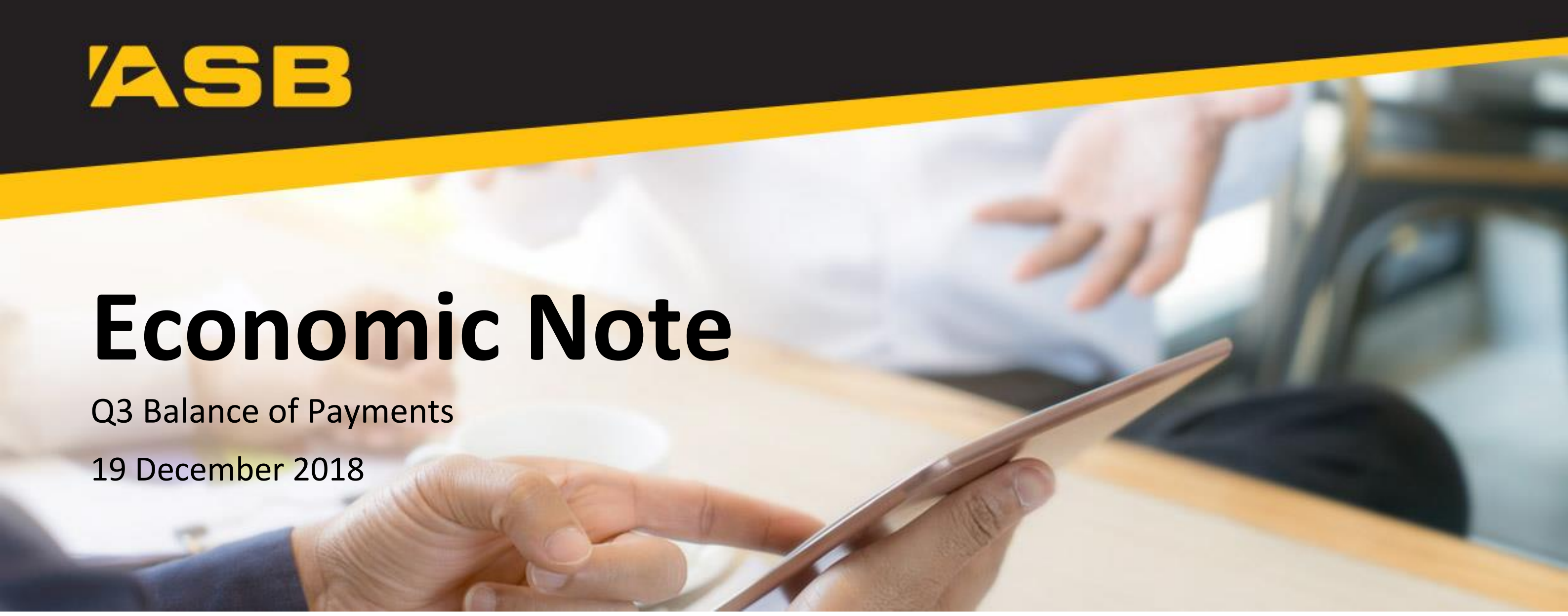


Economic Note

Q3 Balance of Payments

19 December 2018

NZ calm in rising global seas

- NZ's current account deficit remains at a manageable level.
- Also heading into 2019, we expect the annual current account deficit to narrow modestly.
- For now, most risks to this outlook are offshore.

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.

Also heading into 2019, a number of favourable factors are likely to underpin New Zealand's external position. In particular, NZ's export commodity prices are high, while oil prices have fallen in recent months. As a result, NZ's Terms of Trade are likely to remain near 60-year highs. In addition, NZ's tourism sector is strong, albeit battling capacity constraints in some hotspots like Queenstown. And importantly, domestic interest rates are also near record lows.

While this remains our central view, risks to this outlook continue to bubble away. In particular, **US-China trade tensions continue to simmer despite the recent "truce", while the global economy is likely to slow further over 2019**. But for now, NZ's external debt position is at manageable level and likely to remain so.

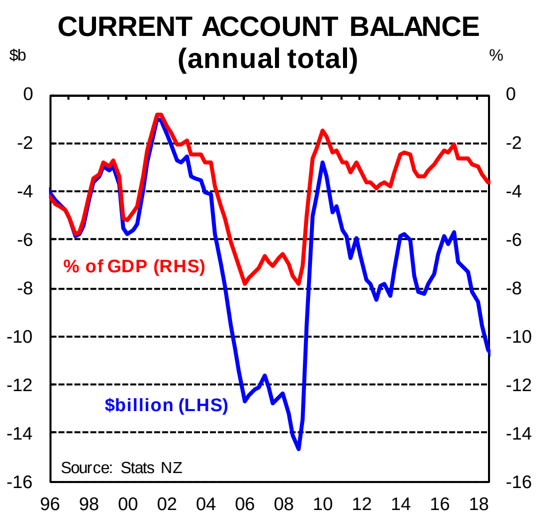
Comments

The annual current account deficit widened to 3.6% of GDP in Q3, from 3.3% in Q2. The deficit was largely in line with market expectations, although a touch larger than our 3.5% forecast.

However, **the current account balance actually lifted in seasonally-adjusted terms.** The Q3 deficit printed at $2.6bn, a $100m lift from Q2.

Over the quarter, **the seasonally-adjusted goods deficit narrowed by $343m.** The narrower deficit over the quarter was largely due to stronger export values for dairy, meat, and log exports.

From here, **we anticipate the improvement in the seasonally-adjusted goods balance has further to run**. In particular, oil prices have dipped over recent months, while goods export values are likely to improve further as agricultural export volumes lift over coming quarters.



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Meanwhile, **the seasonally-adjusted services trade surplus dipped for the first time in three quarters, falling to $1,071m from $1,415m back in Q2**. This decline may reflect growing capacity constraints in the tourism sector. The income balance lifted a touch over the quarter in seasonally-adjusted terms, up $31m to -$2,573m for the quarter.

In addition, NZ's net international liability position remains near record lows. Over the quarter, the liability position rose a touch, lifting 0.1 percentage points to 53.7% of GDP. In dollar terms, the net liability position was $156.2bn, from $154.5bn (53.6% of GDP) in Q2.

Earthquake Reinsurance Claims

Christchurch earthquake reinsurance claims remain at $21.8bn. Meanwhile over the quarter, $163m worth of claims were settled, leaving outstanding claims of $681m.

Similarly, Kaikoura earthquake remained unchanged over the quarter at $1.3bn. At this juncture, $663m worth of claims have been settled, with another $635m worth of claims outstanding.

As a result, **combining claims from both earthquakes gives a total of $1.316bn in outstanding reinsurance claims.**

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