

Economic Note

Q4 Balance of Payments

14 March 2018

NZ's external accounts stable, but trade war a risk

- Despite a wider current account deficit, NZ's external accounts are largely stable.
- Moreover, our central view is that the current account deficit narrows over 2018.
- However, the risk of a trade war threatens to change this relatively healthy picture.

Summary

NZ's external accounts are largely stable. While Q4 showed a widening in the current account balance, we expect this is likely to prove temporary.

Over 2018, **we expect the current account deficit to narrow.** 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, while NZ's agricultural production and thus exports are likely to improve over 2018 following a poor growing season.

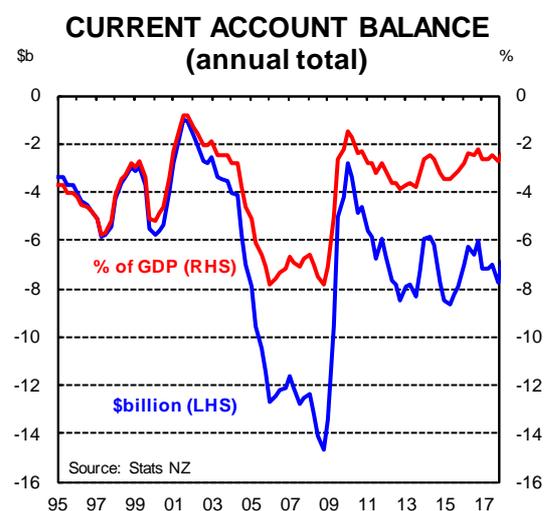
However, while this remains our central view, risks have grown to this outlook. Namely, **a possible US-initiated trade war could counter this view.** Indeed, while NZ is not in the direct firing line of President Trump's recent tariff increases, in the event of a trade war everyone loses, including NZ (click [here](#) for our take on developments to date). Stay tuned!

Comments

The annual current account deficit widened to 2.7% of GDP in Q4 from a revised 2.5% in Q2. This result contrasted with our and market expectations for a steady deficit (at 2.6%).

Over the quarter, **a larger goods deficit drove much of the wider current account deficit.** In seasonally-adjusted terms, the Q4 goods deficit widened to \$465m from \$80m in Q3. The weaker goods balance over the quarter was largely due to a higher import values, including the import of two Dreamliners and higher crude oil imports over the quarter.

Meanwhile, **the services balance recorded a strong seasonally-adjusted surplus, albeit back a touch from Q3.** Also, the income balance was largely steady over the quarter. However, the high income balance back in Q4 2016 fell out of the annual equation, explaining much of the wider overall annual deficit.



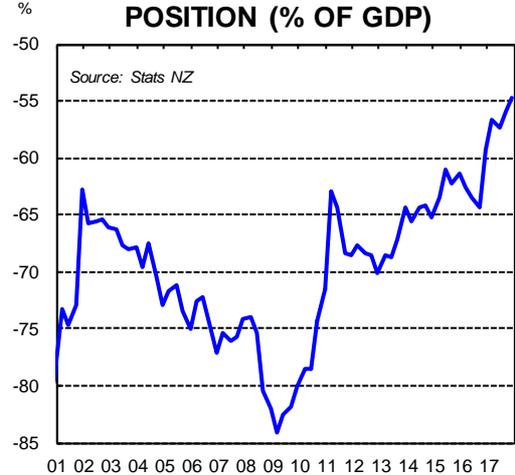
Meanwhile, NZ's net international liability position decreased over Q4 to its lowest recorded level as a % of GDP in records dating back to 2000. The net liability position was \$155.2bn (54.8% of GDP), from \$156.2bn (56.0%) in Q3.

Earthquake Reinsurance Claims

Christchurch earthquake reinsurance claims remain at \$21.1bn. Meanwhile over the quarter, \$211m worth of claims were settled, leaving outstanding claims of \$1.0bn.

Turning to the Kaikoura earthquake, reinsurance claims were unchanged over the quarter at \$1.1bn. At this juncture, \$341m worth of claims have been settled, with another \$725m worth of claims outstanding.

NET INTERNATIONAL INVESTMENT POSITION (% OF GDP)



As a result, **combining claims from both earthquakes gives a total of \$1.725bn in outstanding claims.**

ASB Economics & Research

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

Nick Tuffley nick.tuffley@asb.co.nz
Jane Turner jane.turner@asb.co.nz
Mark Smith mark.smith4@asb.co.nz
Nathan Penny nathan.penny@asb.co.nz
Chris Tennent-Brown chris.tennent-brown@asb.co.nz
Kim Mundy kim.mundy@asb.co.nz
Judith Pinto 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

[@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.