

Economic Note

Q4 Balance of Payments

20 March 2019

NZ current account deficit remains modest

- NZ's current account deficit widened modestly over Q4.
- Looking ahead, we expect the annual current account deficit to narrow over 2019.
- For now, key risks to this outlook are offshore.

Summary

NZ's current account deficit widened over Q4, but NZ's debts to the rest of the world remain modest by international standards. Indeed, NZ's current account deficit is broadly comparable to that of Australia's and the US.

Looking ahead, a number of favourable factors are likely to lead to strengthening in New Zealand's external position this year. In particular, NZ's export commodity prices are high, while oil prices are lower than they were a year ago. As a result, NZ's Terms of Trade are likely to remain at or near 60-year highs. And importantly, domestic interest rates are also hit record lows this year.

While this remains our central view, risks to this outlook remain. In particular, **a US-China trade agreement is sometime away and still uncertain, while the global economic outlook has deteriorated further this year.** But for now, NZ's external debt position is at a manageable level and likely to remain so.

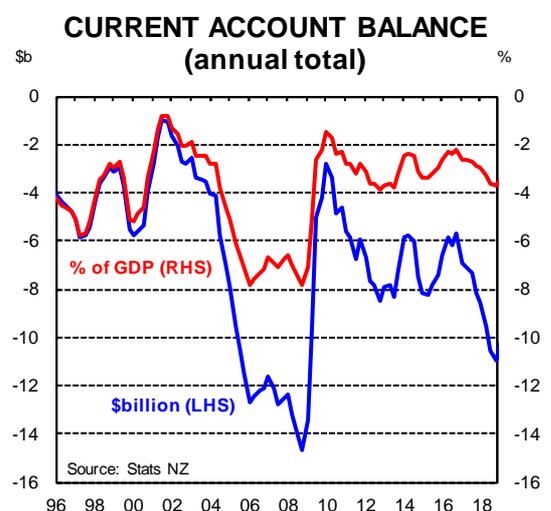
Comments

The annual current account widened to 3.7% of GDP in Q4, from 3.6% in Q3. The deficit was narrower than our (3.8%) and market expectations (3.9%).

However, **the current account balance actually was effectively unchanged in seasonally-adjusted terms.** The Q4 deficit printed at \$2.471bn, up \$23m from Q3.

Over the quarter, **the seasonally-adjusted goods deficit widened by \$109m.** The wider deficit over the quarter was largely due to lower dairy export values.

However, **we expect that this dip in the goods balance will be temporary.** Dairy export prices have since more than reversed these falls. Indeed, after bottoming out in November 2018, dairy auction prices have since lifted by over 26%.



Meanwhile, the seasonally-adjusted services trade surplus was largely unchanged over the quarter, although the surplus is noticeably smaller than back in December 2017. This may reflect that capacity constraints are biting in the tourism sector and have effectively capped services exports growth at least in the short term. Meanwhile, the income balance lifted a touch over the quarter in seasonally-adjusted terms, up \$39m to -\$2,524m for the quarter.

Lastly, NZ's net international liability rose over the quarter. Over the quarter, the liability position lifted 3.4 percentage points to 57.0% of GDP. In dollar terms, the net liability position was \$167.2bn, from \$156.3bn (53.6% of GDP) in Q3.

However, we anticipate that the liability position will rebound in Q1. Much of the increased net liability position mainly owed to a decrease in the value of international assets, including shares, held by New Zealanders. The MSCI World Index for example dipped around 14% over Q4. Since the start of the year, the Index has regained almost of all of this lost ground, rising around 13% so far.

Earthquake Reinsurance Claims

Christchurch earthquake reinsurance claims remain at \$21.8bn.

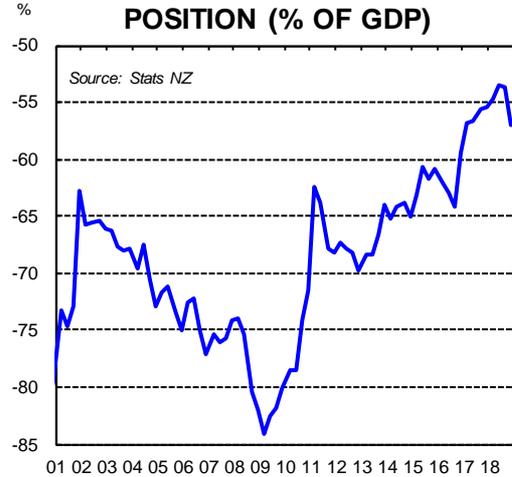
Meanwhile over the quarter, \$348m worth of claims were settled, leaving outstanding claims of \$332m.

Similarly, Kaikoura earthquake remained unchanged over the

quarter at \$1.3bn. At this juncture, \$698m worth of claims have been settled, with another \$600m worth of claims outstanding.

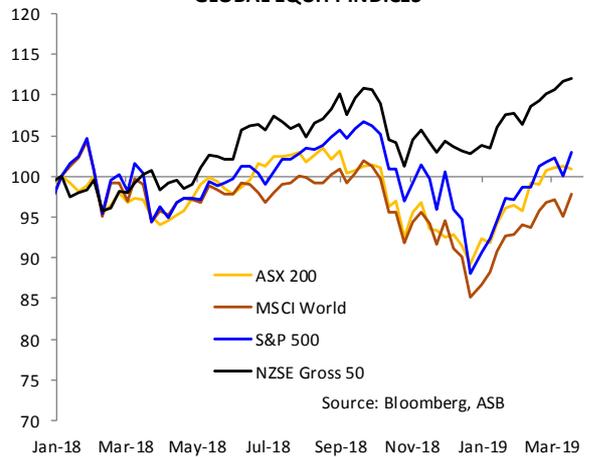
As a result, combining claims from both earthquakes gives a total of \$932m in outstanding reinsurance claims.

NET INTERNATIONAL INVESTMENT POSITION (% OF GDP)



1 Jan = 100

GLOBAL EQUITY INDICES



ASB Economics & Research

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

Nick Tuffley
Jane Turner
Mark Smith
Nathan Penny
Chris Tennent-Brown
Kim Mundy
Judith Pinto

nick.tuffley@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
nathan.penny@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
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

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