Better next time

Q1 current account deficit widens to 2.8% of GDP

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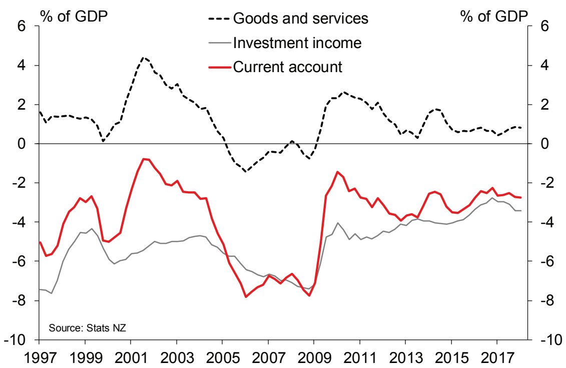
- The current account deficit widened from 2.7% to 2.8% of GDP in the year to March.
- Goods exports fell sharply in the March quarter, though we think this is due to temporary factors. Imports, particularly of business equipment, have remained strong to date.
- Investment income earned in New Zealand by foreigners was down in the March quarter, reversing a steep rise in the previous two quarters.
- New Zealand's external imbalances continue to improve as the current account deficit remains low relative to history.

Current account balance	Q4 2017	Q4 2017
Quarterly (s.a.) $m	-3,048	-2,005
Annual $m	-7,911	-7,697
Annual % of GDP	2.8%	2.7%

Annual current account balance



New Zealand's current account deficit widened slightly to 2.8% of GDP in the year to March. While this was the largest deficit in two years, it remains low relative to history. The result was in line with expectations, and has no implications for our other economic forecasts.

In seasonally adjusted terms, the quarterly deficit increased substantially in March, reaching just over $3bn – the biggest in nine years. The main factor was a widening in the trade deficit for goods. The value of exports fell by 5.9%, while imports rose by 2.4%.

We expect that the softness in exports will be reversed next quarter. Export commodity prices have improved since March, and the volatility in export volumes is often a product of the timing of shipments.

The rise in imports was mostly due to prices, with world oil prices higher and the New Zealand dollar weaker over the quarter. But import volumes held steady after a sharp rise in the previous quarter, particularly for imports of plant and machinery. We've been anticipating some slowdown in business investment this year, in line with the drop in business confidence. But there is little evidence for an investment slowdown yet, at least in the trade figures.

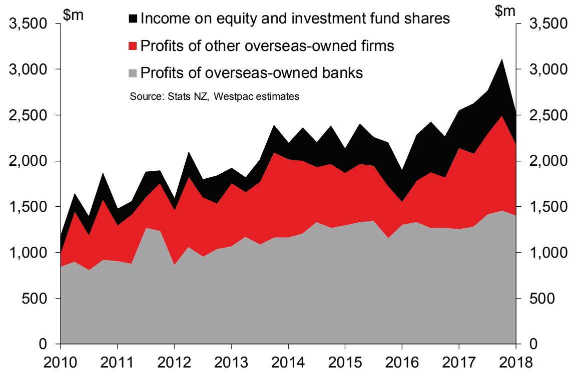
In contrast to the weaker goods balance, trade in services moved further into surplus in the March quarter. Exports of services rose by 2%, led by a modest lift in tourist numbers and spending.

The investment income deficit narrowed to $2.45bn in the March quarter, compared to $2.76bn in the December quarter. In particular, profits of overseas-owned firms in New Zealand dropped back after a very sharp rise in the previous two quarters. There may be some seasonal variation involved here – income from New Zealanders' overseas investments was also down for the quarter.

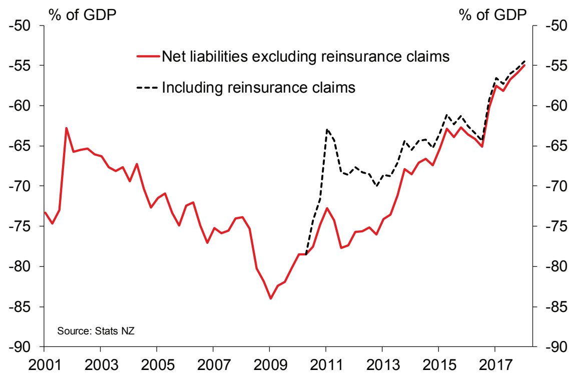
New Zealand's relatively small current account deficits in recent years mean that its overseas borrowing requirement has been much smaller than in the past. Indeed, the New Zealand economy has effectively been able to outgrow its debts. Net overseas financial liabilities have narrowed to 54.5% of GDP, a new low for this series dating back to June 2000. That's still relatively large developed country standards, but is no longer an outlier – we're now more or less in line with Australia.

Michael Gordon - Senior Economist

Investment income outflows



International investment position



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