Well contained

Q3 current account deficit widens to 3.6% of GDP

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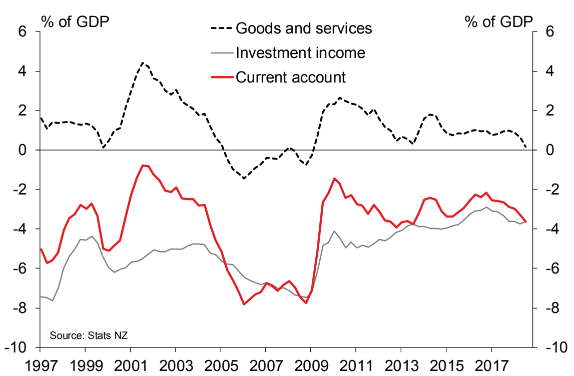
- The current account deficit widened from 3.3% to 3.6% of GDP in the year to September, in line with market forecasts.
- The deterioration in the annual balance reflected a tougher year-ago comparison. Dairy exports have been lower and oil import prices have been higher in the last year or so, but these factors are starting to unwind.
- The current account deficit remains low relative to history, and New Zealand's net overseas debt position was steady in the September quarter.

Current account balance	Q3 2018	Q2 2018
Quarterly (s.a.) $m	-2,560	-2,662
Annual $m	-10,539	-9,548
Annual % of GDP	3.6%	3.3%

Annual current account balance



New Zealand's current account deficit widened to 3.6% of GDP in the year to September, in line with forecasts. While the balance improved a little during the September quarter, it suffered in comparison with the same time last year.

In seasonally adjusted terms, the goods trade deficit narrowed from $1.34bn to $1bn, helped by a lift in export volumes and a drop in import volumes. However, that compares to a deficit of just $200m in the September 2017 quarter. New Zealand's trade performance has faced some headwinds in the last few years, with milk production down and rising oil prices adding to the import bill. However, these factors are now unwinding, and should contribute to an improvement in the trade balance over the next year or so.

In contrast, the balance of trade in services remains significantly in surplus, though it slipped during the September quarter. Spending by overseas visitors pulled back in September, reversing a sharp rise in the previous quarter. This volatility has largely been driven by changes in the average spend per person, though there was a small drop in visitor numbers as well in the September quarter.

The investment income deficit improved slightly for the quarter, due to higher earnings on New Zealanders' overseas investments. That was partly offset by higher earnings by overseas-owned firms in New Zealand (other than banks).

The annual current account deficit is now at its highest (as a share of GDP) since September 2013. However, it has remained within a fairly narrow range in the years since the Global Financial Crisis, and is a long way from the blowout that we saw during the mid-2000s boom. An improved trade performance, and lower interest rates on overseas borrowing, are helping to keep the current account deficit at more sustainable levels.

By 'sustainable', we generally refer to whether the country's overseas debt position is improving or deteriorating. New Zealand's net position (overseas liabilities, minus overseas assets) was broadly unchanged at 53.7% of GDP in the September quarter. Relatively small current account deficits in recent years have meant that New Zealand has essentially been able to outgrow its debts, and its net liabilities are at the lowest on record going back to 2000.

The current account is rarely market-moving, and once again there was no impact on the New Zealand dollar this time. The details of today's release don't affect our forecast of tomorrow's GDP figures, where we expect a 0.5% gain for the September quarter.

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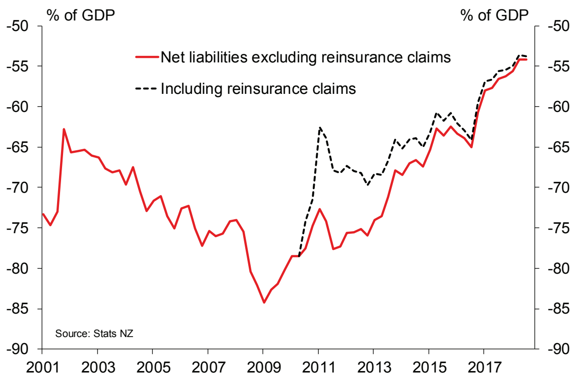
International investment position



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