Well contained

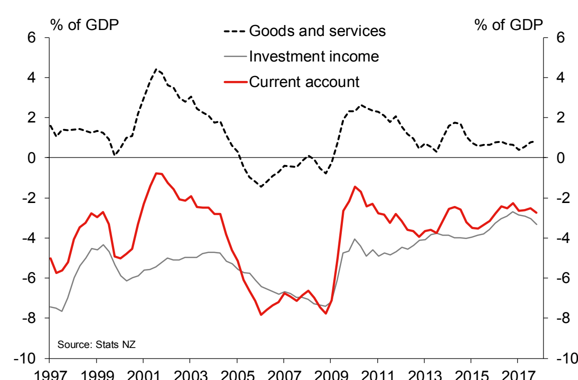
Q4 current account widens to 2.7% of GDP

14 March 2018

- The current account deficit widened from 2.5% to 2.7% of GDP in the December quarter.
- The goods trade deficit increased due to a jump in imports of business equipment.
- The investment income deficit widened by more than we expected, due to a surge in the earnings of overseas-owned firms.
- New Zealand's external imbalances have continued to improve in recent years as the current account deficit has remained low.

Current account balance	Q4 2017	Q3 2017
Quarterly (s.a.) $m	-1.951	-1,544
Annual $m	-7,722	-7,013
Annual % of GDP	2.7%	2.5%

Annual current account balance



New Zealand's current account deficit widened to 2.7% of GDP in the year to December, from a revised 2.5% in the year to September. The increase was slightly more than we or the market expected, but the details of the release don't give us cause for concern. The current account deficit remains well within the range of what we would consider to be sustainable.

In seasonally adjusted terms, the goods trade deficit widened from $80m to $465m in the December quarter. The lower New Zealand dollar over the quarter boosted the value of both exports and imports in equal measure. However, a small rise in export volumes was overshadowed by a surge in imports, particularly for vehicles and capital equipment. Much of this will be recorded as business investment, leaving no net impact on tomorrow's GDP figures.

Trade in services recorded a $1,164m surplus, little changed from the previous quarter. There was a rise in tourist numbers both in and out of the country over the quarter.

The main surprise for us was a surge in the outflows of profits from overseas-owned firms in New Zealand. Bank profits (which we can track through quarterly disclosure statements) were only slightly higher for this quarter; the increase appears to have been driven by a broader range of businesses. There was also a strong rise in the returns for overseas-held shares and investment funds.

The rise in outflows of profits is an encouraging story to the extent that it reflects strong trading conditions in the local economy. Profits for New Zealand-owned firms also appear to have been healthy in recent times, judging by the fact that the corporate tax take has continued to exceed the Treasury's forecasts. And profit outflows (as opposed to interest payments on debt) raise fewer concerns about the sustainability of the deficit.

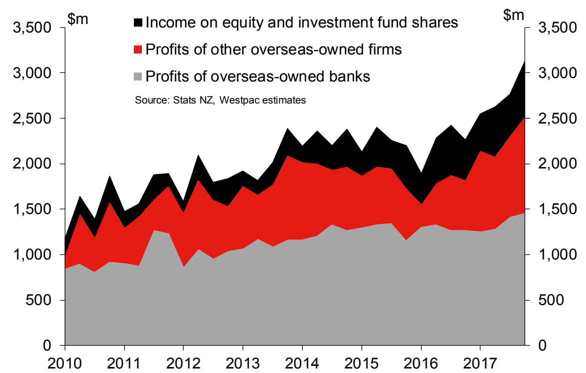
Indeed, the current account deficit has been so well contained that New Zealand's external imbalances have improved markedly over recent years. Net overseas liabilities narrowed to 55% of GDP in the December quarter, a new low for this series dating back to 2000. That compares to a peak of 84% of GDP in March 2009, after a decade of large current account deficits and heavy reliance on overseas borrowing. The balance in dollar terms is actually little changed since then, but nominal GDP has risen by nearly 50% in that time.

Our net overseas liability position is still large by developed country standards, but it's no longer an outlier – in fact, it's now on a par with Australia. No doubt this has contributed to the narrowing of our risk premium (the gap between New Zealand and international interest rates) in recent years.

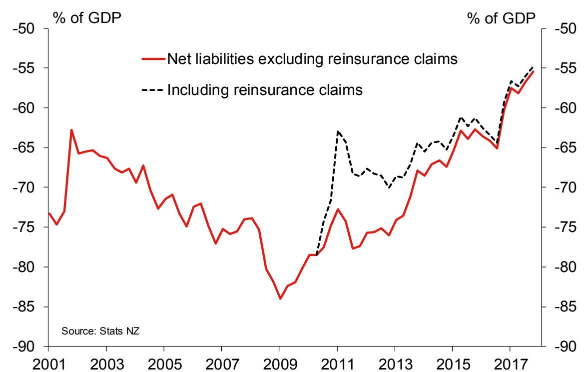
We expect some widening in the current account deficit over the next few years as global interest rates rise from their lows. But even then, we expect the deficit to remain manageable – roughly speaking, a current account deficit of around 3-4% of GDP would stabilise our net liability position at around current levels.

Michael Gordon
Senior Economist

Investment income outflows



International investment position



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