

Deficit in check

Q1 current account deficit narrows to 3.6% of GDP

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- New Zealand's current account deficit narrowed from 3.8% to 3.6% of GDP in the year to March.
- The trade balance has improved compared to a year ago, reflecting stronger dairy exports and a moderation in imports.
- Earnings on New Zealanders' overseas investments were stronger than expected.
- We expect the current account deficit to remain around this level over the rest of this year.

Current account balance	Mar 2019	Dec 2018
Quarterly (s.a.) \$m	-2,614	-2,674
Annual \$m	-10,624	-11,210
Annual % of GDP	3.6%	3.8%

New Zealand recorded a current account deficit of 3.6% of GDP in the year to March, compared to a revised deficit of 3.8% of GDP in December. While the deficit has widened over the last couple of years, it remains within the bounds of what we would consider sustainable.

The result was slightly more favourable than our forecast of a 3.7% deficit. However, the difference was due to earnings on overseas investments, which has no bearing on tomorrow's GDP figures. We expect a 0.6% rise in March quarter GDP, led by a step-up in building activity.

In seasonally adjusted terms, the current account deficit of \$2.61bn in the March quarter was only slightly narrower than the \$2.67bn deficit in the previous quarter. However, it was a substantial improvement on the \$3.1bn deficit recorded in the March quarter last year, which was exacerbated by falling dairy prices and a sharp rise in import volumes.

The goods trade balance improved slightly to a \$1.05bn deficit in the March quarter. The value of exports rose, as a bounce in dairy export volumes outweighed a fall in prices. The value of imports fell slightly, largely due to lower oil prices.

In contrast, the services balance was weaker, dropping to \$970m. Export earnings fell, reflecting a drop in overseas visitor numbers compared to the December quarter, while imports of services rose.

The main surprise in today's figures, relative to our forecasts, was in the investment income flows. Earnings from New Zealanders' overseas investments rose to \$2.4bn, the second-strongest quarter on record. On the other hand, profits of foreign-owned firms in New Zealand were lower than we assumed, although some of the difference may be due to seasonal variations.

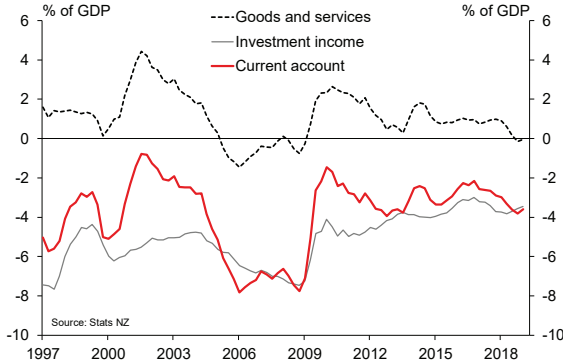
New Zealand's net overseas liabilities narrowed to 55% of GDP in March, after widening to 57% of GDP in December. However, this measure can be thrown around by swings in global share prices – overseas sharemarkets fell sharply at the end of the December quarter, but had largely recovered by March. Looking just at the nation's net debt position, the long-running trend improvement appears to be intact, suggesting that the current account balance remains within a sustainable range.

We expect the current account deficit to hold near its current level over the rest of 2019. The rise in dairy export

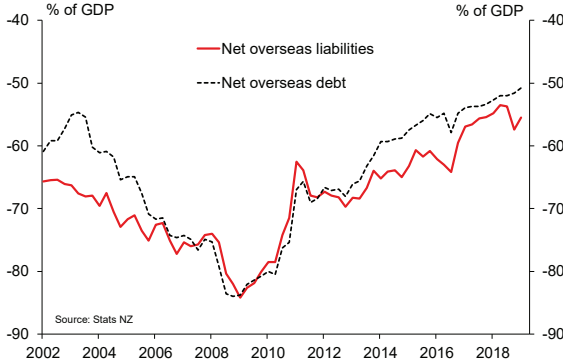
prices since the start of the year has yet to show through in the trade figures, though it is likely to be tempered by lower volumes. Meanwhile, we are expecting a gradual lift in economic growth from the second half of this year, which would also lift demand for imports.

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Annual current account balance



International investment position



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