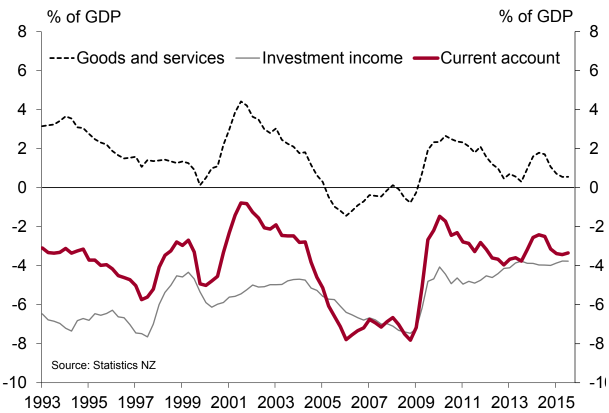
Popular destination

Q3 current account deficit narrows to 3.3% of GDP

- The current account deficit narrowed to 3.3% of GDP in the year to September, from a revised 3.4% in June.
- Weaker dairy prices were offset by higher export volumes.
- Tourist spending has surged over the last year, putting a meaningful dent in the current account deficit.
- We expect the deficit to widen over the next year, but to remain fairly contained compared to past cycles.

Annual current account balance



New Zealand's current account deficit narrowed slightly to 3.3% of GDP in the year to September. The result was in line with our forecast and market expectations, after accounting for some positive revisions to the June quarter figures that narrowed the annual deficit by 0.1 percentage points.

The current account deficit has remained remarkably steady over the last year, despite the steep fall in prices for dairy exports. More favourable prices for other commodities, growth in export volumes, and most importantly a strong rebound in tourist spending, have provided a substantial offset. While we see the deficit widening over the next year as the full impact of low dairy prices flows through, we expect it to remain well-contained relative to previous economic cycles.

The details of today's release don't provide any further insight into tomorrow's September quarter GDP report. Exports will make a positive contribution to growth, but we suspect that much of this will come out of inventories. We continue to expect a solid 0.9% increase in GDP, after two quarters of weak growth.

Details

In seasonally adjusted terms, the goods balance remained in deficit, although it improved slightly to $562m in the September quarter as the value of exports rose by more than for imports. Exports benefited from a rise in the volume of meat and dairy exports, and higher prices for commodities such as meat, wood and wool, which offset the fall in world dairy prices.

Meanwhile, the services balance recorded a surplus of just over $1bn, the largest since 2004. Exports of travel services – effectively tourist spending – continued their dramatic turnaround of the past year, following a decade of stagnation and then decline in the wake of the Global Financial Crisis.

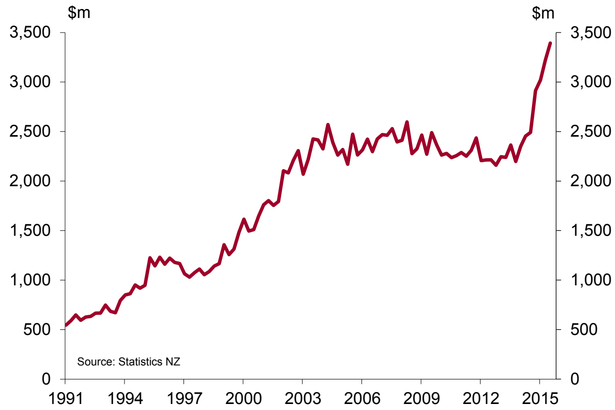
Right now, it's not clear what is behind the suddenness of this improvement, or whether it can be sustained. But if it were, it would contribute about an extra $4bn of overseas income per year compared to the previous trend – that's around half of the annual current account deficit. The perception that New Zealand runs a chronically large current account deficit by developed country standards might need a rethink in this situation.

The investment income deficit narrowed a little to $2.21bn. Flat profits for overseas-owned firms and low interest rates have kept the outflow of income in check.

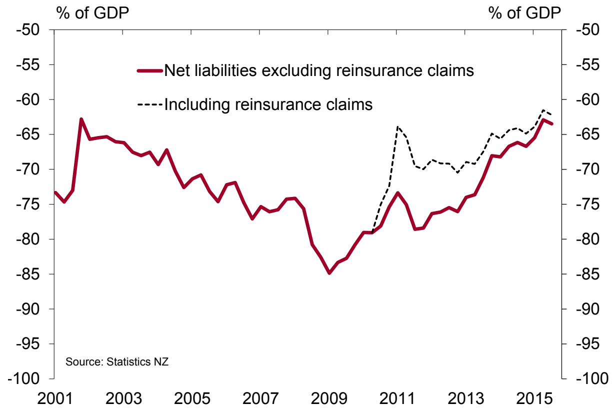
New Zealand's net external liabilities increased from 61.3% to 61.9% of GDP, although this was in the context of an improving trend over the last several years. Reinsurance claims from the Canterbury earthquakes account for a dwindling proportion of the improvement in the net asset position: $273m of claims were settled in the September quarter, leaving an estimated balance of around $3bn out of a total of $20bn.

Michael Gordon
Senior Economist

Travel services exports, seasonally adjusted



International investment position



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