Westpac

Institutional Bank

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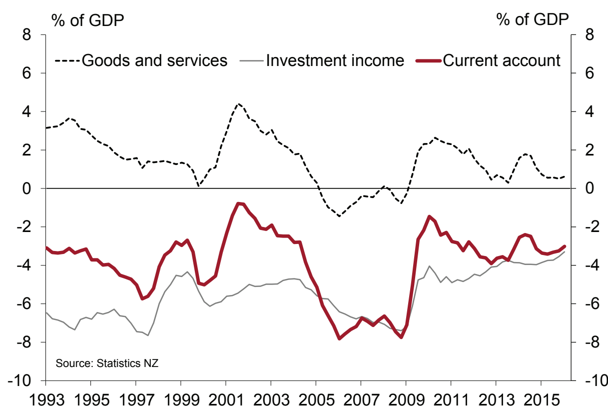
As good as it gets

Q1 current account deficit narrows to 3.0% of GDP

- The current account deficit narrowed to 3.0% of GDP in the year to March, in line with forecasts.
- Cheaper oil imports and strong tourism earnings improved the balance over the March quarter.
- Some of the improvement in the deficit is likely to be short-lived. Favourable commodity price movements in the March quarter have subsequently been reversed.
- We expect the deficit to widen again over the rest of this year, albeit remaining in a fairly benign range.

Annual current account balance



New Zealand's current account deficit narrowed to 3.0% of GDP in the year to March, from a revised 3.2% in December. This was in right line with our forecast and with market expectations, and had no impact on financial markets.

In seasonally adjusted terms, the goods trade deficit narrowed in the March quarter. The value of exports was softer overall, with a rise in dairy prices but a fall in volumes for dairy and other major items. But this was more than outweighed by a sharp fall in the price of oil, one of New Zealand's largest import items. The improvement in the goods balance is likely to be reversed next time: dairy export prices were lower over the June quarter, and world oil prices have risen strongly from their lows.

Trade in services continued its strong run, with the March quarter surplus rising above $1bn for the first time. Overseas tourist numbers have continued to climb, accompanied by a lift in the average spend per person over the last year or so.

The investment income deficit narrowed in the March quarter, due to a fall in the earnings of overseas-owned firms in New Zealand. This is something that should be taken as a mixed blessing – while it helps to reduce the current account deficit, it doesn't reflect well on the profitability of firms within New Zealand.

New Zealand's net international liabilities increased from 61.8% to 63.1% of GDP. This balance had been steadily improving since the end of the financial crisis in 2009, but now appears to be turning higher again. This is an echo of what's going on in the domestic economy – New Zealand has moved into a new phase where growth in borrowing has overtaken income growth. We expect this phase to persist for a couple more years, accompanied by rising current account deficits – though the current borrow-and-spend dynamic is nowhere near as dramatic as it was during the 2000s boom.

Michael Gordon
Senior Economist

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Satish Ranchhod, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

David Norman, Industry Economist
+64 9 336 5656

Any questions email:
economics@westpac.co.nz

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