19 December 2018

Oil Pressure On External Deficit To Ease

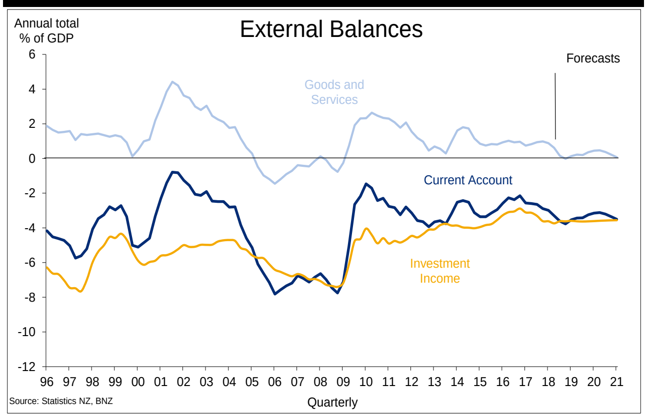
- **Current account deficit widens, as expected**
- **But dynamics changing with collapsing oil prices**
- **Services exports weak in Q3**
- **But not enough to alter our 0.6% pick for tomorrow's Q3 GDP**

New Zealand's current account deficit widened to 3.6% of GDP for the year to September 2018 from 3.3% in the year to June 2018. This matched market (and our) expectations so nothing to cause market movement. But it's worth noting that this is the largest annual deficit since 2009, even if it remains close to historical averages.

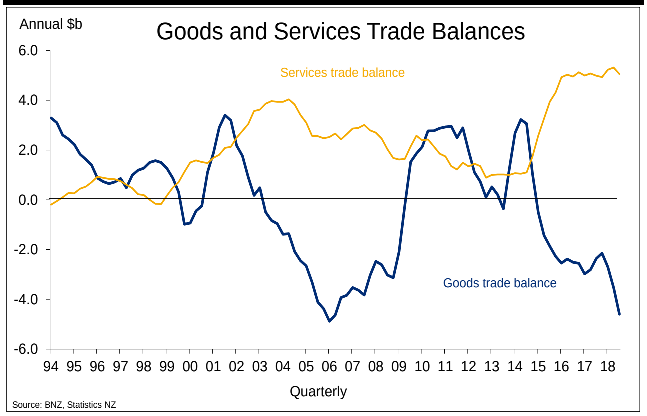
We have been forecasting a wider deficit for some time and see this as confirmation of this view. However, today's data has more than the usual feeling of old news about it given Q3's results include the effects of surging oil prices and softening dairy prices at the time. Both these influences have turned around in Q4, albeit much more so for oil than dairy.

Oil prices have collapsed over the past few months. Brent crude oil peaked around $US86/bbl in early October, it is now more than a third lower at around $US56/bbl following another material drop overnight. The rapid change in oil prices have shelved previous thoughts of the current account deficit continuing to push wider into 2019. In the near term, the slump in oil prices looks likely to offset the widening pressures from robust demand and domestic capacity constraints. The annual deficit may push marginally higher in Q4, but then show some mild

Bigger Deficit



Goods Deficit Amplified By Higher Oil Costs

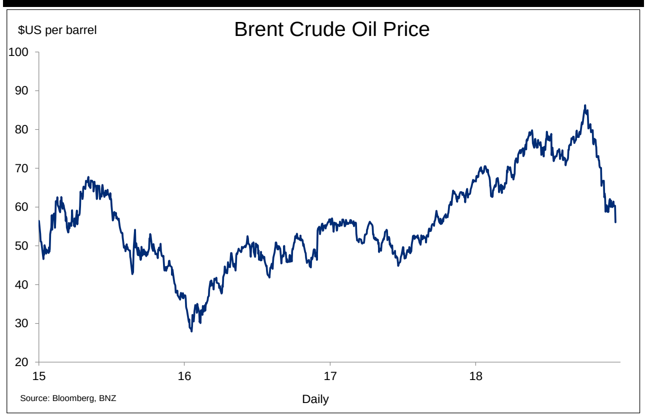


improvement in 2019 as the influence of lower oil prices filters through.

The above all has a very similar feeling to the situation regards inflation. There is some underlying pressures building, but over coming quarters the headline outcomes will be dominated by the major slump in oil prices.

Meanwhile, there was a little Christmas cheer in this morning's latest dairy auction with the GDT Price Index rising 1.7%. It adds to the previous event's 2.2% price gain. These are relatively small gains compared to a prolonged downward trend during much of 2018. The previous price declines have yet to fully show up in the external accounts, but if the most recent price

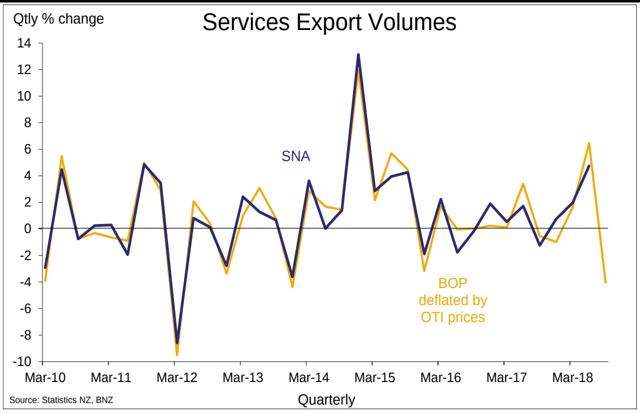
Less Oil Pressure On The External Accounts Ahead



improvements can extend (along with more volume, on the back of favourable weather conditions) then this bodes well for some support to the external accounts over coming quarters.

The details of this morning's trade figures revealed a softer than expected quarter for services exports (amidst a positive trend) which is something to bear in mind for tomorrow's Q3 GDP release. Meanwhile, the goods trade figures were close to expectations. Overall, there was no late mail to see us change our 0.6% pick for Q3 GDP tomorrow. But the softer services export result does tab down our GDP expenditure measure closer to our production based estimate.

Services Exports A Drag For Q3 GDP



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