Balance of Payments Still Broadly Encouraging

- NZ current account deficit middling at 3.4% of GDP
- And biased to reduce further, near term
- Various historical revisions ultimately negligible
- But BOP details shade upside to our 0.3% GDP pick
- Improvement in NZ’s int’l balance sheet stalling?

Normally, with such a stretched economy, New Zealand’s Balance of Payments (BOP) would be starting to test limits. Instead, the current account deficit is presently middling, and biased to shrink a bit further. The nation’s balance sheet with the rest of the world, meanwhile, is significantly less leveraged than it was ten years ago. Such starting points are encouraging, especially with global risks percolating.

Regarding the current account deficit, for the year to June 2019 it was, at $10.2b, equivalent to 3.4% of GDP—exactly in line with market expectations. This was from 3.6% for the year to March, and a proximate peak of 3.9% over calendar 2018. The June quarter nominal outturn, namely -$1.1b, was also exacting to market expectations.

Broadly speaking then, the external deficit has moderated to a historically “normal” level, as a per cent of GDP, and we forecast it will shrink a fraction further, on this basis, over the coming quarters. Something closer to 3.0% of GDP is our view. This is underpinned by still broadly robust terms of trade, along with net foreign debt interest payments depressed by the low interest rate environment the world is moving deeper into.

But it wasn’t just today’s headline results that proved uncontroversial. Various revisions that were instituted in today’s Balance of Payments accounts also proved no drama, while the exports and imports details were broadly in line with our read on the economy.

Having said this, the BOP detail on exports and imports, of goods and services, did shade the risk we see to our 0.3% expectation for tomorrow’s Q2 GDP release. This is mainly because of better growth in services exports than we figured on. Indeed, the net results of the BOP trade data bumped our expenditure GDP growth estimate up to 0.4%.

All things considered, we don’t take particular issue with market’s median expectations that Q2 (production-based) GDP will expand 0.4%. But 0.5% might be pushing it. Our bird’s eye view on the economy is that its rate of expansion is gradually slowing.

Regarding New Zealand’s financial balance sheet vis-à-vis the rest of the world, historical revisions made its recent trajectory look even better. Well, at least up to the March quarter of 2018, where the revision period ended. From there things reverted back pretty much to the existing trajectory.

So we wouldn’t read too much into the last few quarters, as any sort of sign that the international investment position might be starting to worsen again. It might just be a matter of waiting for another year’s worth of revisions, to make things look even better on this account. In any case, at 55.5% of GDP, New Zealand’s net foreign liabilities are significantly lower than the 84.2% they peaked at some ten years ago now.
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