Research

Economy Watch

16 September 2026

External deficit revised smaller, oil hit begins

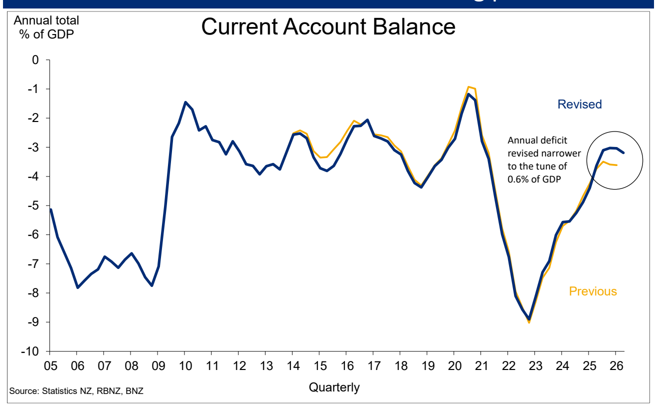
- **Revisions reduce recent external deficit**
- **Another warning to brace for GDP revisions tomorrow**
- **Oil widens the deficit off the narrower base**
- **Further widening expected**
- **Net international investment liability halves**

The oil shock has long had us projecting a widening in the current account deficit ahead. This remains the case.

The current account deficit stood at 3.2% of GDP in the year to June. The annual deficit a quarter earlier was revised significantly, down to 3.0% of GDP from the 3.6% previously published.

All up, while the annual deficit edged marginally wider in the quarter it came off a smaller starting point and was smaller than expectations. The market consensus estimated 3.8% and the RBNZ projected 3.9%. We had the smallest deficit expectation at 3.6%.

External deficit widens from smaller starting point



We had factored in material upward revisions to recent tourism expenditure and downward revisions to low value imported goods. We knew investment income was going to be revised too but had no visibility on the size or direction. In the event, the latter was a sizeable net narrowing to the tune of about $1.9b. That was the key to the deficit coming in smaller than we expected.

Markets ignored the data. That is unsurprising given that the deficit is non-threatening in size and refers to a period that feels like eons ago in current fast-paced markets.

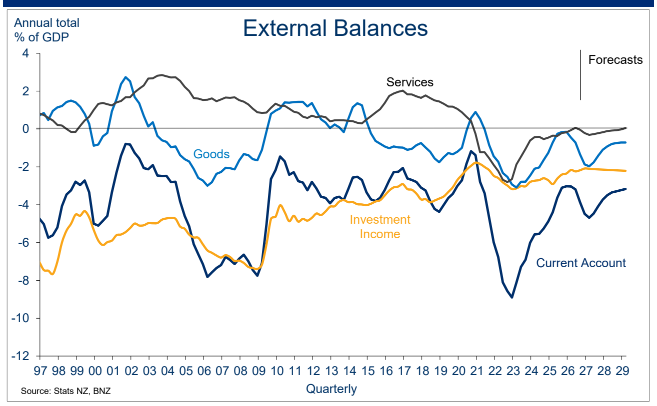
Today's data offer no clear reason to alter our thoughts on tomorrow's Q2 GDP. At the margin, the data suggests the net positive external trade contribution to quarterly growth may be a bit stronger than we have factored in.

However, even if that is the case it may be offset by inventory movements differing from what we anticipate. We stick with our Q2 GDP forecast of +0.2% q/q and 2.4% y/y.

In any case, the mass of revisions in today's trade data is another reason to brace for similar in tomorrow's national accounts. We have already been warning of such, and today's data simply reinforce that message.

Turning to the trade detail. Surging prices for oil and related products drove import goods values 23.5% higher than a year earlier in Q2. With oil prices now back through USD100 a barrel, imports are expected to remain well above year earlier levels.

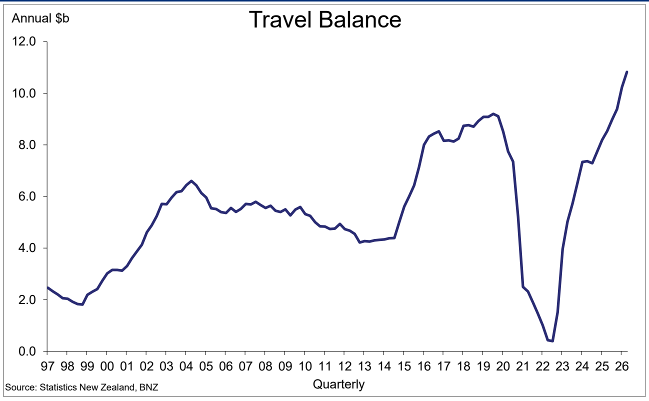
Oil shock denting goods balance



Elevated oil prices remain a key reason we see the annual current account deficit heading toward 5% of GDP over coming quarters. This despite solid agriculture returns that helped lift goods exports 15.1% higher in Q2 this year compared to Q2 2025.

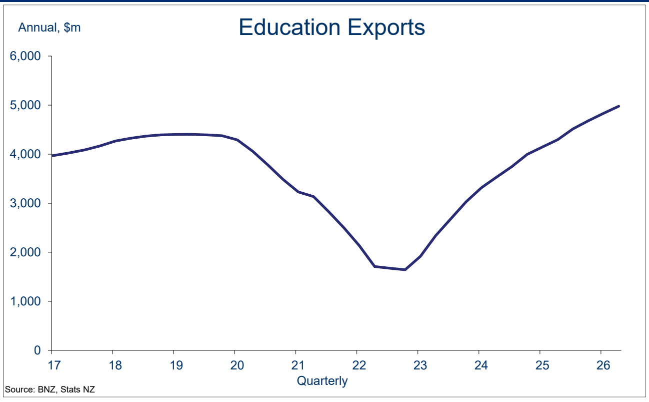
Tourist expenditure in Q2 was up a significant 18.6% y/y. A strong contributor to a further push higher in the annual travel surplus. It is now nudging $11b. As strong as that looks, overall exports of services look like being flat to a mild drag on Q2 GDP growth, once inflation and seasonality are taken into consideration.

Annual travel surplus nears $11b



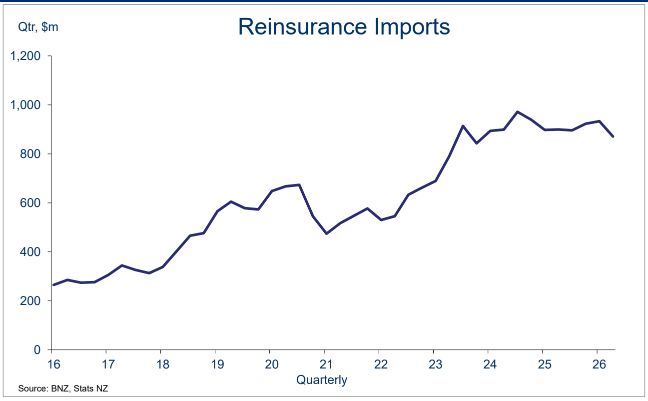
Education exports is another component of services pushing upwards. Its annual value is nudging $5b, up nearly 16% on a year earlier. The largest component of recent migrant arrival numbers has been student visas.

Higher education



Imports of services rose a comparatively small 5.7% y/y in Q2. Rising airfares and freight costs are part of this but with some offset from still elevated, but easing, reinsurance imports.

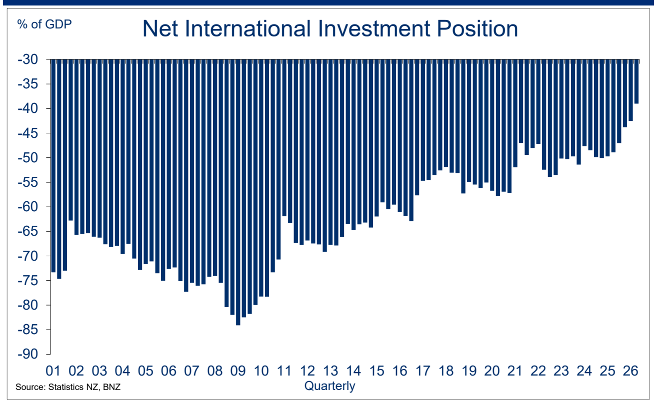
Levelled off



Last but not least, NZ's net international investment liability continues to narrow as a percent of the economy. It sat at 39.0% of GDP at the end of June 2026, narrowing from 42.5% recorded a quarter earlier. The biggest driver being a $19.1b international asset value gain on the back of offshore share market valuation increases.

As a proportion of the economy, the net international investment liability position is now less than half what it was at its peak of 84.1% back in March 2009.

Net liability shrinking



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