# Economic Note

NZ Current Account Deficit – Q4 2022

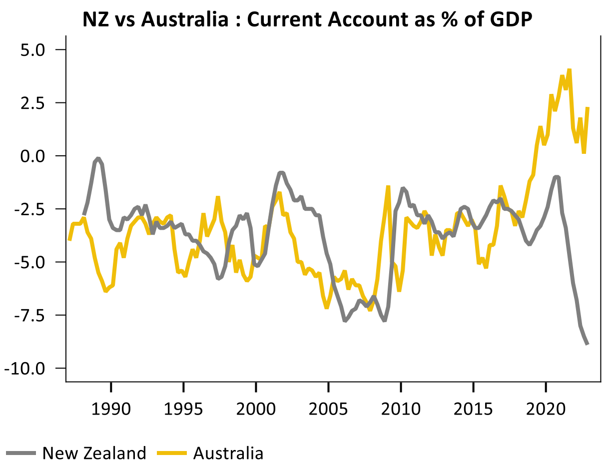
15 March 2023

## NZ Current Account deficit skyrockets in Q4

- The NZ Current Account deficit has widened out to 8.9% of GDP in Q4, substantially larger than most forecasters expected.
- A substantial widening in the goods deficit was the key driver as exports flatlined and imports rose substantially, but the services and primary income balances remain well in negative territory.
- The NZ current account deficit will narrow over the course of 2023, though we may see a shade of further near-term widening.

### A not-very-flash milestone

**NZ's annual current account deficit widened to $33.8 billion in Q4 2022, representing about 8.9% as a proportion of GDP.** That 8.9% figure is one of the highest on record – not since the mid-1980s has the deficit reached that kind of level as a share of GDP. The deterioration in the current account balance has been swift. The largest annual current account deficit prior to the COVID pandemic was $14.7bn in the December 2008 year during the global financial crisis (7.8% of GDP).




Source: Macrobond, ASB

**A substantial lift in the goods deficit was the primary driver for the increase.** On an annual basis, the goods deficit widened by $1.8 billion to -$11.3 billion, with a modest advance in NZ's export income (+$1.8billion) more than offset by a $3.6 billion lift in import payments. Trade data already released by Stats showed export volumes tumbling in Q4 after months of soft primary production, while import volumes have held up relatively well.

**However, the balances on the services and primary income accounts remain deeply in the red too.** NZ income from investments abroad lifted a little over $500 million to $11.9 billion annually, but that increase was again offset by a $1.3 billion increase in outflows.

The services balance narrowed a shade (by about $600 million annually), with a pick-up in NZ services exports as the border opened being the primary driver. Annual service export receipts widened by about $2.4 billion, while annual outflows lifted a more modest $1.7 billion. Still, the circa -$8 billion deficit on the services component is far in excess of the $4-5 billion surplus NZ was maintaining prior to the pandemic. **While plenty of NZers have been off galivanting overseas, a chunk of local travel exports are still missing in action.** Chinese tourism numbers are still far below pre-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COVID levels, for example.

## Wider, then narrower

**Despite having already reached a less-than-flash milestone, the risk is that we see further near-term widening in the current account deficit as a share of GDP:**

- In terms of goods exports, NZ agriculture production remains muted and is likely to have been disrupted further by Cyclone Gabrielle's hit at the beginning of this year. Commodity prices have also eased. Weaker domestic growth will push goods import payments lower over the course of the year, but import values look to have fared well in January and repair work and the replacement of damaged goods may support consumption in the near term. **The upshot means further widening in the goods deficit can't be ruled out.**
- It's likely some increase in interest income inflows and outflows are yet to be reflected in the primary income balance given further rate hikes over late 2022 and 2023 (a net negative, given the greater proportion of foreign-held NZ debt than vice-versa. The winding down of the RBNZ's quantitative easing bond holdings will be replaced by higher-interest debt of which some will be financed by overseas investors. Meanwhile, profitability among some of NZ largest offshore-owned entities appears to be holding up relatively well, with high banking sector profits earning headlines over recent months. **Further widening in the income deficit looks very much on the cards.**
- NZ service exports have recovered relatively quickly to more than 70% of pre-COVID levels and should continue to strengthen given the degree of pent-up demand for tourism and other travel. But it's a two-way street, with travel data over 2023 thus far showing departures are still outweighing arrivals. **The upshot is that further narrowing in the services deficit may not be sufficient to offset the weakness in other current account components.**

Still, the current account deficit is likely to narrow over 2023 writ large.

- We expect the goods deficit to narrow as slowing domestic demand weighs on imports. NZ primary production may be past its lows, with China's reopening giving commodity prices a modicum of support.
- Services deficits will further narrow and eventually move into surplus as tourism inflows into NZ continue to recover (bolstered by a lift in Chinese visitor numbers over the latter part of the year) despite strong pent-up demand for kiwis to travel overseas.
- The primary income deficit is expected to narrow as NZ interest rate differentials with the rest of the world eventually narrow and rate cuts come into focus. Cooling NZ domestic demand will weigh on corporate profitability.

## Implications

In the post-COVID world, pronounced volatility in published statistics has been more the norm than the exception, making it difficult to separate the economic signal from noise. Given pronounced volatility evident in the figures, the worsening trend of the current account deficit is a symptom of unbalanced growth in the economy.

A current account deficit of this magnitude, and the swiftness at which it has deteriorated is cause for concern and is in stark contrast to current account surpluses evident in Australia (see our comparison chart above).

Rising external deficits represent a headwind to the NZD and could add to NZ's borrowing costs if they become an issue for financial markets and overseas creditors.

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