

# Under the radar

## Q2 Current account preview: 21/09 10.:45 NZT

- We expect New Zealand's current account deficit narrowed a little in the June quarter, led by an improving trade balance.
- Commodity exporters in particular continued to benefit from high prices for their products.
- The investment income balance is likely to deteriorate in the June quarter as the one-off effects of February's Christchurch quake reverse.

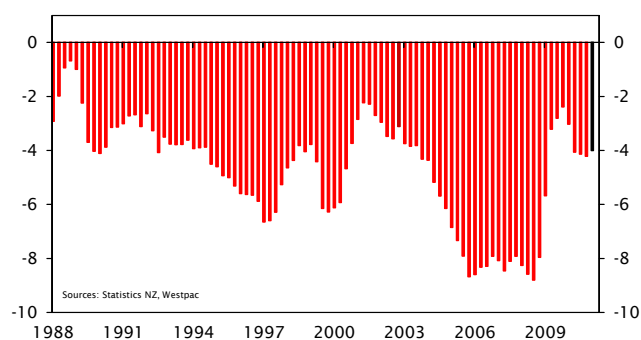
New Zealand's current account deficit is expected to narrow slightly to -4% in the June quarter, remaining well within manageable territory and unlikely to be a source of concern for markets focused on sovereign debt concerns in the Eurozone.

Next week's data should continue to reflect the strong performance of New Zealand's tradable sector. The goods balance has been recording quarterly surpluses since December 2008. And while the early improvement was due to the sharp fall in imports as consumers closed their wallets in the recession, in more recent times improved prices for commodity exports have ensured export growth has outpaced the recovery in consumer spending and imports. Looking ahead, the rapidly deteriorating outlook for global growth adds risks for exporters. We've already seen dairy prices fall over 20% – we'll start to see this reflected in current account data in the second half of the year.

On the services side of the ledger, February's earthquake is likely to have led to at least some visitors reconsidering their trip to New Zealand during the 3 months to June. In addition, an ash cloud disrupted flights for New Zealanders and visitors alike during the quarter. Visitor arrivals fell 1.8% (s.a.) in the 3 months to June. In sharp contrast to the goods trade balance, the services balance has been in deficit territory since the start of 2010. The tourism sector has been hit by subdued consumer sentiment in Europe, and a more recent deterioration in Australian consumers' prospects, as well as the high level of the New Zealand dollar which makes New Zealand a more expensive holiday destination.

The investment income balance is always one of the more difficult components of the current account to get a read on. The March quarter saw a sharp reduction in the investment

NZ current account as % of GDP



Current Account components (\$million)

|                            | Jun-10 | Sep-10 | Dec-10 | Mar-11 | Jun-11 (f) |
|----------------------------|--------|--------|--------|--------|------------|
| Goods Balance (s.a.)       | 1,161  | 776    | 610    | 842    | 1,270      |
| Services Balance (s.a.)    | -90    | -172   | -229   | -185   | -250       |
| Investment Income Balance  | -2,885 | -2,393 | -3,213 | -2,352 | -2,820     |
| Transfers balance          | -122   | -54    | -23    | -58    | -50        |
| Current Account Bal (s.a.) | -1,936 | -1,843 | -2,855 | -1,753 | -1,810     |
| CAB Ann Total              | -5,707 | -7,749 | -8,044 | -8,300 | -8,035     |
| Ann CAB, % of GDP          | -3.0   | -4.1   | -4.1   | -4.2   | -4.0       |

income deficit, largely as the result of a sizable fall in foreigners' earnings from their investments in New Zealand. This in turn was due to underwriting losses incurred by insurers following February's quake. We therefore expect this move will be largely reversed in the June quarter (though there is a risk that if these losses are revised higher, it will be reflected in a reduction in the investment income deficit in Q1, which will in turn impact on the annual current account balance).

### Market implications

In recent quarters the release of current account data has tended to go beneath the market's radar – even as technical changes led to big revisions in the headline figures. We expect this to continue to be the case this quarter as attention remains firmly focused on economic and political developments in the Eurozone.

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