

# By degrees

## Q3 Current account preview: 21/12 10:45 NZT

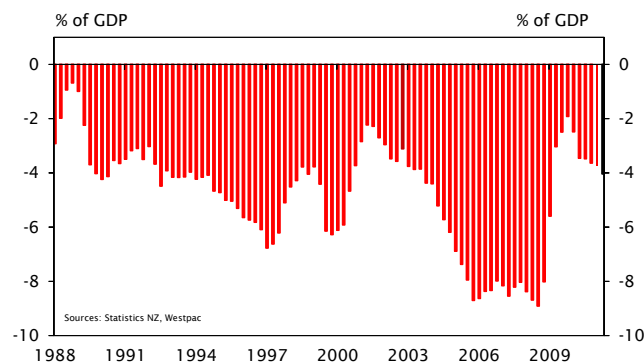
- We expect New Zealand's current account deficit to widen a little further in the September quarter to 4% of GDP.
- Softer commodity prices will weigh on the goods balance, yet it remains firmly in positive territory.
- The effects of the Rugby World Cup will permeate next week's data but the impact will be spread over two quarters.

Next week's current account balance is forecast to widen a little further, to 4%. But as the deficit remains well within manageable levels it is unlikely to be much of a focus for markets.

The goods balance is set to fall from June's levels, as softer commodity prices (and in particular softer dairy prices) and relatively flat volumes are reflected in the export data. On the imports side of the ledger, both prices and volumes are down slightly in the quarter. Although the goods trade balance has now been firmly in surplus territory for 3 years, the deteriorating outlook for global growth will ensure more challenging conditions for the externally focused sector next year, which will likely see the surplus shrink further.

The impact of the Rugby World Cup will be evident in the services trade flows in both the September and December quarters. But for the September quarter this will likely mean a smaller services deficit, rather than a surplus. Not only will the big influx of rugby supporters boost travel and tourism exports, but less visible benefits (and costs) of hosting the tournament will also be recorded. These include an assortment of fees associated with the tournament paid both by and to New Zealand companies (e.g. payments made by NZ Rugby Union to the International Rugby Board for hosting rights, sponsorship payments, and payments associated with broadcasting contracts). Meanwhile, imports of services were weak during the September quarter as fewer New Zealanders travelled abroad, in part due to the shift in timing of the school holidays out of September and into October. Of course there was a whole lot of activity and spending by

### NZ current account balance



### Current Account components (\$million)

	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Goods Balance (s.a.)	766	596	879	1,058	840
Services Balance (s.a.)	-161	-236	-172	-402	-130
Investment Income Balance	-2,125	-2,880	-2,162	-2,533	-2,790
Transfers balance	-50	-33	-78	-164	-109
Current Account Bal (s.a.)	-1,570	-2,553	-1,533	-2,041	-2,160
CAB Ann Total	-6,619	-6,783	-7,194	-7,471	-8,180
Ann CAB, % of GDP	-3.5	-3.5	-3.6	-3.7	-4.0

New Zealanders as well as foreigners during the tournament and this will be recorded in the GDP data released a day later.

The opaque investment income balance is always difficult to forecast and has been thrown around in recent quarters by earthquake-related flows. We expect that the deficit widened further in the quarter, in part due to improved quarterly profits accruing to foreign-owned companies.

**Dominick Stephens**, Chief Economist, Ph: (64-9) 336 5671  
**Anne Boniface**, Senior Economist, Ph: (64-9) 3365669

For further information, questions or comments contact Dominick Stephens, Chief Economist, Ph: (64-9) 336 5671, email dominick\_stephens@westpac.co.nz

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