15 March 2012

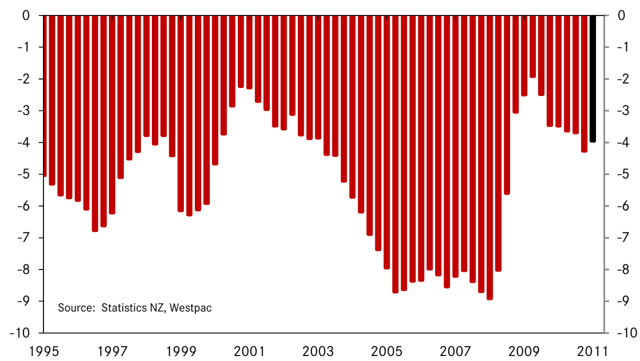
Westpac Institutional Bank

Small improvement

Q4 Current account preview: 21/03 10:45 NZT

- **Next weeks' current account deficit is forecast to narrow slightly to -4% of GDP.**
- **A weaker NZD and strong export volume growth during the quarter should more than offset softer global commodity prices, leading to a notable improvement in the goods balance.**
- **The impact of the Rugby World Cup on New Zealand's external accounts will also be apparent in the December quarter.**

NZ current account balance



Current Account components ($million)

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11 (forecast)
Goods Balance (s.a.)	606	894	995	480	1023
Services Balance (s.a.)	-240	-161	-401	-290	-173
Investment Income Balance	-2,852	-2,134	-2,420	-2,805	-2,777
Transfers balance	-33	-78	-145	-73	-80
Current Account Bal (s.a.)	-2,547	-1,507	-1,996	-2,710	-2,006
CAB Ann Total	-6,783	-7,194	-7,395	-8,677	-8,162
Ann CAB, % of GDP	-3.5	-3.6	-3.7	-4.3	-4.0

Summary

We expect the current account deficit narrowed a little in the December quarter, to -4% of GDP, on the back of an improvement in the goods balance and a smaller services deficit.

The December quarter data should feature an improved goods balance as stronger export volumes and a weaker New Zealand dollar more than offset softer world commodity prices. Dairy exports are likely to be a particular standout despite weaker global milk prices, following a stellar production season for New Zealand dairy farmers. Although the goods balance remains firmly in positive territory for now, tougher conditions for exporters and softer commodity prices are likely to see this come under pressure in 2012.

The impact of hosting the Rugby World Cup will be evident in New Zealand's external accounts over both the September and December quarters. The event drove a sharp jump in the number of overseas visitors entering the country, providing a boost to the tourism sector which is reflected in an increase in exports of services (we expect an outsized impact in the December quarter because visitors are surveyed about their spending in New Zealand on departure and departures peaked after the event finished in October). However this is likely to be at least partly offset by more New Zealanders travelling abroad in the December quarter due to the shift in the timing of the school holidays. On balance, this leaves us anticipating a small improvement in the services balance this quarter, but it remains in deficit territory.

As always, the investment income balance is the more difficult component of the current account balance to forecast. In general terms we expect this to widen over the coming years as stronger growth in New Zealand's domestic economy is reflected in improved foreign owned firms' profitability. In the December quarter, we are forecasting the investment income deficit to be maintained at similar levels to the September quarter in part because the improvement in profits accruing to foreign owned companies evident in the September quarter appears to have been maintained into the final months of 2011. However, it can be very volatile on a quarter to quarter basis.

Anne Boniface
Senior Economist

Contact Details

Dominick Stephens, Chief Economist	Ph: (64-9) 336 5671	dominick_stephens@westpac.co.nz
Michael Gordon, Senior Economist	Ph: (64-9) 336 5670	michael_gordon@westpac.co.nz
Felix Delbrück, Senior Economist	Ph: (64–9) 336 566	felix_delbruck@westpac.co.nz
Anne Boniface, Senior Economist	Ph: (64-9) 3365669	anne_boniface@westpac.co.nz