

## New Zealand economic update

### Current account balance

## NZ's current account deficit widened in 2Q as the NZD shot to post-float highs - but the outlook remains very positive

New Zealand's current account deficit (in actual dollar terms) widened as expected in the June quarter to NZ\$2.91 billion from NZ\$2.21 billion in 1Q, but came in well below market expectations (JPMorgan NZ\$2.55 billion, consensus NZ\$3.39 billion). The annual deficit has improved from NZ\$14.6 billion in the year to June 2006 to NZ\$13.6 billion in the June 2007 year. As a result, the current account deficit dropped to 8.2% of GDP - down from a downwardly revised 8.3% in 1Q (previously 8.5%). In seasonally adjusted terms, the deficit actually narrowed by NZ\$162 million over the quarter to NZ\$3.415 billion.

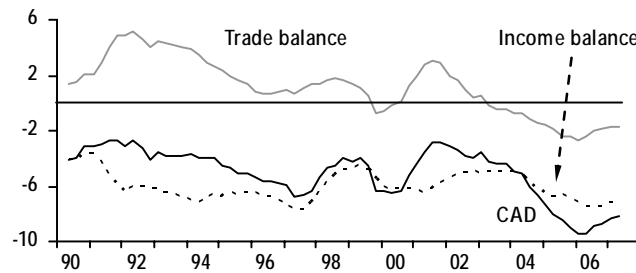
Delving into the detail, the goods balance improved markedly, a result slightly better than the monthly trade figures had suggested, and over a period when the NZD hit record highs (the NZD traded US 0.81 cents, the highest level recorded since floating in 1985). The services balance was a touch weaker than expected, given the solid flow of tourists over the quarter, especially from Australia. Whereas the income balance continued to weigh the current account down as earnings by foreign investors in New Zealand outweighed the increase in income earned from New Zealand's investments abroad. On a positive note, the income deficit is flattening out on an annual basis - the deficit in the year to June 2007 was little unchanged from the deficit in the year to June 2006 and is now NZ\$249 million lower than the year ended December 2006 income deficit of NZ\$12.1 billion.

Overall, this is a positive report and given the lucrative dairy industry outlook New Zealand's current account deficit will continue to improve on the trade side. Despite the income side continuing to weigh the current account down, New Zealand's CAD is likely to head towards 7.5% of GDP over the next four quarters.

Current Account (NZ\$ million)						
	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
<b>Goods balance</b>	-558	170	-1436	-1222	-342	27
<b>Services balance</b>	967	-207	-625	281	1052	-120
<b>Income balance</b>	-3123	-3035	-2777	-3157	-2895	-3015
<b>Transfers balance</b>	27	234	215	243	-21	194
<b>Current account (annual total)</b>	-14542	-14604	-14031	-14004	-13522	-13597
<b>Annual % of GDP</b>	-9.3	-9.3	-8.8	-8.7	-8.3	-8.2

New Zealand: current account

% of GDP



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