19 March 2025

# Confidence shattered, external accounts not so

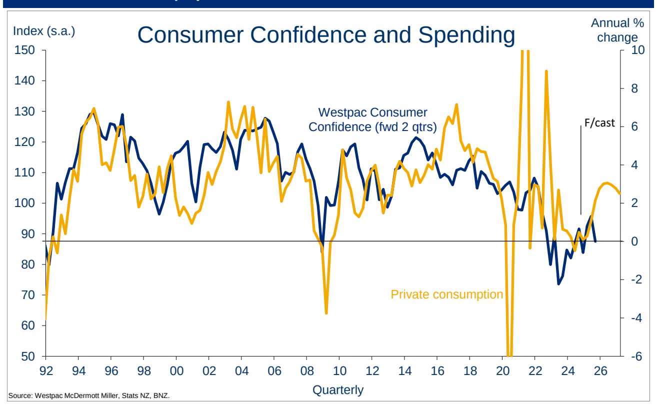
- **Consumer confidence ghastly**
- **Major headwind to economic recovery**
- **Current account improvement continues**
- **Despite rising debt levels**
- **Rating agencies still on edge**

Today's economics note was meant to be all about the positive aspects of a rapidly reducing current account deficit. But any positive thoughts about our economy have been completely drowned by the release, this morning, of Westpac's Consumer Confidence reading, which was simply awful.

Considering what we had been seeing from the ANZ equivalent, and assuming optimism about falling interest rates would be largely offset by pessimism about the state of the economy and ongoing cost increases, we had thought that, on a seasonally adjusted basis, confidence would we broadly unchanged. We couldn't have been more wrong. The headline confidence index slumped to 89.2 from 97.5 a quarter earlier. The decline in the seasonally adjusted series was broadly the same.

If we exclude the misery of the last few years, and one quarter during the GFC, you must go back all the way to the deep recession of 1991 to see a reading this low. Moreover, for our forecasts of household spending to prove anywhere near accurate consumer confidence will need to lift aggressively from here. It's getting increasingly hard to see how this might happen. This is especially so when cost of living issues are a widespread concern which will not dissipate any time soon, particularly when folk see what happens to their power bills come the expected hikes on April 1.

Confidence simply awful

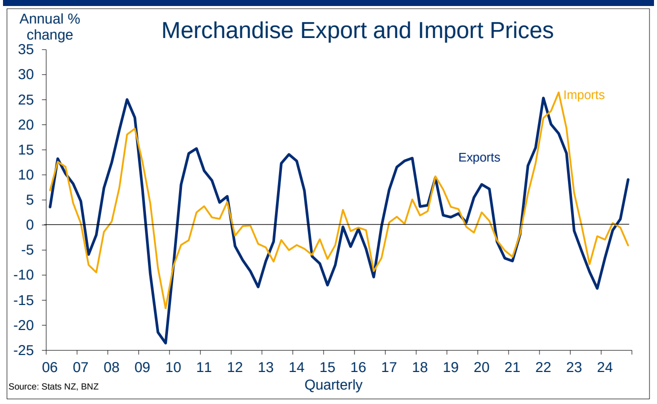



If ever there was a reason for the central bank to keep lowering interest rates then weak consumer confidence accompanied by heightened uncertainty and a softening labour market must be it.

As for the current account balance . . . there is a link between weak consumer confidence and the continued reduction in the deficit. Namely, relatively weak domestic spending is reducing the demand for imports at a time when a robust primary sector is pushing exports higher.

But it's not just a volume story for the goods balance. The terms of trade have also been very favourable. In the year ended December 2024 export prices rose 9.1% while import prices fell 4.1%.

Terms of trade helpful

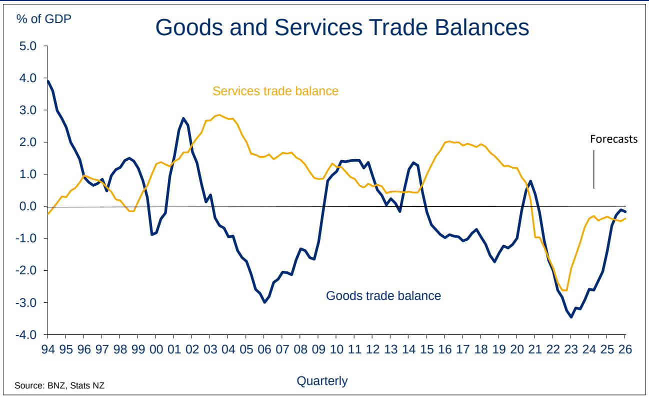



The combination of these factors has seen the annual goods deficit fall from 2.9% of GDP a year prior to 2.0% in the latest reading.

Back in December 2022 the total current account deficit peaked at 9.2% of GDP. By Q3 2024 it had fallen to 6.5% and now sits at 6.2%. In the first instance it was the return of tourists, and then international students, to New Zealand post COVID that led the improvement. But, now, trade in goods has taken over the role.

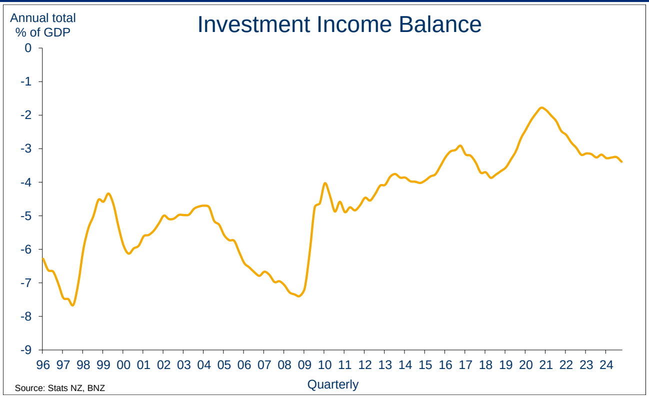
Combine the goods and services balance together and you end up with a deficit of 2.4% of GDP and narrowing. In contrast, the achilles heal for New Zealand continues to be its large external debt position and the impact of funding this on the investment income balance. Interest rates may be trending lower but the rapid increase in debt is offsetting the impact of this on debt servicing.

## Trade balances do their bit




The investment income deficit is 3.4% of GDP and is trending slowly wider. It's difficult to see how any meaningful dent in this shortfall can be achieved in the foreseeable future especially when both central and local government debt are rising.

## The achilles heel



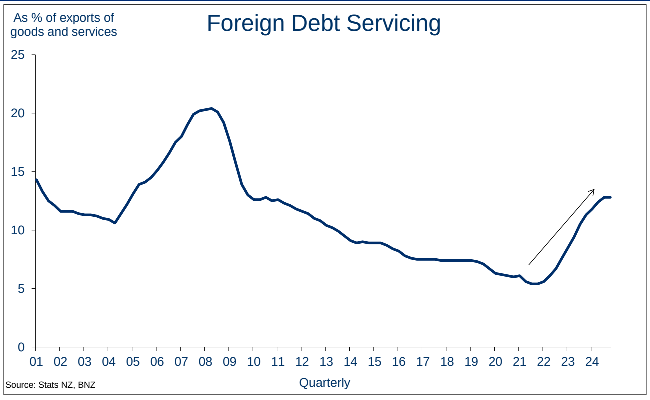

The path of the New Zealand Government Net Foreign Debt position is there for all to see in the net international investment accounts. It has been rising aggressively to 18.9% of GDP from a low of 4.8% back in 2021.

Despite this, our total net international investment position, as a percentage of GDP, continues to trend smaller and is miles away from the levels we saw in 2008/2009.

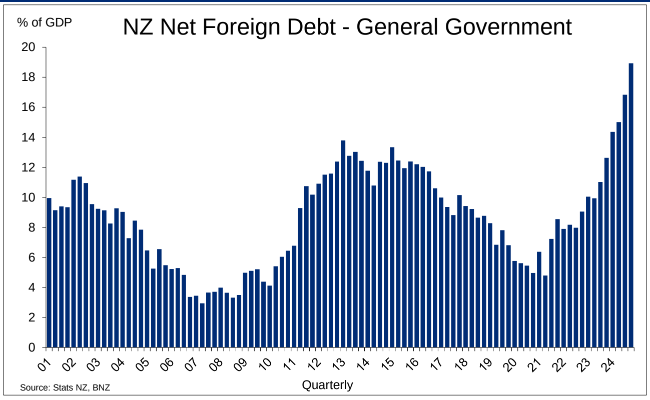
Indeed, despite the imbalances that continue in both the current account and international investment position, progress is favourable. In particular, the sharp fall in the current account deficit will provide some solace to the rating agencies as they ponder New Zealand's rating position. For a while, with the deficit seemingly headed towards 10% of GDP it looked like a New Zealand downgrade was a near certainty. Now, however, the external balances are broadly behaving well.

Does this mean New Zealand is now certain to avoid the rating agencies' ire? Possibly not. While the external accounts are doing their bit, rating agencies will still be watching the progress of local authority and government debt closely. The downgrade of 18 local authorities by Standard&Poors this morning is a salient reminder that there is still work to be done.

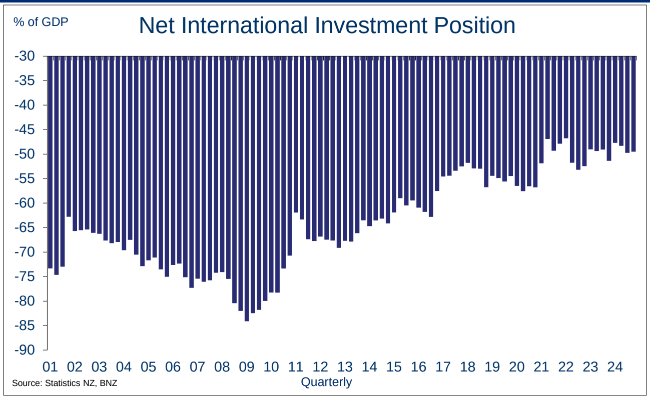
## Debt servicing costs rising



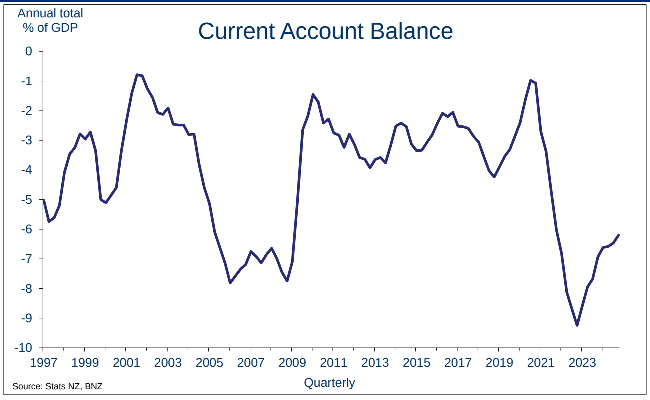

## General government debt a rising burden




## Overall not so bad




## Disaster averted?




stephen_toplis@bnz.co.nz

# Contact Details

## BNZ Research

**Stephen Toplis**
Head of Research

**Doug Steel**
Senior Economist

**Matt Brunt**
Economist

**Jason Wong**
Senior Markets Strategist

**Stuart Ritson**
Senior Interest Rate Strategist

**Mike Jones**
BNZ Chief Economist

## Main Offices

**Wellington**
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

**Auckland**
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

**Christchurch**
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854