

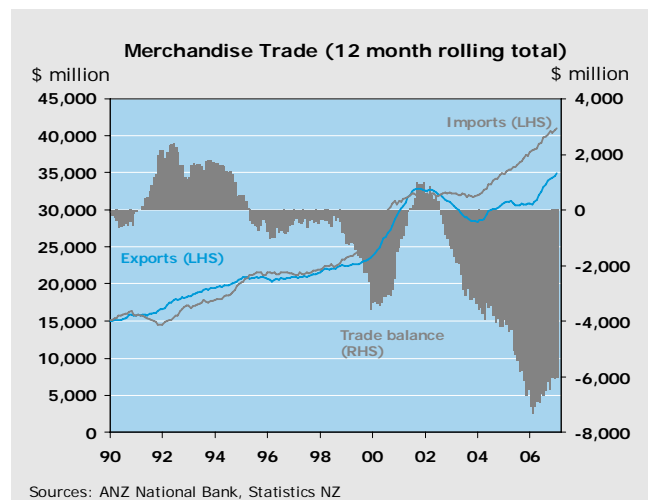
## OVERSEAS MERCHANDISE TRADE – JANUARY 2007

Key points

- New Zealand's January trade deficit came in worse than expected at \$833m, inflated by the importation of a plane in January. The underlying deficit remains high.
- The composition of imports and trend remains domestic-demand centric, which will continue to worry the Reserve Bank. Imports of consumption goods were up strongly on a year-ago.

The headlines

	Actual	ANZ-National	Market
<b>Merchandise trade balance</b>	<b>-\$833m</b>	-\$760m	-\$671m
Imports	\$3,308m	\$3,360m	\$3,163m
Exports	\$2,475m	\$2,600m	\$2,505m



- **Exports were largely in line with market expectations.** The largest increase was in milk, butter and cheese exports (up \$95 million), undoubtedly a consequence of strong world dairy prices. On a monthly trend basis, exports were unchanged from the previous month. However, this has been easing since February 2006 and is likely an illustration of the effect the higher NZD is playing in reducing the competitiveness of NZ exports overseas, even with commodity prices rising strongly.
- **In terms of the composition of imports we note they are up 13.5 percent on 12 months ago.** However, passenger car imports fell by 12.6 percent in the year to January 2007.

Assessment and implications

- **The high NZD is undoubtedly hurting exporters.** Although high commodity prices are sheltering some parts of the export sector, particularly dairy which accounted for over a third of the increase in total merchandise exports, it is clearly hurting other sectors such as fruit exports (up only 1.8 percent in the 12 months to January) and seafood exports (up only 3.5 percent over the same period). The monthly trend measure was unchanged in January and has effectively been unchanged since October last year. This is after an average monthly growth rate of 1.6 percent over the first half of 2006.
- **The strength and resilience of domestic demand will remain a concern at the Reserve Bank.** Although some of this strength will be a result of an unwinding of a significant inventory run-down that occurred at the end of 2006, it fits with other domestic demand indicators that suggest that renewed momentum is being sustained into Q1 and is far from the moderating trend the Reserve Bank requires. However, of some encouragement for the Bank is the recent increase in plant and machinery imports.

Capacity constraints remain significant in the economy, and any further investment – particularly if it reduces the demand for tight resources such as labour – may help to alleviate some of those constraints which are placing upward pressure on the medium-term inflation outlook.

- **The deficit is likely to remain high.** While we note that the annual deficit has improved from \$7.3 billion in February 2006 to \$6.0 billion in January, further improvement from this juncture looks likely to be very gradual. With the higher NZD likely to delay any export recovery, and domestic momentum likely to see sustained import demand, the deficit will remain elevated for sometime. This will feed into New Zealand's already large current account deficit and leave the economy vulnerable to changes in overseas sentiment.
- **There are limited monetary policy implications in today's release.** At the margin, the domestic demand signals appear to reinforce the sustenance being shown across the general economy. In this environment, the Reserve Bank will not want to take its finger off the trigger and will increase interest rates in March. However, with the current level of the NZD, a follow-up hike in either April or June is far from certain.

## Important Notice

Australia and New Zealand Banking Group Limited is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11005 357 522  
10th Floor 100 Queen Street, Melbourne 3000, Australia  
Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited  
ABN 11 005 357 522  
Minerva House, PO Box 7, Montague Close, London, SE1  
9DH, United Kingdom  
Telephone +44 20 7378 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of NASD and SIPC)  
6th Floor 1177 Avenue of the Americas  
New York, NY 10036, United States of America  
Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited  
Level 7, 1 Victoria Street, Wellington, New Zealand  
Telephone +64 4 802 2000

In Australia and the UK, ANZ Investment Bank ("ANZIB") is a business name of Australia and New Zealand Banking Group Limited, ABN 11 005 357 522 ("ANZ Bank"), which holds an Australian Financial Services licence no. 234527 and is authorised in the UK by the Financial Services Authority ("FSA"). In New Zealand, ANZ Investment Bank is a business name of ANZ National Bank Limited WN / 035976 ("ANZ NB").

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZSI") (an affiliated company of ANZ Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZSI upon request. Any US person(s) receiving this document and wishing to effect transactions in any securities referred to herein should contact ANZSI, not its affiliates.

This document is being distributed in the United Kingdom by ANZ Bank for the information of its market counterparties and intermediate customers only. It is not intended for and must not be distributed to private customers. In the UK, ANZ Bank is regulated by the FSA. Nothing here excludes or restricts any duty or liability to a customer, which ANZ Bank may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA. This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy. In addition, from time to time ANZ Bank, ANZ NB, ANZSI, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZ Bank, ANZ NB, ANZSI or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable.

The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will directly or indirectly relate to specific recommendations or views expressed about any securities or issuers in this document. The author's compensation will, be based upon, among other factors, the overall profitability of ANZ, including profits from investment banking revenues.

ANZ Bank, ANZ NB, ANZSI, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation. Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.