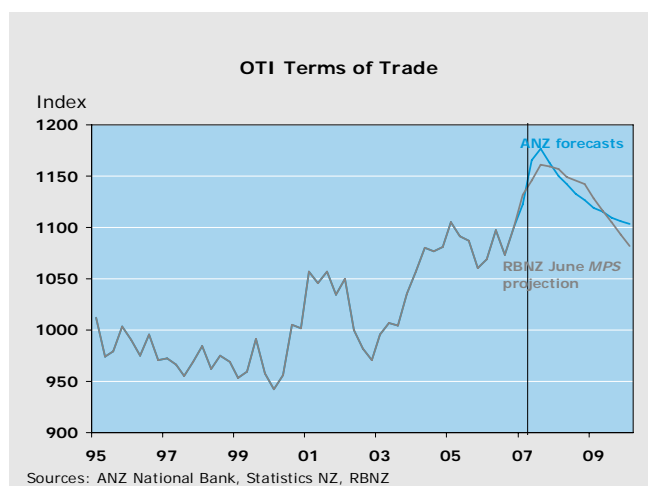


## OVERSEAS TRADE INDICES – MARCH QUARTER 2007

### Key points

- The terms of trade rose by 2.0 percent in the March quarter, below market and our expectations.
- Further increases in the terms of trade are expected in Q2 courtesy of higher dairy prices in April and May.
- The real income boost from the rise in the terms of trade will continue to lean against the Reserve Bank's efforts to contain medium-term inflation pressure.
- Export and import volume data contained in today's release leaves us comfortable with our Q1 GDP growth estimate of 1 percent with upside risks. This is higher than the Reserve Bank's June MPS forecast of 0.8 percent, which will see the bias for interest rates remaining up.
- The final piece of the GDP puzzle, manufacturing data, is due at the end of the week.

	Terms of Trade		Export Volumes		Import Volumes	
	QoQ	YoY	QoQ	YoY	QoQ	YoY
Dec 04	0.4	4.4	6.3	5.4	1.8	10.1
Mar 05	2.2	4.5	-1.6	-2.2	1.7	5.1
Jun 05	-1.3	1.0	-0.4	-4.3	3.5	6.3
Sep 05	-0.4	0.9	-2.5	1.7	0.6	7.7
Dec 05	-2.5	-1.9	4.8	0.1	-0.2	5.6
Mar 06	0.8	-3.3	-2.3	-0.6	-0.2	3.7
Jun 06	2.6	0.5	0.6	0.4	-2.3	-2.2
Sep 06	-2.2	-1.3	4.5	7.7	1.9	-0.9
Dec 06	2.5	3.8	-2.4	0.4	2.8	2.0
<b>Mar 07</b>	<b>2.0</b>	<b>5.0</b>	<b>2.4</b>	<b>5.1</b>	<b>2.2</b>	<b>4.6</b>
<b>ANZ</b>	<b>3.1</b>	<b>6.0</b>	-	-	-	-
<b>Market</b>	<b>2.5</b>	<b>5.4</b>	-	-	-	-



### Assessment and implications

- **The terms of trade rose by less than expected in the March quarter.** The lower than expected print was due to a surprise 0.2 percent fall in export prices. We were expecting an increase of 0.9 percent due to strength in commodity prices. The weak export prices could be due to timing issues, and we note that it was driven lower by falls in world meat prices. Given that the increase in world dairy prices more than offset any falls in meat prices, we suspect that some of those increases are yet to feed through. Nonetheless, the 2 percent increase for the quarter still takes the terms of trade to 5 percent higher compared to a year ago. The higher NZD together with lower world oil prices contributed to a 2.1 percent fall in import prices. Falls in both import and export prices are mildly encouraging on the inflation front, although this has the potential to reverse sharply when the NZD does eventually turn.
- **Further increases in the terms of trade can be expected.** Surging world dairy prices in April and May are expected to see the terms of trade post another strong increase in the June quarter. An increase in the terms of trade represents a lift in New Zealand's purchasing power as a larger amount of imports can be purchased for the same level of exports. This expected real income boost to the economy will continue to lean against the Reserve Bank's efforts to contain medium-term inflation pressure. A higher terms of trade will equally support a higher currency on average, and our latest fair value estimates for the NZD/USD put it around the 0.65 mark, well north of the historically quoted average around 0.60. The strong boost to the terms of trade was signalled by the Reserve Bank in the June MPS as a clear source of support for domestic demand, and our near-term forecasts see it holding up higher than they had expected. The Reserve Bank will be watching developments in world dairy prices very closely.

- **Export and import volume data leave us comfortable with our pick for Q1 GDP.** Export volumes rose 2.4 percent in the March quarter courtesy of a large increase in dairy exports, plus a rebound in non-food manufactured goods exports. Import volumes also rose in the quarter, driven by increases in intermediate and consumption good imports, providing further confirmation of the strength in domestic demand in Q1. Today's data leaves us comfortable with our Q1 GDP growth estimate of 1 percent with upside risks. This estimate is higher than the Reserve Bank's June *MPS* forecast of 0.8 percent, which will see the bias for interest rates remaining up. The final partial indicator for GDP, manufacturing data, is due at the end of the week.

## 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.