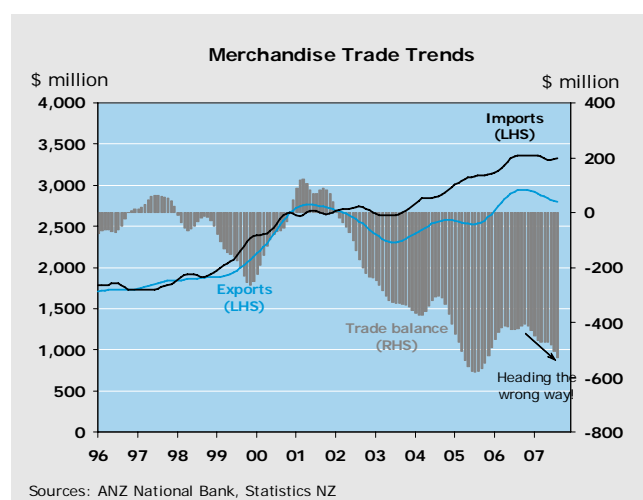


OVERSEAS MERCHANDISE TRADE – AUGUST 2007

Key points

- New Zealand's trade deficit for July was largely in line with expectations at \$945 million, leaving the annual trade deficit broadly unchanged at \$6,339 million.
- Both exports and imports came in a touch stronger than expected.
- Higher commodity prices are yet to be reflected in export receipts.
- There are limited implications for the Reserve Bank from today's release.

	Exports		Imports		Trade Balance
	Actual \$m	Trend %m/m	Actual \$m	Trend %m/m	Actual \$m
Dec-06	2,947	-0.4	3,293	0.1	-346
Jan-07	2,484	-0.5	3,309	0.1	-825
Feb-07	2,847	-0.6	2,975	0.0	-127
Mar-07	3,317	-0.7	3,256	-0.4	60
Apr-07	3,171	-0.7	3,386	-0.6	-215
May-07	3,350	-0.7	3,342	-0.5	8
Jun-07	2,740	-0.6	3,258	-0.2	-518
Jul-07	2,640	-0.4	3,452	0.3	-813
Aug-07	2,659	-0.3	3,604	0.6	-945
ANZ	2,600	-	3,500	-	-900
<i>Market</i>	<i>2,595</i>	<i>-</i>	<i>3,513</i>	<i>-</i>	<i>-925</i>

Assessment

The headline trade balance was broadly in line with expectations, although both exports and imports came in a touch stronger than expected. There was nothing in particular that stands out in the import components. Consumption goods imports were down 0.6 percent from a year ago. However, a higher currency compared to a year ago suggests the volume of imported consumption goods is higher compared with last year. Nonetheless, the rate of increase continues to ease in line with the slowdown in consumer demand. However, car imports remain strong, increasing 4.1 percent on a year ago and are consistent with the recent slight pick-up in car registrations.

August is not typically a great month for exports. Export values were static despite a softer NZ dollar over the month (the NZD/USD averaged 0.7285 compared with 0.7858 in July). Primary export volumes were lower than normal, while there is still no sign of a material impact from rising commodity prices in export values. However, we expect primary export volumes to rebound as the season picks up, and the high commodity prices to eventually feed through. Production from the Tui oil field contributed to a six-fold jump in crude oil exports, and will continue contributing to the export figures from now on.

The trend in the trade balance continues to deteriorate, though we continue to look for increased dairy prices to eventually flow through into the export figures, which will eventually lead to an improvement in the trend trade balance. However, this is not likely to occur until later this year. As it stands, the September quarter current account balance is likely to remain around the June quarter level of -8.2 percent of GDP.

There are limited monetary policy implications from today's data, with the trade balance largely historical and given the lack of any surprises. Although consumer confidence data released earlier this morning showed a slight rebound, suggesting resilience among households, upcoming data on housing market activity and retail sales is expected to print on the soft side. This should eventually be reflected in further slowing in imports, which should help the trade balance improve once the higher commodity prices kick in.

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