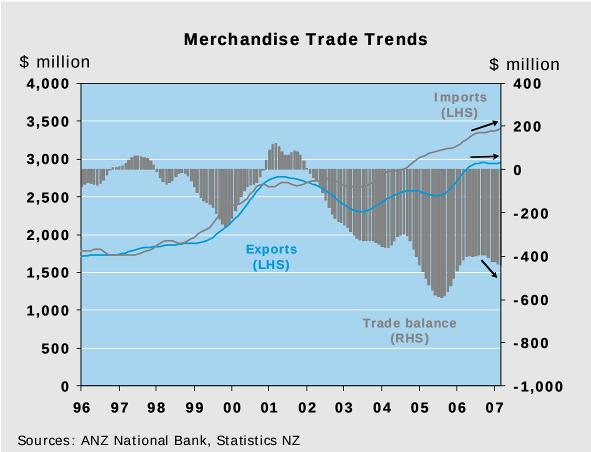
ANZ
Economic Review
NEW ZEALAND
DATE 26 April 2007

OVERSEAS MERCHANDISE TRADE – MARCH 2007

Key points

- **New Zealand's trade balance for March was a surplus of $61 million.**
- **Surging commodity prices are helping to offset the impact of a higher NZD and are supporting export values. While resurgent domestic activity is fuelling further import demand.**
- **Despite the monthly trade surplus, we expect the net external sector to once again make a negative contribution to growth in the March quarter.**
- **The monetary policy implications from this data are limited.**

	Actual	ANZ-National	Market
Merchandise trade balance	**$61m**	$50m	$50m
Imports	$3,269m	$3,100m	$3,295m
Exports	$3,330m	$3,150m	$3,273m



Assessment and implications

- **The headline trade balance recorded a small surplus in the March month, as expected.** Export values were $3,330 million in March (the highest ever export figure for a March month) and were driven higher by strong increases in dairy product exports. Import values were $3,269 million in the month.

- **Commodity prices are clearly offsetting the impact of the high NZD for some sectors.** The value of milk powder, butter and cheese exports contributed to close to half of the increase ($70 million) in merchandise exports in the year to March 2007. In the March quarter, dairy product exports rose by 14.0 percent. This strength is undoubtedly a consequence of surging world dairy prices. However, not all sectors are faring so well. Meat export values fell by 8.4 percent in the quarter with world meat prices relatively static recently, while manufactured goods export values also recorded falls.

- **Quarterly import data confirms resurgent domestic demand.** Intermediate goods imports rose by 1.8 percent in the quarter, while consumption goods imports rose by 2.7 percent. Machinery and plant imports (a proxy for business investment) were also up slightly. With the import deflator negative in the quarter owing to a stronger NZD, all suggest relatively robust import volume growth.

- **The net external sector is again expected to make a negative contribution to growth, although the current account should continue to improve.** Export values were slightly stronger than import growth (1.4 versus 1.0) although an expected rise in the terms of trade via strong commodity prices is expected to dampen the contribution to GDP. We expect growth of around 0.8 percent, and a slight improvement in the current account deficit.

- **There are limited monetary policy implications from this release given the hike this morning.** The Reserve Bank increased the OCR this morning as a consequence of resurgent domestic demand and persistent inflationary pressure. What this release has confirmed is that this resurgence has fed into further import demand in the March quarter. It likewise confirms that export growth is very dichotomised, with those sectors insulated by strong commodity prices performing well, and others no so.

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