

Overseas Merchandise Trade: December 2007

Key points

- > A trade surplus was recorded in December for only the second time in a decade, due to strong exports, with dairy and Tui once again contributing.
- > Over the quarter, export growth was strong – driven by dairy (both volume and price). Net exports look set to make a positive contribution to Q4 GDP growth.
- > There are limited monetary policy implications from today's data. We expect the Q4 current account deficit to fall below 8 percent of GDP.

Assessment

A better than expected trade result was recorded in December.

Although both exports and imports came in stronger than expected, a new all-time high for exports contributed to the monthly trade surplus of \$33 million – compared with market expectations of a \$200 million deficit. On an annual basis, the trade deficit has now improved to \$5,311 million – the fifth consecutive monthly improvement. The increase in exports was again dominated by the same two commodity groups: milk powder, butter and cheese; and petroleum and products – up a combined \$696 million. The impact of high dairy prices are flowing through as dairy production hits its peak for the season, while production from the Tui oil field continues to provide an export boost. The strength for imports in the month was a result of a large rebound in crude oil imports after surprising softness in November.

Over the quarter, export growth was strong.

Exports rose 20.8 percent in the December quarter – the largest increase on record. Milk powder, butter and cheese export values rose a mammoth 46.9 percent (20.9 percent in volume terms), while casein exports rose 61.2 percent (38.7 percent for volumes). Fruit exports also rose strongly. However, excluding dairy and fruit exports, growth in other sectors was reasonably muted and suggests the impact on the high NZD continues to weigh.

One-offs look to have driven import strength over the quarter.

Import values rose 11.3 percent in the December quarter. The largest increases came from a 78.6 percent increase in transport equipment (due to an aircraft) and a 17.8 percent increase in plant and machinery imports due to an oil rig associated with the Tui field. Consumption good imports rose 5.0 percent, following a 4.6 percent increase in the September quarter.

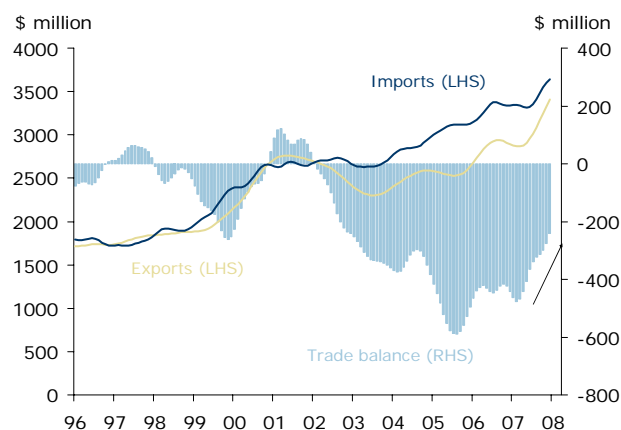
The net external sector looks set to make a positive contribution to Q4 GDP growth.

By our early estimates, export volume growth look to have expanded by a solid 5 percent in the quarter, led by primary exports, though some of this possibly came

out of inventories, which were still at high levels in Q3. Import growth will be more subdued, particularly as the large one-offs are unlikely to be included in the GDP accounts. With the high commodity prices starting to be fully captured in the trade numbers, we expect the Q4 quarter current account deficit to improve to less than 8 percent of GDP.

	Exports		Imports		Trade Balance
	Actual \$m	Trend %m/m	Actual \$m	Trend %m/m	Actual \$m
Apr-07	3,171	0.5	3,386	-0.4	-215
May-07	3,350	1.0	3,342	-0.3	8
Jun-07	2,739	1.5	3,258	0.1	-518
Jul-07	2,641	2.0	3,448	0.9	-808
Aug-07	2,661	2.4	3,608	1.7	-947
Sep-07	2,933	2.6	3,505	2.1	-572
Oct-07	3,369	2.6	4,142	2.0	-773
Nov-07	3,373	2.5	4,001	1.6	-628
Dec-07	3,677	2.3	3,644	1.1	33
ANZ	3,450	-	3,750	-	-300
<i>Market</i>	<i>3,375</i>	<i>-</i>	<i>3,575</i>	<i>-</i>	<i>-200</i>

Merchandise Trade Trends



Sources: ANZ National, Statistics NZ

Implications

There are limited monetary policy implications from today's data. The strong increase in imports, particularly for consumption goods, may be of some concern to the RBNZ. However, indicators for retail spending suggest that consumers remain restrained, and this should start to flow through into softer import numbers in the months ahead. With yesterday's credit data showing a continued slowdown in household borrowing, the RBNZ will want to see the slowdown in the housing market broaden into the economy, in order to dampen inflation pressure.

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ANZ, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639
<http://www.anz.com/nz> e-mail ecnmcs@anz.com