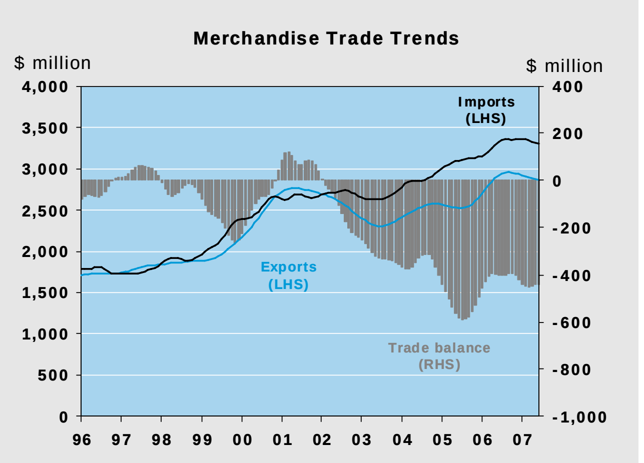
ANZ
Economic Review
NEW ZEALAND
DATE 27 July 2007

OVERSEAS MERCHANDISE TRADE – JUNE 2007

Key points

- **New Zealand's trade balance for June recorded a larger than expected deficit of $524 million.**
- **The major surprise came from softer than expected exports, which may be timing issues related to dairy exports, but also a reflection of the impact of a higher currency.**
- **Based on today's figures, we expect a further modest improvement in the Q2 annual current account deficit. However, the quarterly seasonally adjusted current account is likely to show a deterioration compared to Q1.**
- **There are limited monetary policy implications from today's data. The Reserve Bank will take some comfort that consumption imports have fallen, although they are likely to remain concerned at the vulnerabilities posed by the size of the external imbalance.**

	Exports		Imports		Trade Balance
	Actual $m	Trend %m/m	Actual $m	Trend %m/m	Actual $m
Oct-06	2,717	-0.1	3,890	-0.1	-1,173
Nov-06	2,789	-0.3	3,609	0.0	-820
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	-0.5	2,975	0.0	-127
Mar-07	3,317	-0.4	3,256	-0.3	60
Apr-07	3,171	-0.4	3,386	-0.5	-215
May-07	3,355	-0.3	3,345	-0.4	11
Jun-07	2,750	-0.2	3,275	-0.1	-524
ANZ	***3,300***	**-**	***3,530***	**-**	***-230***
Market	*3,010*	-	*3,321*	-	*-286*



Sources: ANZ National Bank, Statistics NZ

Assessment

The headline trade balance recorded a larger than expected deficit in June of $524 million, with most of the major surprise came from softer than expected exports. Despite the strong surge in dairy prices, this is yet to show through in the trade figures. This may be due to timing issues. We note that dairy export volumes fell 7 percent in the June quarter. An eventual rebound in dairy export volumes should start to see the benefits of the higher dairy prices reflected in the trade numbers. Meat exports continue to be weak, negatively impacted by the NZD and unfavourable weather conditions. However, manufacturing exporters appear to still remain resilient in the face of a high currency. Manufacturing export values rose 2 percent (seasonally adjusted) in the quarter, suggesting a reasonable increase in volume terms.

Imports in the June month were inflated by the HMNZS Canterbury. For the June quarter, import values were down 1.7 percent (seasonally adjusted). Excluding military and other large items, imports fell 3.5 percent for the quarter. The largest declines were in intermediate and consumption goods.

The external sector is set to subtract from growth in Q2. Weak dairy and meat exports mean that the external sector will detract from GDP growth in Q2. The quarterly seasonally adjusted current account balance is also expected to show a deterioration compared to Q1, though on an annual basis we are expecting a modest improvement.

There are limited monetary policy implications from today's data. The decline in consumption imports may be early signs of easing domestic demand, though we note that car imports remain strong, up 6 percent. There are comforting signs that businesses are continuing to invest in plant and machinery, no doubt taking advantage of the high currency, which should help alleviate capacity constraints over coming quarters. For the Reserve Bank, the vulnerabilities posed by a large external balance will remain a concern.

Disclaimer

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate [and ANZ shall not be obliged to update any such information after the date of this document]. Neither ANZ nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.

ANZ Bank, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-802 2024 http://www.anz.com/nz e-mail ecnmcs@anz.com