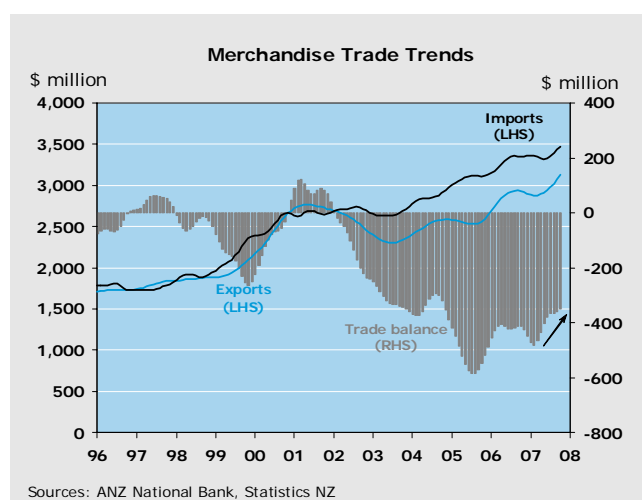


OVERSEAS MERCHANDISE TRADE – OCTOBER 2007

Key points

- The October trade deficit was larger than expected at \$690m, with both exports and imports coming in stronger than expectations.
- Higher commodity prices and exports from Tui oilfields boosted export figures, while the arrival of an oil production vessel and higher oil prices lifted import values.
- The trend trade deficit is improving, a theme we expect to continue over coming months.
- There are limited monetary policy 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
Feb-07	2,847	-0.3	2,975	0.0	-127
Mar-07	3,317	0.0	3,256	-0.4	60
Apr-07	3,171	0.3	3,386	-0.6	-215
May-07	3,350	0.7	3,342	-0.4	8
Jun-07	2,739	1.1	3,258	0.2	-518
Jul-07	2,641	1.3	3,448	0.9	-808
Aug-07	2,664	1.5	3,609	1.2	-945
Sep-07	2,935	1.6	3,508	1.3	-573
Oct-07	3,423	1.5	4,113	1.0	-690
ANZ	3,300	-	3,850	-	-550
Market	3,100	-	3,616	-	-550

Assessment

The headline trade deficit for October, at \$690 million, was larger than market expectations. This took the annual trade deficit to \$5,798 million, down slightly from \$6,282 million in September. Both export and import values came in above expectations in the month. Exports, at \$3.4 billion, were a record high for an October month, while import values of \$4.1 billion was also an all-time record high. The impact of higher world dairy prices again featured, with milk, butter and cheese exports rising \$328 million in the year to October 2007 to a record high. Crude oil exports from the Tui oilfield also continues to feature in the export figures with petroleum and products up \$251 million in the year to October 2007. The importation of an oil production vessel (valued at \$154 million) – also related to the Tui field – and higher oil prices boosted the import figures.

The monthly trend deficit is improving, a theme we expect to continue. The export trend has improved, no doubt a consequence of higher world commodity prices and increased production (and hence exports) from Tui. Although both consumption goods and car imports were up around 5 percent compared to a year ago, trend import growth eased in October (although we caution that trend measures can be subject to large revisions). Given that there is still more of the commodity price effect to feed through into the trade figures (particularly with milk production picking up over the remainder of the year), coupled with continued production from Tui (and we note reserves were revised up by 30 percent last week), we expect export growth to remain relatively robust over the coming months. This should contribute to a continued improvement in the trade balance, which subsequently will result in an improvement in the current account deficit, despite the current high level of the NZD. This will particularly be the case if consumption good import growth slows in line with a turn in the housing market and moderation in consumer spending.

There are limited monetary policy implications from today's release. Import demand remains relatively robust and the high NZD, along with surging global oil prices (as NZ is still a net importer of oil), will continue to provide a base for import values. However, a softer housing market and early signs of moderating consumer spending are expected to eventually weigh on import growth for consumption goods. With further increases in primary export values expected (particularly for dairy related products), this should help contribute to a rebalancing of growth in the economy.

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