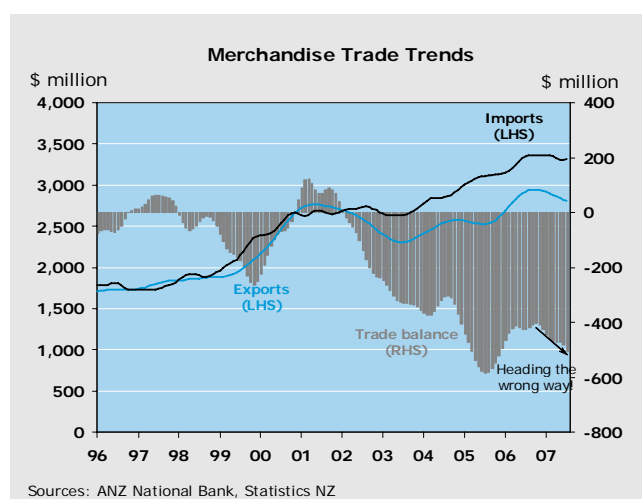


OVERSEAS MERCHANDISE TRADE – JULY 2007

Key points

- New Zealand's trade deficit for July came in higher than expected at \$791 million, taking the annual trade deficit higher to \$6,315 million.
- Exports were in line with our expectations, with the surprise coming from higher imports.
- Today's trade data sets up a bad start for the Q3 current account, pointing to a deterioration in quarterly seasonally adjusted terms.
- There are limited monetary policy implications from today's data. The Reserve Bank will be putting more weight on recent data showing a moderation in consumer demand and the housing market.
- However, the extent of the external imbalance will remain a worry for the Reserve Bank, particularly in light of the current global financial market environment.

	Exports		Imports		Trade Balance
	Actual \$m	Trend %m/m	Actual \$m	Trend %m/m	Actual \$m
Nov-06	2,789	-0.2	3,609	0.0	-820
Dec-06	2,947	-0.4	3,293	0.2	-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	3,354	-0.7	3,344	-0.5	9
Jun-07	2,747	-0.6	3,258	-0.2	-511
Jul-07	2,640	-0.4	3,432	0.3	-791
ANZ	2,650	-	3,200	-	-550
Market	2,795	-	3,268	-	-520

Assessment

The headline trade balance was worse than market expectations, with the surprise largely coming from stronger imports. There was nothing in particular that stands out in the import components.

Consumption goods were up 3.1 percent from a year ago, but remain broadly static over the past few months – though a rising NZD during that period implies growth in volume terms. Imports of passenger motor cars, on the other hand, continued to rise, though given recent softening in consumer demand some of these imports may end up as unwanted inventory. Plant and machinery imports was 2.5 percent higher compared to a year ago indicating that businesses continue to invest to expand their productive capacity. On the export side, the trend decline continues for the ninth consecutive month, weighted down by the currency.

Today's trade data sets up a bad start for the Q3 current account. The trend in the trade balance continues to deteriorate, despite a strong surge in commodity prices over recent months that is yet to translate through into the export data. Though we continue to look for increased dairy prices to eventually flow through into the export figures, the high currency over the middle part of this year is suppressing export receipts. At this stage, we expect the quarterly seasonally adjusted current account balance to show a deterioration in Q3.

There are limited monetary policy implications from today's data. The trade balance is largely historical and is from a time when the NZD was high and still rising (NZD/USD averaged 0.7858 over July). The Reserve Bank will be putting more weight on recent data showing a moderation in consumer demand and the housing market. However, the Reserve Bank will be hoping that the recent falls in the currency and slowdown in domestic demand will start to address the large external imbalance, which remains one of the key vulnerabilities facing the economy – particularly in the current global financial market environment.

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