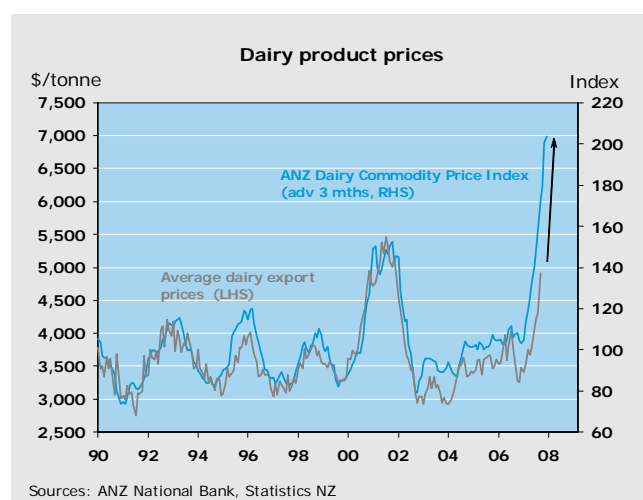


OVERSEAS MERCHANDISE TRADE – SEPTEMBER 2007

Key points

- New Zealand's trade deficit for September printed at a better than expected \$544 million, taking the annual deficit to \$6,256 million. Exports and imports were broadly in line with expectations.
- Tui oil production and commodity prices are boosting export values.
- However, export volumes look weak. Net exports expected to detract from Q3 GDP growth.
- 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
Jan-07	2,897	-0.6	3,360	0.1	-825
Feb-07	2,880	-0.6	3,359	0.0	-127
Mar-07	2,867	-0.5	3,343	-0.5	60
Apr-07	2,859	-0.3	3,324	-0.6	-215
May-07	2,857	-0.1	3,313	-0.3	8
Jun-07	2,863	0.2	3,318	0.1	-518
Jul-07	2,877	0.5	3,343	0.8	-809
Aug-07	2,898	0.7	3,380	1.1	-946
Sep-07	2,925	0.9	3,416	1.1	-544
ANZ	2,900	-	3,500	-	-600
<i>Market</i>	<i>2,960</i>	<i>-</i>	<i>3,500</i>	<i>-</i>	<i>-800</i>

Assessment

The headline trade balance for September, at \$544 million, was slightly better than market expectations. This took the annual trade balance to \$6,256 million from \$6,337 in August. Despite the better than expected headline number, both exports and imports were broadly in line with expectations and in fact set new record highs for a September month at \$3.0 billion and \$3.5 billion respectively. Petroleum and products made the largest contribution to exports in the month (up \$131 million) no doubt a result of increased oil production from the Tui field. There are also early signs that higher world dairy prices are beginning to feed through into the merchandise trade prices.

Over the quarter, export volume growth looked weak. Despite export values rising 2.5 percent over the September quarter, this looks largely a price-related phenomenon. Volume growth, in particular dairy-related products, were soft. Milk powder, butter and cheese exports fell 16.3 percent and casein product exports fell 25.7 percent. In fact, excluding fruit and crude oil exports, the volume of all major export categories, which we have data for, were flat or recorded falls over the September quarter. A high currency can easily be blamed for the soft volume growth and at close to 0.77 against the USD, it is expected to further weigh on the export sector over coming months. However, there does look to be a response occurring to the lower NZD/AUD cross, with exports to Australia rising 8.3 percent and imports from Australia falling 4.7 in the three months to September 2007.

We expect net exports to once again detract from GDP growth in the quarter. The composition of imports looked relatively mixed in Q3, with consumption good values rising but capital imports falling. Nevertheless, with export volume growth soft we expect the net external sector to once again detract from GDP growth. Indeed, the Q3 GDP is shaping up as a very interesting read and at this stage remains relatively hard to predict. There is clearly some softness appearing in some of the partial indicators, yet a number of one-offs (such as production from Tui) are likely to offset. Net exports are weak and soft capital equipment imports suggest plant and machinery investment will also be weak. Stocks look to be the big wildcard and it may be that soft export volumes are reflected in an off-setting rise in stocks.

There are limited monetary policy implications from today's data. Import demand remains relatively robust and the monthly trend measure continues to increase. However, a softer housing market and early signs of moderating consumer spending are expected to eventually weigh on import growth. Based on today's data, we expect the September quarter current account deficit to remain around 8.2 percent of GDP. Growth remains unbalanced, despite booming commodity prices.

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