

Overseas Merchandise Trade: November 2007

Key points

- > Trade deficit for November was larger than expected, although the trend deficit continues to improve.
- > Strong dairy prices and oil production from Tui are boosting exports. However, other sectors continue to struggle under the weight of the high NZD.
- > We expect further improvements in the trade deficit over coming months, although the recent surge higher in oil prices may slow this recovery (as NZ is a net importer of oil).
- > There are limited monetary policy implications from today's data. All eyes remain on Q4 CPI.

Assessment

	Exports		Imports		Trade Balance
	Actual \$m	Trend %m/m	Actual \$m	Trend %m/m	Actual \$m
Mar-07	3,317	0.0	3,256	-0.3	60
Apr-07	3,171	0.4	3,386	-0.5	-215
May-07	3,350	0.8	3,342	-0.4	8
Jun-07	2,739	1.2	3,258	0.2	-518
Jul-07	2,641	1.4	3,448	0.9	-808
Aug-07	2,661	1.6	3,608	1.3	-947
Sep-07	2,933	1.7	3,506	1.4	-573
Oct-07	3,427	1.6	4,144	1.1	-717
Nov-07	3,303	1.5	3,948	0.7	-646
ANZ	3,550	-	4,000	-	-450
<i>Market</i>	<i>3,550</i>	<i>-</i>	<i>3,938</i>	<i>-</i>	<i>-450</i>

The headline trade deficit for November, at \$646 million, was larger than market expectations.

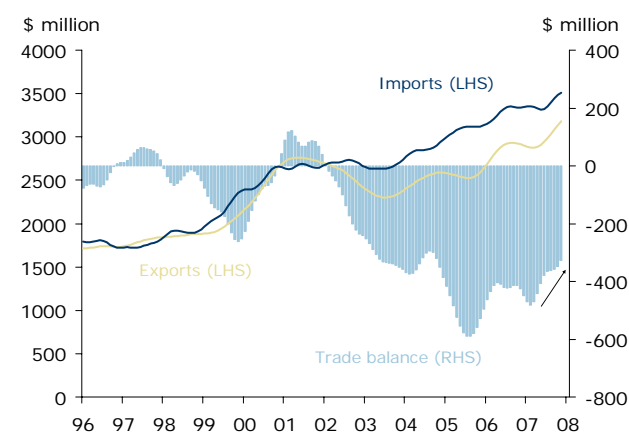
This took the annual trade deficit to \$5,653 million, down from \$5,827 million in October. Weaker than expected exports look to have driven the deviation from market expectations in the month, with imports largely in line with expectations. High dairy prices and strong production from the Tui oil field again featured in the trade figures. Dairy product exports (up \$296 million) and petroleum and product exports (up \$182 million) accounted for 90 percent of the increase in total exports compared with November 2006. On the import side, capital goods showed the largest rise in November 2007, followed by passenger motor cars and consumption goods.

The monthly trend deficit continues to improve.

NZ's trade deficit continues to be rescued by the impact of high dairy prices and solid production from Tui, which are helping to boost export values and reduce the annual trade deficit to its lowest level in over two years. If not for higher dairy prices and Tui, the trade deficit would be significantly larger than it

currently is, particularly given that growth from other export sectors has been sluggish over the past 12 months as they continue to struggle under the weight of the high NZD. Import growth remains reasonably robust, although it has slowed over recent months. We expect the trade deficit to continue to improve over coming months as the lagged impact of high dairy prices continue to feed through into the trade figures and import growth continues to moderate in line with a slowing housing market and consumer spending. However, the recent surge in global oil prices to around US\$100 per barrel, which will result in a rise in the nation's import bill, may slow this recovery. Though this will be offset somewhat by the Tui oil exports, NZ is still a net importer of oil, and increases in oil prices are a negative on the trade balance.

Merchandise Trade Trends



Sources: ANZ National, Statistics NZ

Implications

There are limited monetary policy implications from today's data. The financial market reaction to the trade data was muted. Although the RBNZ are likely to welcome signs that the external imbalance is improving (albeit gradually), their major concern at this stage remains on inflation. In this regard, Q4 CPI due for release on 17 January will be a critical read.

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