

New Zealand economic update

NZ trade balance

Exports good for now, but keep an eye on the drought

New Zealand's January trade balance came in below expectations. The non-seasonally adjusted monthly deficit of NZ\$320 million (JPMorgan NZ\$100m, consensus NZ\$267.5m) was still stronger than that recorded in January 2007. Although the report came in below our and market expectations, the level of exports, at NZ\$3.08 billion, was the highest ever recorded for a January month (and the first recording of over NZ\$3 billion). The 24%*o*ya rise in exports was driven by milk powder, butter and cheese, and petroleum products, mainly owing to the new Tui oilfield. Growth in imports, however, has moderated. Imports rose just 2.8%*o*ya, with a below expectations reading of NZ\$3.4 billion.

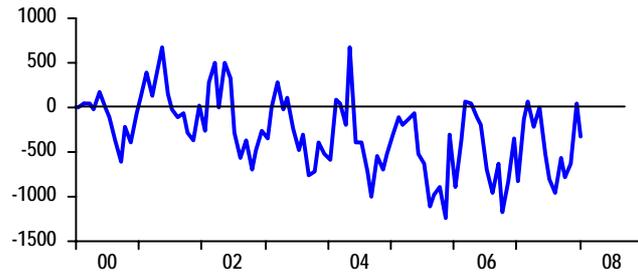
The main concern for New Zealand exporters over the next few months is the impact of the recent drought on dairy production. The drought is indeed alarming. It is hitting NZ's powerhouse of agriculture, the Waikato region, the hardest, and dairy production is down 27%*o*ya in the region. The major problem is the lack of feed (feed prices have shot up from NZ\$55 a bale of silage to over NZ\$140, and there is a global shortage) which affects both dairy and meat industries. The meat industry will be hit the hardest as meat prices have already fallen on the back of Australia's severe drought, which induced culling (increased supply) and pushed prices lower. There is currently a three week waiting period in NZ to cull herds, and they need to be fed in the meantime with inflated feed prices.

The dairy industry has currently lost around NZ\$500 million in production (according to Fonterra - the world's largest producer). That said, the record high dairy payout to farmers will cushion the blow. Fonterra is forecasting a NZ\$6.90 kg/MS payout - which, in my view, is too conservative and will more likely come in above NZ\$7 kg/MS. Dairy production is still likely to be up this year, but only marginally. Farmers will simply dry out their herds earlier than hoped for and production won't be as good as earlier estimates. Dairy prices will continue to rise.

Imports, on the other hand, are likely to moderate further on the back of reduced domestic demand and despite a stronger NZD.

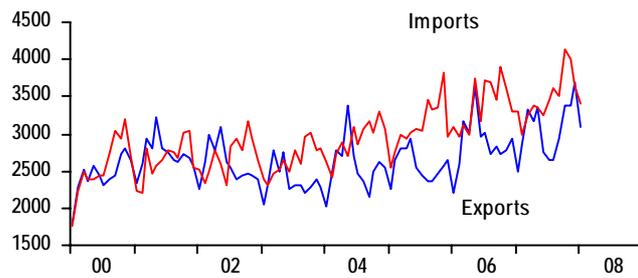
New Zealand: trade balance

NZ\$ million, nsa



New Zealand: exports and imports

NZ\$ million, nsa



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February 29, 2008



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