

New Zealand Economic Update

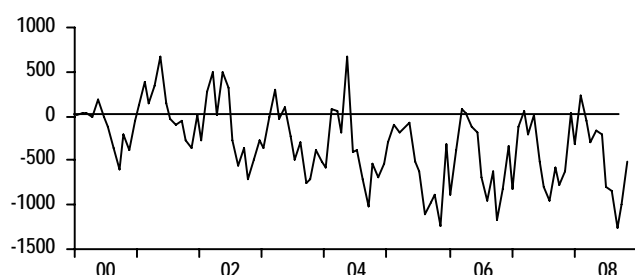
Trade balance

- Trade deficit narrowed more than expected in November
- Import growth slowed sharply
- Net exports will remain a drag on GDP growth

New Zealand's trade deficit narrowed to NZ\$520 million in November (JPMorgan –NZ\$750 million, consensus –NZ\$775 million), from a revised deficit of NZ\$996 million in October (previously –NZ\$942 million). The annual trade gap fell to –NZ\$5.16 billion, from –NZ\$5.27 billion, which had been the widest gap recorded this year.

New Zealand: trade balance

NZ\$ million, nsa



Significantly softer global demand and falling commodity prices weighed on exports, which grew 9.4% oya in November, compared to 13.6% in the previous month. That said, still-elevated dairy prices buoyed outbound shipments, with the largest contribution to the rise in exports coming from milk powder, butter and cheese, which rose 10.3% oya. Interestingly, exports to Australia, New Zealand's largest export destination, exceeded NZ\$10 billion for the first time.

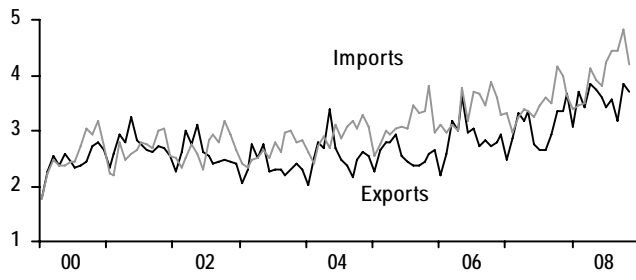
On the other side of the trade ledger, reflecting the significant slowdown in domestic demand and falling oil prices, demand for imports slowed sharply, growing just 5.2% oya in November, following a stellar 16.4% rise in the previous month. The intermediate goods category recorded the largest increase, rising 31.4% oya, while the largest decrease was recorded in vehicles, parts and accessories, down 38.9%.

Net exports will remain a drag on economic growth in 2009. Weak global demand and falling commodity prices will mean that export growth will moderate, even though the end of the drought should fuel further agricultural activity and NZD depreciation will boost exporters' competitiveness. NZD fell 5.5% in trade-weighted terms in November, marking the ninth straight monthly decline. Demand for imports will remain subdued as domestic demand flags amid deteriorating housing and labour market conditions, although aggressive monetary policy easing should cushion the blow. Our forecast calls for the RBNZ to cut the OCR 50bp at the end of January, and a terminal cash rate of 3.25% by July.

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New Zealand: exports and imports

NZ\$ billion, nsa



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