

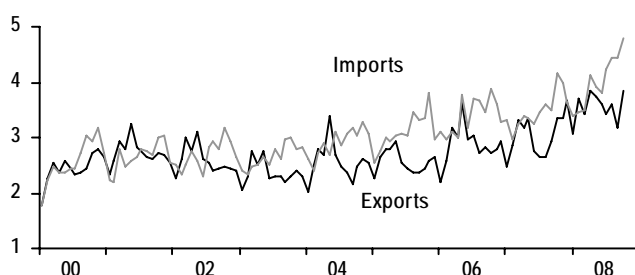
## New Zealand Economic Update

### Trade balance

- Trade deficit narrowed to NZ\$942 million
- Export and import growth slowed
- Net exports to remain a drag on GDP growth

New Zealand's trade deficit narrowed to NZ\$942 million in October (JPMorgan and consensus - NZ\$1000 million), after blowing out in September to a revised deficit of -NZ\$1.26 billion (previously NZ\$1.18 billion), the largest deficit this year. The annual trade gap widened to NZ\$5.21 billion, again the widest this year, from NZ\$5.05 billion.

New Zealand: exports and imports  
 NZ\$ billion, nsa



Exports were up 13.8% oya in October, compared to 8.3% previously, possibly buoyed by the fall in NZD, which shed 14% vis-à-vis the US dollar in October. According to Statistics New Zealand (SNZ), crude oil exports (+3.5% oya) have returned to levels similar to those seen in the second half of 2007 as the Tui oil field completed its first full year of operation in July 2008. Exports of milk powder, butter and cheese also grew strongly, rising 14% oya in October, as did exports of meat and edible offal, up 31%.

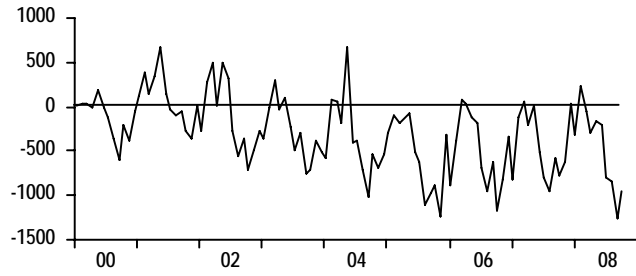
Imports grew 15.3% oya in October, slowing from 26.6% in the previous month, reflecting the significant slowdown in domestic demand. In value terms, however, imports rose to NZ\$4.8 billion, the highest value for any month, owing mainly to higher oil shipments. Imports of petroleum and products surged 70% oya, with crude oil the largest contributor, according to the SNZ. The statistics agency also reported that the value of passenger motor car imports fell to an eight-year low; vehicles, parts and accessories were down 4.5% oya in October.

The trend in imports and exports has eased in recent months, and should continue to do so. Weakening global demand and falling commodity prices mean exports will slow considerably. On our forecasts, net exports will be a drag on economic growth over the remainder of 2008 and in 2009, even though NZD depreciation will boost exporters' competitiveness. Imports, meanwhile, will continue to weaken as domestic demand flags amid the deteriorating housing market and loosening labour market conditions. Aggressive policy easing by the RBNZ, though, should cushion the blow to some extent.

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New Zealand: trade balance

NZ\$ million, nsa



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**Economic Research**  
J.P. Morgan Securities Inc  
November 27, 2008

J.P.Morgan

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