

# More bang for the buck

## Terms of trade rise 5.7% in Q4

- The 5.7% rise in the terms of trade was the first increase since March 2008.
- Dairy export prices rose for the first time in a year, as the terms of trade follows spot prices with a lag.
- Import prices were held down by the stronger NZD.

### Overseas Trade Indexes (qtr % chge)

	2008Q4	2009Q1	Q2	Q3	Q4
Terms of trade	-1.0	-2.7	-9.4	-1.6	5.7
Export prices	2.5	-7.9	-11.9	-5.4	-0.3
Import prices	3.5	-5.4	-2.8	-3.9	-5.8
Export Volumes (s.a.)	0.0	2.1	6.8	0.3	-1.2
Import Volumes (s.a.)	-6.4	-8.3	-1.6	2.0	1.6

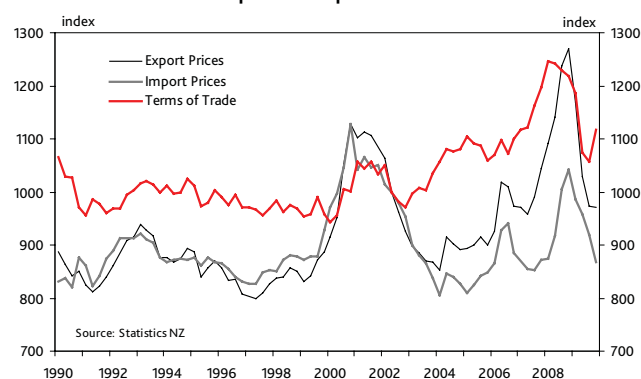
New Zealand's terms of trade rose by 5.7% in the December 2009 quarter, the first increase in nearly two years, and the largest quarterly gain since March 1976. The terms of trade is still around 10% below its previous peak, but it's back on course with the gradual upward trend of the last decade.

The trade-weighted New Zealand dollar was 4.6% higher over the quarter, pushing down both export and import prices in roughly equal measure. That left import prices down 5.8% overall, with price drops in just about every category. Manufactured items were particularly soft, with machinery down 8.6% and electrical equipment down 10%.

However, on the exports side, the exchange rate was largely balanced out by higher world prices for commodities, with the standout being a 5% rise in dairy prices. The terms of trade captures the value of exports when they are shipped, rather than when the price is set, which can be several months earlier. Milk powder prices in Fonterra's online auction began to rise sharply in August, but they applied to delivery from October onward – so we are just starting to see the improved prices reflected in the terms of trade. The bulk of the impact will be seen in Q1, when dairy prices could be up as much as 30%.

Other commodity exports were mixed in NZ dollar terms – wool prices rose 5%, wood and aluminium were flat, and meat and fish prices fell by about 8%.

Export and Import Prices



Export volumes fell by 1.2%, though they are still an impressive 8% higher than a year ago. Dairy exports were down 4% due to poor growing conditions in the early part of the season, a situation that has since improved. Meat volumes rebounded by 12% after an 11% drop in the previous quarter that was due to a shortage of livestock. Crude oil exports fell by 18%; shipments are volatile from month to month, and the three months to December added up to a 'down' quarter.

Import volumes saw small but broad-based gains, aside from a 9% jump in petroleum imports that should be partly reversed in Q1. Imports of capital equipment were up 8.2% and consumption goods were 1.1% higher.

### Market implications

No reaction in the NZD. This data release is not usually a high priority for the market, and even less so with an RBNZ Monetary Policy Statement looming tomorrow.

The terms of trade reflect New Zealand's international purchasing power. An increase unambiguously leaves the country better off; how the benefits are shared out is another matter. In recent years, rising export commodity prices have generally been accompanied by a rise in the exchange rate. This has the effect of spreading the benefits beyond exporters, by improving the purchasing power of all incomes earned in NZ dollars.

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