

Economic Note

Q2 Terms of Trade

1 September 2017

Within a whisker

- The Q2 Terms of Trade lifted to within a whisker of the all-time high.
- Data revisions meant that the expected record high didn't eventuate.
- Nonetheless, we expect the Terms of Trade to set a record high later this year.

Results

The Q2 Terms of Trade (ToT) lifted 1.5% over the June quarter, rising a touch less than our (2%) and market (3%) expectations. Notably, the ToT did not set a record high as expected due to StatisticsNZ revisions to earlier quarters.

As expected **rising dairy export prices accounted for much of the ToT increase**. Over the quarter, dairy export prices rose 3.9%, on top of the previous quarter's 18.1% spike.

Moreover, **the export price strength was broad-based**. Meat prices, for example, jumped 9.2%, while food and beverage prices lifted 4.7%. Out of the main export categories only non-food manufactures and wool failed to post gains.

From here, **we expect the ToT to set a record high this year**.

The ToT sit just 0.1% below the record high set back in June 1973.

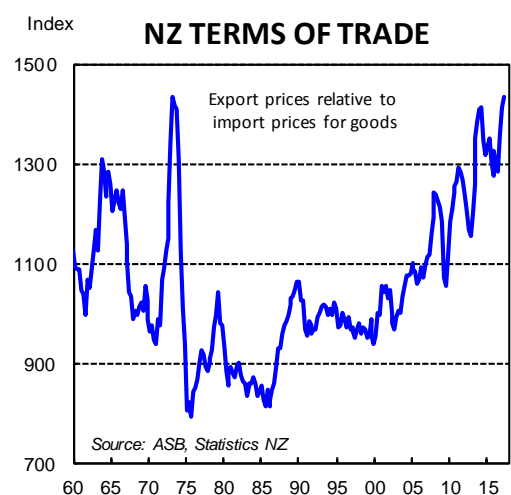
Meanwhile, **import prices rose 0.9% over the quarter; this lift was higher than our expectations for a flat quarter**. This is the second consecutive quarterly rise after four out of five quarterly falls prior. Nonetheless, import prices fell 3.8% over the year ended June 2017.

Lastly, **export volumes were strong over the quarter, lifting a bumper 6.8% on a seasonally-adjusted basis**. Again dairy was the leading contributor, with a 19% surge over the quarter.

While this lift means exports will make a positive contribution to growth this quarter, we suspect that much of this lift has come from stocks. As a result, export volume growth is likely to be weaker in Q3.

Key Results (quarterly % change)

Terms of Trade	1.5
Export prices	2.4
Import prices	0.9
Export volumes (sa)	6.8
Import volumes (sa)	2.3



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