

Economic Note

Q1 Terms of Trade

2 June 2021

Plot twist

- NZ's terms of trade were little changed in Q1, remaining at historically high levels.
- Export and import prices both fell in a rather surprising development, but we are sceptical the trend will continue.
- There is little sign of freight disruption crimping import activity just yet – but for how long?

Q1 2021 (qoq)	Actual	ASB	Market
Terms of Trade	0.1%	-0.3%	-0.3%
Export prices	-0.8%	0.2%	-
Import prices	-0.8%	0.5%	-
Export volumes (sa)	-1.9%		
Import volumes (sa)	9.6%		

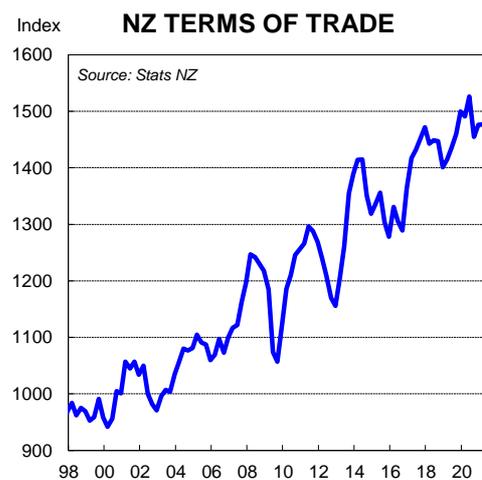
Summary

New Zealand's terms of trade edged up 0.1% over Q1 2021, wrongfooting expectations of a modest fall. The move means NZ's terms of trade are continuing to edge back towards the historic highs hit in the middle of last year.

There are a few surprises in the Q1 trade data. We had expected both export and import prices to move higher, in line with surging commodity prices and logistics-disruption driven cost pressures over recent months. We'd also expected that gains in import prices would outstrip those for exports. In fact, we were exactly wrong, with both export and import prices falling 0.8% over the quarter, and export prices proving the more resilient of the two.

Similarly, the trade volume figures gave us a few raised eyebrows. Despite all the stories of freight shortages, import volumes rose 9.6% this quarter to now be back above pre-COVID levels. Export volumes proved relatively resilient, falling by a modest 1.9%.

We are sceptical that the price and volume trends evident in this quarter's data will be sustained, but we expect NZ's terms of trade to remain supported. With stories of constrained shipping capacity continuing to make headlines, we expect to see export and import volumes come under more pressure in the coming quarters. Similarly, with commodity prices still surging and freight costs on the rise, we suspect it's only a matter of time before higher export and import prices start to be reflected in the data. **Still, we expect the strength in export prices to outstrip gains in import prices, which should continue pushing NZ's terms of trade higher over the remainder of the year.**



Export and import prices defy expectations

The goods terms of trade were broadly unchanged this quarter, nudging up 0.1%. Both export and import prices fell around 0.8%, though the fall in import prices looks to have been almost imperceptibly larger, hence the modest terms of trade improvement.

At first glance, the fall in both export and import prices appears a little surprising.

Firstly, commodity prices have surged over the first part of the year, most obviously for dairy and forestry products (key exports), as well as oil and metals (imports). There were some signs of higher commodity prices in the data, with both log export prices (+9.1%) and oil import prices (+13.8%) lifting over the quarter, but perhaps not as much as we'd have expected.

Secondly, ongoing COVID-driven logistics disruptions have also pushed up freight costs and constrained the supply of many goods, pushing up prices more broadly.

Despite the Q1 2021 surprise, we still expect both export and import prices to lift over the quarters ahead.

The most dramatic recent gains in commodity prices occurred late in the quarter, with dairy prices lifting about 15% at auctions during March. There is typically a lag before those gains show up in the trade figures, but they will have a discernible impact when they do. Beyond the near term, we expect rising global demand will keep dairy prices elevated over the course of the next twelve months, providing a bolster to export prices

Gains for other export commodities should materialise before long too. Log prices surged to their highest level ever during May, and we expect constrained global supply will help them hang on to their gains. Similarly, meat prices have started to recover over the second quarter as COVID restrictions overseas have been lifted.

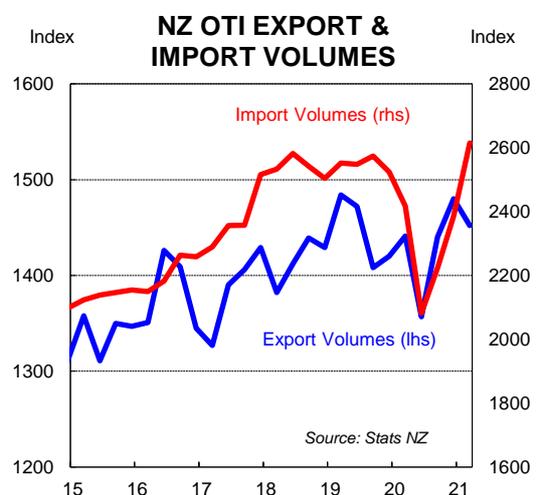
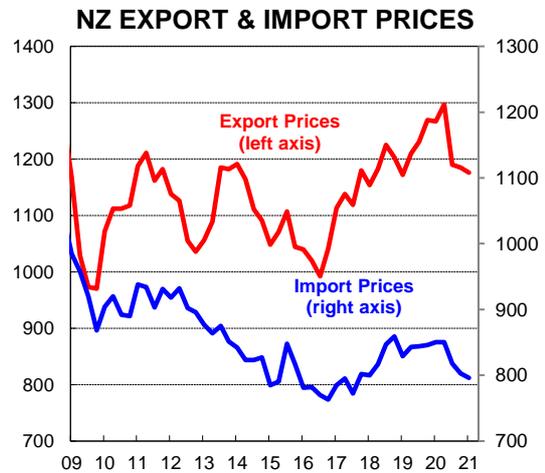
Similarly, trade indices show global freight demand at an all-time high. With shipping capacity still constrained reports of shortages and surging freight costs have continued to hit the news and will begin to have an impact on both import and export prices.

With gains for export prices likely to outpace those for import prices, we expect NZ's terms of trade to advance further over 2021.

Import volumes lift, Export volumes can't quite sustain the recovery

Surprisingly, constrained shipping capacity wasn't reflected in this quarter's trade volume data either. Import volumes lifted a whopping 9.6% over the quarter. Surprisingly, that now puts import volumes above pre-COVID levels. Export volumes were less resilient, and couldn't sustain their post lockdown recovery, but still fell a relatively modest 1.9%. We were a bit surprised not to see more of an impact in both figures.

With stories of shipping shortages continuing, we expect to see a bit more choppiness in the trade volume data over the near term. According to reports, container ships are often travelling off schedule and in some cases skipping New Zealand entirely given its geographic isolation. There's still a lot of guesswork around when things return to normal, but it could be an extended period.



ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Economist
Data & Publication Manager

Nick Tuffley
Jane Turner
Mark Smith
Mike Jones
Chris Tennent-Brown
Nat Keall
Judith Pinto

nick.tuffley@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
Mike.jones@asb.co.nz
chris.tennent-brown@asb.co.nz
nathaniel.keall@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5853
(649) 301 5957
(649) 301 5661
(649) 301 5915
(649) 301 5720
(649) 301 5660

www.asb.co.nz/economics

 [@ASBMarkets](https://twitter.com/ASBMarkets)

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.