

# Economic Note

Q4 Terms of Trade

1 March 2018

## Dictating terms

- NZ records a fresh all-time record high Terms of Trade.
- Lifting lamb and butter export prices lead the way.
- Over 2018, we expect the Terms of Trade to remain at or near the record high.

### Q4 Results

**NZ's Terms of Trade (ToT; goods export prices relative to import prices) lifted 0.8% over the December quarter to a fresh all-time high.** Recall that until Q3 the previous record high had stood since the June quarter of 1973. Moreover, **the 0.8% lift was in line with our expectations for a 1.0% rise.**

**Both export and import prices were strong over the quarter,** boosted by the fall in the NZD over the quarter. That said, NZ still came out ahead as export prices managed to outpace import prices over the December quarter by 4.9% to 4.5%.

**Meat and dairy export prices led the way** (both up over 7% qoq). More specifically, lamb and butter prices surged over the quarter, rising 12% and 11%, respectively. Indeed, lamb export prices set their own fresh record high along with a subsequent record high in overall meat export prices. **The export price strength was also broad-based.** All the major export components recorded lifts over the quarter.

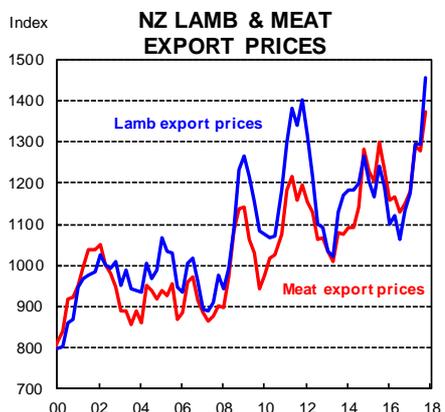
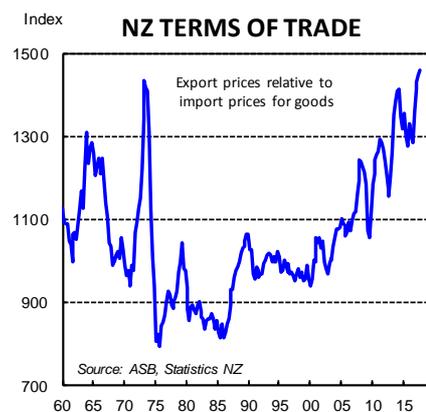
On the import side, **energy prices dominated the 4.0% lift.** In particular, petroleum and petroleum product prices jumped 20.3% over the quarter as oil prices surged.

Meanwhile, **export volumes were firm over the quarter,** rising by 2.6% on a seasonally-adjusted basis. Most export categories posted quarterly gains, except for dairy volumes which fell nearly 5%. The dairy export volume fall reflects weak production in spring and early summer. We expect this weakness to continue in Q1, but then is likely improve from Q2 on as production improves on better weather and the boost from the healthy milk price.

**On the imports side, volumes surged, rising by 8.5%.** Notably, the December quarter included two new Dreamliners for Air New Zealand. In

### Key Results (quarterly % change)

Terms of Trade	0.8
Export prices	4.9
Import prices	3.9
Export volumes (sa)	2.6
Import volumes (sa)	8.6



addition, capital equipment volumes jumped 14.1%, indicating a jump in the level of firms' investment over the quarter.

## Implications

Over 2018, **we expect the ToT to remain at or near the record high**. Dairy prices have lifted further so far over Q1, although on the import side oil prices have lifted similarly over the same period. In addition, the global growth outlook has improved, meaning demand for NZ exports should remain firm and supportive of export prices.

### ASB Economics & Research

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

Nick Tuffley  
Jane Turner  
Mark Smith  
Nathan Penny  
Chris Tennent-Brown  
Kim Mundy  
Judith Pinto

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[kim.mundy@asb.co.nz](mailto:kim.mundy@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

### Phone

(649) 301 5659  
(649) 301 5853  
(649) 301 5957  
(649) 448 8778  
(649) 301 5915  
(649) 301 5661  
(649) 301 5660

[www.asb.co.nz/economics](http://www.asb.co.nz/economics)

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