

Economic Note

Q4 Terms of Trade

2 March 2021

Continuing the comeback

- NZ's Terms of Trade lifted by 1.3% over Q4, recovering some of the ground lost by the sharp fall in Q3.
- Both export and import volumes rose, continuing their comeback after their COVID-induced disruption in the first half of last year.
- NZ's goods Terms of Trade remain at historically high levels, with the resilience of the goods export sector helping support the ongoing recovery.

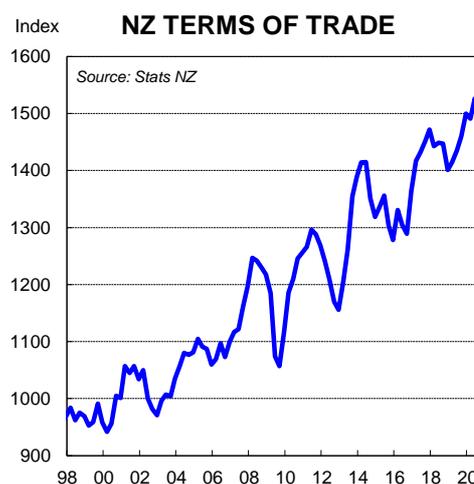
Q4 2020 (qoq)	Actual	ASB	Market
Terms of Trade	1.3%	1.7%	1.0%
Export prices	-0.4%		
Import prices	-1.7%		
Export volumes (sa)	3.3%		
Import volumes (sa)	6.5%		

Summary

New Zealand's Terms of Trade lifted 1.3% over Q4, creeping back up towards historic highs after Q3's sharp fall. The result was a shade above market expectations (+1.0%), but slightly below ASB's own forecast (+1.7%). After the disruption wrought over 2020, we had expected to see the Terms of Trade recover some ground, so the overall direction of travel is not a surprise.

In line with expectations, import prices fell modestly over the quarter, down 1.7%. Export prices posted a small 0.4% drop, contrasting with our expectation of a slight lift. Both export and import volumes continued their comeback after their sharp decline earlier last year.

In aggregate, today's release continues to highlight the way the export sector is helping support the broader economic recovery. **Given the recent resilience in commodity prices, we anticipate the Terms of Trade will remain elevated over 2021.**



Terms of Trade lift back toward record highs

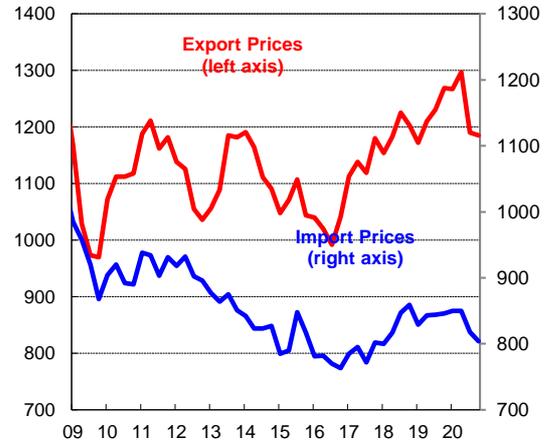
The goods Terms of Trade lifted 1.3% over Q4, amid a small fall in export prices and proportionally larger fall in import prices. Markets had been pegging a more modest 1% lift over the quarter, so the result suggests NZ's Terms of Trade are recovering faster than expectations. Given the size of the fall in Q3, the overall Terms of Trade index is still some way shy of the record it reached in the first half of last year, but they remain historically elevated and our

helping support the broader economic recovery. **Given the recent resilience in commodity prices, we anticipate the Terms of Trade will remain elevated over 2021.**

Export prices fell 0.4%, undershooting our expectations of a small lift. Prices were mixed across export categories, with falls for dairy (-2.6%) and wool (-1.7%) partially offset by lifts in meat (+0.2%), forestry (2.7%) and seafood prices (8.9%). Given global commodity prices ended the quarter higher, we expect the falls partly reflect the timing of shipments and the higher NZD over the period. Higher commodity prices (particularly for dairy) over the latter half of 2021 and beginning of 2022 over the should eventually flow through into traded goods. **Consequently, we expect export prices to lift in the Q1 2021 quarter's releases, supporting the broader terms of trade.**

Goods import prices were lower across the board, but the headline 1.7% was heavily influenced by markedly lower prices for primary fuel imports (-10.5%) and other industrial supplies (-11.2%). Oil prices were roiled through 2020 by the pandemic but have lifted to one-year highs over the beginning of 2021, so this quarter's trend is unlikely to be sustained.

NZ EXPORT & IMPORT PRICES



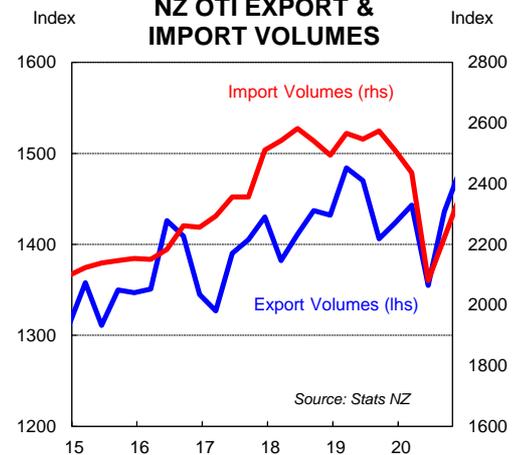
Export volumes continue strengthening

The Q4 2020 data continued to highlight that export volumes are holding up well, lifting 3.3%. Both export and import activity crashed in Q2 last year amid the imposition of lockdown measures but recovered sharply in Q3 and have continued to strengthen in Q4. Export activity has proven the more resilient of the two and volumes are now back nudging record highs. Except for meat (-0.5%), which is still being impacted by restaurant closures overseas, volumes were up across virtually all categories. Gains were notably strong for dairy (+4.7%), forestry (+3.2%) and fish (+13.5%).

Import volumes continue comeback – with a caveat

Goods import volumes lifted a solid 6.5% over Q4 2020. Import volumes declined even more sharply than exports in the aftermath of lockdown last year but have mounted a comeback in the past two quarters. Still, the latest quarter's result was heavily impacted by a massive increase in the oil import volumes which were up by a whopping 129.4%. Crude oil imports were sharply down for the preceding two quarters (dropping to zero in the month of July). This highlights how the timing of shipments heavily impacts the figures. This quarter's result therefore reflects a statistical oddity, with volumes for other goods were more mixed. On balance, we expect ongoing logistics disruption will continue to constrain import activity for a while to come yet.

NZ OTI EXPORT & IMPORT VOLUMES



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.