

HSBC Global Connections

Trade Forecast Update: New Zealand February 2012

Forecast exploring the future of world trade and the opportunities for international businesses

- World trade to grow by 86% in the next 15 years (2012-2026)
- International trade growth will accelerate from 2014
- Companies to increase trade activity by 4.70% annually to achieve projected growth
- Fastest growing emerging sectors support trade infrastructure and the transportation of goods around the world
- New Zealand's trade forecast to grow 134.68% to 2026
- New Zealand's companies to increase trade activity annually over the next 15 years by 4.17%
- New Zealand's fastest growing large export sector will be petroleum oils, oils from bituminous minerals and crude, which will grow at an annualised rate of 12.51% over the next five years

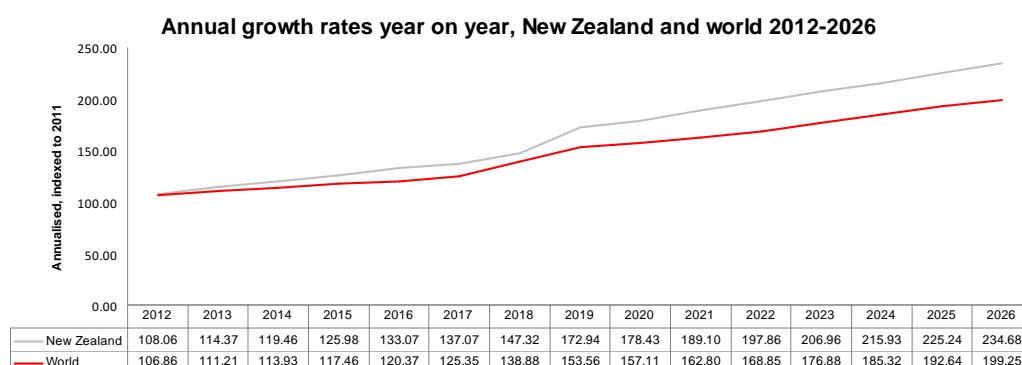
Trade overview

As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014 the global economy ends a period of slow growth and contraction and sees an upturn in trade in line with GDP forecasts. Over the next five years it is forecast that world trade will grow at an annualised rate of 3.78% (see below graph for year-on-year predictions), due primarily to the expectation of an earlier recovery of the overall global economy. In the period 2017-2021, the Forecast predicts even more rapid annualised growth at 6.23%, as world demand for traded goods recovers its dynamism. As a result world trade is predicted to grow by 86.00% in the next 15 years, taking total trade activity in that year to \$53.8 trillion.

The Trade Forecast predicts that trade in New Zealand will grow at an annualised rate of 5.88% over the next five years to 2016 but that it will increase substantially subsequently with annualised growth between 2017-2021 at 7.28%. This equates to growth indexed to a base in 2011 of 134.68%. New Zealand is well placed to take advantage of emerging markets for non-traditional foods, such as milk and dairy products in emerging economies including China, India and Singapore. Annualised total trade growth in New Zealand over the next 15 years will be 4.17%: the rate at which companies will need to increase their international activities if they are to keep pace with this change.

New Zealand's trade outlook

New Zealand's trade index, based to 2011, will grow faster than the world average throughout the forecast period: New Zealand will reach 134.67%. The pace of acceleration of New Zealand's trade is forecast to quicken by 2016 when its trade index will be 13% above the world average. By 2026, the forecast predicts it will be 35.42% above the world average rates of increase in trade. World growth after 2015 is because of accelerated growth in Latin America and Asia Pacific, which is driving the rapidly increased world trade growth after that date. This in turn will fuel New Zealand's exports, particularly in traditional sectors like agriculture and wine as well as crude oil exports to Australia.



Alan Keir, Group Managing Director and Global Head, HSBC Commercial Banking:

"Where once businesses followed economic investment, now, forward-thinking companies lead, taking matters into their own hands and making business happen. Whether that's taking advantage of shorter-term growth in international trade, which despite economic uncertainty sits at \$1trillion a year, or by creating new supply chains that open up trade corridors, businesses are connecting themselves to future opportunities. The reality is that growth opportunities lie internationally. The companies that succeed will be planning for that today."

Trade corridors and trends

Australia is New Zealand's largest export partner with exports forecast to grow by 7.46% annually over the next five years. China, its second largest export partner, will grow even more swiftly at 12.60% annually to 2016 while the USA, its third largest export partner will grow by 2.12% annually over the next five years. New Zealand's top five fastest growing large export partners are all in the Asia Pacific region. Emerging export partners reflect agricultural trade with Latin America and Asia with exports to Peru, Venezuela, Cambodia and Bangladesh all forecast to grow substantially over the next five years, predominantly in milk and cream products.

New Zealand's largest import partners are Australia, China and the USA, forecast to grow at annualised rates to 2016 of 2.07%, 7.53% and 3.67%. China's dominance in imports is largely accounted for by an annualised increase of 10.96% in radio and television receivers to 2016 and a 7.95% annualised increase in computers, also to 2016. Its large fast-growing import partners also reflect New Zealand's increasing imports of both crude oil and electrical equipment.

New Zealand's Emerging Growth Importers and Exporters (2012-2016)							
New Zealand's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	New Zealand's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
Australia	7.46%	Rwanda	24.18%	Australia	2.07%	Algeria	22.87%
China	12.60%	Myanmar	19.09%	China	7.53%	Russia	19.07%
USA	2.12%	Hungary	17.82%	USA	3.67%	Laos	15.93%
Japan	2.63%	Libya	16.93%	Japan	-0.55%	Bangladesh	15.82%
UK	4.38%	Peru	15.28%	Singapore	5.77%	Cambodia	15.73%
South Korea	4.41%	Cambodia	14.94%	Germany	1.92%	Paraguay	15.16%
Indonesia	9.10%	Luxembourg	14.80%	Malaysia	7.43%	Uruguay	14.97%
Singapore	10.19%	Bahrain	14.67%	Thailand	7.19%	Lebanon	14.26%
Malaysia	8.11%	Bangladesh	14.45%	Korea	6.59%	Argentina	13.88%
Hong Kong	8.91%	India	13.92%	Qatar	11.45%	Bolivia	13.87%

N.B. Emerging Growth Import and Export Partners are trade partners that are growing most quickly over the period, albeit potentially from a small base.

Sector watch

The table below shows New Zealand's fastest growing export and import sectors by partner:

New Zealand's Fastest Growing Export and Import Sectors by Partner (2012-2016)					
Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partners	CAGR (2012-16)
Wood in the rough or roughly squared	China	18.00%	Petroleum oils, oils from bituminous minerals, crude	Russia	19.43%
Commodities – not elsewhere specified	India	17.05%	Parts of aircraft, spacecraft etc	USA	13.64%
Milk and cream, concentrated or sweetened	China	16.46%	Oils petroleum, bituminous, distillates, except crude	Korea	13.01%
Petroleum oils, oils from bituminous minerals, crude	Australia	12.93%	Petroleum oils, oils from bituminous minerals, crude	Qatar	11.80%
Milk and cream, concentrated or sweetened	Venezuela	11.58%	Radio and TV transmitters, television cameras	China	10.96%
Grape wines (including fortified)	Australia	11.18%	Petroleum oils, oils from bituminous minerals, crude	Brunei	10.40%
Milk and cream, concentrated or sweetened	Singapore	10.97%	Oils petroleum, bituminous, distillates, except crude	Japan	9.95%
Commodities – not elsewhere specified	Australia	9.67%	Motor vehicles (except buses)	South Korea	8.22%
Gold, unwrought, semi-manufactured, powder form	Australia	9.58%	Petroleum oils, oils from bituminous minerals, crude	Malaysia	8.21%
Wool, not carded or combed	China	9.14%	Automatic data processing machines (computers)	China	7.95%

N.B. New Zealand's fastest growing import and export sectors by partner are developed from the top 50 export and import partners and are selected alongside the trade sectors that constituted values of above \$100 million at the end of 2010. The top ten fastest growing partners by sector were selected for this table.

Sector opportunities

Agriculture: New Zealand's trade is traditionally in the agricultural sector and this will continue. The Trade Forecast predicts that the two largest export sectors will continue to grow annually over the next five years - milk and cream will grow by 9.66% and lamb and goat meat by 4.61%. Within the milk and cream sector, exports to emerging Asia dominate with exports to China increasing annually by 16.46%, to Singapore by 10.97% and to Malaysia by 9.08% all to 2016. In order to ensure that the agricultural sector is healthy, imports of fertilisers are set to increase by 6.55% annually over the next five years. New Zealand is opening new international trade corridors in this sector largely in Asia Pacific but also in Latin America and Africa. Businesses in the sector need to think beyond their traditional local markets in order to supply increased demand for milk and cream in the emerging economies.

Wine: New Zealand's wine sector is entirely export oriented and is set to grow significantly over the next five years at an annual rate of 9.80%, much of this accounted for by exports to Australia (11.18%), the USA (8.56%) and the UK (8.25%) all to 2016. Businesses in this sector can build on experience have gained from the developed world markets to expand their trade into emerging markets. Demand for wine is increasing in China and demonstrated by emerging export trade routes between Australia and China which can act as a trigger for New Zealand wine exporters to do the same.

Oil: New Zealand exports and imports oil and it is both a large sector and the fastest growing export sector for the country. Crude oil imports are New Zealand's third largest sector with growth expected to be 12.51% annualised over the next five years. Exports of crude oil from New Zealand are predominantly to Australia and New Zealand's fastest growing oil importer over the next five years is forecast to be Russia with annualised growth in its imports of 19.43% to 2016. Middle Eastern nations such as Qatar, Brunei and the UAE are all forecast to increase their oil imports into New Zealand. Within the Asia Pacific region, Indonesia stands out as a growing import partner for crude oil with growth expected of 5.39% annually to 2016, while non-crude oil imports will come from South Korea at a rate of 13.01% annually to 2016. This is a complex, technical and global sector with high values of trade attached to it. New Zealand businesses who want to take advantage of newly emerging trade corridors need to grow their international activities by at least 12.5% annually over the next five years in order to do this.

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Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 37 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics. The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

About HSBC Commercial Banking

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC is one of the world's most international commercial banks with over three million customers in more than 60 markets.