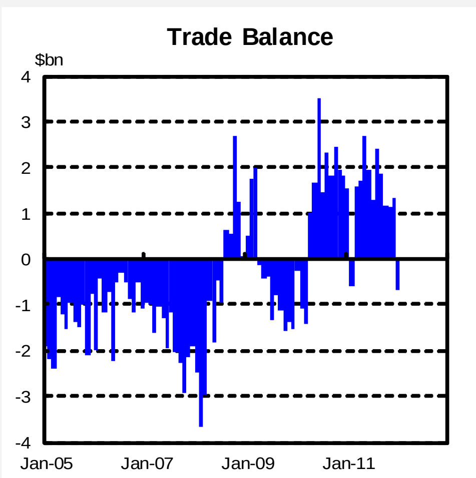
Bank of Melbourne

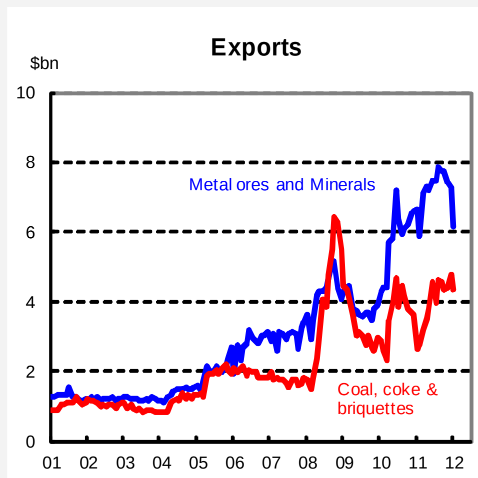
DATA SNAPSHOT

Trade Balance – Muddied Waters

Friday, 9 March 2012

- **The trade balance unexpectedly posted a deficit of $673mn, the first deficit since February 2011. The deficit was a turnaround of $2bn from a downwardly revised surplus in December of $1.3bn.**
- **The result was due to a large slump in exports (-8.2%), driven by sharp falls in some major commodity exports including metal ores & minerals and coal, coke & briquettes. This more than offset a decline of 1.1% in imports.**
- **There are likely some one-off factors behind January's trade deficit, which include the Chinese Lunar New Year holiday and wet weather disrupting exports. However, it may be an early sign that moderating growth in China is negatively impacting Australia's exports by a greater extent than previously anticipated.**
- **On balance, we expect that most of the slump in January is temporary. Growth in China remains solid despite slowing. That being said, we expect Australia's trade position to be less positive in 2012 compared with last year, particularly given that the Australian dollar remains high and business investment continues to support demand for capital imports.**





The trade balance unexpectedly posted a deficit of $673mn, the first deficit since February 2011. The deficit was a turnaround of $2bn from a downwardly revised surplus in December of $1.3bn.

The result was due to a large slump in exports (-8.2%), driven by sharp falls in some major commodity exports. A rise in the Australian dollar and a slight fall in commodity prices in January would have lowered export receipts, but the drop is likely to have been driven predominantly by a fall in volumes.

The slump could be partially explained by a one-off impact from the Chinese Lunar new year holiday and some wet weather disruptions. The Australian Bureau of Statistics (ABS) has confirmed it does not take into account the Chinese New Year holiday when seasonally adjusting data, and this could be muddying the overall picture. However, it may be an early sign that moderating growth in China is negatively impacting Australia's exports by a greater extent than previously anticipated. We would, however, need to see further weaker outcomes for commodity exports before arriving at this conclusion.

The sharp drop in exports more than offset a 1.1% fall in imports in January.

Exports

The sharp drop in exports was largely driven by a 6.4% fall in non-rural goods exports, although rural goods also fell 4.5%.

Metal ores & minerals slumped 14.8%, while coal, coke & briquettes fell 9.2% in January. Exports of non- monetary gold also fell a sharp 55.6%, although this category is often very volatile month-to-month.

Within the rural goods category, exports of cereal grains and preparations dropped 8.3% and other rural goods slumped 7.1%. This was partly offset by a 10.2% jump in wool & sheepskins exports. Rural goods exports are however, 22.9% higher on a year ago.

Service exports surprisingly rose 2.9%, despite the strong Australian dollar weighing on tourism and education. On an annual basis however, service exports are showing weak growth of 0.8%, but it was the first annual increase in one and a half years.

Imports

Imports fell 1.1% in January, with a falls in imports of intermediate and other merchandise goods and capital goods offsetting a rise in consumption imports.

Consumption imports rose 2.9% in January, with the breakdown revealing increases across the board. The strength in this category is somewhat inconsistent with reports of consumer caution. Indeed, consumption imports rose 11.3% over the year to January, the strongest annual pace since August 2010. It could be an early sign that household consumption may be improving in the early part of this year.

Despite capital imports falling 1.3%, it was largely driven by the volatile civil aircraft category which fell 59.3%. Machinery and equipment imports surged 14.9% in January, the strongest monthly gain in nearly two years. On a year ago, machinery and equipment imports are up 52.9%, the strongest annual growth since 1986, which confirms that the business investment upswing continues to deepen.

Imports of intermediate goods and other merchandise goods fell 5.1% led by a decline in fuels & lubricants (-18.0%).

Outlook

There are likely some one-off factors behind January's trade deficit, which include the Chinese Lunar New Year holiday and wet weather disrupting exports. On balance, most of the slump in commodity exports is likely to be temporary. Growth in China remains solid despite some slowing. Additionally, commodity prices have stabilised in recent months.

That being said, we expect Australia's trade position for 2012 to be less positive than last year. The high Australian dollar is likely to weigh on exports of services and other sectors outside of mining. Further, intentions for strong investment spending will buoy imports for capital goods.

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The Detail