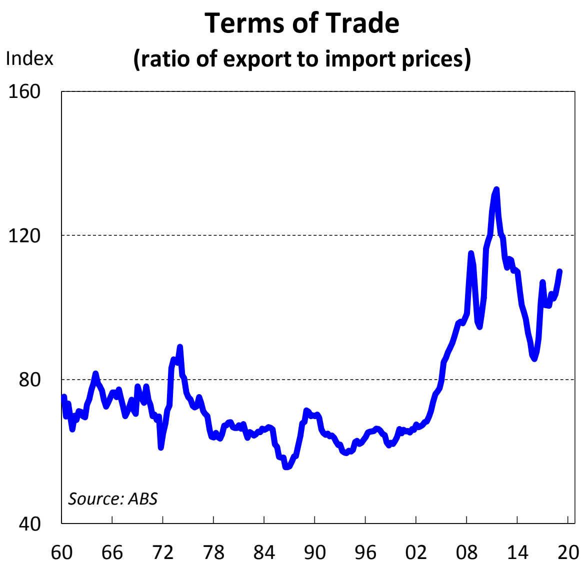
Data snapshot

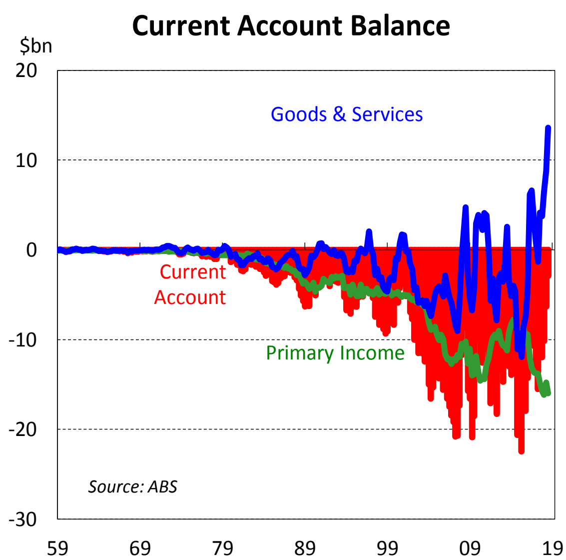
Tuesday, 4 June 2019

Current Account and GDP Preview

Deficit Shrinks to Lowest since 1988

- **The current account deficit narrowed sharply from $6.3 billion in the December quarter to $2.9 billion in the March quarter, the smallest deficit since the March quarter of 1988.**
- **The improvement reflected a record trade surplus of $13.6 billion. Export receipts have been bolstered by rising commodity prices. However, the bulging trade surplus has been met with a larger outflow from the income account, as some of the boost to incomes accrues overseas.**
- **The terms of trade lifted 3.1% in the March quarter, the third consecutive quarterly increase. The higher terms of trade has been largely driven by higher commodity prices, particularly for iron ore.**
- **The recovery in export volumes and weak import volumes suggests net exports will provide a contribution of 0.2 percentage points to GDP growth in the March quarter.**
- **After the run of data over the past few days, we continue to expect GDP grew by 0.6% in the March quarter, for annual growth of 1.9%. We expect further weakness in the consumer sector, another drag from private infrastructure spending and a decline in dwelling investment. Growth is expected to be modestly supported by public spending and net exports.**





Current Account

The current account deficit narrowed sharply from $6.3 billion in the December quarter to $2.9 billion in the March quarter, the smallest deficit since the March quarter of 1988.

The improvement reflected a record high goods and services surplus of $13.6 billion. Export receipts have been bolstered by rising commodity prices. However, the bulging trade surplus has been met with a larger outflow from the income account, as some of the boost to incomes accrues overseas. The deficit on the primary income and secondary income accounts widened to $16.0 billion and $0.5 billion, respectively, in the March quarter.

Terms of Trade

The terms of trade lifted 3.1% in the March quarter, the third consecutive quarterly increase. On a year ago, the terms of trade was 6.1% higher.

The higher terms of trade has been largely driven by higher commodity prices, particularly for iron ore. More recently, trade tensions have lifted concerns about global growth weighing on the prices of most commodities. However, iron ore prices have continued to push higher and should further boost export values over the June quarter. Supply constraints for iron ore have helped prop up iron ore prices.

The higher terms of trade indicates a boost to national incomes over the March quarter, which is flowing through to stronger company profits and taxation revenue.

Export and Import Volumes

Exports were boosted by higher prices; however volumes, also rose, lifting 1.0% in the March quarter. The gain was the first increase in three quarters.

Rural exports rebounded 6.5%, after a 6.1% slump in the December quarter, reflecting the impact of the drought. However, the gain was driven by meat & meat preparations (14.6%) and wool & sheepskins (15.0%), likely reflecting higher slaughter rates. Cereal grains & cereal preparations fell 7.4%, declining for the third consecutive quarter.

In the quarter, tropical cyclone Veronica, which hit the Pilbara region, weighed on exports of metal ores & minerals (-4.7%). Other commodities were also weak, including metals (excl. non-monetary gold), other mineral fuels (-1.2%) and coal, coke & briquettes (-0.3%).

Import volumes were weak, falling 0.1% in the quarter.

Imports of fuels & lubricants led the decline, dropping 6.8%. A lift in oil prices may have played a part. Other sectors were relatively firm, despite signs of private demand being weak in the quarter. A strong increase in consumption good imports (3.0%) was somewhat out of step with weak consumer spending. Capital goods imports lifted 1.2% in the quarter, boosted by machinery & industrial equipment and other capital goods.

Net Exports

The recovery in export volumes and weak import volumes suggests net exports will provide a contribution of 0.2 percentage points to GDP growth in the March quarter.

It follows a small detraction from GDP growth in the December quarter.

Government Finance Statistics

Government spending grew modestly in the March quarter. Government consumption rose 0.8% in the quarter, while government investment lifted 0.4% in the quarter.

There continues to be strong pipeline of public infrastructure spending, although there might be a minor pothole of activity before new projects come on line. Over the medium term, the outlook remains positive for public spending to provide support to economic growth.

GDP Preview

Tomorrow, the Australian Bureau of Statistics (ABS) publishes updated data for the national accounts which includes gross domestic product (GDP). We expect GDP grew by 0.6% in the March quarter for annual growth of 1.9%. We expect further weakness in the consumer sector, another drag from private infrastructure spending and a decline in dwelling investment. Growth is expected to be modestly supported by public spending and net exports.

If the data turns out as forecast, this pace of growth would be the weakest annual pace since 2013. It follows quarterly growth of just 0.3% and 0.2% in the September quarter and December quarter, respectively.

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