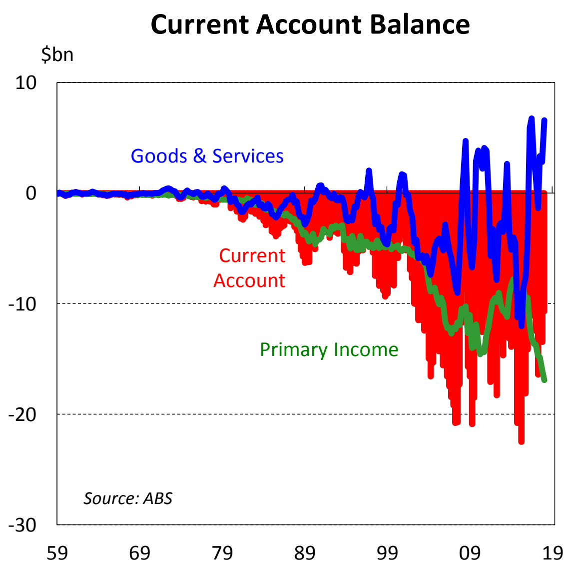
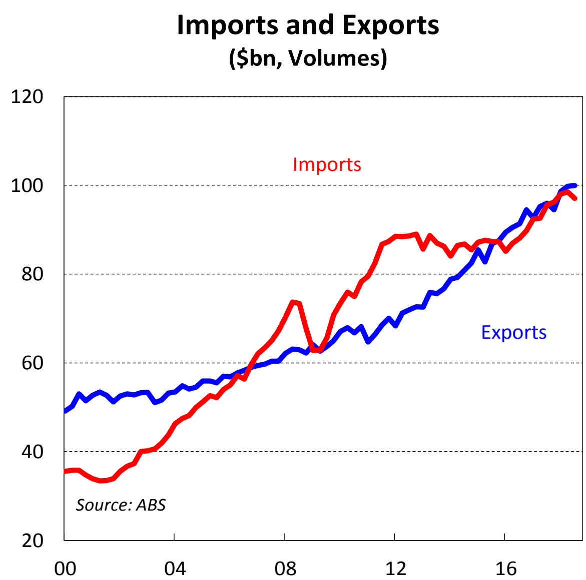
Current Account and GDP Preview

Commodity Prices Saves the Day

- **The current account deficit narrowed from $12.1 billion in the June quarter to $10.7 billion in the September quarter. The improvement reflected a widening of the surplus on the goods and services balance from $3.9 billion to $6.6 billion, the largest in 1½ years. Higher commodity prices boosted export earnings in the quarter, while imports were relatively weak.**
- **The terms of trade lifted 0.8% in the September quarter, suggesting a modest boost to incomes.**
- **Net exports are expected to contribute 0.4 percentage points to GDP growth in the September quarter after a 0.1 percentage point contribution in the June quarter.**
- **After the run of data over the past few days, we expect GDP growth of 0.6% in the September quarter for annual growth of 3.3% in the year. Indicators on consumer spending, business spending and dwelling investment suggest some moderation in activity following a robust outcome in the June quarter.**





Current Account

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The terms of trade lifted 0.8% in the September quarter, following a 1.1% decline in the previous quarter, suggesting a modest boost to incomes.

Trade volumes were subdued in the quarter.

Export volumes rose a modest 0.1%. Resource commodities, including metal, ores & minerals (-5.8%) and coal, coke & briquettes (-1.5%) were down in the quarter. Export volumes in other mineral fuels (which include LNG exports) increased for the fourth straight quarter, rising 2.1%, while metals (excluding non-monetary gold) jumped 21.2%.

The impact of drought conditions was evident. Exports of cereal grains & cereal preparations slumped 21.1% in the quarter. However, there were gains in exports of meat & meat preparations (3.2%), wool & sheepskins (6.3%) and other rural (4.7%).

Import volumes fell 1.5% in the September quarter, the largest drop in 2½ years. Weakness was across the board, with consumption good imports falling 2.5%, capital good imports dropping 2.2% and intermediate good imports rising 0.2%. The weakness in import volumes suggests some downside risk to domestic demand in the September quarter.

Net exports however, are expected to contribute 0.4 percentage points to GDP growth in the September quarter after a 0.1 percentage point contribution in the June quarter.

Government Finance Statistics

There were little surprises with government spending. Government consumption lifted 0.5% in the September quarter, while government investment rose 3.4%. The modest recovery in commodity prices, healthy business conditions and solid employment growth should lessen pressure on the government to restrain spending. Moreover, the strong pipeline of public infrastructure spending suggests the public sector will continue to provide support to economic growth.

GDP Preview

After the run of data over the past few days, we expect GDP growth of 0.6% in the September quarter for annual growth of 3.3% in the year. Indicators on consumer spending, business spending and dwelling investment suggest some moderation in activity from a robust outcome in the June quarter.

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