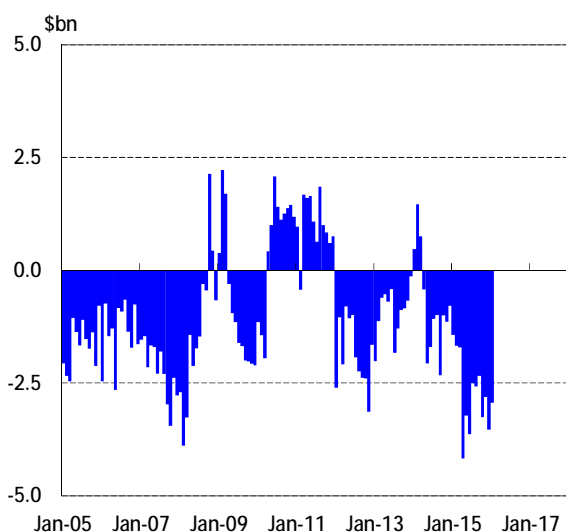


Trade Balance

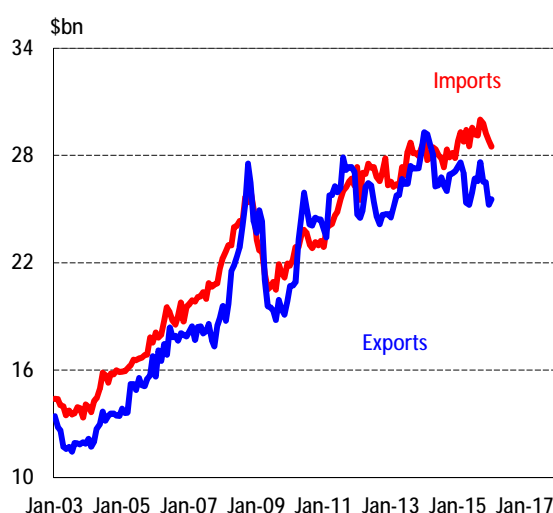
Deficit Improves Slightly

- The trade deficit narrowed \$600mn in January to \$2.9bn, but remains sizeable.
- The improvement reflected a partial recovery in exports, which rose 1.2% in January following three consecutive months of decline. Commodity exports continued to be buffeted by falling prices. However, there was some reprieve from a drop in the AUD.
- Imports remained weak, signalling further subdued growth in domestic demand. In January, imports declined 1.1%, the fourth consecutive month of decline. In particular, declining consumer imports raises some doubts about whether the recent strength in household spending can be sustained.
- Today's data does little to allay some underlying concerns - low commodity prices are keeping a lid on export incomes for commodity producers and offsetting stronger production volumes. Further, subdued imports continue to raise questions about the strength of domestic demand.
- There is however, some good news on the near-term horizon for exporters given commodity prices have stabilised. The depreciation of the Australian dollar in recent years is also continuing to drive exports outside of commodities, and will help support the recovery the in non-mining sectors of the economy.

Australian Trade Balance



Exports and Imports



The trade deficit narrowed \$600mn in January to \$2.9bn, but remains sizeable.

The improvement reflected a partial recovery in exports, which rose 1.2% in January following three consecutive months of decline. Meanwhile, imports remained weak, signalling further subdued growth in domestic demand. In January, imports declined 1.1%, the fourth consecutive month of contraction.

- Exports

Commodity exports continued to be buffeted by falling prices. However, there was some reprieve from a 3.3% drop in the AUD versus the US dollar, and a 2.2% drop in trade weighted terms over January.

Exports of coal, coke & briquettes (5.3%) lifted in January, as did other mineral fuels (4.7%). Both partly reversed declines in the previous months. There were however, declines in other commodity exports including metal ores & minerals, which includes iron ore (-2.0%) and metals (excluding non-monetary gold (-16.7%).

Rural goods exports fell 1.0% in January, but there were gains in other non-commodity exports such as machinery (5.0%), transport & equipment (0.2%) and other manufactures (15.1%).

Service exports were flat, but annual growth remained solid at 9.8% growth in the year to January. The deficit on traded services rose, but it was still close to its lowest since 2010.

- Imports

The weakness in imports was broad based. Consumption imports fell 1.0% in January, and have declined in three of the last four months. The recent weakness raises some doubts about whether the recent strength in household spending can be sustained. On an annual basis, imports of consumer goods were still up a healthy 7.3% in the year to January, although this would have partly reflected a weaker Australian dollar.

Imports of capital goods were down 1.6% in January, reflecting subdued business investment. Curiously, the decline in the month was driven by 'other' capital goods (-85.4%) and aircraft (-36.1%). Meanwhile machinery & industrial equipment, the category most closely linked to mining capex, rose 33.6% to the highest on record! This clearly does not fit in with the picture of the sharp decline in mining investment, and would suggest some payback in coming months. Imports were also dragged down by fuels and lubricants (-9.0%) as the price of oil declined.

Implications and Outlook

The trade position improved slightly in January, but the underlying concerns remain the same. Low commodity prices are keeping a lid on export incomes for commodity producers and offsetting stronger production volumes. The trade balance will likely remain in deficit, unless we see a sustained recovery in commodity prices. Further, subdued imports continue to raise questions about the strength of domestic demand.

There is however, some good news on the near-term horizon for exporters given commodity prices have stabilised. The depreciation of the Australian dollar in recent years is also continuing to drive exports outside of commodities, and will help support the recovery in the non-mining sectors of the economy.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist

Hans Kunnen

kunnenh@bankofmelbourne.com.au

(02) 8254 8322

Senior Economist

Josephine Horton

hortonj@bankofmelbourne.com.au

(02) 8253 6696

Senior Economist

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

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