Data Snapshot

Thursday, 3 November 2016

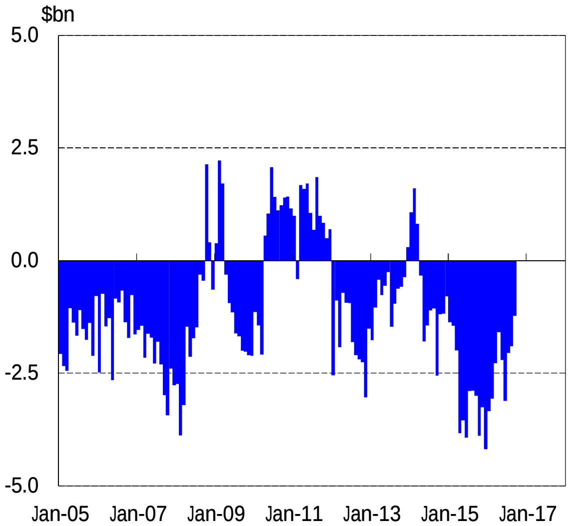
Bank of Melbourne

Trade Balance

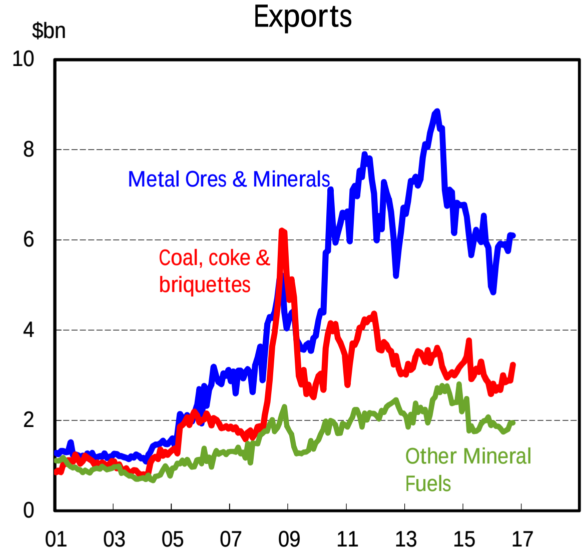
Commodity Prices – the Comeback Kids?

- Australia's trade deficit narrowed for the third consecutive month to $1.2bn in September, which was the smallest deficit since December 2014.
- The improvement in recent months largely reflects the rebound in commodity prices which has boosted the value of exports - exports rose 1.6% in September. The value of coal exports surged, as coking coal prices topped over $200 a tonne in the month.
- Imports fell 0.8% in September. Imports have not grown for three consecutive months, which continues to be consistent with a picture of weak domestic demand. They continue to provide a negative signal for the pace of domestic demand. In particular, they suggest a lack of momentum in household and business spending.
- Australia's trade position has improved in recent times, thanks to a recovery in commodity prices. The uncertain outlook for the global economy provides some doubt that prices will head significantly higher. Nonetheless, exports will still be boosted by volumes through the expanded production of LNG and other minerals.

Australian Trade Balance



Exports



Australia's trade deficit narrowed for the third consecutive month to $1.2bn in September, which was the smallest deficit since December 2014. The improvement in recent months largely reflects the rebound in commodity prices which has boosted the value of exports. Meanwhile, imports have been weak.

- Exports

Exports rose 1.6% in September, which included a 5.0% jump in rural goods and a 3.8% increase in non-rural goods. Coal, coke & briquette exports lifted 12.1% in September, which would have been boosted by a surge in coking coal prices to above $200 a tonne from below $100 back in July. Coal exports are set to receive another lift as prices have continued to rise. Within other resources exports, metals (excluding non-monetary gold) rose 13.7%, metal ores & minerals were flat and other mineral fuels edged up 0.4% in September.

Service exports rose 0.5% in September. The pace of annual growth continued to be a healthy 9.3% in the year to September, but down from the 11.7% annual growth in July. The appreciation in the Australian dollar over the past year has the potential to crimp service exports. However, the AUD remains well below its 2013 peak, and appears to still be providing support to economic growth.

- Imports

Imports have not grown for three consecutive months, which continues to be consistent with a picture of weak domestic demand. Imports declined 0.8% in September which followed a 0.8% decline in the previous month. Consumption goods declined 2.8% in September, and would suggest further weakness in household spending into the September quarter. Over the year to September, imports in consumer goods contracted 8.3%, which was the weakest annual pace in over seven years. It may also have been due to the stronger AUD over the year. Imports of capital goods were also soft, contracting 1.4% in September. The decline was driven by an 8.7% decline in machinery & industrial equipment imports, which continues to be impacted by the mining investment downturn. The drag from the wind-down in mining construction will likely continue to be a drag on imports.

Implications and Outlook

Australia's trade position has improved in recent times, thanks to a recovery in commodity prices. The scope for further improvement will depend on how much further prices can lift. The uncertain outlook for the global economy provides some doubt that prices will head significantly higher. Nonetheless, exports will still be boosted by volumes through the expanded production of LNG and other minerals.

The weakness of imports will also help Australia's trade balance, but continues to provide a negative signal for the pace of domestic demand. In particular, they suggest a lack of momentum in household and business spending.

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