The trade balance unexpectedly posted a $480mn deficit in February, the second consecutive monthly deficit. It was, however, an improvement on a downwardly revised $971mn deficit in January (previously reported as a deficit of $673mn).

Exports failed to recover after slumping 9.0% in January. However, the improvement in February reflected a drop in imports of 3.9%, which more than offset a 2.1% drop in exports.

Exports
The fall in exports came on the back of a sharp 9.0% fall in January. Some rebound in February was anticipated after the Chinese Lunar New Year holiday and weather disruptions likely dampened exports in January.
A bounce of 7.2% in metal ores & minerals suggests that iron ore exports recovered from disruptions from Cyclone Heidi in January. However, coal, coke & briquettes fell 16.0% in February following a 10.2% drop in the previous month. Overall, non-rural goods fell 2.9% in February.

Rural goods exports also fell sharply and were down 9.0%, following a 4.2% fall in January. Rural goods exports have now fallen for four consecutive months, and may have been hampered by recent flooding.

Service exports also fell 3.4%, reflecting the Australian dollar weighing on tourism and education. The Australian dollar rose 2.2% in trade-weighted terms in February, and remains close to historical highs. On an annual basis, service exports declined 3.9% in the year to February.

**Imports**

Imports fell 3.9% in February, reflecting declines in consumption, capital goods and intermediate goods imports.

Consumption imports slumped 6.9% in February, more than offsetting gains over December and January. The decline is consistent with weak growth in retail spending and heightened consumer caution.

Capital imports fell 4.6%, led by a 12.2% fall in machinery & industrial equipment imports. It however followed a 15.0% increase in January, and is 18.8% higher in the year to February. We still expect imports in this category to grow strongly, given that business intentions for capital spending remain buoyant.

Imports of intermediate goods and other merchandise goods fell 3.4% led by declines in parts for transport equipment (-4.3%) and processed industrial supplies (-3.4%). Fuels & lubricants were down marginally, falling 0.1%, despite higher oil prices in the month. WTI oil prices were on average 14.5% higher in February, and could boost fuel imports in coming months.

**Outlook**

The recent slump in exports is concerning given that parts of Asia including China are experiencing a slowdown in growth. On balance, we continue to expect, however, that China will grow at a solid, albeit slower pace, which will be supportive of Australia’s export demand. A stabilisation in commodity prices in recent months supports this view.

Further weakness in export growth however, might suggest that Australia is not benefiting as much from the resource boom as previously expected. The trade data over January and February points to a risk that net exports are likely to place a large drag on Q1 GDP growth, and supports the view that the Reserve Bank (RBA) will cut rates once more in May.

Janu Chan, Economist
Ph: (02) 9320-5892
## Contacts List

### Economics Group

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
<th>Email</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Economist</td>
<td>Hans Kunnen</td>
<td><a href="mailto:kunnenh@bankofmelbourne.com.au">kunnenh@bankofmelbourne.com.au</a></td>
<td>(02) 9320 5854</td>
</tr>
<tr>
<td>Senior Economist</td>
<td>Josephine Heffernan</td>
<td><a href="mailto:heffernanj@bankofmelbourne.com.au">heffernanj@bankofmelbourne.com.au</a></td>
<td>(02) 9320 5751</td>
</tr>
<tr>
<td>Economist</td>
<td>Janu Chan</td>
<td><a href="mailto:chanj@bankofmelbourne.com.au">chanj@bankofmelbourne.com.au</a></td>
<td>(02) 9320 5892</td>
</tr>
</tbody>
</table>

---

### The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorized use or dissemination is prohibited.

Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.