Data Snapshot

Tuesday, 5 April 2016

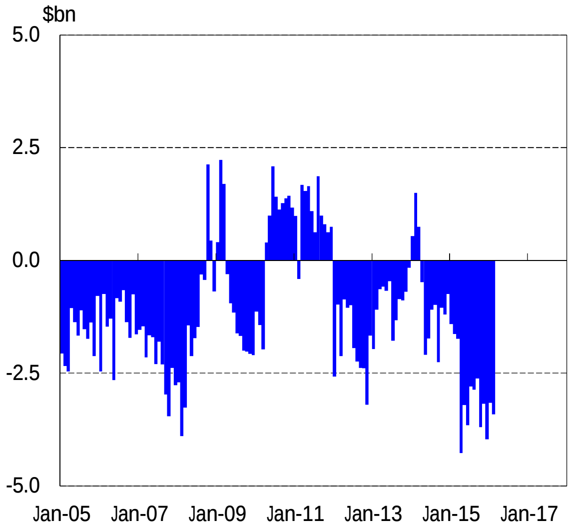
Bank of Melbourne

Trade Balance

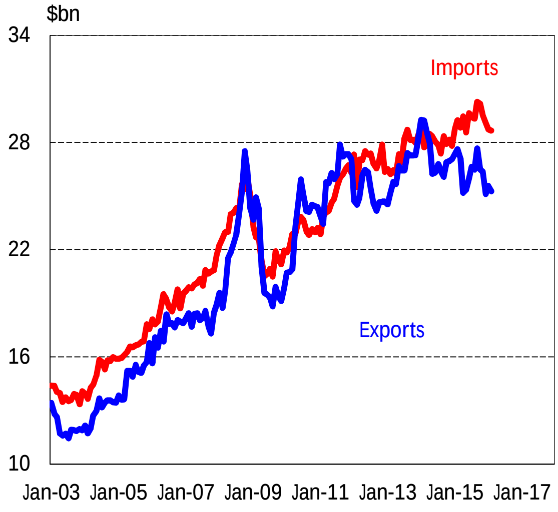
Still Stuck in Deficit

- The trade balance remains stuck in deficit, widening $253mn in February to $3.4bn. After back revisions, today's data now shows that the deficit has exceeded $3 billion for five consecutive months, which has never occurred previously.
- Sizeable deficits are in spite of ongoing weakness in imports. Lower commodity prices weighing on export values are largely to blame, although a recent rebound in the prices of most commodities would have supported values in February. The trade balance will likely remain in deficit, unless we see a further strengthening in commodity prices.
- Exports fell 1.2% in February, despite a rebound in the prices of many commodities. That said, the lift in prices helped drive an increase in iron ore and metal exports, but there was weakness across a broad range of other exports.
- Imports slipped 0.2% in the month. It was the fifth consecutive month of decline, which provides a negative signal for domestic demand. However, a lift in imports of consumer goods was encouraging for the consumer spending outlook.
- The large deficits over the first two months of the year suggests that net exports will provide a relatively small contribution to economic growth in the March quarter, and therefore poses some downside risk to GDP growth.

Australian Trade Balance



Exports and Imports



The trade balance remains stuck in deficit, widening $253mn in February to $3.4bn. After back revisions, today's data now shows that the deficit has exceeded $3 billion for five consecutive months, which has never occurred previously according to available data going back to 1971.

These deficits over recent months have been sizeable, and are in spite of ongoing weakness in imports. Lower commodity prices weighing on export values are largely to blame, although a recent rebound in the prices of most commodities would have supported values in February. Exports fell 1.2% in February, while the RBA measure of commodity prices rebounded 3.0%.

Imports were also weak, but to a lesser extent slipping 0.2% in the month. It was the fifth consecutive month of decline, which provides a negative signal for domestic demand. However, a lift in imports of consumer goods was encouraging for the consumer spending outlook.

- Exports

The lift in the prices of some commodity prices, namely for iron ore and metals did help support values. Exports of metal ores and minerals lifted 8.0%, and metal exports (excluding monetary gold) increased 16.3% in February.

There was however, weakness across a broad range of other exports including rural (-5.5%), other resource commodities such as coal, coke 8 briquettes (-7.6%), other mineral fuels (-4.2%) and non-monetary gold (-20.4%) and services exports (-0.8%).

It is too early to say that the recent rebound in the Australian dollar that began in January is beginning to stem growth in non-resource commodity exports. Despite its recent rally, the Australian dollar remains well below its peaks in early 2013. Annual growth in service exports remains a solid 10.8% in the year to February.

- Imports

The weakness in imports was driven by the usual suspects. Lower oil prices weighed on imports of fuels & lubricants (-20.2%). Machinery & industrial equipment imports fell 23.3% in February, after surging in the previous month. We expect imports in this category to remain weak as mining investment declines further this year.

On a positive note, consumer imports strengthened in February, and could suggest that the recent stalling in retail spending will be temporary. Imports of consumer goods rose 3.4% in February, led by food & beverages (7.9%), household electrical (8.6%) and textiles, clothing & footwear (4.0%). It supports our view that we will continue to see modest growth in consumer spending.

Implications and Outlook

The rebound in commodity prices should support export values and see some narrowing in the trade deficit over coming months, although this is being mitigated by a partial recovery in the Australian dollar. The increase in production capacity will also continue to boost export volumes. Nonetheless, the trade balance will likely remain in deficit, unless we see a further strengthening in commodity prices.

For the broader economy, there are mixed implications from today's data. There is a tentative sign that consumer spending will continue to grow modestly. However, the sizeable deficits over the first two months of the year suggests that net exports will provide a relatively small contribution to economic growth in the March quarter, and therefore poses some downside risk to GDP growth.

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