Data Snapshot

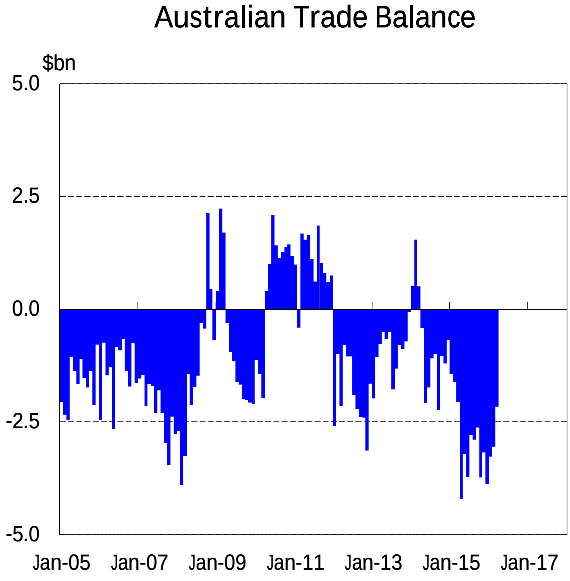
Thursday, 5 May 2016

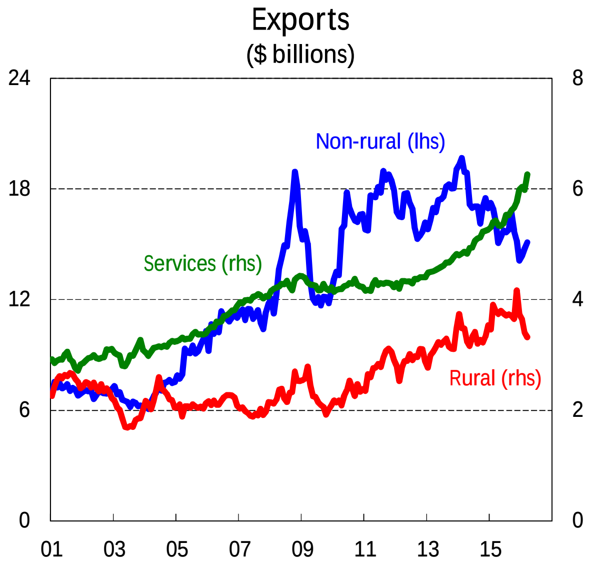
Bank of Melbourne

Trade Balance

Commodity Prices Lend a Helping Hand

- The trade position improved to a $2.2bn deficit in March, the smallest deficit in a year, after a revised deficit of just above $3.0bn in February.
- The improvement over March was mostly driven by a 4.3% rebound in exports, helped by higher in commodity prices. Service exports were also strong in the month, supported by the depreciation in the Australian dollar over the years. On an annual basis, service exports grew at their strongest annual pace in 15½ years.
- Imports rose 0.7% in March, but the lift appeared to be mostly driven by rebounding oil prices rather than a pickup in domestic demand.
- The trade position is benefiting from the mini-surge in commodity prices. Nonetheless, unless we see a further unexpected strengthening in commodity prices, the trade balance will likely remain in deficit.
- The smaller-than-expected deficit in March, and downward revision in February suggests that export volumes will be relatively firm in the March quarter, and point to a healthy contribution to growth from net exports in the quarter.





The trade position improved to a $2.2bn deficit in March, the smallest deficit in a year. Moreover, the deficit in February, was revised down from $3.4bn to just above $3.0bn, indicating a better trade position than previously thought.

The improvement over March was mostly driven by a 4.3% rebound in exports, helped by a mini-jump in commodity prices. Imports rose by a smaller 0.7% in the month.

Despite the better outcome, the trade balance remains highly in deficit. While a further rebound in commodity prices will continue to boost values, it is questionable whether commodity prices can continue to head higher or even sustain current values given that global supply is expected to remain strong and world demand is unlikely to pickup significantly.

- Exports

Most exports linked to resource commodities gained in the month, probably due to higher prices. Exports of metal ores & minerals (7.6%), non-monetary gold (58.3%), coal, coke & briquettes (2.9%) and other mineral fuels (2.3%) all rose, although metal exports (excluding non-monetary gold) fell 6.5%.

Service exports were also strong gaining 4.6% in March. On an annual basis, service exports grew 15.3% in March, which was the strongest annual growth in 15½ years. The services sector is clearly continuing to benefit from the lower Australian dollar. Despite appreciating in recent months, the Australian dollar is still down nearly 30% against the US dollar and over 20% in trade-weighted terms from its 2013 peaks.

Exports in other areas however, were relatively weak including rural goods (-2.5%). Rural good exports have fallen over four consecutive months, driven by weakness in meat exports and exports of cereal grains & cereal preparations.

Imports

Imports rose 0.7% in March, but the lift appeared to be mostly driven by rebounding oil prices. Imports of fuels & lubricants jumped 20.0% following three consecutive months of decline.

Consumption good imports fell 2.2%, after 3.3% growth in February, and seem to correspond with the modest pace of growth in retail spending.

Capital goods imports rose 1.9% in March. However, machinery & industrial equipment, which is linked to spending in the ABS capital expenditure survey, declined another 8.4% following a 16.7% fall in the month. It suggests further weakness in capex spending in the March quarter, which will be released later this month.

Implications and Outlook

Australia's trade position is benefiting from the mini-surge in commodity prices over the past few months. That should help support incomes. Additionally, the increase in production capacity will also continue to boost export volumes. Nonetheless, it does not seem likely that commodity prices will continue to lift, or even sustain current values. Unless we see a further unexpected strengthening in commodity prices, the trade balance will likely remain in deficit.

Other themes that can be inferred from today's data are broadly unchanged – domestic demand remains uneven, capital spending is weak, while consumer spending is growing at just a modest pace. Positives however, include the strong growth in service exports and suggest ongoing healthy conditions in services. Additionally, the smaller-than-expected deficit in March, and downward revision in February suggests that export volumes will be relatively firm in the March quarter, and point to a healthy contribution to growth from net exports in the quarter.

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The Detail