Data Snapshot

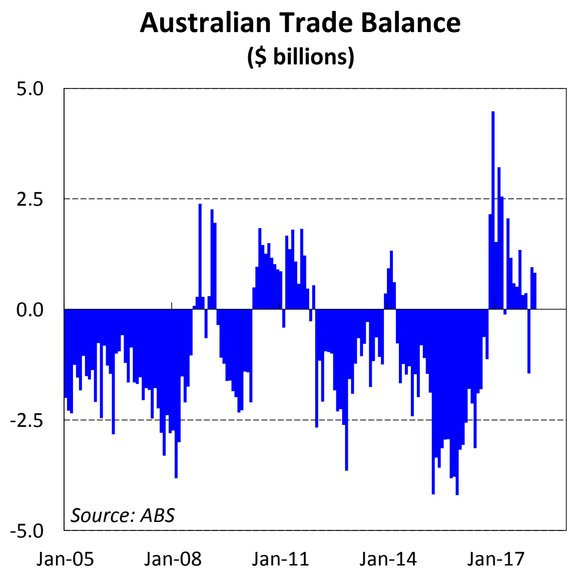
Thursday, 5 April 2018

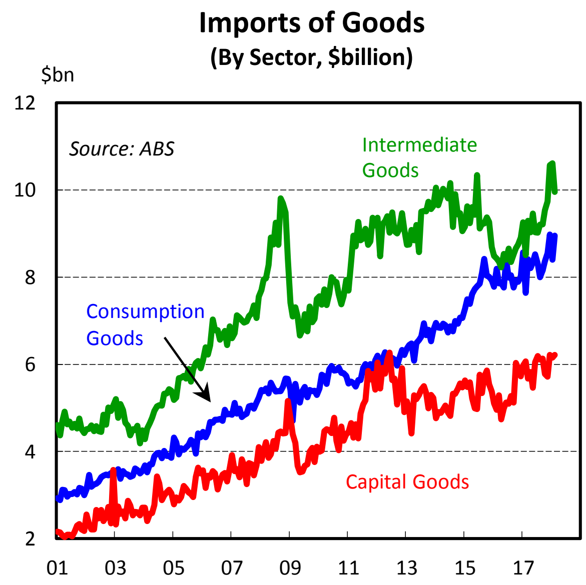
Bank of Melbourne

Trade Balance

Are Imports Signalling Stronger Demand?

- **The trade surplus narrowed slightly from $952mn in January to $825mn in February. There have been nine surpluses over the last 10 months.**
- **The slight deterioration in February was owing to flat exports, after jumping in January. Additionally, imports rebounded 0.4% following a contraction in the previous month.**
- **Strong growth in imports of consumption goods and capital goods is providing a positive signal for consumer and business spending. Imports of consumption goods were 17.1% higher on a year ago, the strongest annual rate in nearly 2½ years. On a year ago, machinery & industrial equipment imports were 39.2% higher, the strongest annual growth since June 2012.**
- **Despite the flat result for February, exports should continue to contribute more favourably to economic growth in the first half of 2018 after detracting from growth in the December quarter 2017.**
- **World trade policies have come into the spotlight after tariffs on US imports were announced by the Trump administration. Australia is not likely to be directly affected. However, the potential negative impact on global growth from reduced trade and weaker sentiment among businesses and in financial markets has a much larger impact.**





The trade surplus narrowed slightly from $952mn in January to $825mn in February. The slight deterioration in February was owing to flat exports, after jumping in January. Additionally, imports rebounded slightly following a contraction in the previous month.

There have been nine surpluses over the last 10 months, although they are less sizeable than the surpluses posted over late 2016 and early 2017. The trade surplus averaged just over $1.7bn in the first six months of 2017. While export volumes have increased, imports have recovered in recent months coinciding with an improvement in domestic demand, and a lessening impact from the downturn in mining investment.

Exports

The easing in export growth in February mostly reflected declines in exports of non-monetary gold (-23.0%) and non-commodity exports such as machinery (-6.4%), transport & equipment (-36.2%) and other manufactures (-7.2%). Australia's largest commodity exports, metal ores & minerals (2.6%), coal, coke & briquettes (1.1%) and other mineral fuels (2.6%) all rose in the month. Rural-good exports also rose strongly, up 16.5% in February, which have been impacted by unseasonable weather conditions. It was the first increase in seven months.

Services exports also rose, rising 0.6% in the year to February.

Imports

While overall imports rose modestly, there was some encouraging detail.

There was a 6.5% jump in consumer-goods imports in February. While month-to-month data is volatile, imports of consumption goods were 17.1% higher on a year ago. This was the strongest annual growth in nearly 2½ years. It provides an encouraging sign for consumer spending, particularly following a relatively firm increase in retail spending in February.

Within capital goods imports, which rose 1.0% in February, machinery & industrial equipment imports lifted a solid 15.0%. On a year ago, machinery & industrial equipment imports were 39.2% higher, the strongest annual growth since June 2012. It points to a further recovery in business investment.

The annual rate of growth in total imports lifted from 6.1% in January to a firm 11.9% in February, suggesting that domestic demand should continue to grow moderately.

Outlook and Implications

World trade policies have come into the spotlight after tariffs on US imports were announced by the Trump administration. A clearer picture will emerge in coming months as to whether major economies can negotiate a solution that would be less detrimental than a full-blown trade war.

Australia is not likely to be directly affected but the potential negative impact on global growth from reduced trade and weaker sentiment among businesses and within financial markets has a much larger impact.

The fallout, however, should have limited implications on Australia's trade over the near-term. Despite the flat result for February, exports should continue to contribute more favourably to economic growth in the first half of 2018 after detracting from growth in the December quarter 2017.

Meanwhile, although stronger imports provide an offsetting impact on economic growth, they provide a positive signal for consumer and business spending.

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