Data Snapshot

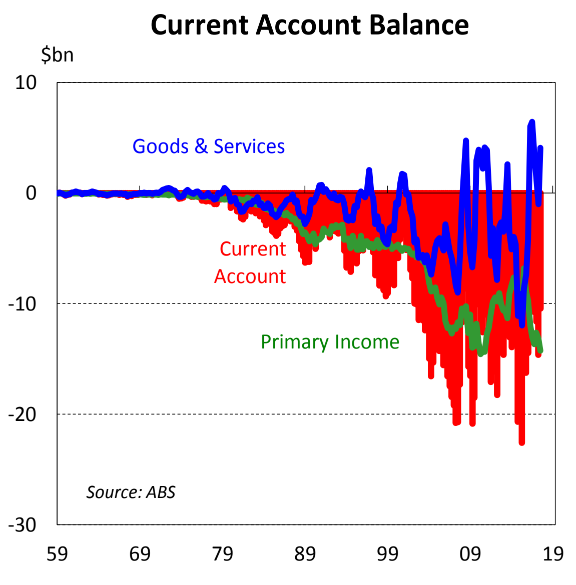
Tuesday, 5 June 2018

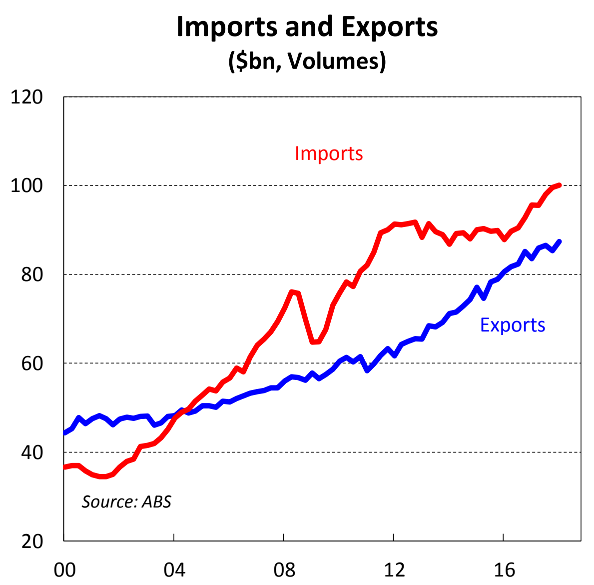
Bank of Melbourne

Current Account and GDP Preview

Solid Growth Expected

- **The current account deficit narrowed to $10.5 billion in the March quarter, from $14.7 billion in the December quarter of last year. The improvement was mostly a result of a turnaround in exports and an improvement in the trade balance from a deficit of $1.0 billion to a surplus of $4.1 billion in the March quarter.**
- **Export volumes recovered 2.4% in the March quarter, after falling 1.5% in the December quarter, mostly reflecting an improvement in key resource commodities.**
- **Import volumes rose a modest 0.5% in the March quarter, following a 1.6% lift in the December quarter. The detail was mixed – consumption-goods imports fell 0.3%, highlighting the headwinds facing the consumer sector. On the other hand, capital-goods imports grew a solid 4.3%, pointing to strength in business spending.**
- **Net exports are expected to contribute 0.3 percentage points to GDP growth in the March quarter. It follows a detraction of 0.5 percentage points in the December quarter.**
- **We expect 0.9% GDP growth in the March quarter and 2.8% in the year. The turnaround in exports is one of the factors behind the strong outcome, after exports contracted over the December quarter. We are also expecting modest growth in domestic demand, including household consumption, public spending and business spending. Inventories are also expected to provide a positive contribution to growth in the quarter.**





Current Account

The current account deficit narrowed to $10.5 billion in the March quarter, from $14.7 billion in the December quarter of last year.

The improvement was mostly as a result of a turnaround in exports and an improvement in the goods and services balance from a deficit of $1.0 billion to a surplus of $4.1 billion in the March quarter.

The other component of the current account, the primary income deficit widened further from $13.2 billion to $14.3 billion, which was the largest since June quarter 2011.

Export volumes recovered 2.4% in the March quarter, after falling 1.5% in the December quarter. The rebound reflected an improvement in key resource commodities, including coal, coke & briquettes (4.1%), metals (excluding non-monetary gold) (5.7%). Other mineral fuels, which include LNG exports, were also strong, lifting 12.2%, the fastest pace in over 9 years. There was still weakness in rural-goods exports, which have been hampered by poor weather. Rural goods exports contracted 4.8% in the March quarter, after declining 10.7% in the December quarter.

Import volumes rose a modest 0.5% in the March quarter, following a 1.6% in the December quarter. The detail was mixed – consumption-goods imports fell 0.3%, highlighting the headwinds facing the consumer sector. On the other hand, capital-goods imports grew a solid 4.3%, pointing to strength in business spending. Intermediate & other merchandise goods imports contracted 0.3%.

The turnaround in exports points to a contribution from net exports to GDP growth in the March quarter of 0.3 percentage points. It follows a detraction of 0.5 percentage points in the December quarter.

The other component of today's release was the terms of trade. Stronger commodity prices have resulted in a 3.3% increase in the terms of trade. It was the strongest increase in a year. On a year ago, the terms of trade was down 2.6%.

Government Finance Statistics

Public demand was mixed in the quarter. Government consumption was strong, lifting 1.6% in the March quarter. In contrast, government investment fell 2.0%, but the solid pipeline of public infrastructure spending suggests that the trend over the longer-run will be strong.

GDP Preview

We expect 0.9% GDP growth in the March quarter and 2.8% in the year. The turnaround in exports is one of the factors behind the strong outcome, after exports contracted over the December quarter. We are also expecting modest growth in domestic demand, including household consumption, public spending and business spending. Inventories are also expected to provide a positive contribution to growth in the quarter.

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The Detail

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