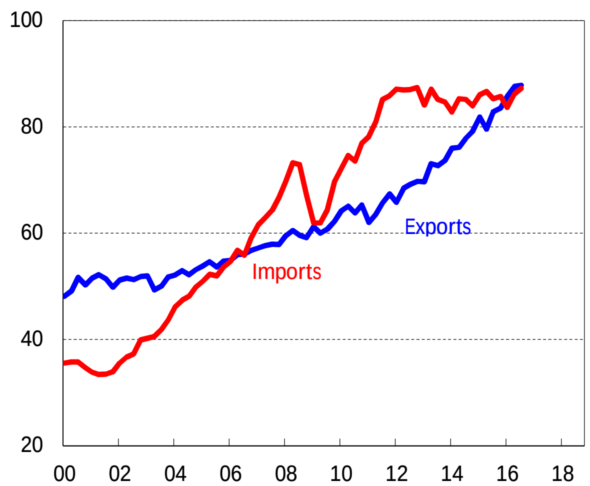
Current Account & GDP Preview

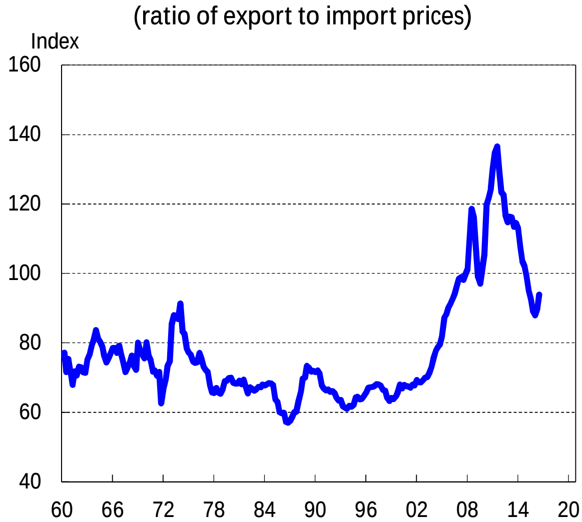
GDP Contraction on the Cards

- The current account deficit narrowed from a revised $15.9bn in the June quarter to $11.4bn in the September quarter, the smallest deficit in 2½ years. The improvement was mostly driven by a significant narrowing in the goods and services deficit, as commodity prices rebounded in the quarter.
- Export volumes increased just 0.3% in the September quarter. The recent surge in export volumes, as a result of increased production capacity in resources, took a breather in the quarter. Import volumes rose 1.3% in the September quarter.
- The terms of trade rose 4.4% in the September quarter, the biggest gain in 5½ years and the second consecutive quarterly increase. The recent lift in commodity prices is providing an income boost, a turnaround from when commodity prices had been falling consistently over the past few years.
- Net exports are set to detract 0.2 percentage points from GDP growth in the September quarter. Both net exports and government spending were softer than expected. As a result, we have downgraded our GDP forecast to a 0.1% contraction in the September quarter, for annual growth of 2.2% in the year.

Imports and Exports
($bn, Volumes)



Terms of Trade
(ratio of export to import prices)



Current Account

The current account deficit narrowed from a revised $15.9bn in the June quarter to $11.4bn in the September quarter, the smallest deficit in 2½ years. The improvement was mostly driven by a significant narrowing in the goods and services deficit, as commodity prices rebounded in the quarter. The primary income deficit also narrowed from $8.2bn in the June quarter to $6.3bn in the September quarter.

- Export Volumes

Export volumes increased just 0.3% in the September quarter. The recent surge in export volumes, as a result of increased production capacity in resources, took a breather in the September quarter. Indeed, exports in goods declined 0.3%, reflecting declines in metal ores and minerals (-2.1%), other mineral fuels (-0.8%) and machinery (-3.7%). The decline in other mineral fuels followed very strong gains in previous quarters and reflects the increase in LNG exports over the past year or so.

Among other exports, coal, coke & briquettes rose 2.6% in the quarter, and have risen for three consecutive quarters. Meanwhile, rural goods rose 1.0% in the quarter.

Services exports were strong and continue to benefit from the depreciation in the Australian dollar since 2013. The volume of service exports rose 2.4% in the quarter, which saw annual growth pickup to 10.4%. It was the strongest pace of annual growth in just over nine years.

- Import Volumes

Import volumes rose 1.3% in the September quarter, which could suggest some upward surprise in some areas of domestic demand. Consumption good imports fell 3.3% in the September quarter, partially retracing a 5.4% increase in the June quarter. The decline, taken with the contraction in retail spending over the September quarter, suggests a risk that consumer spending will be soft. That said, spending in consumer services could be relatively firmer in the quarter. On a brighter note, capital goods rose 3.5% in the quarter. Machinery & industrial equipment imports declined 2.5%, but other categories of capital spending increased.

Intermediate & other merchandise goods rose 1.7% in the September quarter. Meanwhile service imports were also relatively strong, rising 3.3%. Consumption good imports lifted a solid 6.5% in the quarter. This might suggest that the weak retail sales data of late is greatly underestimating overall household spending or it might signal stronger spending in months to come. Among other imports, capital goods and service imports were both flat.

- Terms of Trade

The terms of trade rose 4.4% in the September quarter, the biggest gain in 5½ years and the second consecutive quarterly increase. The recent lift in commodity prices is providing an income boost, a turnaround from when commodity prices had been falling considerably over the past few years. On a year ago, the terms of trade is 1.4% higher, the first annual increase since the December quarter 2011.

GDP Preview

Exports volumes have eased a touch in the quarter, after surging earlier in the year. Given imports gained in the quarter, net exports are set to detract 0.2 percentage points from GDP growth in the September quarter. It would be the second consecutive quarter that net exports would detract from GDP growth.

The 0.2 percentage point detraction is weaker than the flat contribution we had been expecting. In addition, government spending was softer than expected. As a result, we have downgraded our GDP forecast to a 0.1% contraction in the September quarter, for annual growth of 2.2% in the year.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Senior Economist

Hans Kunnen
kunnenh@bankofmelbourne.com.au
(02) 8254 8322

Senior Economist
Josephine Horton
hortonj@bankofmelbourne.com.au
(02) 8253 6696

Senior Economist
Janu Chan
chanj@bankofmelbourne.com.au
(02) 8253 0898