

Data Snapshot

Thursday, 6 October 2016

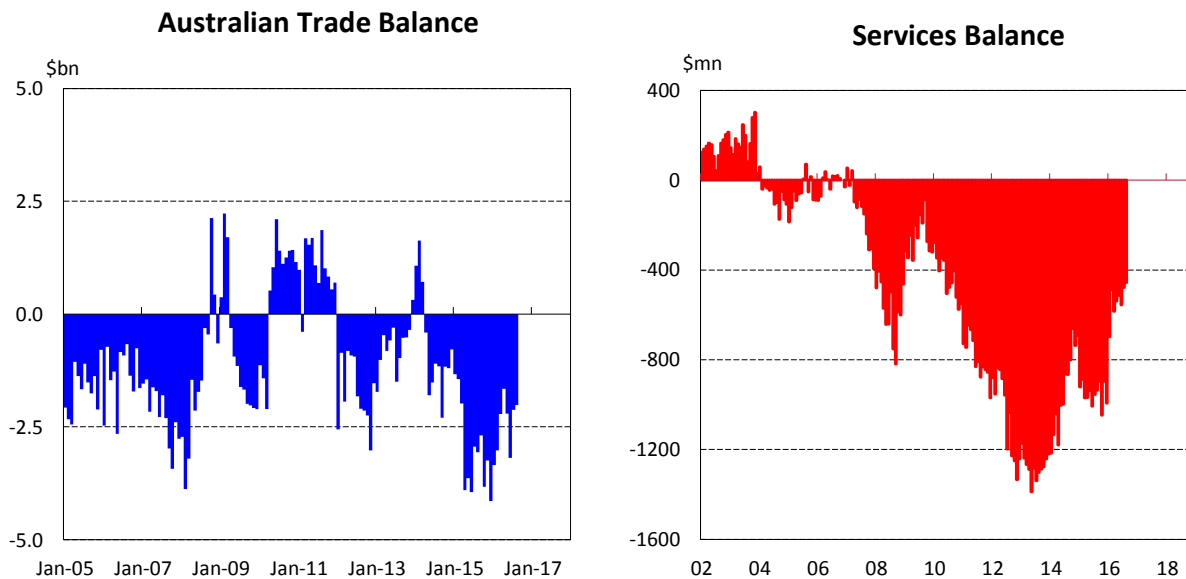


Bank of Melbourne

Trade Balance

Better Things Are Yet To Come

- Australia's trade deficit narrowed marginally from a revised \$2.0bn in August from \$2.1bn in July. The result, however, is a vast improvement on the \$3.2bn deficit in June and continues the improving trend since the end of 2015.
- The value of exports was virtually unchanged from the previous month but was up 2% on a year earlier. Imports were down 0.4% for the month and down 1.7% on a year earlier.
- Service exports have risen in ten of the past twelve months and are making a significant contribution towards economic growth. In August, they were up 1.5% to be up 13.7% over the year. The appreciation in the Australian dollar over the past year has the potential to crimp service exports although the AUD remains well below its 2013 peak.
- Import results have been unspectacular for the past two months. Imports of consumption goods were down 0.2% in August following a 5.5% decline in July. These declines may reflect the recent weakness in household consumption as noted in the RBA Governor's statement following the RBA's recent board meeting.
- Increased volumes of resource exports and steady improvement in service exports such as tourism and international education should see Australia's trade position improve – provided the AUD does not appreciate significantly.



Australia's trade deficit narrowed marginally from a revised \$2.0bn in August from \$2.1bn in July. The result however is a vast improvement on the \$3.2bn deficit in June and continues the improving trend since the end of 2015. The value of exports was virtually unchanged from the previous month but was up 2% on a year earlier. Imports were down 0.4% for the month and down 1.7% on a year earlier.

- Exports

Within resources, 'other' mineral fuels, which includes LNG (8.1%) and metal ores & minerals (6.4%) lifted exports but a 1.4% decline in coal, coke & briquettes exports held the sector back. Exports of non-monetary gold are volatile, rising 61.7% in July and then falling 21.8% in August.

According to the RBA, base metal prices fell 1.3% in AUD terms during August and that would have dampened export revenue. In the first half of August, the AUD rose from 75.22 US cents to 77.11 US cents before moving back down to 75.14. The stronger AUD in the first half of the month would have dented some export revenue. Looking ahead, we expect growth in export income from LNG following a significant increase in production capacity in recent months.

Rural export rose 1.0% in August with a 7.3% lift in wool exports partially offset by a decline in meat exports. The RBA's index of rural commodity price, in AUD terms, fell 3.5% in August and was down 4.2% over the year in part driven by the stronger AUD in recent months.

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- Imports

Import results have been unspectacular for the past two months. They were flat in July and fell 0.4% in August. Imports of consumption goods were down 0.2% in August following a 5.5% decline in July. These declines may reflect the recent weakness in household consumption noted in the RBA Governor's statement following the RBA's recent board meeting. Over the year to August imports of consumption goods are down 1.6%.

Imports of capital goods fell 1.5% after three months of solid growth. Over the year to August, imports of capital goods are down 3.4%. We expect further declines in the importation of large items

associated with the resources construction sector as their boom in activity winds down.

Implications and Outlook

Overall, today's data shows the intermittent improvement in the trade position over the past year. We expect further export gains from LNG and metal ore and a decline in imports of resource related capital goods. The stronger AUD is cause for some concern as it reduces the competitiveness of the export sector.

Stronger commodity prices have assisted the trade position since early 2015 but a return to the heady prices of several years ago is highly unlikely. Increased volumes of resource exports and steady improvement in service exports such as tourism and international education should see Australia's trade position improve – provided the AUD does not appreciate significantly.

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The Detail

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