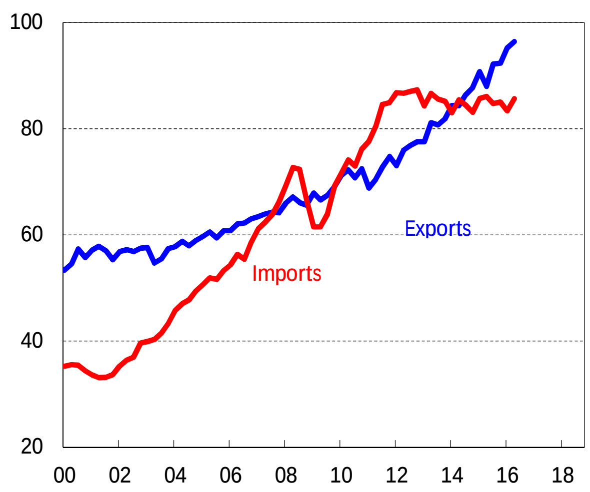
Current Account & GDP Preview

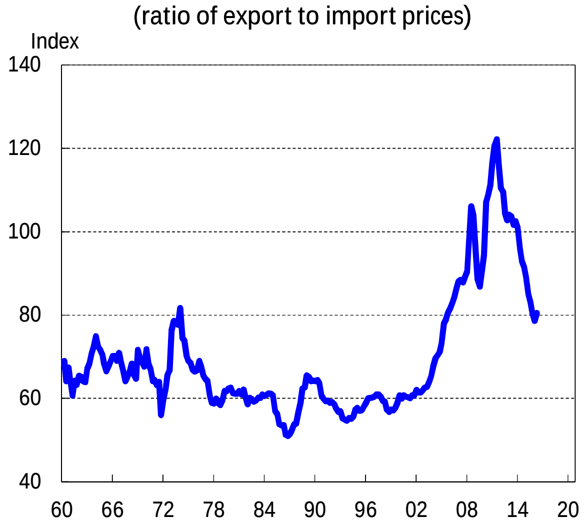
The China Effect

- The current account deficit widened slightly from $14.9bn in the March quarter to $15.5bn in the June quarter. However, the June deficit was smaller than market expectations and March's deficit was revised significantly lower from the $20.8bn reported previously.
- Export volumes remain resilient – increasing 1.4% in the June quarter despite a hefty 3.8% increase in the March quarter. The recent stimulus measures in China are likely helping to boost demand, which is also being reflected in stronger commodity prices.
- Import volumes rose 2.7% in the June quarter, which was the strongest quarterly gain in five quarters. The rebound in imports provides an encouraging sign for domestic demand, particularly within consumer spending.
- Net exports are expected to detract 0.2 percentage points from GDP growth in the June quarter, which was close to expectations. However, government spending and company profits were much stronger than expected. We have upgraded our GDP quarterly growth forecast to 0.5% and annual growth of 3.2%.

Imports and Exports
($bn, Volumes)



Terms of Trade
(ratio of export to import prices)



Current Account

The current account deficit widened slightly from $14.9bn in the March quarter to $15.5bn in the June quarter. However, the June deficit was smaller than market expectations and March's deficit was revised significantly lower from the $20.8bn reported previously.

The goods and services balance narrowed slightly from $8.6bn in the March quarter to $8.0bn in the June quarter, while the primary income deficit widened from $5.8bn to $7.2bn.

- Export Volumes

Export volumes increased 1.4% in the June quarter, coming off the back of a 3.8% increase in the previous quarter. The ongoing boost in resource production capacity is continuing to support export volumes.

Exports of key commodities, such as metal ores & minerals (0.9%), coal, coke & briquettes (2.5%) and other mineral fuels (0.5%) increased in the June quarter, although gains were much smaller than in the March quarter. Service exports was the other area of strength, lifting 0.8% in the quarter, which continues to benefit from the depreciation in the Australian dollar since 2013. Among other exports, rural goods declined 0.6% in the June quarter.

- Import Volumes

Import volumes rose 2.7% in the June quarter, which was the strongest quarterly gain in five quarters. It provides a positive sign for domestic demand, particularly among consumer spending. 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

A rebound in the terms of trade, thanks to stronger commodity prices, helped to boost incomes in the traded sector. The terms of trade lifted 2.4% in the June quarter, the first increase in 2½ years.

Implications for the Outlook

There are various positives that can be taken from today's report. Export volumes remain resilient – increasing in the June quarter despite a hefty increase in the March quarter. The recent stimulus measures in China are likely helping to boost demand, which is also being reflected in stronger commodity prices. That will play a part in supporting income growth.

The rebound in imports provides an encouraging sign for domestic demand, particularly within consumer spending.

GDP Preview

Net exports are expected to detract 0.2 percentage points from GDP growth in the June quarter, which was close to expectations. However, government spending and company profits were much stronger than expected. In addition, inventories are expected to provide a stronger contribution to growth than previously anticipated, although this might come at the expense of downward revisions to past growth.

We have upgraded our GDP quarterly growth forecast to 0.5% and annual growth of 3.2%.

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