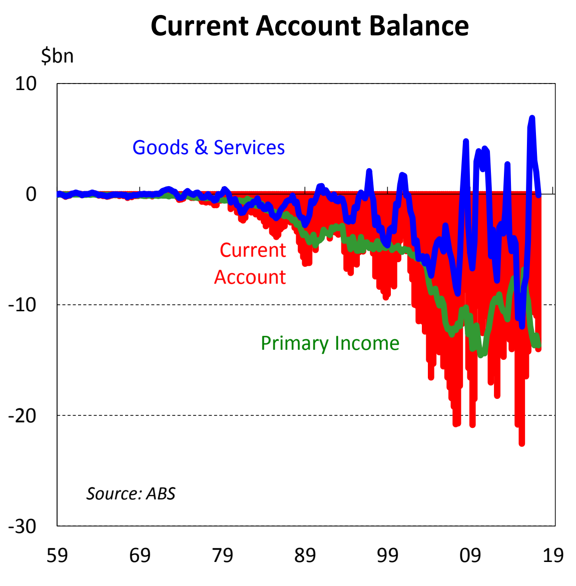
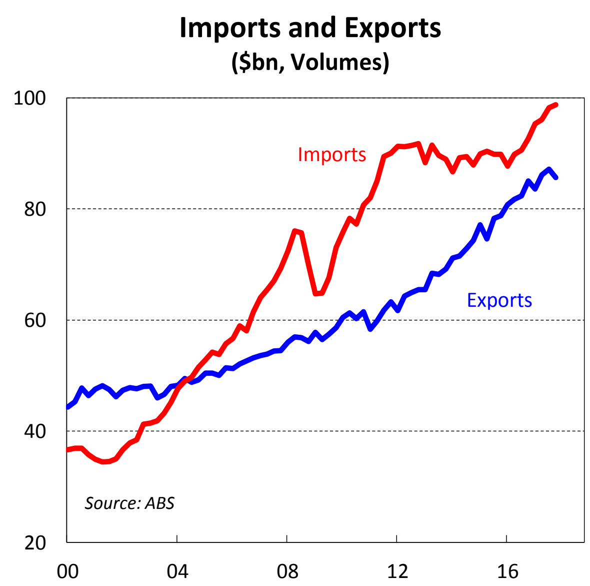
Current Account and GDP Preview

Exports Temper Growth Story

- **The current account deficit widened from a revised deficit of $11.0bn in the September quarter to $14.0bn in the December quarter, the largest deficit in over a year.**
- **The blow out in the current account deficit was mostly due to a turnaround in the goods and services balance from a surplus of $2.0bn in the September quarter to a deficit of $117bn in the December quarter.**
- **Export volumes were negatively impacted by rural good exports, which fell 9.7%, and were affected by poor weather. Coal exports were also temporarily affected, but are expecting to rebound early this year.**
- **The combination of weaker export volumes and the lift in import volumes point to a 0.5 percentage point detraction from GDP growth in the December quarter.**
- **We remain comfortable with our forecast of 0.6% GDP growth in the quarter for an annual pace of 2.6%. It represents a moderate pace of growth, not far from the long-run trend. Business investment and public spending are expected to grow modestly, and are expected to be the key drivers of growth in the coming year. They are drivers at a time when there are downside risks for consumer spending and as a downturn in dwelling investment takes hold.**





Current Account

The current account deficit widened from a revised deficit of $11.0bn in the September quarter to

$14.0bn in the December quarter, the largest deficit in over a year.

The blow out in the current account deficit was mostly due to a turnaround in the goods and services balance from a surplus of $2.0bn in the September quarter to a deficit of $117bn in the December quarter. The primary income deficit, the other component of the current account, also widened from $12.8bn previously to $13.7bn in the December quarter.

The deterioration was mostly as a result of exports taking a hit in the quarter and imports being strong of late.

Export volumes fell 1.8% in the December quarter, following a 1.2% increase in the September quarter. Export volumes were negatively impacted by rural-goods-exports, which fell 9.7%, and were hampered by poor weather. Coal exports were also temporarily affected, falling 3.9% in the December quarter. The RBA has pointed out in commentary that coal exports had been affected by maintenance and congestion at ports and industrial action and that these issues had been mostly resolved.

Import volumes rose a modest 0.5% in the December quarter, but this was the seventh consecutive quarterly increase. The steady growth in imports is an increasingly positive sign that domestic demand is improving. Consumption-goods imports rebounded 4.7% in the quarter, following a 0.7% decline in the September quarter. Capital-goods imports, meanwhile, contracted 5.8%, but followed a sizeable 6.3% gain in the previous quarter. Intermediate goods were strong, rising 4.4%.

The combination of weaker export volumes and the lift in import volumes point to a 0.5 percentage point detraction from GDP growth in the December quarter.

The other component of today's release was the terms of trade. The terms of trade was just 0.1% higher in the December quarter, and 1.0% lower over the year, mostly stabilising in recent quarters.

Government Finance Statistics

Public demand was slightly stronger in the quarter. Government consumption rose by 1.7% in the December quarter, and government investment rose 2.9%. There continues to be a solid pipeline of public infrastructure spending, which suggests strength in this area over the coming year.

GDP Preview

Imports were a little weaker than we had anticipated, but this has been offset by a downgrade to our estimates for domestic demand.

We remain comfortable with our forecast of 0.6% GDP growth in the quarter for an annual pace of 2.6%. It represents a moderate pace of growth, not far from the long-run trend rate of growth. Consensus estimates are for growth of 0.5% in the December quarter and 2.5% in the year.

Consumer spending is expected to improve in the December quarter, after very weak growth in the September quarter. Dwelling investment is expected to have contracted, as residential construction enters into a new phase of the cycle. Business investment and public spending are expected to grow modestly, and are expected to be the key drivers of growth in the coming year at a time when there are downside risks for consumer spending and as a downturn in dwelling investment takes hold.

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