Data Snapshot

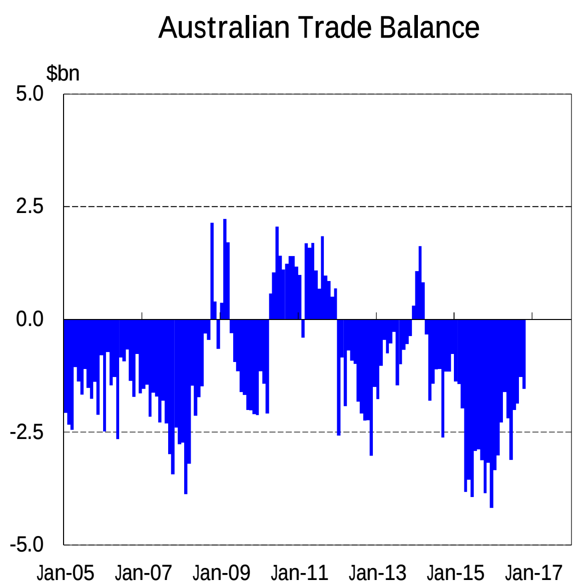
Thursday, 8 December 2016

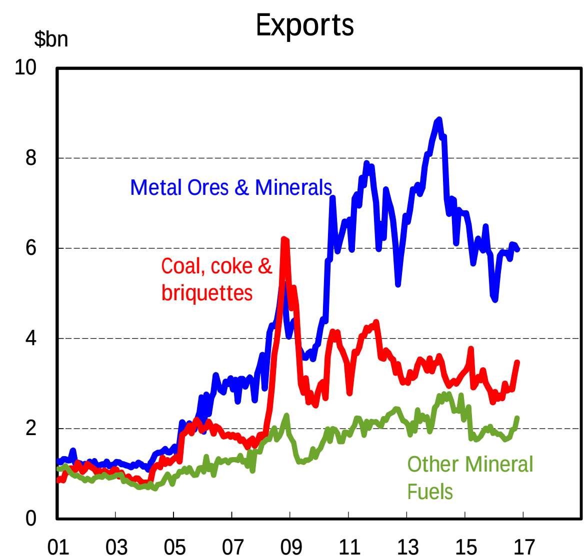
Bank of Melbourne

Trade Balance

Imports Rise Faster Than Exports

- Despite a strong lift in commodity prices, Australia's trade deficit widened in October. The deficit widened from a revised $1.27bn in September to $1.54bn in October.
- Exports rose 1.4% in October. This included a 7.5% rise in coal, coke and briquette exports and an 11.5% rise in 'other mineral fuels' which includes LNG exports. The price of coal was firm in October following its sharp rise in recent months while LNG exports continue to be ramped up. Exports of metal ores & minerals were down 1.6% while rural exports fell 4.2%.
- An unexpected surge in imports sat behind the deterioration of Australia trade deficit in October. Leading the charge was a 9.5% increase in imports of capital goods. Given that major resource projects have been or are close to completion, this surge came as a surprise. A silver lining in this figure is that, over time, the capital goods should lead to increases in output and potentially, exports.
- Yesterday's negative GDP result was in part due to activity in the trade sector. The October result, on face value, appears to be a continuation of these issues. Much will depend on the interplay between price and volumes. The best outcome for Australia would be a lift in both export prices and volumes. A growing economy should expect to see imports increase but must work hard to achieve a balance or indeed a trade surplus.





Despite a strong lift in commodity prices, Australia's trade deficit widened in October. The deficit widened from a revised $1.27bn in September to $1.54bn in October. The deterioration in Australia's trade position in October follows three consecutive months of improvement. The market, and ourselves had expected the deficit to narrow as export volumes ramped up and as commodity prices rose.

So what happened? Exports continued to rise but there was a strong rise in imports. October saw the first rise in imports four months.

Exports - Exports rose 1.4% in October. This included a 7.5% rise in coal, coke and briquette exports and an 11.5% rise in 'other mineral fuels' which includes LNG exports. The price of coal was firm in October following its sharp rise in recent months while LNG exports continue to be ramped up. Exports of metal ores & minerals were down 1.6% while rural exports fell 4.2%.

On an annual basis, exports of coal, coke and briquette are up 18.6%; 'other mineral fuel exports have risen 14.3% and exports of metal ores & minerals are up 0.3%. Rural exports have fallen 6.6% on a year earlier following very strong exports in 2015.

Service exports rose 2.0% in October. The pace of annual growth continued to be very healthy at 11.2% although this is a touch slower than the 11.7% annual growth in July. Exports of tourism related services were up 12.1% in the year to October, assisted by a currency that is some 30% lower than its peak in 2013. As the RBA points out, the lower AUD is supporting the Australian economy but recent strength in the AUD threatens to complicate Australia's future growth path.

Imports - An unexpected surge in imports sat behind the deterioration of Australia trade deficit in October. Leading the charge was a 9.5% increase in imports of capital goods. Given that major resource projects have been or are close to completion, this surge came as a surprise. A silver lining in this figure is that, over time, the capital goods should lead to increases in output and potentially, exports.

Following three months of decline, there was a 1.3% increase in imports of consumption goods. These include a 2.0% rise in textiles, clothing and footwear and a 4.1% increase in non-industrial transport equipment.

There was also a 2.1% rise in service imports. This was the eighth consecutive month that service imports have risen but in the year to October, imports of services have risen only 0.8%.

On an annual basis imports of capital goods are down 2.8% while imports of consumption goods are down 2.8%. It is the combination of softer import and growing exports that has seen the overall trade deficit improve over the year – but not in the month of October.

Implications and Outlook

Yesterday's negative GDP result was in part due to activity in the trade sector. The October result, on face value, appears to be a continuation of these issues. Much will depend on the interplay between price and volumes. The best outcome for Australia would be a lift in both export prices and volumes. A growing economy should expect to see imports increase but must work hard to achieve a balance or indeed a trade surplus.

We expect export volumes to rise, particularly in the areas of iron ore, coal, LNG, international education and tourism. Imports are also expected to rise but with fewer imports associated with large resource projects and more imports associated with household consumption and non-mining capital investment.

Hans Kunnen, Senior Economist

Ph: 02-8254-8322

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