Data Snapshot

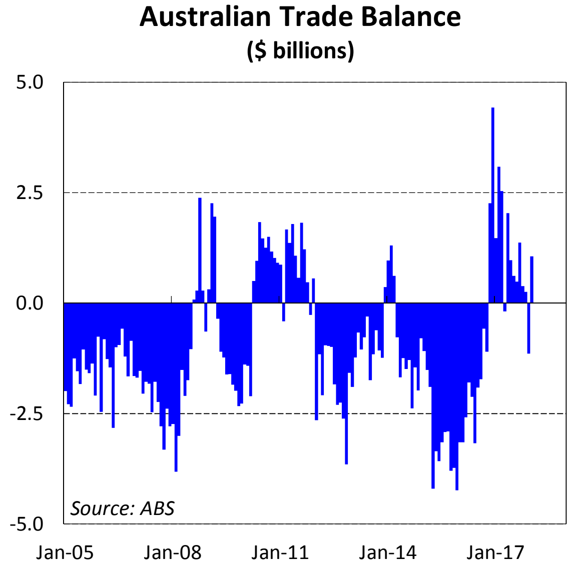
Thursday, 8 March 2018

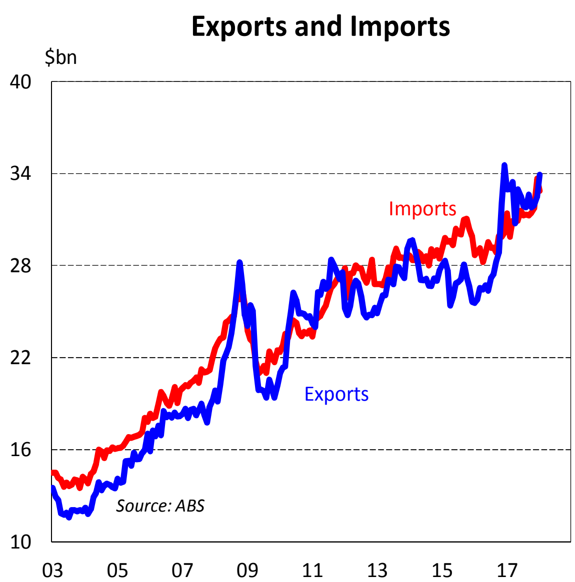
Bank of Melbourne

Trade Balance

Back in the Black

- **The trade balance swung back into surplus of $1.1 billion in January, after a $1.1bn deficit in December. The improvement suggests that the sizeable deficit in December was a one-off in a string of surpluses that extend back to May 2017.**
- **The significant turnaround was reflective of a 4.3% surge in exports in January. Additionally, imports fell 2.4% in the month, pulling back from a 6.2% increase in December.**
- **The lift in exports was mostly driven by resource commodities, and was helped by a large increase in commodity prices.**
- **Imports were weaker across all major categories, but followed strong growth in December.**
- **There continues to be a positive outlook for exports as the global economy undergoes a synchronised upswing. The lift in commodity prices over recent months will continue to be supportive. Moreover, the increased production capacity of LNG will further prop up export values over the coming year.**
- **The export rebound provides an early indication that exports should contribute more favourably to economic growth in early 2018 after detracting from growth in the December quarter 2017.**
- **Nonetheless, this upbeat picture for exports will be offset somewhat by demand for imports, reflecting a pickup in non-mining business investment and a strong pipeline of public infrastructure spending.**





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Exports

The lift in exports was mostly in resource commodities. Other mineral fuels (9.3%), metals (excluding non-monetary gold) (15.9%) and non-monetary gold (53.9%) exports rose strongly in January, and were helped by an 8.7% increase in commodity prices (based on RBA measure in USD terms). Transport & equipment exports also lifted significantly, rising 75.4%.

Rural goods however, continued to be hampered by poor weather conditions, declining 8.4% in January. It was the sixth consecutive monthly decline.

Imports

Imports were weaker across all major categories, but followed strong growth in December. Consumption good imports pulled back 6.5% in January, following a 5.0% increase in December. Taken with retailing data, it suggests that the strength in household consumption in the December quarter will not be sustained given the headwinds of high household debt and slow wage growth. Capital good imports also fell in January, dropping 1.5%, as did intermediate good imports (-0.6%). However, both followed sizeable gains in December of 6.9% and 9.3%, respectively.

The annual rate of growth in total imports stepped down from 11.8% in December to 4.7% in January, but still pointing to moderate growth in domestic demand. Elevated conditions among businesses suggest that demand for imports should stay well-supported, although the outlook for consumer spending is more uncertain.

Outlook and Implications

There continues to be a positive outlook for exports as the global economy undergoes a synchronised upswing. The lift in commodity prices over recent months will continue to be supportive. Moreover, the increased production capacity of LNG will further prop up export values over the coming year.

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Nonetheless, this upbeat picture for exports will be offset somewhat by demand for imports, reflecting a pickup in non-mining business investment and a strong pipeline of public infrastructure spending.

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