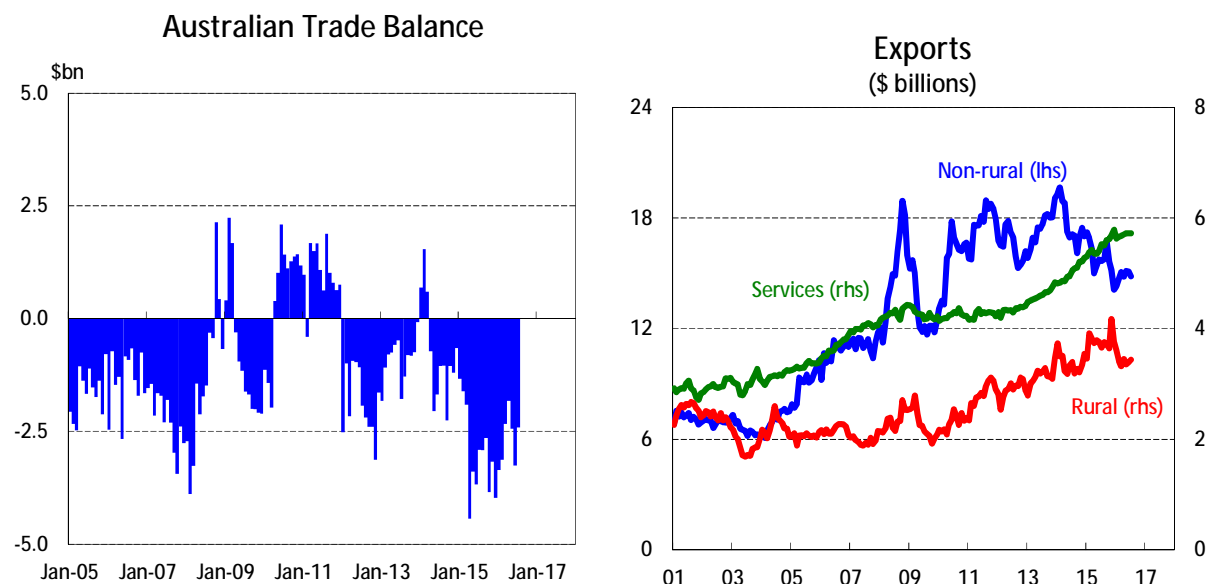


Trade Balance

Commodity Prices Drive Improvement

- Australia's trade deficit narrowed to \$2.4bn in July, after briefly jumping to \$3.3bn in June. While the deficit remains sizeable, it remains well down on the \$3bn plus monthly deficits over late 2015 and early 2016.
- Exports rose 2.8% in July as rising commodity prices continued to give export values a boost. A further increase in August will likely give values more support. In addition, increased productive capacity in iron ore, LNG and coal is helping volumes.
- Imports declined 0.4% in July, following two consecutive months of strong gains. A large drop in imports of consumer goods suggests that the chances of an uptick in household spending in coming months have been dampened.
- Overall, today's data provides a continuation of recent trends – weakness in imports largely reflecting the ongoing drag from declining mining investment and the uneven recovery in consumer spending and non-mining investment. We expect exports will continue to underpin economic growth over the coming year after a softer increase in the June quarter.



Australia's trade deficit narrowed to \$2.4bn in July, after briefly jumping to \$3.3bn in June. The improvement in July was a result of a 2.8% increase in exports and a 0.4% drop in imports. While the deficit remains sizeable, it remains well down on the \$3bn plus monthly deficits over late 2015 and

early 2016.

- Exports

Within resources, exports of coal, coke & briquettes (1.0%), other mineral fuels (2.9%) which include LNG, and non-monetary gold (61.9%) drove the increase for the month. There were however, declines in metal ores & minerals (4.7%) and metals (-11.1%).

Rising commodity prices continued to give export values a boost. Commodity prices based on the RBA measure rose 2.6% in July. A further increase in August will likely give values more support. In addition, the growth in production capacity, particularly in LNG, is starting to become evident in economic data.

Among other exports, rural goods rose 1.2% in July, and services rose 0.1%. Service exports have not grown over the past two months, while annual growth slowed to 3.3%, the slowest in over 3½ years. The appreciation in the Australian dollar over the past year may be starting to limit growth in services, although the AUD remains well below its 2013 peak.

Imports

The decline in imports followed two consecutive months of strong gains. There was a disappointing drop of 6.0% in the imports of consumption goods, which partially retraced a 7.4% increase in June. After relatively subdued growth in consumer spending in the June quarter, chances of an uptick in coming months has been dampened.

Imports of capital goods lifted 1.5%, the third consecutive monthly gain. The jump was boosted by the lumpy aircraft category (up 111%), although the gains in capital goods (not elsewhere specified) (12.7%) could suggest stronger business spending in coming months. Machinery & industrial equipment imports weakened 6.6%, which points to further weakness in capex spending.

Implications and Outlook

Overall, today's data provides a continuation of recent trends – weakness in imports largely reflecting the ongoing drag from declining mining investment and the uneven recovery in consumer spending and non-mining investment.

On the bright side, the rebound in commodity prices is continuing to have a positive impact. While we question whether prices will continue to rally further, this should support export values in August. In addition, the increase in productive capacity, particularly for iron ore, LNG and coal are boosting volumes. Exports should continue to contribute favourably to economic growth over the coming year.

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The Detail

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