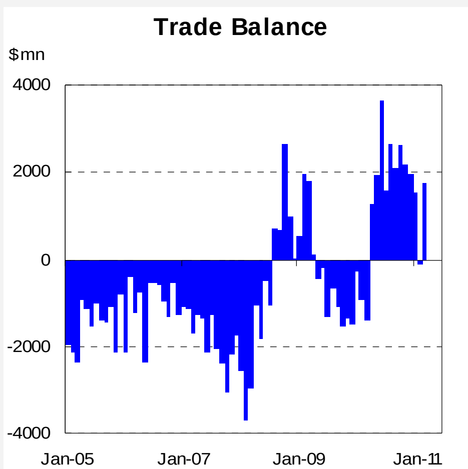
DATA SNAPSHOT

Trade Balance: Commodity price boom drives exports

Tuesday, 10 May 2011

- **The trade balance returned back to surplus of $1 740mn in March, after posting a $87mn deficit in February. The better than expected turnaround was largely owing to a 9% jump in exports, while imports rose by 1%.**
- **The surge in exports was due to some recovery in coal shipments and higher prices obtained for non-rural exports**
- **The 1% rise in imports was owing to a big jump in intermediate goods offset by declines in consumption and capital goods. The surge in intermediate imports reflects high oil prices, while cautious consumers have dampened demand for consumption imports.**
- **Over the quarter, we expect net exports to make a large detraction from Q1 GDP as the January floods hampered export volumes**



The trade balance returned back to surplus of $1 740mn in March, after posting a $87mn deficit in February (revised from a $205mn deficit). The better than expected turnaround was largely owing to a 9% jump in exports, while imports rose by 1%.

	February	March	change
Trade Balance (A$mn)	-87	1740	1827
Exports (M/M%)			
Rural	11.2	-2.3	
Non-rural	-1.9	10.8	
Services	2.4	0.8	
Total Exports	-2.6	9.2	
Imports (M/M%)			
Consumption goods	0.1	-1.3	
Capital Goods	1.5	-8.3	
Intermediate	12.1	7.5	
Total Imports	4.6	1.2	

March's surge in exports reflects some recovery in coal shipments following the disruption to production as a result of flooding in Queensland, which provides almost two-thirds of Australia's coal exports. The coal, coke and briquettes category rose by 14.1% in March, however, exports remain below levels seen before its pre-flood level. This category was worth A$3.1bn in March compared with about A$3.6-4.4bn between June-December 2010. The RBA estimates that production will continue to be hampered until well into the June quarter.

Also contributing to the export rise were big increases in metal ores and minerals and non-monetary gold, which benefited from large price gains in the month.

The small increase in imports was owing to a big jump in intermediate goods offset by declines in consumption and capital goods.

Weak consumption good imports are consistent with cautious consumers, which has been reflected in weak retail sales data. In March, retail values were down by 0.5% over the month, while volumes were flat over the quarter. (See our note Retail Trade: Wrapped up in Cotton Wool)

The 8.3% drop in capital goods reflected a 4.7% drop in machinery and equipment, which was surprising given capex surveys point to big spending in investment. However, the decline machinery and equipment imports, follows some solid increases in January and February.

Growth in intermediate good imports was strong in March and follows a 12.1% increase in February. Strength in this category has been driven by fuel and lubricants, which rose by 22.8% in March. This reflects soaring oil prices which averaged close to US$103 a barrel in March amid geopolitical tensions in the Middle East.

Today's data is also likely to underestimate the March surplus as the ABS notes that new contract prices for commodities such as iron ore and coal are yet to be fully reflected in the numbers. Given these contract prices are expected to increase, the surplus will likely be revised upwards in coming months. With the rapid rise in commodity prices we estimate the terms of trade to have increased by around 4% in 1Q. Thus much of the March increase in exports likely reflects higher prices rather than strong export volumes. Indeed, we expect floods hampering coal production over the March quarter and for net exports to make a large detraction from Q1 GDP.

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