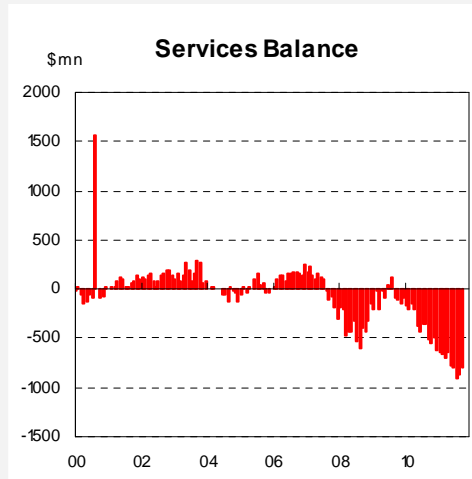
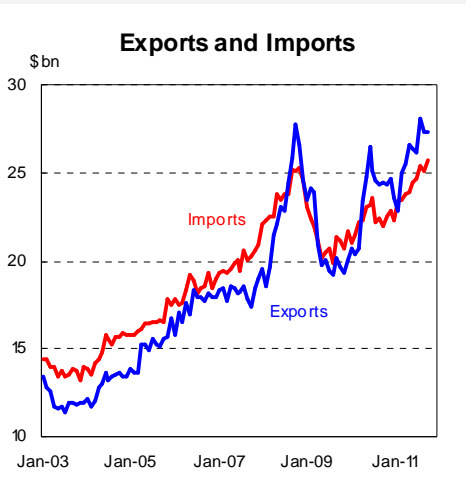


DATA SNAPSHOT

Trade Balance – Trade Feels Effects of Europe Crisis

12 Dec 2011

- The trade balance for October narrowed to \$1.6bn, from a surplus of \$2.2bn in September, a \$0.7bn deterioration in the surplus. The outcome was lower than consensus expectations for \$2.0bn, but was still a solid surplus.
- Falling commodity prices weighted on export growth on the month, while import growth remained strong. The business investment boom continues to see strong growth in capital-goods imports, underpinning imports. In October, exports fell 0.2% and imports rose by 2.4%.
- The services balance improved slightly to a deficit of \$794mn in October, from a downwardly revised deficit of \$881mn in September. The September deficit was previously reported as a record deficit of \$909mn; that honour now goes to the August services deficit (of \$903mn). The services balance has been in deficit for nearly two years and has generally been widening.
- The trade balance will likely continue to post solid surpluses in coming months as the resumption of coal production continues to improve (although this will not see a full recovery until next year) and as mining investment boosts production capacity. However, strong spending on capital imports, the high Aussie dollar and softening in commodity prices suggests the peak in the trade surplus might now be behind us.



The trade balance in October showed a \$1.6bn surplus, down from a surplus of \$2.2bn in September. The result was lower than consensus expectations for the surplus to fall to \$2.0bn, but was still a solid result on a historical comparison. Exports slipped 0.2% in October, while imports rose 2.4% for the month.

While the overall trade balance remains in surplus, this reflects the strength in the goods balance, which remains large as Australia basks in the mining boom with strong demand for commodities from Asia. The services balance, on the other hand, remained in deficit in October, improving slightly to a deficit of \$794mn. The services balance has been in deficit for two years straight, as the high level of the Australian dollar weighs on demand for Australia's services exports, including tourism and education. Meanwhile, the strong Aussie means services imports have become cheaper, resulting in a record number of Australians travelling

overseas. This trend we have seen over the past two years marginally reversed in October, with service exports gaining, while imports of services eased slightly (although from relatively high levels).

Exports

The 0.2% decline in exports followed a 2.4% decline in September, although exports had surged 7.3% in August. October's slide in exports was led by the traditionally volatile (and non-seasonally adjusted) component non-monetary gold, which fell 15.1% in October (following a larger 24.0% decline in September).

Exports of non-rural goods gained just 0.1% in October, boosted by 'other non-rural goods' (+10.9%) and other mineral fuels (+7.0%), while transport and equipment (-10.9%) and other manufacturing exports (-5.8%) fell for the month. Coal exports fell 1.7% for the month, following two consecutive months of increases.

Exports of rural goods gained in October, led by exports of wool and sheepskins (+3.8%) and meat and meat preparations (3.2%). Exports of cereal grains preparations slipped back 1.2% in October, after surging 15.0% in September. Total exports of goods fell 0.5% in October. A bright spot on the exports side was in services exports, which gained 1.9% in October.

Commodity prices were weaker in October and weighed on the export bill. The Reserve Bank commodity price index fell nearly 3% in October in special-drawing rights (SDR) terms.

Imports

Imports gained 2.4% in October, given increases in imports across the three main categories, consumption, capital and intermediate goods. Imports of consumption goods rose 0.9% in October, boosted by non-industrial transport equipment (+9.4%) and food and beverage imports (2.0%). While consumption goods not elsewhere specified (-3.8%) and imports of toys, books and leisure books (-2.2%) declined.

Capital goods rose 1.1% in October, after rising 5.8% in September. This was led by a 57.9% jump in telecommunications equipment imports, followed by ADP equipment (4.7%). Imports of civil aircraft and confidential items fell 48.1%, failing to fully retrace the 96.2% increase in September. Machinery and industrial equipment, which is closely tied to capital expenditure fell 1.0% for the second consecutive month in October.

Imports of intermediate goods and other merchandise goods rose 1.9% in October, boosted by strong imports of fuels and lubricants (10.7%). This likely reflects a strong (13.7%) increase in oil prices in October.

Imports of services slipped 0.2% in October, following a 1.2% decline in September. In October the Australian dollar lifted almost 10 US cents for the month, from below parity, to above US\$1.07 at month end.

Outlook

It appears the trade surplus may have reached a peak as the balance on goods continued to decline for the second consecutive month in October, as exports fell for the second consecutive month. This is likely to continue to deteriorate further as demand from China falters on Europe's woes. Spending on capital imports continued to increase, reflecting the impact of the mining boom on capital expenditure, while imports of consumption and intermediate goods both also increased in October, owing in part to the high level of the Australian dollar. While the trade surplus is likely to narrow further as demand from Asia eases, the resumption of coal production from the flooding earlier in the year and increased production capacity from mining investment are likely to prove supportive.

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