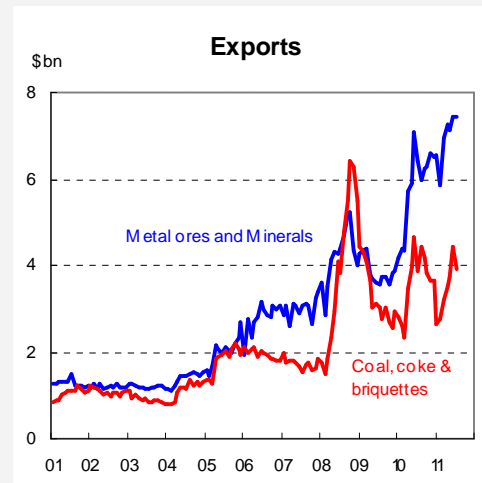
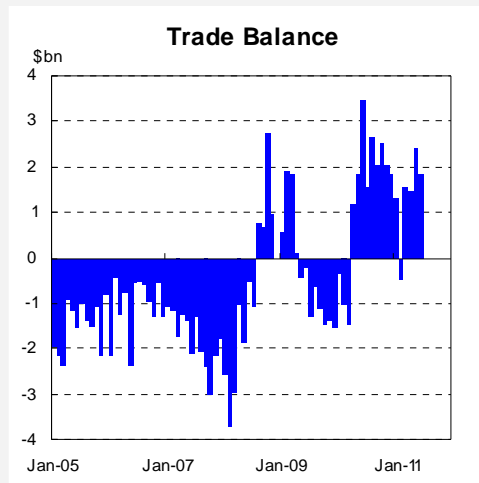


# DATA SNAPSHOT

## Trade Balance: Waiting for the Coal Rebound

Monday, 12 September 2011

- The trade surplus was largely unchanged at \$1.8bn in July as a 0.9% decline in exports in July was met with a 0.9% decline in imports.
- Although the surplus remains the second highest in eight months, the delayed recovery from the floods earlier in the year is becoming apparent in the data. Coal, coke and briquettes exports plunged by 12.1%, partly offsetting an 18% jump in June.
- Consumption imports rebounded 3.2% in July, although this largely reflects a recovery in car imports after supply disruptions from Japan earlier in the year; non-industrial transport equipment jumped 18.1%.
- Capital goods imports rose a solid 3.0%, and suggests that business investment remained buoyant throughout July. Machinery and industrial equipment imports, which is tied closely with capital expenditure, rose 7.4% in July.
- Although trade data continues to post healthy surpluses, the recovery in coal exports from the floods and cyclones has been slow. We continue to expect the trade balance to improve over the rest of this year as coal imports rebound.



The trade surplus was largely unchanged at \$1.8bn in July as a 0.9% decline in exports in July was met with a 0.9% decline in imports. There was also a downward revision for June of \$0.3bn from \$2.1bn reported previously. Although the surplus remains the second highest in eight months, the delayed recovery from the floods earlier in the year is becoming apparent in the data.

A recent trend over the past year and a half has been deterioration in the services balance due to the high Australian dollar. The balance on services improved by \$114mn, after posting a \$833mn deficit in June, the largest since the data became available in 1971. Although service exports declined 1.4%, this was more than offset by a 3.4% decline in service imports.

### Exports

The breakdown showed non-rural exports declined 3.9%, driven by large falls in coal, coke and briquettes (-12.1%) and other mineral fuels. (18.5%). The 12.1% plunge in coal, coke and briquettes partly offset an 18.0% jump in June. We have stated in previous Data Snapshots that much of the recent recovery in coal exports is likely in part due to higher prices. As indicated in

the Balance of Payments data for Q2, volumes in the coal, coke and briquettes category rose a meagre 0.3%, despite values surging by 35.9%. We continue to expect a recovery in coal exports volumes as production continues to slowly return to pre-flood levels, although a full recovery in coal production is not expected until next year.

Increases were seen in metals excluding non-monetary gold (18.0%), the volatile non-monetary gold category (82.1%), metal ores and minerals (0.2%) and machinery (0.1%).

Rural goods exports fell 1.4% in July, but are still 10.7% higher over the year, reflecting higher than average rainfall boosting crop production. Meat (-0.8%), cereal grains (-3.6%), wool (-3.4%) and other rural exports (0.2%) all declined in the month.

Service exports declined 1.4%, and are down 4.7% over the year to July. On an annual basis, service exports have been in decline for nine consecutive months.

	June	July	change
Trade Balance (A\$mn)	1817	1826	9
Exports (M/M%)			
Rural	2.6	-1.4	
Non-rural	4.2	-3.9	
Services	-0.1	-1.4	
Total Exports	-0.3	-0.9	
Imports (M/M%)			
Consumption goods	-0.6	3.2	
Capital Goods	4.9	3.0	
Intermediate	3.5	-5.5	
Services	0.0	-3.4	
Total Imports	2.1	-0.9	

#### Imports

The fall in imports was largely driven by falls in intermediate goods (-5.5%), offset by increases in Capital goods (3.0%) and consumption goods (3.2%)

Capital goods imports rose a solid 3.0%, which suggests that business investment remained buoyant throughout July. Machinery and industrial equipment imports, which is tied closely with capital expenditure rose 7.4% in July. Over the year to July, they rose 12.9%, the strongest annual growth in 14 months.

Consumption imports rebounded 3.2% in July, although this largely reflects a recovery in car imports after supply disruptions from Japan earlier in the year; non-industrial transport equipment jumped 18.1%. Some discretionary items saw large declines, reflecting a cautious consumer and consistent with weak retail sales numbers. Household electrical imports dropped 13.2% and textiles, clothing and footwear fell 9.2%. On the other hand, consumption goods n.e.s. (not elsewhere specified) rose 3.3%, and toys, books and leisure goods rose 0.9%. Food & beverage imports were flat.

The drop in intermediate goods was driven by a 13.4% fall in fuels and lubricants, likely reflecting softening oil prices in recent months.

#### Outlook

Although trade data continues to post healthy surpluses, the recovery in coal exports after floods and cyclones has been slow. We continue to expect that the trade surplus to improve over the rest of this year. The resumption of coal production will continue to boost exports, even though a full recovery is not expected until next year. Meanwhile, soft consumer sentiment is likely to weigh on consumption imports. Offsetting these factors will be continued strong spending in capital imports and the high Australian dollar weighing on service exports.

Janu Chan, Economist  
Ph: (02) 9320-5892

## Contact Listing

---

### Economics & Strategy:

Chief Economist	Besa Deda	<a href="mailto:dedab@stgeorge.com.au">dedab@stgeorge.com.au</a>	(02) 9320 5854
Senior Economist	Josephine Heffernan	<a href="mailto:heffernanj@stgeorge.com.au">heffernanj@stgeorge.com.au</a>	(02) 9320 5751
Economist	Janu Chan	<a href="mailto:chanj@stgeorge.com.au">chanj@stgeorge.com.au</a>	(02) 9320 5892
State Manager SA	Mark Goldsmith	<a href="mailto:goldsmithm@banksa.com.au">goldsmithm@banksa.com.au</a>	(08) 8424 5597

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

\*\*\*\*\*  
Any unauthorized use or dissemination is prohibited.  
Neither BankSA Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714,  
nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.  
\*\*\*\*\*