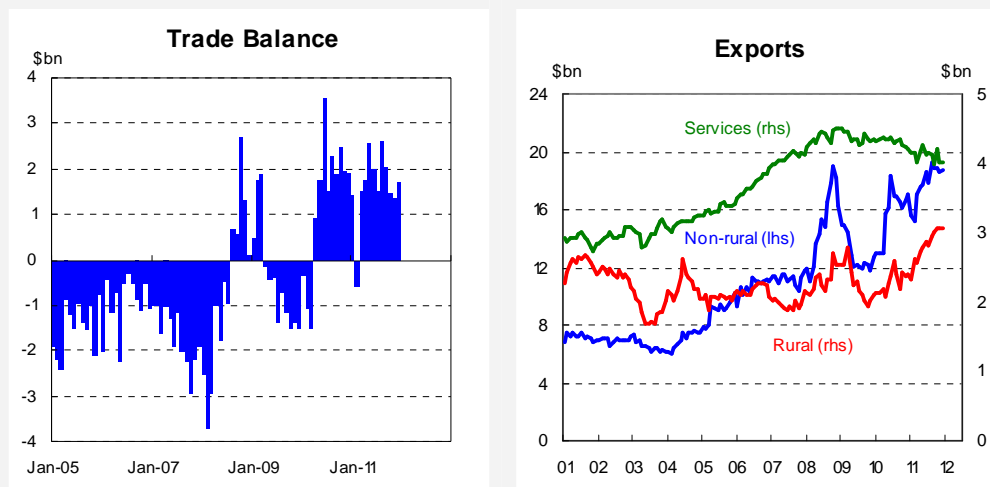


# DATA SNAPSHOT

## Trade Balance – Exports Show Resilience

Thursday, 2 February 2012

- The trade surplus improved by \$366mn in December to \$1.7bn, the strongest surplus in three months. It is a healthy-sized surplus, although it is well down from the 2011 peak of \$2.6bn.
- The 2.3% rise in exports was despite a drop in commodity prices in December, implying that there was a healthy increase in export volumes. Meanwhile, imports grew by 1.0%.
- Driving the bounce in exports was an 8.4% increase in coal, coke & briquettes exports suggesting a further recovery from the floods early last year.
- Service exports declined 0.6%, and continue to be weighed down by the high Australian dollar. The services deficit is the largest since the data goes back to the early 70s.
- Exports will continue to be supported by the resumption of coal production from the flooding early last year and production capacity increases from mining investment. However, commodity prices have continued to soften which will weigh on export receipts. Further, strong investment spending will buoy imports for capital goods and the strong Australian dollar will likely continue to weigh on service exports. We expect the trade balance on average to narrow as we progress through this year.



The trade surplus improved by \$366mn in December to \$1.7bn, the strongest surplus in three months. Imports rose by 1.0%, however this was more than offset by a 2.3% rise in exports. December's trade balance was a healthy-sized surplus, although it is well down from the 2011 peak of \$2.6bn. Compared with historically, the average monthly trade balance is around a \$690mn deficit over the past ten years.

The improvement in December reflected a rise in the goods balance, which has continued to post strong surpluses. Meanwhile, the balance on traded services, which has remained in deficit for nearly three years deteriorated further to \$1.1bn. It is the largest services deficit since the data goes back to the early 70s.

## Exports

The 2.3% rise in exports was despite a 2.6% drop in the RBA commodity price index. This suggests there was a healthy increase in export volumes in December. Non-rural goods exports rose 0.9%, while rural goods exports increased by 0.4%.

Driving the bounce in exports was an 8.4% increase in coal, coke & briquettes exports suggesting a further recovery from the floods early last year. Non-monetary gold surged 31.1%. Although a much smaller component, exports of transport & equipment surged 15.7% in December, and has increased 29.6% over the past two months. Meanwhile, exports of metals excluding non-monetary gold (-12.8%) and other non-rural (-7.6%) declined.

Among rural exports, wool & sheepskins jumped 8.3%, while meat & meat preparations rose 2.0%. Offsetting these increases was a 3.4% decline in cereal grains & cereal preparations and a 0.8% decline in other rural.

Service exports declined 0.6%, and continue to be weighed down by the high Australian dollar. The Australian dollar rose by 0.9% in trade weighted terms (average) in December. Australia's largest service exports include tourism and education, and will likely continue to face difficult times. The Australian dollar (in trade-weighted terms) has risen 3.0% so far this year.

## Goods Imports

Imports rose by 1.0% in December, driven by gains in consumption and intermediate goods imports, while capital good imports declined.

Consumption imports fell 2.8%, led by a 12.7% jump in non-industrial transport equipment. There were some improvements in areas that are closely connected to retail spending, including household electrical imports (6.8%) and textiles, clothing & footwear imports (1.5%). This suggests some upside to retail spending in December. However, food & beverage imports fell 2.4% and consumption goods not elsewhere specified fell 1.2%.

Capital goods imports fell 1.9%, but reflected a 13.5% decline in imports of the volatile civil aircraft and confidential items category. Machinery & industrial equipment rose 3.4% in December and is 31.9% higher in the year to December. The annual increase was the strongest in more than three years and highlights the current strength of business investment.

Imports of intermediate goods rose 3.8%, driven by a 21.9% jump in fuels & lubricants. The bounce likely reflects stronger oil prices with WTI oil prices, on average, rising 1.4% in December following a 12.5% jump in November.

## Outlook

The improvement in the trade surplus in December likely reflects higher volumes, as the coal production resumes from the flooding earlier in the year and production capacity increases from mining investment. However, commodity prices have continued to soften which will weigh on export receipts. In addition, intentions for strong investment spending will buoy imports for capital goods and the strong Australian dollar will likely continue to weigh on service exports. We expect the overall trend in the trade balance to narrow as we progress through this year.

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