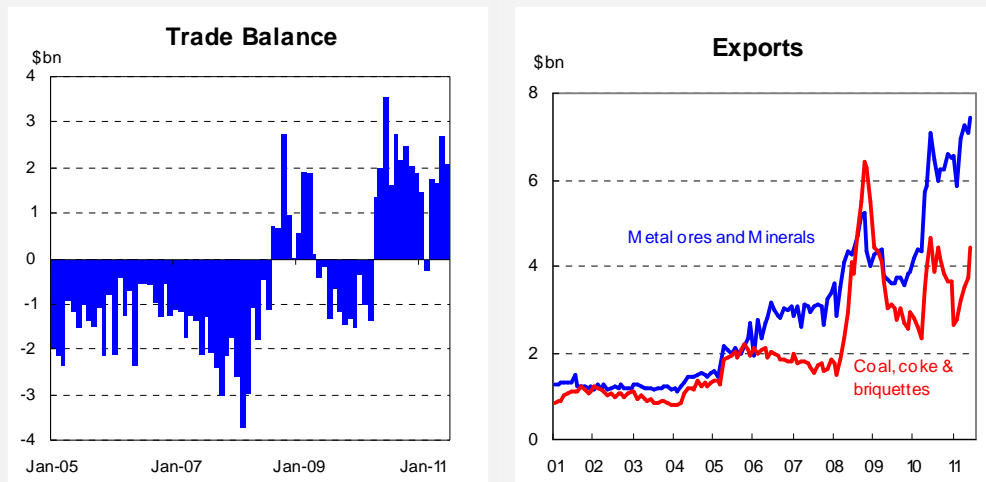


# DATA SNAPSHOT

## Trade Balance: Still Looking Good

Wednesday, 3 August 2011

- The trade surplus fell by \$0.6bn to \$2.1bn in June. However, the outcome was still a positive one; it was the second highest surplus in eight months.
- Exports were down 0.1% despite a continued recovery in coal and iron ore exports from the floods. Coal, coke and briquettes exports surged 18%. Rural exports continue to perform well after the floods, rising by 3.1%, as higher than average rainfall boost crops.
- Imports rose by 2.6%, driven by imports of capital goods and intermediate goods. Consumption imports were weak, reflecting weak consumer demand.
- Taken together with strong surpluses posted in April and May, we expect to see a significant improvement in the trade component of the current account balance after deteriorating in Q1. The ABS reports a \$6.2bn surplus for the June quarter in the Balance of Payments measure, an increase of \$2.9bn from the March quarter.



The trade surplus fell by \$0.6bn to \$2.1bn in June as a 2.6% rise in imports more than offset 0.1% decline in exports. However, the outcome was still a positive one; it was the second highest surplus in eight months. Further, as flagged previously by the ABS, the surplus for May was revised upwards of around \$0.4bn, owing to higher volumes and prices for iron ore and higher prices for coking coal.

### Exports

The 0.1% decline in exports was despite a continued recovery in coal and iron ore exports from the floods. Coal exports surged 18% in June, indicating that the resumption of coal production is currently underway. Further, the ABS notes that there were strong increases in volumes for both thermal and coking coal. That being said, a full recovery in coal production is not expected until next year.

Total non-rural goods exports rose by 4.3%, which included a 4.5% increase in metal ores and minerals rose by 4.5%. This was driven by strong increases in copper and ores and concentrates of base metals. These gains were stemmed by significant declines in metals (-12.8%), transport and equipment (6.5%) and the volatile non-monetary gold (-55.2%).

Rural exports continue to perform well after the floods rising by 3.1% in June driven by a 6.1%

jump in cereal grains and preparations. Higher than average rainfall has boosted crop production significantly.

Service exports have been quite weak, likely hurt by the rising Aussie dollar. They rose by a subdued 0.1%. On an annual basis, service exports fell by 2.7%, and have been in decline for eight consecutive months.

#### Imports

Import growth was driven more by business spending while consumption imports weakened. Capital goods increased 5.2% increase in capital goods and a 3.6% rise in intermediate goods.

The strength in capital goods was owing to a surge in the capital goods n.e.s. category. Machinery and industrial equipment imports, which is tied closely with capital expenditure fell 0.6% in the month, but are 6.8% higher over the quarter to June. This continues to suggest that business investment remained solid over Q2.

Consumption imports were soft falling by 0.6%. This reflects the increasingly cautious consumer and consistent with weak retail sales numbers. Non-industrial transport equipment imports rose a solid 5.0% following a 22.9% increase in May reflecting the recovery from disruptions in car imports after the Japanese tsunami and earthquake on 11 March.

The increase in intermediate goods was driven by a 10.9% jump in fuels and lubricants despite oil prices falling by 5% over June.

Service imports rose by 0.2% but grew by 7.9% over the quarter to June. Service imports are likely to have been boosted by the strong Aussie dollar.

	May	June	change
Trade Balance (A\$m)	2699	2052	-647
<b>Exports (M/M%)</b>			
Rural	3.2	3.1	
Non-rural	1.4	4.3	
Services	1.1	0.1	
Total Exports	3.6	-0.1	
<b>Imports (M/M%)</b>			
Consumption goods	3.4	-0.6	
Capital Goods	-10.2	7.3	
Intermediate	1.3	3.6	
Services	1.6	0.2	
Total Imports	-0.5	2.6	

#### Outlook

Further improvements in the trade balance will be likely 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. Furthermore, higher prices are also driving up values for coal. Weak consumption is likely to weigh on import growth, although this will be offset by strong business investment.

Taken together with strong surpluses posted in April and May, we expect to see a significant improvement in the trade component of the current account balance after deteriorating in Q1. The ABS reports a \$6.2bn surplus for the June quarter in the Balance of Payments measure, an increase of \$2.9bn from the March quarter.

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