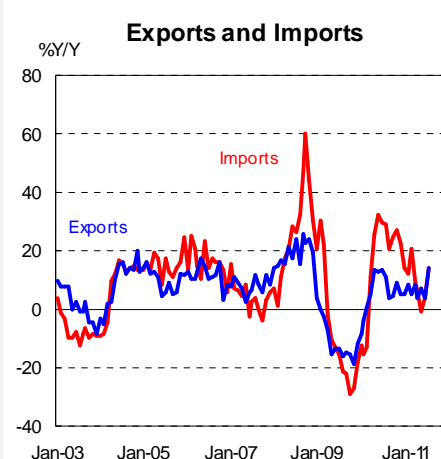
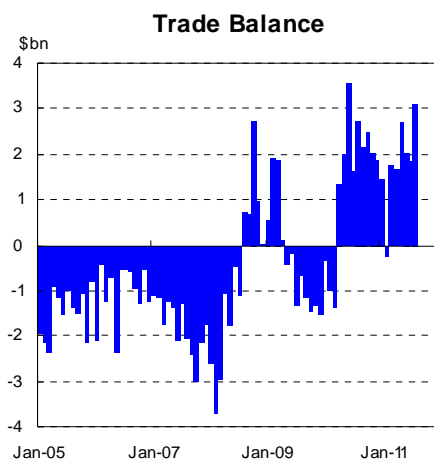


DATA SNAPSHOT

Trade Balance: Exports Bonanza

Tuesday, 4 October 2011

- The trade surplus expanded by \$1.3bn to \$3.1bn in August, the largest in 14 months. Behind the improvement was an 8.0% surge in exports, which more than offset a solid 3.3% rise in imports. The fall in the A\$ helped boost AUD export values.
- The coal, coke and briquettes category jumped 13.7% in August. Recent volatility in this category over the past few months suggests caution in concluding that a recovery in volumes is well underway after the floods and cyclones earlier this year.
- Consumption imports were surprisingly strong, despite consumer sentiment weakening in August. Further, the increase was led by categories closely linked to retailing. Machinery and industrial equipment imports also remain strong suggesting growth in capital expenditure remains solid.
- The services balance continues to deteriorate amid the high Australian dollar, posting a \$856mn deficit, the largest since the data became available in 1971. The services balance has been in deficit for nearly two years and has generally been widening.
- We continue to expect that the trade surplus to stay wide as the resumption of coal production slowly improve, even though a full recovery is not expected until next year. Offsetting these factors will be continued strong spending in capital imports and the high Australian dollar weighing on service exports.



The trade balance for August posted a \$3.1bn surplus, the largest in 14 months. The surplus was a \$1.3bn improvement on a \$1.8bn surplus posted in July, and beat our expectations for a \$2.1bn rise (consensus \$2.0bn). Behind the improvement was an 8.0% surge in exports, which more than offset a solid 3.3% rise in imports.

Despite the improvement in the overall trade balance, this is reflected in the balance on goods, which posted a \$4.0bn surplus in August the largest since the data became available in 1971. Meanwhile, the services balance continues to deteriorate, posting a \$856mn deficit, the largest since the data became available in 1971. The services balance has been in deficit for nearly two years and has generally been widening. The high Australian dollar is dampening service exports, which include sectors such as tourism and education. Meanwhile, the strong Aussie is attracting relatively cheaper service imports.

Exports

The breakdown showed non-rural exports jumped 9.6%, largely driven by solid increases in coal, coke and briquettes (13.7%), other mineral fuels (23.7%) and metal ores and minerals (6.5%). The jump in coke, coal and briquettes more than offset a 13.0% decline in July. Recent volatility in the category over the past few months suggests caution in concluding that a recovery in volumes is well underway. We however 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 also seen in the volatile non-monetary gold category (29.7%), machinery (2.8%) and other non-rural (6.1%) while metals (exc. non-monetary gold) (-2.1%), transport and equipment (-4.0%) fell.

Rural goods exports also gained in August rising 5.9%. The increase was led by a 35.2% jump in wool & sheepskins exports, but meat & meat preparations (4.2%) and other rural (5.3%) also posted strong rises. Cereal grains and cereal preparations fell 2.2%, but this category is still up 37.4% over the year to August, reflecting higher than average rainfall boosting crop production.

The solid outcome for exports partly reflects an increase in Australian dollar receipts for commodity exports as the Aussie dollar fell 2.5%. As most of Australia's commodity exports are priced in US\$, a weaker Aussie dollar boosts the value of Australian dollar exports. Meanwhile, RBA commodity prices (SDR terms) rose 0.4% in August.

Imports

Import growth was also solid led by increases in consumption goods (3.1%), intermediate goods (7.0%), offset by a decline in capital goods (-2.5%).

Consumption imports rose 3.1% in August, and follows a 3.6% rise in July. The strength is surprising given the deterioration in consumer sentiment in August. Further, the increase in consumption imports was led by categories closely linked to retailing. Food and beverage imports rose 8.3%, household electrical jumped 32.5%, textiles clothing & footwear rose 13.8% and toys, books & leisure goods rose 4.0%.

Capital goods imports fell 2.5%, led by a 15.5% decline in the volatile civil aircraft category. However, machinery and industrial equipment imports, which is tied closely with capital expenditure rose 3.3% in August, suggesting growth in capital expenditure remains solid. Over the year to August, they rose 25.7%, the strongest annual growth in more than 2½ years.

The rise in intermediate goods was driven by an 11.1% increase in fuels and lubricants, despite oil prices falling in August.

Outlook

It is probably too early to conclude from today's data that coal export volumes are well on the way to recovery. We continue to expect the trade surplus to stay very wide as the resumption of coal production slowly improve, even though a full recovery is not expected until next year. Offsetting these factors will be continued strong spending in capital imports and the high Australian dollar weighing on service exports.

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