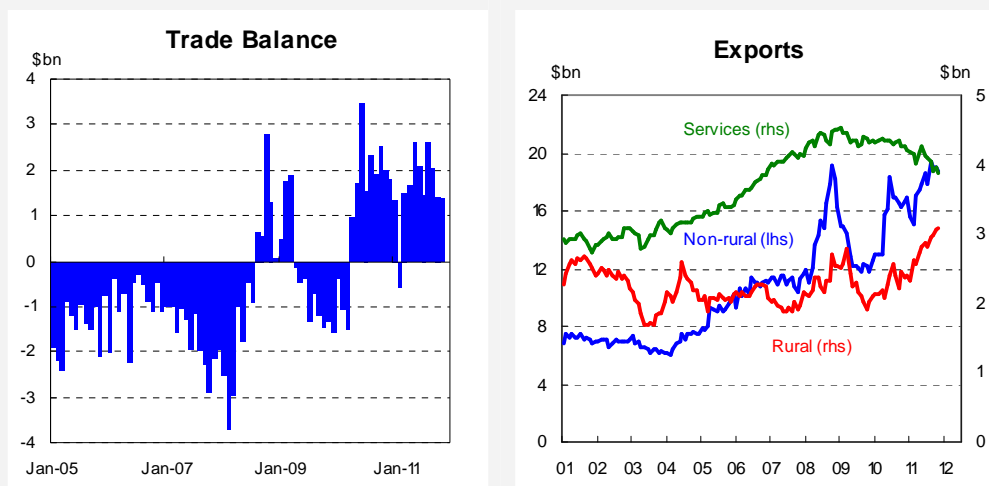


DATA SNAPSHOT

Trade Balance – Surplus Slide

Thursday, 5 January 2012

- The trade surplus narrowed for the third consecutive month in November, sliding \$38mn to \$1.38bn, the lowest trade balance in nine months.
- The balance on traded goods improved slightly in November, but this was offset by a deterioration in the services deficit, which rose by \$134mn to \$1.17bn, the largest since the series goes back to 1971. Service exports continue to be hit by the strong Australian dollar, and were the lowest in November in five years.
- The overall balance on goods and services, however is still a healthy surplus compared with historically, but it appears that the peak of the trade surplus is now behind us.
- The trade surplus could narrow further. Softening commodity prices will weigh on export receipts and downside risks to global growth suggest that commodity prices could weaken further. 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. However, the resumption of coal production from the flooding earlier in the year and increased production capacity from mining investment are supportive factors for export values.



The trade surplus narrowed for the third consecutive month in November, sliding \$38mn to \$1.38bn, the lowest trade balance in nine months. While the balance on traded goods improved slightly in November, this was offset by a deterioration in the services deficit, which rose by \$134mn to \$1.17bn in November, the largest since the series goes back to 1971.

Weakening commodity prices have been a factor in the declining export receipts over the past few months, while import growth has been very strong led by capital goods as the business upswing deepens.

The overall balance on goods and services, however is still a healthy surplus compared with historically – the average monthly trade balance is around a \$690mn deficit over the past ten years. However, it appears that the peak of the trade surplus is now behind us.

Service Exports and Imports

The services balance has been in deficit for just over two years straight, as the high level of the Australian dollar weighs on demand for Australia's services exports, including tourism and education. Service exports fell 2.3% in November to \$3.9bn, the lowest monthly value in five years. Meanwhile, the strong Aussie means services imports have become cheaper, resulting in a record number of Australians travelling overseas. Service imports rose 0.8% in November.

The Australian dollar weakened 0.6% in November, but was still 9.7% higher over the year to November.

Goods Exports

Exports rose by 0.2% in November and were generally mixed across sectors.

Exports of non-rural goods fell by 1.3%, led by a 4.4% drop in metal ores and minerals and a 4.1% fall in other non-rural goods. This was partly offset by rises in the volatile non-monetary gold (32.4%), metals excluding non-monetary gold (10.4%) and transport and equipment (9.9%).

Exports of rural goods rose by 1.0% led by a 15.6% surge in cereal grains & cereal preparations as higher than average rainfall continues to boost crop production. This was offset by declines in wool & sheepskins (-13.8%), meat & meat preparations (-3.3%) and other rural exports (-2.1%).

Goods Imports

Imports rose by 0.4% in November with an increase in capital goods imports, while consumption and intermediate goods imports declined.

Consumption imports fell 0.3%, with large declines in some areas of discretionary spending. Household electrical (-4.1%) and textiles, clothing & footwear (-2.6%) imports declined in November and have been in decline for three consecutive months. Non-industrial transport equipment fell 9.7% more than offsetting a 8.6% rise in October. Food & beverage (2.6%), consumption goods not elsewhere specified (6.8%) and toys, books & leisure goods (2.8%) imports however all rose.

Capital good imports rose by 5.7%, but this was led by the volatile civil aircraft & confidential items which jumped 167.4%. Machinery & industrial equipment which is the category more closely linked to capital expenditure rose by 0.6%, following two consecutive months of decline, but is still 24.3% higher on a year ago.

Imports of intermediate goods and other merchandise goods slipped 0.2% led by a decline in fuels & lubricants (-3.4%) and other parts for capital goods (-4.3%).

Outlook

It appears that the peak of the trade surplus is now behind us and could narrow further. Commodity prices have softened, which will weigh on export receipts. Downside risks to global growth as a result of problems in Europe suggest that they could weaken further. 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. However, the resumption of coal production from the flooding earlier in the year and increased production capacity from mining investment are supportive factors for export values.

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