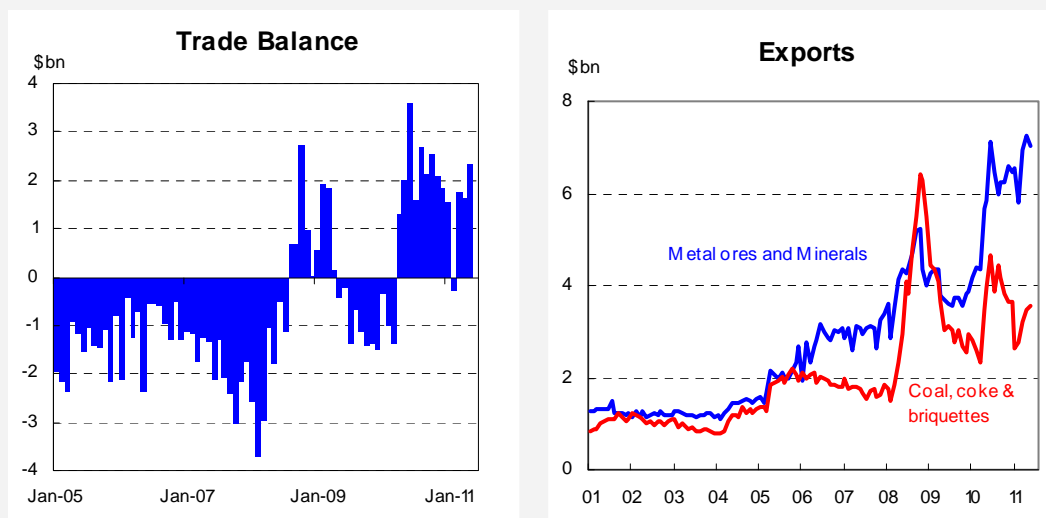


DATA SNAPSHOT

Trade Balance: A Bright Spot

Tuesday, 5 July 2011

- Today's data provides a bright spot after a run of weak domestic data - the trade balance posted a \$2.3bn surplus, the largest surplus in seven months. This was a \$0.7bn improvement on the surplus in April.
- Exports rose by 3.2% in May. Coal exports continue to recover with exports in the coal, coke and briquettes category rising by 2.7%. However, part of May's increase is likely owing to higher prices. A full recovery in coal production is taking longer than initially expected; coal pits in Queensland are still experiencing flooding since early this year.
- Imports rose by just 0.4%. Although capital goods fell 7.7%, machinery and industrial equipment rose 2.1% rise in May and continues to point to solid business investment over Q2.
- We expect that exports will move higher as coal production slowly improves and increased business investment boosts capacity. With strong surpluses posted in April and May, we are likely to see a strong improvement in the Q2 current account balance after deteriorating significantly in Q1.



The trade surplus improved by \$0.7bn to \$2.3bn in May, the largest surplus in seven months. The better than expected result was owing to a rise in exports of 3.2% while imports rose by just 0.4%. Coal exports continue to recover following the disruptions to production by the floods and cyclone Yasi in Queensland, although some of the increase is due to higher prices for coking coal. There were some slight upward revisions to the surpluses for April and May as flagged by the ABS previously, owing to updated information for iron ore and coal exports.

Exports

Coal exports continue to recover with exports in the coal, coke and briquettes category rising by 2.7% in May. This follows an increase of 25% over the 2 months to April. However, part of May's increase is likely owing to higher prices. A full recovery in coal production is taking longer than initially expected, with coal pits in Queensland still experiencing flooding since early this year. The recovery in coal production could be further disrupted with strike action at BMA (BHP Billiton and Mitsubishi Corp) coal mines, which have a production capacity of more than 58 million tonnes per year and account for about a fifth of global trade.

Metal ores and minerals declined by 2.8% in May despite reports that iron ore exports have fully recovered. This could likely reflect large falls in prices of base metals – the RBA Base Metals Index fell 5.5% in May.

Note that the ABS has reported that the quantity and price information are being updated progressively, in particular for iron ore and coal. It notes that upward revisions to prices for hard coking coal of 7% in April and 9% in May, which will be incorporated into data in the next release. Subsequently, we should expect upward revisions to coal export values for April and May.

Rural exports are also recovering well after the floods rising by a solid 6.4% in May, and follow a 5.7% rise in April. May's increase was driven by a strong gain of 16.3% in the "other rural" category, the biggest monthly rise in 21 years.

Other exports to report significant rises include other mineral fuels (8.7%), transport & equipment (6.9%) and non-monetary gold (49.4%).

Imports

Much of the softness in imports was largely owing to a 7.7% decline in capital goods imports, which included a 42% drop in the very volatile civil aircraft and confidential items category. However, machinery and industrial equipment had a 2.1% rise in May and follows a solid 5.0% increase in April. This continues to point to solid business investment over Q2.

Consumption imports rose by 4.0% driven by a 22.9% jump in non-industrial transport equipment. This reflects a rebound in car imports after the Japanese tsunami and earthquake on 11 March disrupted imports from Japan. Imports from Japan have jumped 40% in May after declining 48% between March and April. However, some categories more closely linked with retail spending weakened. Household electrical and toys, books and leisure goods fell 1.5% and 4.6% respectively, reflecting caution in retail spending.

Imports in intermediate goods rose by 1.8% in May as a 4.4% drop in fuels were more than offset by strong increases in parts for transport equipment (7.2%), other parts for capital goods (4.6%) and processed industrial supplies (5.7%).

	April	May	change
Trade Balance (A\$mn)	1617	2333	716
Exports (M/M%)			
Rural	5.7	6.4	
Non-rural	2.9	0.6	
Services	1.2	0.0	
Total Exports	1.7	3.2	
Imports (M/M%)			
Consumption goods	-2.6	4.0	
Capital Goods	11.8	-7.7	
Intermediate	-0.5	1.8	
Total Imports	2.4	0.4	

Outlook

Coal production is taking longer than previously expected to recover fully with pits still flooded. In the meantime, high prices, particularly for coking coal, are offsetting weaker volumes. We expect that exports will move higher as coal production slowly improves and increased business investment boost capacity. Today's data further confirms that business investment remains strong. With strong surpluses posted in April and May, we are likely to see a strong improvement also flow through to the current account in Q2 after deteriorating significantly in Q1.

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