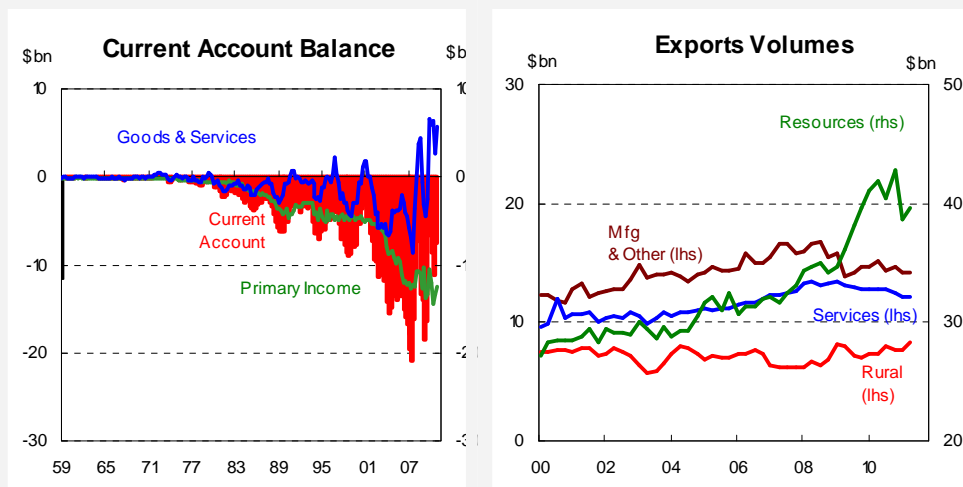


# DATA SNAPSHOT

## Current Account, Govt Spending and GDP Preview

6 September, 2011

- Net exports are likely to subtract 0.5 percentage points in the June quarter. Separate data released today also showed that public investment would be a slight drag on Q2 GDP.
- GDP data tomorrow will reveal how the economy performed over the June quarter. The economy is likely to make a sharp rebound after the floods led the economy to contract in the March quarter. We continue to expect that GDP grew by 1.2% in the June quarter and by 0.8% on a year ago.
- Data today also revealed that the current account deficit improved by nearly \$4bn in the June quarter to \$7.4bn. An improvement in the trade account was the biggest driver of the smaller current account gap. The trade component has now been in surplus for five consecutive quarters, the longest run since 1973. The trade account improvement, however, was more of a price story with export volumes not matching the increases witnessed in export prices.



### Balance of Payments:

- Current Account Balance (in Current Prices Terms):

The current account deficit improved by \$3.7bn in the June quarter to \$7.4bn. That is the lowest deficit in three quarters.

The two key components of the current account balance are the trade balance and the net primary income balance.

The trade balance improved by \$2.9bn to \$5.6bn. The trade component has now been in surplus for five consecutive quarters, the longest run since 1973. The improvement in the trade balance was driven by an 8.1% increase in the value of exports and a smaller rise in the value of the imports bill of 4.3%. The outsized increase in the value of exports was more of a price story with volumes not rising by nearly as much (refer to the net exports section further below).

The spike in exports in the quarter occurred across most categories; the one exception was non-monetary gold (a volatile component) where exports dropped 8%. The return to

more normal operating conditions, after the natural disasters disrupted exports earlier

this year, helped drive the increase in exports. However, one of the key exports that were affected by the floods – coal – registered only a modest rise in export volumes in the quarter of 0.3% after a 14.3% fall in the March quarter.

In the June quarter, goods exports rose 9.5%, rural goods 11.7% (the biggest quarterly rise in 3½ years), non-rural goods lifted 10.5% and services exports rose 1.5% (the biggest rise in 2½ years).

An examination of the detail in the imports bill for the quarter revealed that growth in capital goods (+1.6%), intermediate & other merchandise goods (+9.3), non-monetary gold (+9.6%) and services (+5.5%) were responsible for the bigger imports bill.

The rise in capital-goods imports relates to the capital-intensive upswing in private business investment underway. Last week, data revealed that private business investment is likely to grow by around 32% in 2011-12.

Imports of consumption goods were weak, however, reflecting the caution among consumers and subdued retailing story. Consumption-goods imports fell by 2.8% in the quarter and have now dropped for the three consecutive quarters.

The primary income deficit, which is the other big and larger component of the current account balance, improved modestly by \$0.9bn to \$12.5bn. The mining sector is making huge profits, but some of the dividends and profits from these companies flow to offshore investors and/or parent companies. That net outflow is contributing to keeping the net primary income deficit large.

#### - Terms of Trade

There was a further increase in the terms of trade of 5.4% in Q2 and by 12.9% to a fresh record high. The rise in the terms of trade is providing a large net income injection to the Australian economy. This income injection and the upswing in private business investment are underpinning economic activity in the Australian economy at a time when some sectors in the economy are being squeezed by a high AUD and continuing household caution.

#### - Net Exports Contribution to GDP

In chain volume terms, exports rose by 2.6% and imports rose by 4.3% in the June quarter. It means that net exports are set to detract 0.5 percentage points from GDP for the June quarter due for release tomorrow. This detraction is larger than the consensus expectation for a 0.1 percentage point contribution (our forecast was for a detraction of 0.1 percentage points) prior to this data's release.

#### - Net Foreign Debt

Australia's net foreign debt liability increased \$0.4bn to \$675.0bn in the June quarter.

#### Government Spending:

Government spending overall fell by 0.4% in the June quarter; public consumption rose by 0.9% while public investment was down by 3.8% in chain volume terms. It suggests that the government spending component of GDP will be a slight drag in the June quarter.

#### Q2 GDP Implications:

The bucket of partial economic indicators that have been released over this week and last week have been a mixed bag. Today's weaker-than-expected data (net exports and

government spending) that feeds into the GDP equation offset stronger-than-expected business inventories and company profits released yesterday.

On balance, we continue to expect that GDP expanded by 1.2% in the June quarter and by 0.8% in the year to the June quarter.

The median consensus forecast for GDP as at 2 September was for growth of 1.0% in the June quarter. The poll surveyed 23 institutions. The most pessimistic forecaster is expecting growth of 0.6% while the most optimistic forecaster is expecting an expansion of 1.4%.

**Cash Rate Implications:**

We continue to expect the Reserve Bank to leave rates on hold for the rest of this year.

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