

Aust trade deficit up with price-led export rise swamped by further import volumes strength

Dec trade balance $-\$2.252\text{bn}$ vs revised $-\$1.728\text{bn}$; Exports $+3.5\%$, Imports $+5.8\%$

- The December trade deficit was lower than expected (mkt $\$2.4\text{bn}$), up $\$524\text{mn}$ to $\$2.252\text{bn}$ (highest since Mar-08).
- Exports were firmer than expected, rising 3.5% (vs -1.7% prev). But with the RBA AUD commodity price index up 3.3% , volumes look to have been near steady, continuing their 2009H2 consolidation after H1 strength as China ramped up commodity imports. Detail suggested stronger rural (values $+6.9\%$, prices $+4.5\%$) and non-rural (values $+5.0\%$, prices $+3.1\%$) volumes in the month, but with weakness in volatile non-monetary gold an offset.
- Imports were strong, rising 5.8% (vs -2.8% prev), leaving in place a markedly stronger trend for imports ($+0.7\%$ mth) than exports (-0.2% mth). A 2.1% AUD/USD fall would have supported prices, but the extent of the values jump implies continued strong volumes growth. A pullback in consumption goods left their trend in decline, but strong capital goods continued their uptrend for the fifth month.
- We calculate that Q4 export volumes were unchanged from Q3, but import volumes leapt 6.5% . This gives a net exports GDP contribution of -1.4ppts in Q4 (vs -1.6ppts in Q3).

The trade deficit was below consensus ($\$2.4\text{bn}$) in December, up $\$524\text{mn}$ to $\$2.252\text{bn}$, continuing its uptrend for the 12th month.

Exports were stronger than expected, rising 3.5% after a 1.7% fall previously, although this aggregate rise was price-driven with the RBA AUD commodity price index up 3.3% mth. Still, their mild, price-led downtrend continued at -0.2% mth for the third month. While trend total export values are now down 23.2% yr, the Q4 XPI was down 32.7% yr. The detailed breakdown implied gains in rural and non-rural volumes, but there was offsetting weakness in volatile non-monetary gold (-4.1%) and continued relative weakness in service exports ($+0.3\%$). Rural exports were strong, rising 6.9% (vs $+6.1\%$ prev) in a month where the rural commodity price index rose 4.5% , implying higher volumes. The $\$135\text{mn}$ rise in rural exports was led by a $\$137\text{mn}$ rise in "other" rural goods.

Non-rural exports rose 5.0% (vs -3.5% prev) as the non-rural commodity price index rose 3.1% mth, also implying higher volumes. Their price-led downtrend (recall the Q4 XPI was -32.7% yr) continued at -0.4% mth for the third month. The $\$571\text{mn}$ rise in non-rural exports was broadly based, with coal up $\$256\text{mn}$, metals up $\$178\text{mn}$, other mineral fuels up $\$174\text{mn}$ and other non-rural up $\$54\text{mn}$, with a partially offsetting $\$76\text{mn}$ fall in metal ores and minerals.

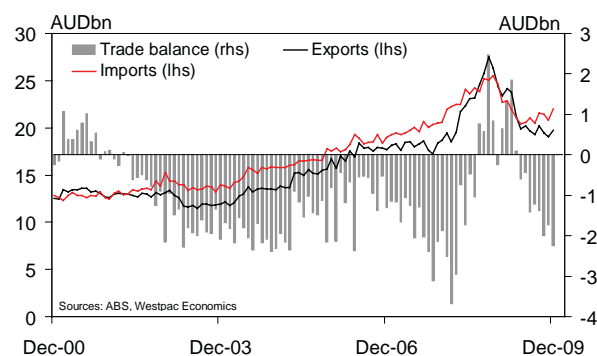
Imports surged strongly as we expected, jumping 5.8% after a 2.8% fall previously, leaving in place their five month volume-led uptrend at $+0.7\%$ mth. With the AUD/USD down 2.1% in

Balance on goods & services

Seasonally adjusted	Month	AUDmn	% change	
	Nov	Dec	%mth	%yr
Exports of goods & serv.	19,092	19,767	3.5	-18.9
Imports of goods & serv.	20,820	22,018	5.8	-10.6
Balance on goods & serv.	-1,728	-2,252	-	-

Sources: ABS 5368, Westpac Economics

Deficit up: price-led X rise swamped by M vols



December, import prices would have been supportive for values, but the extent of the values surge clearly implies ongoing strong import volumes growth. Consumption goods fell 1.5% after a 0.2% rise previously, and have been trending lower for five months (-0.5% mth in Dec), but this downtrend is price-driven with volumes growing solidly through 2009 as retailers restock. While trend consumption goods imports are down 3.8% yr, the Q4 MPI for consumption goods was down 12.0% yr. Capital goods rebounded 6.6% after a 7.6% fall previously, maintaining their volume-led renewed uptrend for the fifth month ($+0.7\%$ mth in Dec) consistent with solid business investment spending. Indeed, with Q4 capital imports values up 0.5% qtr, but the capital goods MPI down 6.6% qtr, volumes look to have surged 7.6% qtr in Q4. The aggregate import rise was reinforced by intermediate and other merchandise ($+10.8\%$ or $\$760\text{mn}$ led by $\$535\text{mn}$ rise in fuels) and non-monetary gold ($+50.8\%$).

We are standing by our preliminary f/c for Q4 export volumes of flat%qtr. But with a greater fall in the goods imports deflator than the MPI, we have raised our import volumes forecast to $+6.5\%$ qtr (from $+5\%$). This gives a Q4 net exports GDP contribution of -1.4ppts (vs prelim. f/c of -1.1ppts and Q3's -1.6ppts outcome).

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