

Aust current a/c deficit: ToT surge & strong X vols for BoT surplus; net X better, solid NR rise

Q2 CAD \$5.6bn (1.7% of GDP vs 5.0% prev)

Q2 net exports +0.4ppts (vs -0.5ppts prev)

- The Q2 2010 current account deficit narrowed more than expected by \$10.817bn to \$5.640bn from \$16.457bn (consensus & Westpac forecast \$6.5bn). Using our forecast of Q2 nominal GDP, this cut the quarterly deficit to just 1.7% of GDP from 5.0%. That's the lowest quarterly deficit % since Q3 2001, but a markedly better 'quality' improvement. The Q3 2001 deficit reflected weak import volumes (-6.4%yr) while currently, import volumes are up 17.3%yr. The last time the deficit was this low with positive annual import volumes growth was Q1 1980.
- The trade deficit turned sharply to a surplus of \$6.497bn from a deficit of \$3.209bn previously. That's 1.9% of GDP, the highest % surplus since Q2 1973. The jump reflected a 12.5%qtr leap in the terms of trade (with import prices up 1.5% with softer AUD, but export prices surging 14.2% led by bulks) and an acceleration in export volumes growth beyond that for import volumes.
- Export values jumped 20.6%qtr, while prices rose less than implied by the 16.1% rise in the XPI, up 14.2%. With prices softer than forecast, export volumes were stronger, up 5.6% (vs -0.7% prev). Rural volumes rose 1.3% and non-monetary gold volumes bounced 21.4%. Non-rural volumes jumped 7.5% (vs -1.7% prev) with broad based gains led by coal, fuels, metal ores, metals and machinery. Annual non-rural volumes growth rose to 9.5%yr, the strongest since Q3 2000.
- Import values rose 4.7%qtr, with moderate gains in volumes and prices as expected. Prices rose 1.5% with a weaker AUD. Import volumes rose 3.0% (vs +1.6% prev), although the detail was indicative of better improvements in domestic demand. Consumption goods volumes rose 4.4% (vs 1.1% prev) and capital goods volumes rose 4.8% (vs 1.1% prev), with the aggregate held back by intermediate & other goods volumes (0.2% vs 2.7% prev).
- Net exports will add 0.4ppts to Q2 GDP growth (consensus & Westpac +0.3ppts) vs -0.5ppts in Q1, the strongest contribution since Q1 2009. This improvement stems from much stronger export volumes growth.
- The net primary income deficit reinforced the trade balance swing to surplus, unexpectedly falling to \$11.909bn from \$13.021bn previously. With the Australian equity market

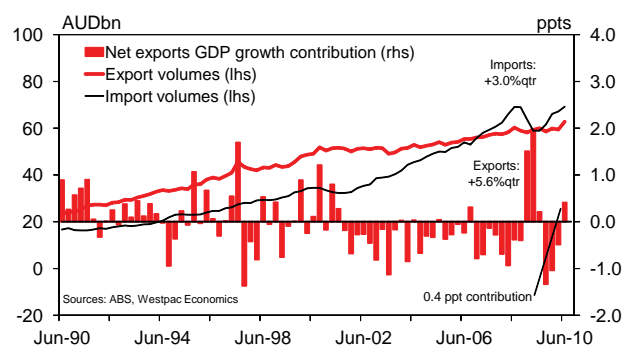
External accounts

Seasonally adj AUDbn	Quarter		Annual	
	Mar 10	Jun 10	Mar 10	Jun 10
Trade balance	-3.2	6.5	-13.1	-5.7
Primary income balance	-13.0	-11.9	-50.1	-49.3
Current account balance	-16.5	-5.6	-64.0	-55.9
% of GDP	-5.0	-1.7	-5.0	-4.3

%chg	Quarter		Annual	
	Mar 10	Jun 10	Mar 10	Jun 10
Export volumes	-0.7	5.6	0.3	4.7
Import volumes	1.6	3.0	13.9	17.3
Net exports, contrib. ppts	-0.5	0.4	-2.7	-2.5
Terms of trade	5.7	12.5	2.5	24.5

Sources: ABS 5302, Westpac Economics

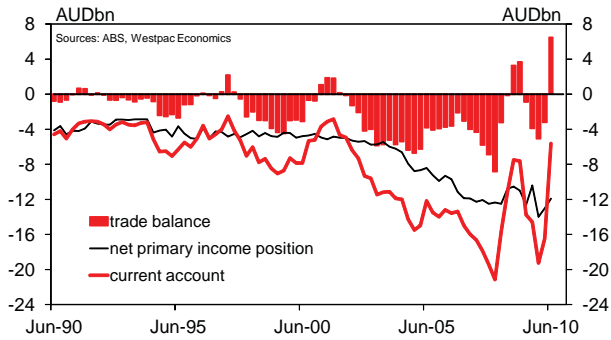
Export and import volumes



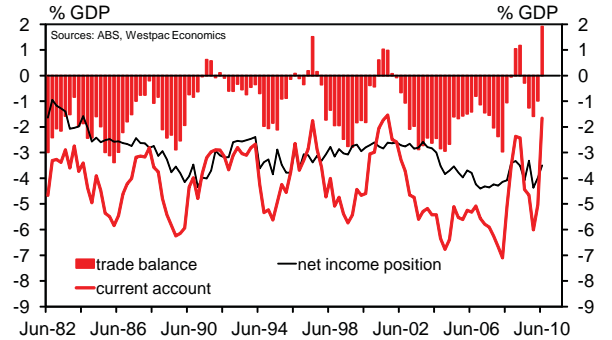
income return outperforming the US in Q2 (vs Q1 underperformance) higher net equity income outflows were expected, but they fell 14.3% after a 13.2% fall previously. Higher debt income outflows were also expected with higher US short rates and the weaker AUD (partially offset by lower bond yields), but they fell 3.3% after a 1.6% fall previously.

Anthony Thompson, Senior Economist, ph (61-2) 8254 8039

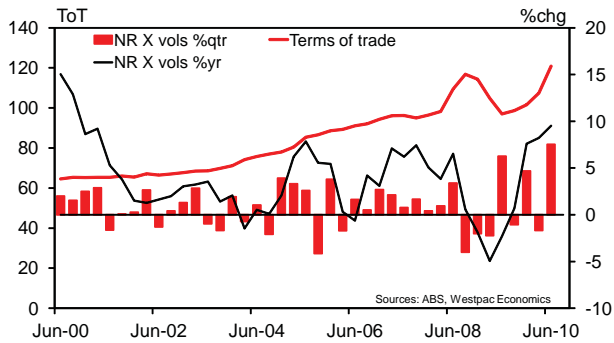
Current account balance and components



Current account and components: % of GDP



Non-rural X vols respond to high prices



Investment upswing in K imports volumes

