

Aust trade surplus falls with NR X vols pull-back after Q2 leap & defence aircraft M boost

Jul trade balance +\$1.888bn vs +\$3.438bn; Exports -4.5%, Imports +1.6%

- The July trade balance pulled back \$1.550bn from a record surplus of \$3.438bn to a surplus of \$1.888bn, well below consensus (\$3.1bn) but in line with our Westpac (bottom of the range) \$1.9bn forecast.
- Exports pulled back despite further aggregate price gains, with dips in bulks volumes after their Q2 surge. This gels with our forecast for flatter export volumes in Q3 after their Q2 jump, taking net exports back to a drag from GDP in Q3 after adding 0.4ppts to Q2 growth. But while bulks volumes pulled back sharply in July, they were more resilient relative to their Q2 average, and if we apply current trend growth to values for Aug and Sep and deflate by our Q3 price forecast, Q3 volumes can be resilient between flat and up 1%qtr, after their 5.6% Q2 leap.
- Exports fell 4.5% after a 6.4% rise previously, their first fall in five months, leaving trend growth robust at 2.0%*mth* and 31.4%*yr*. Rural exports rose 4.6%, but non-rural exports fell 5.9%, with falls in bulks volumes. However, the dip in non-rural exports follows seven straight increases, including an 11.8% Jun rise, leaving trend growth strong at 2.3%*mth* and 45.0%*yr*.
- Imports rose 1.6% after a 0.3% rise previously, suggesting higher volumes given the 2.9% AUD/USD appreciation would have dented prices. Despite the bounce in imports and pullback in exports, trend imports growth remained well below that for exports at 1.4%*mth* and 13.5%*yr*. Also, the import rise was narrowly based, driven by intermediate and other goods, with lumpy defence aircraft imports. Consumption goods imports fell and capital goods were flat, leaving trend growth in capital goods (1.6%*mth*) above consumption goods (0.8%*mth*).

The trade balance deteriorated by \$1.550bn in July to a surplus of \$1.888bn from a record high of \$3.438bn previously. The result was well below consensus (\$3.1bn) but in line with our bottom of the range Westpac forecast of \$1.9bn.

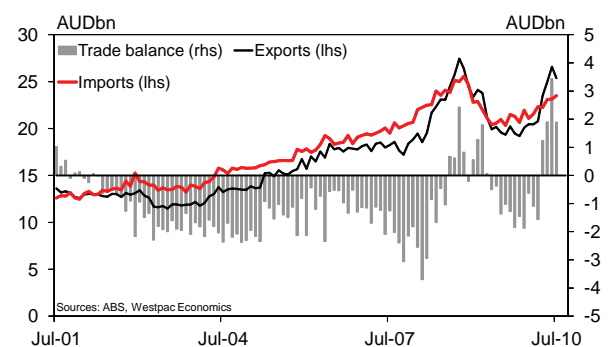
The fall came from a pullback in exports despite further aggregate price gains, led by dips in iron ore and coal volumes after their Q2 surge. This fits with our expectation of flatter export volumes in Q3 after their 5.6%*qtr* leap in Q2, which was the strongest quarterly volumes rise since Q3 2000. This is expected to take net exports back to a GDP drag in Q3 (around -½ppt) after a 0.4ppt positive contribution in Q2. But with the bulks volumes pullback following strong gains in June, they were more resilient relative to their Q2 average, and if we apply current trend growth to total export values for Aug and Sep and deflate by our Q3 price forecast, Q3 volumes can be resilient between flat and up 1%*qtr*.

Balance on goods & services

Seasonally adjusted	Month	AUDmn	% change	
	Jun	Jul	% <i>mth</i>	% <i>yr</i>
Exports of goods & serv.	26,586	25,395	-4.5	29.6
Imports of goods & serv.	23,148	23,507	1.6	12.1
Balance on goods & serv.	3,438	1,888	-	-

Sources: ABS 5368, Westpac Economics

Surplus pullback: NR X vols dip & M rise



Exports fell 4.5% after strong gains of 6.4% (Jun), 6.4% (May), 13.1% (Apr) and 1.5% (Mar). Given the RBA AUD commodity price index rose 2.4%*mth*, this implies a monthly volumes pullback of around 6½%, confirming our expectation for a flatter Q3 export volume performance after the Q2 5.6%*qtr* leap (as noted earlier, a flat to small rise is still achievable for Q3 volumes despite this July fall, because of prospects of rebounds in bulks volumes and the fact that the Q2 jump was concentrated in June).

Rural exports rose 4.6% after a 5.6% rise previously, their third consecutive solid gain, leaving trend growth strong at 3.4%*mth* and +14.7%*yr* (strongest annual pace since Feb-09). Within the \$113mn rise in rural exports, cereals rose 22% or \$97mn and 'other' rural rose 3% or \$29mn.

Non-rural exports fell 5.9% after strong gains of 11.8% (Jun), 2.8% (May), 22.4% (Apr), 0.7% (Mar), 1.4% (Feb), 2.0% (Jan) and 6.7% (Dec-09), so that was their first fall in eight months. Consequently, non-rural exports trend growth remained strong at 2.3%*mth* and 45.0%*yr*, with monthly growth at that pace or better for six straight months. The RBA AUD non-rural commodity price index suggested non-rural prices in aggregate were a support, with a 2.3% rise, so the values fall implies a sharp volumes pullback. Port data suggested falls in iron ore and coal volumes, and this was the

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141. Information current as at date above. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. Westpac's financial services guide can be obtained by calling 132 032, visiting www.westpac.com.au or visiting any Westpac Branch. The information may contain material provided directly by third parties, and while such material is published with permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice and Westpac is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Westpac Banking Corporation is registered in England as a branch (branch number BR000106) and is authorised and regulated by The Financial Services Authority. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised and regulated by The Financial Services Authority. If you wish to be removed from our e-mail, fax or mailing list please send an e-mail to economics@westpac.com.au or fax us on +61 2 8254 6934 or write to Westpac Economics at Level 2, 275 Kent Street, Sydney NSW 2000. Please state your full name, telephone/fax number and company details on all correspondence. © 2010 Westpac Banking Corporation. Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

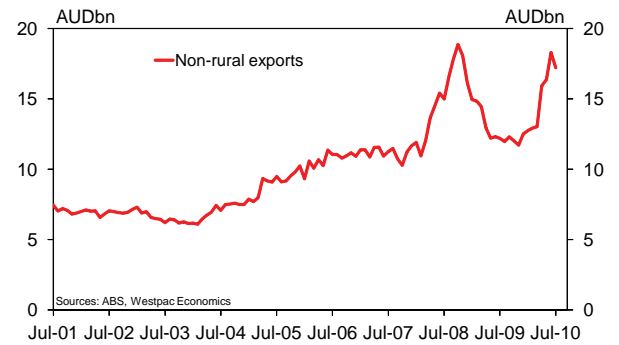
case, with unadjusted iron ore volumes -5.0% (vs $+7.2\%$ prev) and unadjusted coal volumes -8.7% (vs $+8.5\%$ prev). But as noted earlier, the bulks volumes were more resilient compared to their Q2 average, with most of the Q2 rise coming in June. Compared to their Q2 average, July iron ore volumes were down only 0.9% and coal volumes were down 3.9% . Of the $\$1076\text{mn}$ fall in non-rural export values, coal fell 16% or $\$704\text{mn}$ and metal ores and minerals fell 7% or $\$499\text{mn}$.

Aggregate exports were also weighed on by further weakness in volatile non-monetary gold exports (-15.0% vs -24.5% prev).

Imports rose 1.6% after a 0.3% rise previously. That suggests a firm rise in volumes given the AUD/USD rose 2.9% mth, which would have dented prices. Despite the fall in export values and rise in imports, trend imports growth remained well below that for exports, at 1.4% mth and 13.5% yr, continuing to lift the trend trade surplus. Additionally, the July import rise was narrowly based, led by a 8.7% rise in intermediate and other merchandise goods (vs $+4.7\%$ prev). This in turn was driven by a one-off: of the $\$698\text{mn}$ rise in this category, $\$477\text{mn}$ was in 'other merchandise goods' with the report noting the Department of Defence imported six Super Hornet aircraft. Consumption goods imports fell 1.1% after a 0.5% rise previously, slowing trend growth to 0.8% mth from 1.2% mth. But this doesn't negate the more upbeat picture on consumer spending from the Q2 GDP data or latest retail sales release – with the AUD/USD up 2.9% mth, prices would have weighed in July. Capital goods imports rose 0.1% after a 3.3% fall previously, but following prior strength, trend growth remained well above that for consumption goods at 1.6% mth.

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

Latest non-rural export dip in context



Bulk resource export volumes, monthly

