

2 February 2012

Australia's trade surplus up in Dec, down in Q4 Net exports likely growth neutral in Q4 Imports 1.0%, Exports 2.3%

- Australia's trade surplus was relatively resilient in the final month of 2011, widening a little to \$1.7bn, up from \$1.3bn for November. This exceeded expectations (market median \$1.2bn & Westpac \$0.6bn).
- Imports advanced by 1.0% in the month, as expected (Westpac forecast: 1%).
- Exports, however, defied a weakening international backdrop, rising by 2.3% (Westpac forecast: -2%).
- For the December quarter, the trade surplus narrowed, despite the slight improvement in the December month.
- The sum of seasonally adjusted balances for the 3 months to December was a surplus of \$4.5bn, down from \$6.2bn from the 3 months to September. However, applying the quarterly seasonal factors, the surplus for Q4 was \$3.96bn, down from \$6.64bn.
- The terms of trade declined in the quarter as weaker global conditions triggered a fall in commodity prices. We suspect that the narrowing of the trade position was largely due to the terms of trade fall, which we estimate to be around -3.8%.
- Net exports were most likely less negative in Q4 than Q3, when they subtracted 0.6ppts from GDP growth. We calculate that net exports were growth neutral in Q4.
- The current account deficit is set to widen in the December quarter. A deficit of around \$8½bn (-2.3% of GDP), up from \$5.6bn for Q3, appears likely.

Australia's trade surplus expanded by \$366mn to \$1.7bn in December. Import values rose \$253mn, up 1.0% in the month. The value of exports increased by \$621mn, a rise of 2.3%.

The import bill rose to \$26.1bn in December. The big movers were fuel, jumping \$666mn (21.9%) and cars, up \$159mn (12.7%). Capital imports, which have been rising at a strong clip, edged lower on a dip in the volatile civil aircraft segment.

Import volumes are on the rise, to meet expanding domestic demand and as the high Australian dollar encourages switching towards cheaper imported goods and services. The ABS advise that goods import volumes advanced by 1.9% in the quarter. As for services, the available information suggests a slight decline in the period. All up, we estimate that import volumes rose by around 1.6% in Q4, to be up a strong 12% on a year ago.

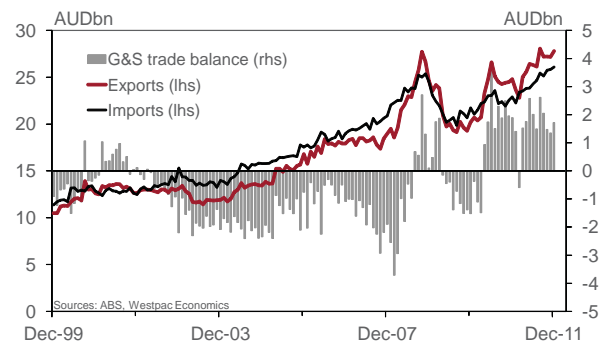
The value of exports increased by 2.3% in the month of December. Coal was up on greater volumes, as expected,

Balance on goods & services

Seasonally adjusted	Month	AUDmn	% change	
	Nov	Dec	%mth	%yr
Exports of goods & serv.	27,171	27,792	2.3	12.1
Imports of goods & serv.	25,829	26,082	1.0	13.9
Balance on goods & serv.	1,343	1,709	-	-

Sources: ABS 5368, Westpac Economics

Trade surplus: \$1.7bn for Dec



rising \$369mn. Volatile gold shipments provided a surprise, up \$457mn, while the value of iron ore exports proved more resilient than anticipated, down just \$100mn.

Export volumes continued to recover from the Q1 weather disruptions. We estimate a rise of 2% for the December quarter. Such a result would see exports unchanged from Q4 2010, a disappointing outcome. The Qld coal sector is still yet to fully recover from the floods, the high AUD has eroded competitiveness and global conditions have been mixed.

The terms of trade moderated in Q4, following a strong run. We estimate a decline of around 3.8%, to be 7% above that of a year ago. Import prices were up in Q4, higher by around 2.8% on a modest dip in the currency. While the price of exports fell, declining by an estimated 1% on lower global commodity prices.

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