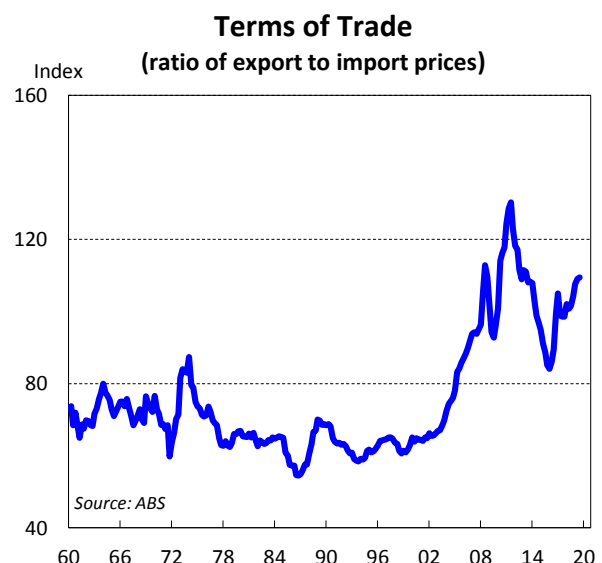
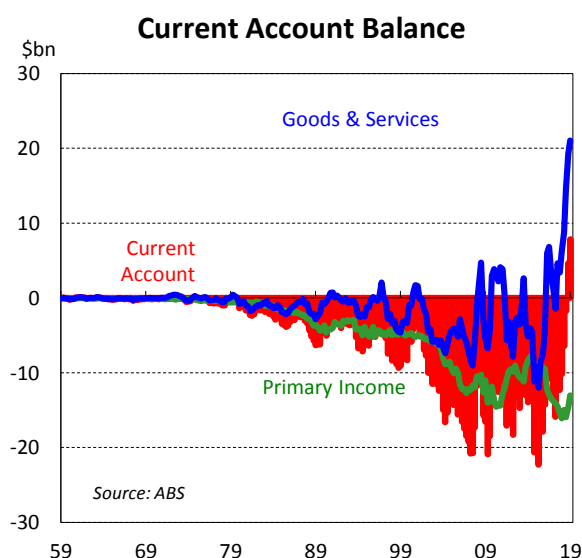


Current Account and GDP Preview

Trading Up

- The Australian current account has traded in a multi-decade run of deficits for its second consecutive quarterly surplus. After registering the first surplus since 1975 in the June quarter, the current account posted a record \$7.9 billion surplus in the September quarter.
- Growth in export receipts once again outstripped imports. Exports rose 0.7% in the September quarter, down from 1.3% growth previously. Imports registered a 0.2% fall compared with a 1.1% drop in the quarter to June. Iron ore prices peaked in July, at the very start of the quarter at just under US\$120 per tonne and subsequently fell back to around US\$90 per tonne for the rest of the quarter.
- Net exports will contribute 0.2 percentage points to GDP in the September quarter.
- The terms of trade increased 0.4% in the September quarter, the fifth consecutive quarterly improvement.
- The back-to-back current account surplus was the first in nearly 46 years. However, it is not expected to become the new norm. Iron ore prices have fallen 30% from their July peak, which was instigated by supply disruptions caused by natural disasters coupled with stimulus measures from China. These conditions are not expected to be repeated any time soon.
- We forecast a GDP growth to register 0.6% in the September quarter, slightly higher than the lacklustre 0.5% registered in the quarter to June.



Current Account

The current account registered its first back-to-back surplus in nearly 46 years in the September quarter. The current account recorded a \$7.9 billion surplus, the highest on record after registering a \$4.7 billion surplus in the quarter to June.

Growth in export receipts once again outstripped imports. Export values rose 2.1% in the September quarter, down from 4.0% growth in the June quarter. The surge in iron ore prices peaked in July, at the very start of the quarter at just under US\$120 per tonne and subsequently fell back to around US\$90 per tonne for the rest of the quarter.

Meanwhile, soft domestic demand has continued to limit the appetite for imports. Imports registered a modest 0.8% rise in the September quarter, compared with a 0.0% change in the quarter to June.

The goods and services surplus edged higher to \$21.1 billion, reaching another record high after last quarter's previous record of \$19.3 billion. The surplus in the goods and services balance was more than enough to offset the primary income deficit of \$13.0 billion. The primary income deficit has narrowed over the last two quarters, and is now the smallest since the March quarter of 2017.

A persistent current account surplus is not expected to become the new normal. Iron ore prices have fallen 30% from their July peak, which was instigated by supply disruptions caused by natural disasters coupled with stimulus measures from China. These conditions are not expected to be repeated any time soon. Additionally, weaker global growth and trade uncertainty is expected to weigh on export demand.

Terms of Trade

The terms of trade, or the ratio of export prices to import prices, rose further in the September quarter as the residual effects of the iron ore price surge were felt.

Rising commodity prices have supported the terms of trade over recent years, with the latest quarterly gain of 0.4% representing the fifth straight quarterly rise. On an annual basis, the terms of trade was 7.8% more favourable than a year ago in the September quarter, down marginally from an 8.1% yearly increase in the previous quarter. The improving terms of trade has provided support to national incomes in recent years through increased company profits and taxation revenue.

Export and Import Volumes

The volume of goods exports rose 0.4% in the September quarter. Commodity export volumes were mixed, cooling from the broad increase registered in the June quarter. Exports of metal ores and minerals, which includes iron ore, rose 1.6% over the quarter in September. Other mineral fuels was the best performing hard commodity, rising by 2.9%. There was a 4.3% fall in coal, coke & briquette while metals export volumes fell by 15.9%, the largest quarterly drop since 1985.

The impact of the drought continued to be felt in rural goods exports, which fell 2.8%.

A meagre 0.2% increase imports after a 1.6% drop in the previous quarter highlights areas of weakness in the domestic economy. Consumption goods imports continued to decline, registering a 0.5% fall over the quarter. Meanwhile, softness in business investment looks to have intensified. Imports of capital goods plunged 5.6% over the quarter, with machinery and industrial equipment

imports falling 4.9%.

The stronger growth in export volumes relative to imports indicates that net exports will contribute 0.2 percentage points to GDP growth in the September quarter after adding 0.6 percentage points in the June quarter.

Government Finance Statistics

Government spending registered another solid increase in the September quarter. Government consumption rose 0.9% in the September quarter while government investment increased 1.9%, suggesting a modest contribution to GDP growth by government spending.

The data indicates that the government sector continued to play an important role in supporting economic growth in the September quarter. There continues to be a strong pipeline of public infrastructure spending, which should continue underpin economic growth over the medium term.

GDP Preview

Tomorrow, we receive an update on the national-accounts data for the September quarter of 2019. This data will include gross domestic product (GDP), which measures the pace of broader economic activity in the economy. Today's data reinforce our view that GDP growth is likely to be modest and remain below trend throughout 2020.

We expect quarterly GDP growth of 0.6% for the September quarter, compared with a 0.5% increase registered in the previous quarter. On an annual basis, GDP is expected to have expanded 1.8% over the year.

The Australian economy has lost momentum since the second half of last year. Consumer spending turned soft in the wake of falling house prices, and stimulus measures are taking time to flow through. Despite the recent recovery in house prices, consumer spending is yet to regain that lost momentum. Policy support through three rate cuts by the Reserve Bank (RBA) since June and the Federal government tax breaks are also yet to have a meaningful impact on consumption.

We expect some of the impact of stimulus measures to date will begin to flow through to consumers, however we expect the recovery won't be strong enough to return growth to trend next year.

There are downside risks to business investment amid an uncertain global environment and weak domestic demand. The residential-construction downturn also has further to run, dragging on economic growth.

Tax cuts, RBA rate cuts and a recovery in dwelling prices should result in an improvement in domestic demand over the second half of this year. However, as the impact of higher commodity prices fades, we expect headwinds to continue holding the economy back.

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