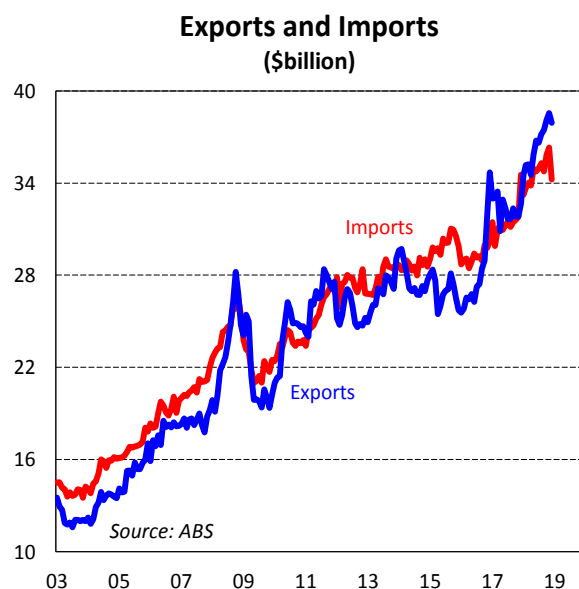
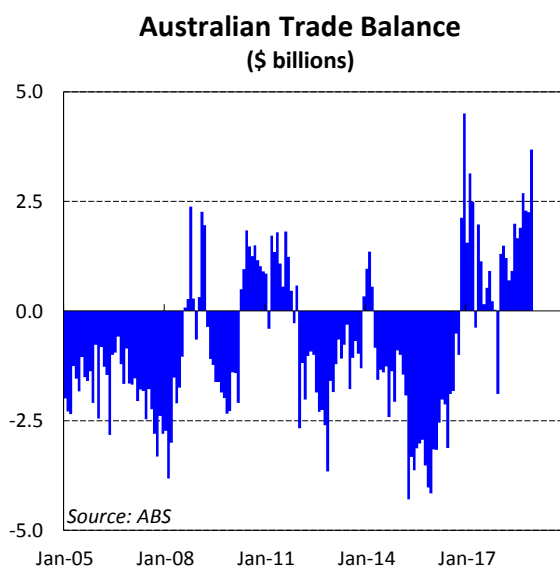


Trade Balance

Largest Surplus in Two Years

- Australia's trade surplus jumped to \$3.7 billion in December, the largest surplus in two years. Moreover, back revisions meant that the surpluses over October and November were \$603 million higher than reported previously.
- The large surplus in December looks great on the surface, but the weakness in imports foretells a less positive story of domestic demand including both business and consumer spending. Moreover, the growing downside risks in the global economy also raise the question of whether the pace of export growth will be sustained.
- The improvement in the surplus in December largely reflected a 5.7% plunge in imports. Imports were down 0.9% in the year, the first annual decline in over two years.
- Exports overall were also weaker in December, falling 1.6%. The annual pace of growth, however, remained firm at 16.2%, reflecting resilience in prices of most commodities. Export prices rose a solid 4.4% in the December quarter.



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The improvement in the surplus in December largely reflected a 5.7% plunge in imports. While this followed strength in imports earlier in the quarter, the large drop adds to a variety of signs that domestic demand weakened towards the end of last year. Imports were down 0.9% in the year,

the first annual decline in over two years.

Exports

Exports overall were also weaker in December, falling 1.6%. The annual pace of growth, however, remained firm at 16.2%, reflecting resilience in prices of most commodities. Export prices rose by a solid 4.4% in the December quarter, mostly reflecting higher prices for commodities.

That being said, in December there were declines in exports of metal ores & minerals (-2.1%), coal, coke & briquettes (-2.8%) and other mineral fuels (-1.1%). Exports of metals (excluding non-monetary gold) (12.2%) gained. Despite the impact of the drought, total rural goods jumped 9.5% as cereal grains & cereal preparations rose (65.1%) although off a low base.

Services exports grew 0.2% in December, for annual growth of 12.7%, the strongest annual pace in 1½ years.

Imports

The weakness in imports in December was broad-based. There were sharp declines across all key categories. Consumption good imports plunged 7.2%, led by non-industrial transport equipment (-25.3%), toys, books & leisure goods (-8.7%) followed by consumption goods (not elsewhere specified) (-2.2%).

Capital goods imports dropped 15.4% in December, including an 8.0% drop in machinery & industrial equipment. Lower oil prices dragged down imports of fuels & lubricants (-7.8%), which have fallen for two consecutive months. Given the sharp fall in business conditions in surveys, this will reinforce concerns that business spending could falter.

Outlook and Implications

The large surplus in December looks great on the surface, but the weakness in imports foretells a less positive story of domestic demand, including both business and consumer spending. Moreover, the growing downside risks in the global economy also raise the question of whether the pace of export growth will be sustained.

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