Data Snapshot

Tuesday, 5 March 2019

Current Account, Govt Fin. Stats & GDP Preview

Best Trade Surplus On Record

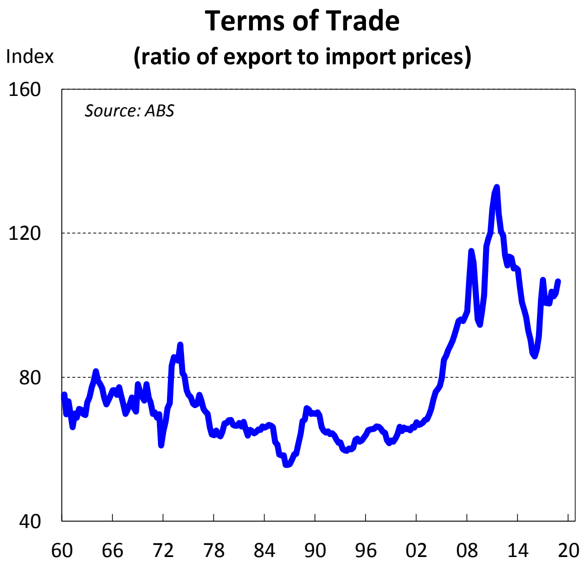
- **The current account deficit narrowed by $3.6 billion to $7.2 billion in the December quarter. It is the best result since the first quarter of 2017 and was driven by a wider in the surplus on the balance on goods and services; this trade surplus expanded to $8.4 billion – the best on record.**
- **The other good news in today's data was the terms of trade, which jumped 3.2% in the December quarter. Annual growth was 6.1%, the fastest pace in five quarters. This rise in the terms of trade suggests the national economy received an income boost in the last quarter of 2018, helped by a rise in commodity prices.**
- **In chain-volume terms, exports fell by 0.7% in the December quarter while imports rose 0.1%. These outcomes suggest that net exports will detract 0.2 percentage points from GDP growth in the December quarter.**
- **The impact of the drought is flowing through to the exports data with falls across all rural-goods exports volumes. Indeed, in the past two months, cereal grains & cereal preparations have been hardest hit, falling by nearly 30% in the two quarters to the December quarter.**
- **A category of imports that we watch closely is that of capital goods, especially of machinery & industrial equipment, as it can give us a guide on the outlook for business investment. Capital-goods import volumes fell 0.3% in the December quarter with machinery & equipment down 2.0%, after two consecutive quarterly falls.**
- **The government financial statistics data were also released today and showed a strong outcome for government spending of 1.6% in the quarter.**
- **Tomorrow, the Australian Bureau of Statistics (ABS) publishes updated data for the national accounts. We expect GDP grew by 0.2% in the December quarter for annual growth of 2.4%.**
- **This Q4 GDP result would follow subdued growth of 0.3% in the September quarter, suggesting there has been a noticeable loss of momentum in the Australian economy in the second half of last year.**
- **This slowdown in economic activity coincides with a deepening in the housing downturn at a time when wages growth remains soft. The consumer and housing remain at the heart of the slowdown and these two areas also represent the key downside risks to the economy in the year ahead.**

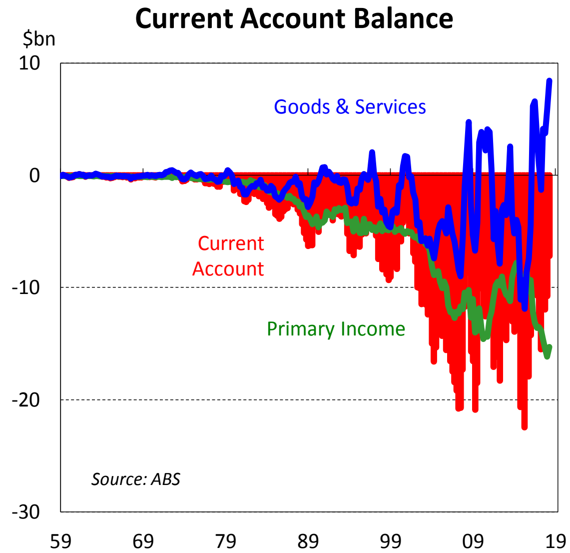
Current Account

The current account deficit narrowed by $3.6 billion to $7.2 billion in the December quarter. It is the best result since the first quarter of 2017. The outcome was also much better than markets were anticipating; consensus expectations had focussed on an improvement in the deficit to only $9.2 billion.

The sharp improvement reflected a significant widening in the surplus on the goods and services balance (i.e. trade balance) from $5.8 billion to $8.4 billion. It is the largest trade surplus since the records began in 1959. Export growth drove the increase in the goods & services surplus; exports were up 3.3% in the quarter. Imports also grew, but only by 1.0%.

The improvement in the current account deficit also reflected a narrowing in the deficits on primary income and secondary income. The former improved from a gap of $16.2 billion to a gap of $15.2 billion and the latter improved from a gap of $0.4 billion to a gap of $0.3 billion.





Terms of Trade

The terms of trade lifted by 3.2% in the December quarter, following a 0.8% rise in the previous quarter. On a year ago, the terms of trade is 6.1% higher, which is the fastest annual pace in five quarters. The terms of trade result reveals that the national economy received a firm boost to incomes in the December quarter. The rise in the terms of trade reflects higher commodity prices, which are boosting mining profits and flowing through to higher tax revenue.

Export and Import Volumes

Exports rose in current prices, but in chain-volume terms fell. Export volumes fell by 0.7% in the December quarter, after a fall of 0.1% in the September quarter. Goods exports fell 0.9% during this period but services exports rose 0.1%.

The impact of drought conditions was evident in the data. All categories of rural-goods exports fell in the quarter; the exports of wool & sheepskins fell 11.7%, exports of cereal grains & cereal preparations fell 9.5% (after a significant 22.1% in the September quarter), exports of meat & meat preparations fell 4.6% and exports of other rural goods dropped 4.2%. Overall, rural-goods exports fell by 5.6% in the quarter.

Non-rural exports posted a rise of 2.7% over the same period, underpinned by a strong gain in metals of 10.7% and other mineral fuels of 7.3% (which includes LNG exports).

Meanwhile, import volumes inched up 0.1% in the December quarter with goods imports up 0.3%, but services imports retreating 0.4%.

By major category, import volumes were mixed. Consumption-goods imports lifted by 0.7%, after two consecutive quarterly declines. The lift is modestly encouraging because consumption-goods imports can provide a guide to the retailing outlook. Retailers have faced a tough environment in recent months with the downturn in housing and soft wages growth hurting consumer spending. However, consumption-goods imports on a year ago are down 1.9%, the first annual contraction since the September quarter of 2009 (GFC period). So the quarterly gain for consumption-goods imports has not altered the trend.

The other category that we closely watch is the import volumes of capital goods, especially of machinery & industrial equipment, as it can give us a better guide on the outlook for business investment. Business investment plans for 2018-19 and 2019-2020 are positive, but business conditions and business confidence suggest some vulnerability around these plans. In terms of import volumes for capital goods, a fall of 0.3% was recorded in the December quarter, which is the second consecutive quarterly fall. Import volumes of machinery & equipment fell 2.0%, after two consecutive quarterly falls.

Net Exports

In volume terms the combination of falling exports and rising imports means net exports are expected to detract 0.2 percentage points to GDP growth in the December quarter. It follows a contribution of 0.4 percentage points in the September quarter.

Government Finance Statistics

Government spending was strong in the December quarter. It rose by 1.6% in the quarter. The data revealed government consumption rose by 1.8% and government investment rose by 0.9% over the last quarter of 2018.

The strong pipeline of public infrastructure spending suggests the public sector will continue to provide support to economic growth over the year ahead.

GDP Preview

Tomorrow, the Australian Bureau of Statistics (ABS) publishes updated data for the national accounts. The gross domestic product (GDP) data falls out of this release. We expect GDP grew by 0.2% in the December quarter for annual growth of 2.4%. This annual rate is under the long-run or trend growth rate of around 2.7%. We see the risks as evenly balanced around this GDP forecast.

This Q4 GDP result would follow subdued growth of 0.3% in the September quarter. So it suggests there has been a noticeable loss of momentum in the Australian economy in the second half of last year. This slowdown coincides with a deepening in the housing downturn at a time when wages growth remains soft. The consumer and housing remain at the heart of the slowdown and these two areas also represent the downside risks to the economy in the year ahead.

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