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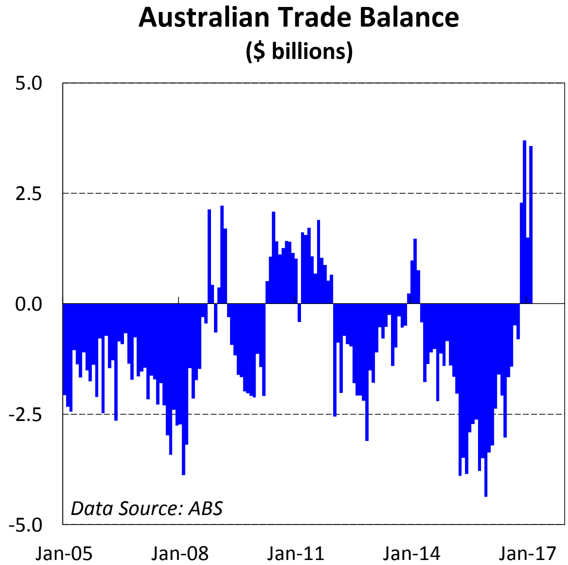
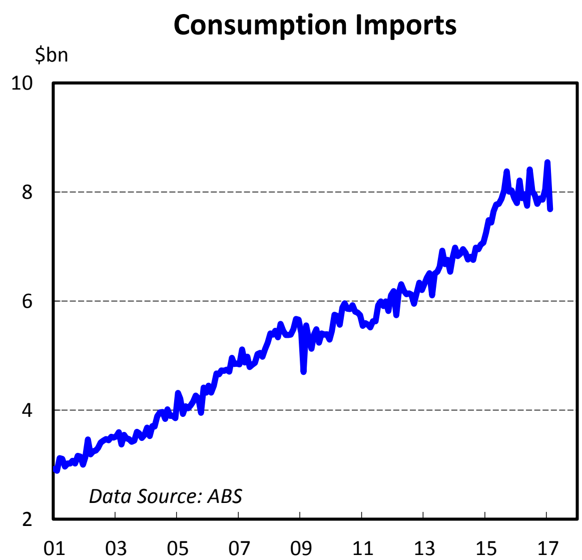
Trade Balance

Four Ducks in a Row

- **The trade balance in February was a $3.6bn surplus, a massive improvement on the $1.5bn surplus in January. The last four months have recorded sizeable surpluses, averaging $2.8bn per month.**
- **Export values rebounded 1.5% in February. On a year ago, exports are up a solid 29.6%, and reflect the strong rebound in commodity prices since early 2016.**
- **Imports weakened sharply in February, declining 5.3%. The weakness was mostly driven by a large decline in consumption-goods imports. Combined with the weak retail spending data yesterday, it suggests that the firm consumer spending growth in the December quarter is unlikely to have continued into early 2017.**
- **Sizeable surpluses in coming months are in doubt given that iron ore and coal prices have retreated from their highs. We will likely see some temporary impact from the recent Cyclone Debbie on exports, mostly coal & agricultural exports, although it is still too early to quantify the extent of the disruptions. That said, prices remain well above their recent lows in early 2016, and volumes should continue to be strong over the course of the year.**





The trade balance in February was a $3.6bn surplus, a massive improvement on the $1.5bn surplus in January. The better result did not come as a complete surprise, although it was much larger than the $1.9bn estimated by consensus (our forecast was at $2.4bn). January's result was due to a one-off decline in exports and an unusually strong increase in imports possibly reflecting an earlier than usual Chinese New Year period.

Both exports and imports reversed in February, keeping the recent trend of strong surpluses intact. Over the last four months, the surplus has averaged $2.8bn per month. It largely reflects the rebound in commodity prices while imports have remained weak.

Exports

Export values rebounded 1.5% in February, after a 3.4% decline in January. On a year ago, exports are up a solid 29.6%, and reflect the strong rebound in commodity prices since early 2016. Further resilience in commodity prices over February helped to prop up values in the month, although coking coal prices retreated. Exports of metal ores & minerals lifted 1.4% in February, as did coal, coke & briquettes (4.3%) after declining in January. There were also healthy gains in other commodity exports, including metals (excluding non-monetary gold) (6.4%), non-monetary gold (33.5%) and other mineral fuels (1.1%).

Meanwhile, exports of rural goods contracted by 4.7%. Services exports continued to grow steadily lifting 1.1% in February and growing by 10.3% in the year.

Imports

Imports weakened sharply in February, declining 5.3%. It more than offset the 3.7% increase in January. The weakness in February was mostly driven by a large 10.1% decline in consumption-goods imports. It was the biggest percentage monthly drop in 8 years. It suggests that the relatively firm consumer spending in the December quarter is unlikely to be sustained towards the beginning of the year. Weak retail spending data released yesterday further point to a loss of momentum in consumer spending. Among other categories, capital goods rose 1.3% in February, but machinery & industrial equipment imports, which links closely to the ABS business capex survey declined 2.5%.

Implications

Australia's trade position remains comfortably in surplus and point to another very low current account deficit in the March quarter. Such sizeable surpluses, however, are in doubt given that iron ore and coal prices have retreated from their highs. We will likely see some temporary impact from the recent Cyclone Debbie on exports, although it is still too early to quantify the extent of the disruptions. That said, prices remain well above their recent lows in early 2016, and volumes should continue to be strong over the course of the year.

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