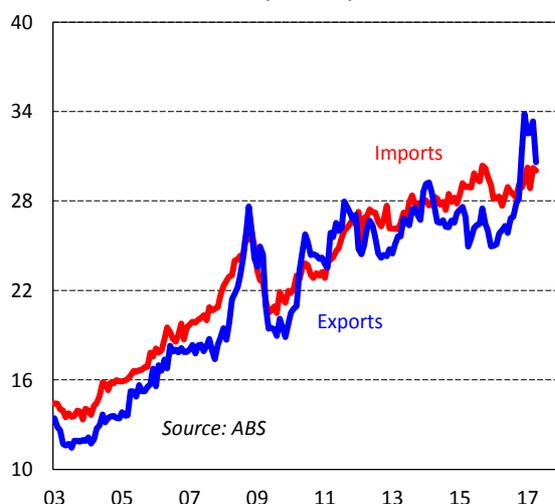


Trade Balance

Surplus Squashed by Cyclone Debbie

- The trade surplus narrowed sharply in April to just \$555 million, the weakest in six months. The big deterioration was mostly as a result of a 45.0% drop in the value of coal, coke and briquette exports as Cyclone Debbie hampered shipments.
- Despite the deterioration in April, it was the sixth consecutive monthly surplus.
- Overall exports dropped 8.3% in April. However, the lift in commodity prices since early 2016 is propping up export values over the year. On an annual basis, exports were 17.8% higher.
- Imports were also relatively resilient, falling 0.6% in April after a 4.7% gain in the previous month. Annual growth in imports picked up to 8.5%, the strongest in nearly five years.
- The weather-related disruption impacting coal exports will be temporary and we would expect a recovery in coming months. However, the impact of falling commodity prices on export values will be more long-lasting. The sizeable surpluses in excess of \$3 billion per month that were witnessed earlier in the year are unlikely to be repeated any time soon. However, exports should continue to be supported by the increase in production capacity over recent years. Moreover, while commodity prices have fallen, prices remain well above their recent lows in early 2016.

Exports and Imports
(\$billion)



Exports of Coal, Coke & Briquettes
(\$billion)



The trade surplus narrowed sharply in April to just \$555 million, the weakest in six months. The

big deterioration was mostly as a result of a 45.0% drop in the value of coal, coke and briquette exports as Cyclone Debbie hampered shipments. Overall exports dropped 8.3% in April, the largest monthly drop since January 2012, when Cyclone Heidi disrupted iron ore exports.

Despite the deterioration in April, it was the sixth consecutive monthly surplus.

The lift in commodity prices since early 2016 is propping up export values over the year. On an annual basis, exports grew a solid 17.8%.

Imports were also relatively resilient, falling 0.6% in April after a 4.7% gain in the previous month. Annual growth in imports picked up from 6.8% to 8.5%, the strongest in nearly five years.

Exports

Exports outside of coal were relatively mixed. There was weakness in most resource commodities including metal ores & minerals (-0.9%), other mineral fuels (-5.1%) and non-monetary gold (-20.2%). A fall in prices of key commodities such as prices of iron ore and base metals, weighed on export values.

Rural goods also added to the weakness falling 1.8% in April. Nonetheless, on a year ago, rural good exports were up a solid 16.8% on favourable growing conditions this year. Service exports also remain strong, lifting 2.5% in April and 10.5% in the year.

The Australian dollar has mostly tracked sideways over the past year, but it remains well down from its 2013 peak and is continuing to provide support to service exports.

Imports

The decline in imports over April was mostly driven by weakness in consumption goods (-1.2%). Capital goods imports however, firmed, rising 2.3% in April and 21.0% in the year. This is a good signal for business spending, and we may continue to see improvement in the data as the downturn in mining investment runs its course.

Outlook and Implications

The weather-related disruption impacting coal exports will be temporary and we would expect a recovery in coming months. However, the impact of falling commodity prices on export values will be more long-lasting. The sizeable surpluses in excess of \$3 billion per month that were witnessed earlier in the year are unlikely to be repeated any time soon. However, exports should continue to be supported by the increase in production capacity over recent years. Moreover, while commodity prices have fallen, prices remain well above their recent lows in early 2016.

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