Economics & Markets Research

Economic Update

Back in the black?

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ANZ Macro and Interest Rate Research

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Key Points

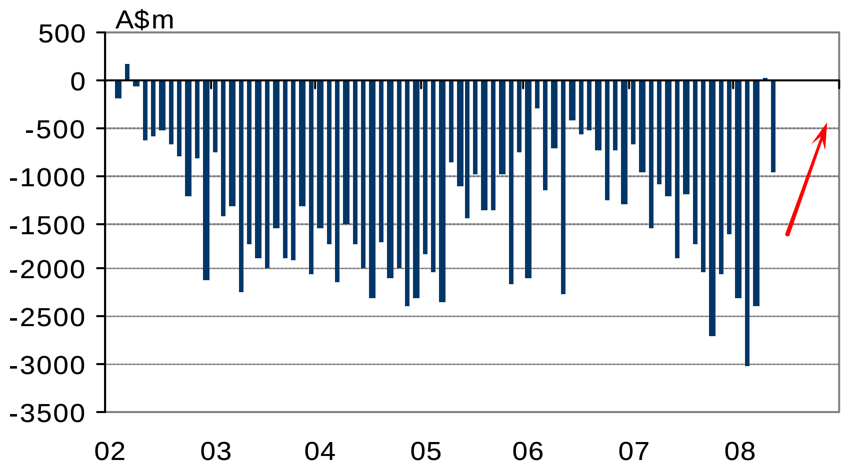
- **Australia recorded a surplus of $12mn in April** (revised upwards from a deficit of -$957mn), the first surplus since March 2002.
- **Unfortunately, the surplus could not be sustained into May**, with the trade balance returning to negative territory (-$A965mn). This was mostly due to a large rise in imports (+6.0%) which offset a modest gain in exports (+1.5%).
- **There is scope for the figures for April and May to be revised upwards** as the full increase in iron ore contract prices is incorporated into the data.
- **More trade surpluses should also be on the way in coming months.**
- The fact that there was a trade surplus in April is unlikely to have any implications for monetary policy. The RBA is already aware of the stimulatory impact of the commodities boom**.**
- **The large rise in imports is perhaps more of a concern for the RBA.** Together with yesterday's surprisingly strong retail sales data, this suggests that consumer spending and domestic demand may not be as weak as suggested by the RBA when it left rates unchanged on Tuesday.

Key Figures

	May	April
Trade balance (A$mn)	-965	+12
Exports (monthly % ch)	1.5	10.1
Imports (monthly % ch)	6.0	-1.9

Source: ABS

From deficit to surplus to deficit



Source: ABS and ANZ

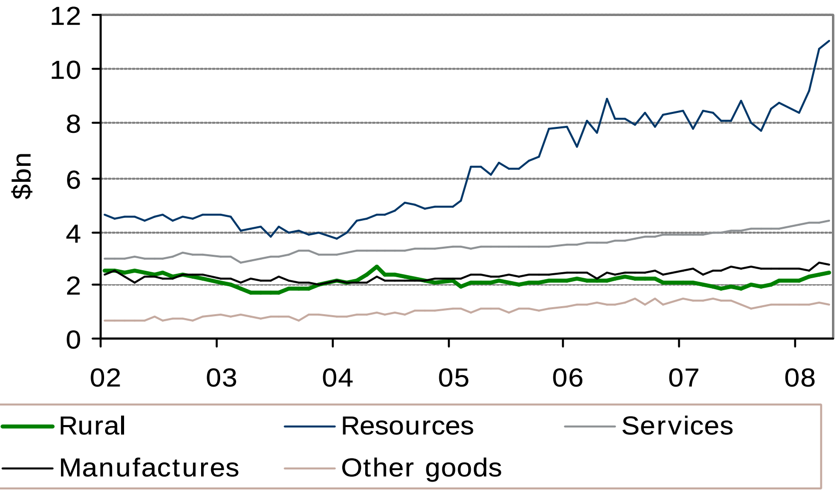
Riki Polygenis
Economist

Surplus in April, but not in May

There was a lot of uncertainty surrounding today's trade figures, with the extent to which the ABS would backdate the data to include iron ore contract price rises unclear. In the end it appears that the ABS included a 'conservative' estimate in the figures which meant **Australia recorded a surplus of $12mn in April** (revised upwards from a deficit of -$957mn), the first surplus since March 2002. Small, but it still counts!

Unfortunately, a surplus could not be sustained into May, with the trade balance returning to negative territory (-$A965mn). This was mostly due to a large rise in imports (+6.0%), although a sharp fall in exports of non-monetary gold (-30%) was also a driving factor. Exports in total rose by 1.5%.

Export values on an upward trajectory



Source: ABS and ANZ

There is scope for the figures for April and May to be revised upwards given that Rio Tinto has settled for a 85% average price rise with its Chinese customers. Assuming that Australia's other iron ore exporters achieve a similar increase, then the estimate of 61% (in balance of payments terms) included by the ABS appears low and will have to be adjusted upwards in coming months as the ABS receives more information.[1]

More broadly, we can expect further trade surpluses in coming months. The full increase in coal prices is yet to feed through and a recovery in rural production and higher global agricultural prices will support exports. Meanwhile, we can expect some reversal of the large boost to imports this month.

The fact that there was a trade surplus in April, as encouraging as it may be, is unlikely to have much impact on monetary policy. The RBA is already aware of the huge boost to national income in train stemming from the terms of trade boom and has consistently flagged this as a key positive influence on the Australian economy (which poses upside risks for inflation).

The large rise in imports is perhaps more of a concern, particularly an 8% rise in consumption goods in the month. Together with yesterday's surprisingly strong retail sales data, this suggests that consumer spending and domestic demand may not be as weak as suggested by the RBA when it left rates unchanged on Tuesday. **Given numerous inflation risks both globally and domestically, further monetary policy tightening this year cannot be ruled out.**

[1] A 61% increase in iron ore prices is the figure used to calculate the trade balance. The ABS used a 16% increase in iron ore prices in the calculation of the recorded trade data.

The detail

Goods exports posted only a modest gain in May (+1.6%), a somewhat disappointing result given firm increases in coal exports (+13.3%), metal ores & minerals exports (+5.3%, includes iron ore) and rural exports (+2.2%). The soft growth in goods exports was partly due to lower manufactured exports (-2.0%), but the main driver was a sharp fall in exports of non-monetary gold of 29.5%. This is a very volatile component and is likely to pick up again in June. Services exports increased moderately (+0.7%) in the month.

Goods imports increased sharply by 7.2% in May to be 19.0% higher over the year. The largest increase was in intermediate & other goods (+9.9%), which was driven higher by a 17% increase in fuels & lubricants in line with higher global crude oil prices. Perhaps more surprising was a 7.8% increase in consumption goods. Moreover it is unlikely to be a price effect – if anything the appreciation of the A$ should have pushed prices down – and suggests that firms have been relatively optimistic that households will continue buying. The increase in consumption goods was broad based with all categories increasing.

In contrast, capital goods imports fell during the month (-0.1%), although this was largely due to a fall in imports of aircraft; excluding aircraft, this category rose by 0.6% in the month. Services imports rose by 1.0% in the month.

Figure 1: International trade - the detail

May-08	Monthly change (%)	Annual change (%)
Trade balance (mn)	**-$965**	
Change in trade balance (mn)	-$977	$256
Total Exports	**1.5**	**19.5**
Goods	1.6	22.0
Rural goods	2.2	24.9
Non-rural and other goods	1.6	21.5
Mining & metals (inc. gold)	3.2	32.0
Manufactures	-2.0	7.5
Other goods (ex. gold)	-4.1	-13.8
Services	0.7	10.7
Total Imports	**6.0**	**17.0**
Goods	7.2	19.0
Consumption goods	7.8	16.4
Capital goods	-0.1	0.1
Intermediate and other goods	9.9	30.1
Services	1.0	8.9

Source: Source: Australian Bureau of Statistics

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