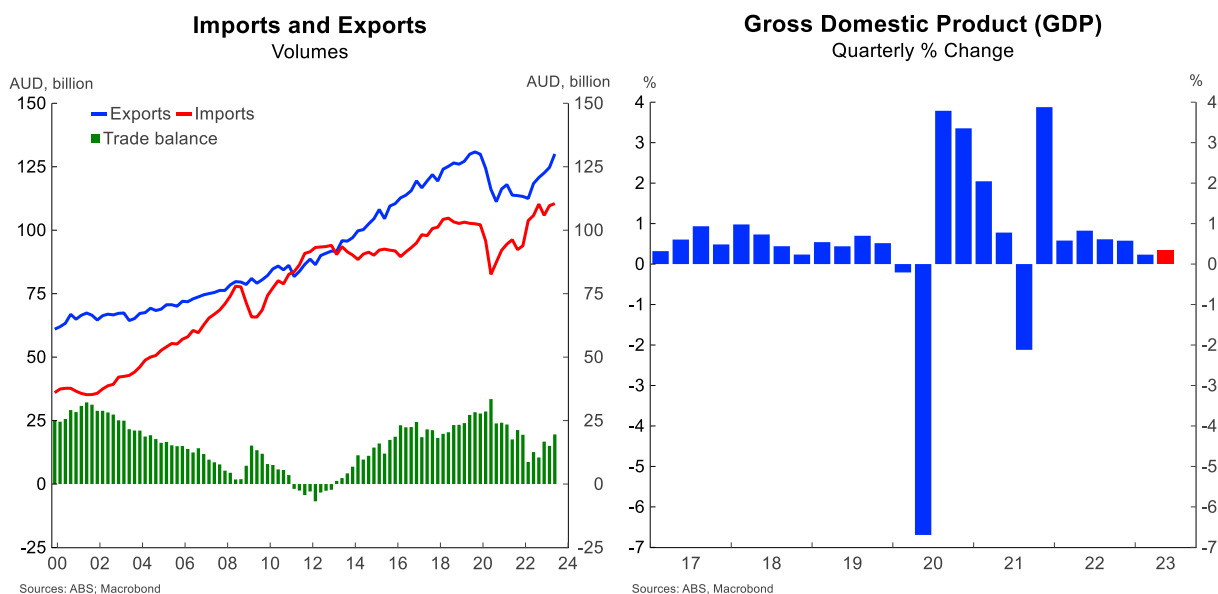


Tuesday, 5 September 2023

# Current Account and GDP Preview

## Trade & Government To The Rescue

- The value of Australia's trade balance declined to \$31.4 billion in the June quarter, down from \$39.4 billion in the March quarter. This was driven by a massive 7.9% fall in our terms of trade (ratio of export to import prices) – the largest since the June quarter 2009. The volume of net exports (trade adjusted for price changes) increased, which matters most for economic activity.
- The volume of Australia's net exports increased by \$4.5 billion in the June quarter. This was driven by a 4.3% increase in export volumes which was partly offset by a 0.7% increase in import volumes. Services exports and imports have rebounded to around 94% and 79% of pre-COVID levels, respectively.
- Based on this, net exports are expected to contribute 0.8 percentage points to economic growth in the June quarter. In addition, new public demand grew by 1.3% and is expected to contribute 0.5 percentage points to GDP growth in the June quarter, once accounting for public inventories.
- Putting these together, our central forecast is that the economy grew by 0.4% over the June quarter to be 1.8% higher in annual terms. Following the weaker than expected inventory outcome yesterday, there was a real risk Australia could have recorded the first negative quarter of activity since the March quarter of 2011 (excluding the COVID period). Today's trade and public spending data more than offset this risk.
- While the aggregate number is likely to hold up when the ABS publishes the national accounts tomorrow, the makeup is likely to show that the household sector is doing it tough and per capita measures are likely to show considerable weakness.

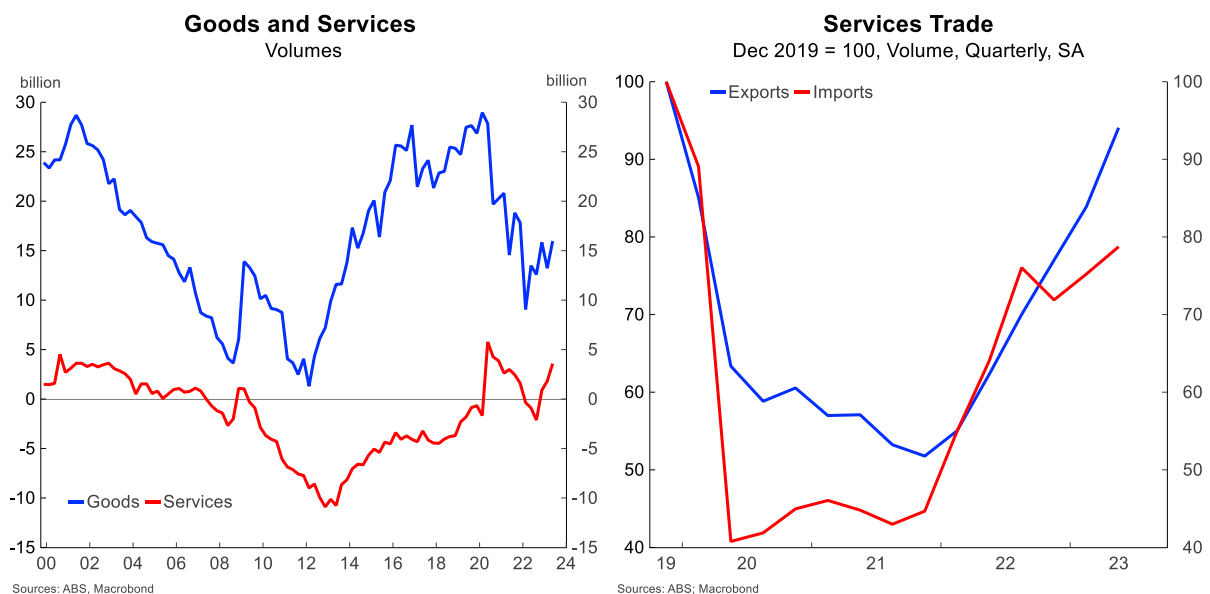


The value of Australia's trade balance declined to \$31.4 billion in the June quarter, down from \$39.4 billion in the March quarter.

This decline was driven by a massive 7.9% fall in our terms of trade (ratio of export to import prices) – the largest fall since the June quarter 2009.

The volume of our net exports (trade balance adjusted for price changes) increased over the quarter. This looks at the volume of goods and services traded over the quarter, which is what matters for economic activity. Services exports and imports have rebounded to around 94% and 79% of pre-COVID levels, respectively.

The volume of Australia's net exports increased by \$4.5 billion in the June quarter. Based on this, net exports are expected to contribute 0.8 percentage points to economic growth in the June quarter.



## Export and Import Volumes

Export volumes increased by 4.3% over the June quarter. This was driven by a 12.1% increase in service exports where we saw travel exports increase by 18.5% over the quarter.

The strong outcome reflects the continued recovery in education and personal travel since the re-opening of Australia's international borders. The number of international students in Australia was above pre COVID-19 levels for the first time since the beginning of the pandemic.

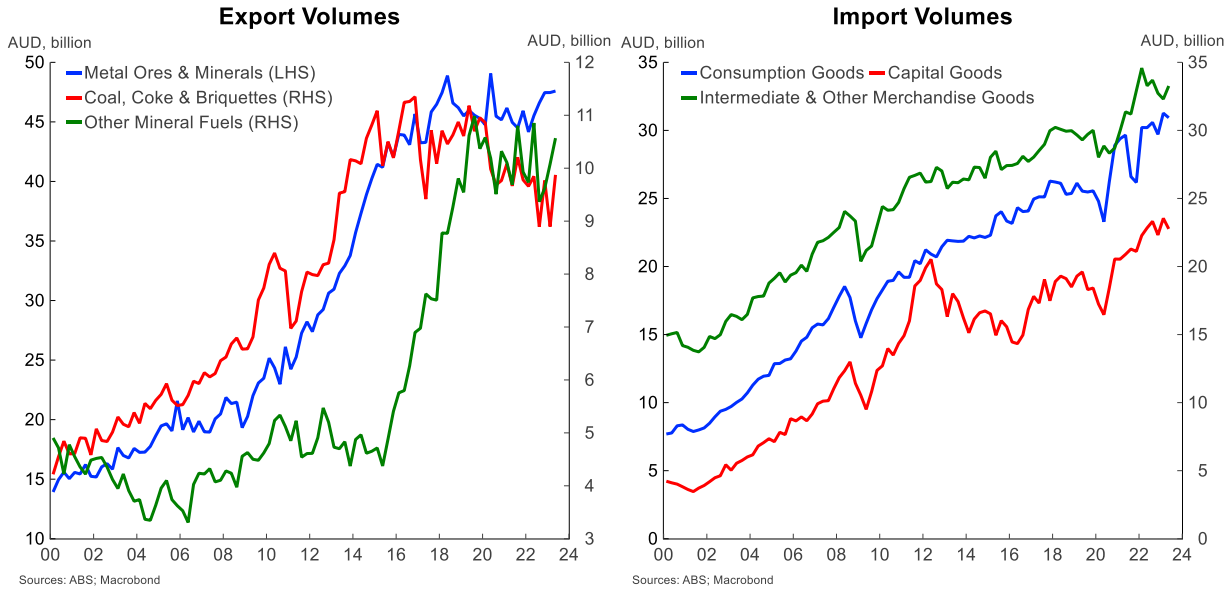
The exports of goods also increased by 2.5% over the quarter. This was mainly driven by a 2.4% increase in resources exports from the mining sector.

Import volumes increased by 0.7% over the June quarter. This was driven by a 4.7% increase in the imports of services on the back of a 11.2% increase in travel imports.

The imports of goods declined by 0.2% over the quarter. When it comes to the sub-categories of goods, only the import of intermediate goods increased by 3.0% over the quarter, driven by industrial supplies and fuel.

Imports of consumption goods declined by 1.1% over the quarter reflecting the slowdown in demand. We saw declines in imports of household electrical items, toys, and textiles, clothing & footwear. Non-industrial transport equipment (vehicles) increased by 0.8% over the quarter, following three consecutive quarterly growth rates of more than 10%. Surprisingly, the imports of capital goods declined by 3.3% over the quarter due to large falls in telecommunication items,

automated data processing (ADP) equipment, and machinery & equipment.

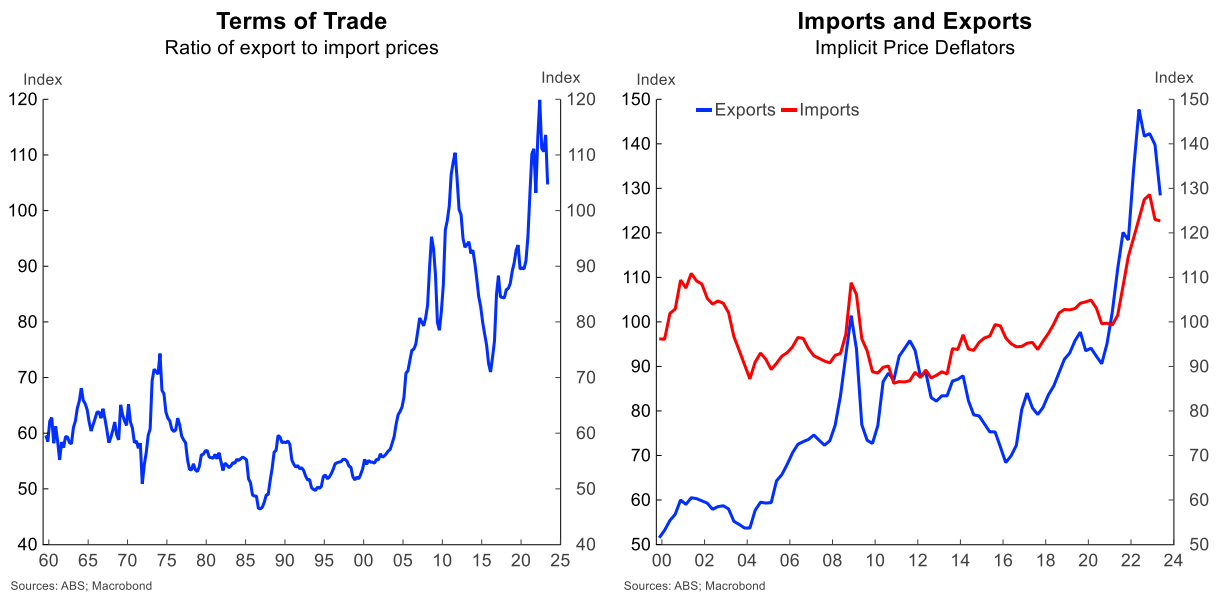


### Terms of Trade

The terms of trade, which is a ratio of export prices to import prices, declined by a massive 7.9% – the largest fall since the June quarter 2009. An increasing term of trade has given Australia an income boost because the things we produce have attracted a higher price. Over the June quarter, this went in reverse. The price of our exports fell on average by a large 8.2%, while the price of our imports also declined by 0.2%.

Weakness in export prices was driven by falls in commodity prices (down 9.2%) as prices for energy commodities like coal and LNG continued to fall from the highs seen in 2022.

It is also important to consider the performance of the Australian dollar over the quarter as this has an impact on trade prices. A weaker currency makes our exports more competitive on the global market but increases the cost of our imports. The Aussie dollar depreciated by 2.3% against the US dollar over the June quarter and by 0.9% on a trade-weighted basis.



## Government Finance Statistics

New public sector demand grew 1.3% in the June quarter. Public consumption expanded 0.4% in the quarter, driven by an increase in national non-defence spending, which rose 1.9% in the quarter and state and local consumption (0.9%).

New public investment grew by a very solid 5.6% in the quarter. Investment is being supported by a large pipeline of infrastructure projects. This pipeline has contributed to strong growth in public investment and is expected to support GDP growth.

New public sector demand is to contribute 0.5 percentage points to GDP growth in the June quarter, once accounting for public inventories.

## GDP Preview

Putting these together, our central forecast is that the economy grew by 0.4% over the June quarter to be 1.8% higher in annual terms. Following the weaker than expected inventory outcome yesterday, there was a real risk Australia could have recorded the first negative quarter of activity since the March quarter of 2011 (excluding the COVID period). Today's trade and public spending data more than offset this risk.

While the aggregate number is likely to hold up when the ABS publishes the national accounts tomorrow, the makeup is likely to show that the household sector is doing it tough and per capita measures are likely to show considerable weakness.

Selected Expenditure Items on GDP	Contribution to GDP (ppt)	
	March quarter	June quarter*
Household Consumption	0.1	0.0
Dwelling Investment	-0.1	0.0
New Business Investment	0.3	0.2
Public demand	0.2	0.5
Inventories	0.0	-1.0
Net Exports	-0.2	0.8
GDP	0.2	0.4

\*March quarter actual and June quarter is expected.

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