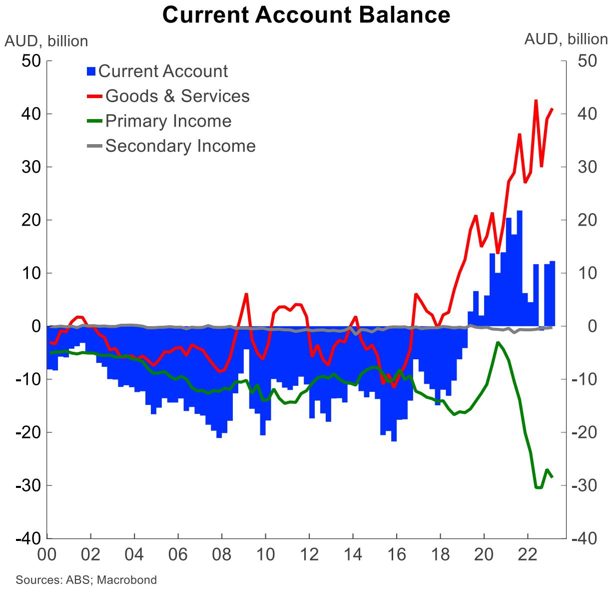
Tuesday, 6 June 2023

Current Account and GDP Preview
Surplus Widens But Record Over

- **Australia's current account surplus widened in the March quarter of 2023. The current account surplus printed at $12.3 billion, following a $11.7 billion surplus in the December quarter.**
- **The record run of current account surpluses is over as it was interrupted by a revision to the September quarter of 2022. The revisions mean that the record run of current account surpluses ended at 13 consecutive quarters in the September quarter of 2022.**
- **The surplus was driven by a $2.0 billion rise in the balance on goods and services (or trade surplus), to $41.1 billion – the second highest on record. An increase in the value of goods and services exports (0.4%) and decrease in imports (-0.9%) drove the result.**
- **In volume terms (i.e. stripping out price effects), imports (3.2%) and exports (1.8%) rose. Strong import volumes reflected gains across both goods and services. Export volumes were supported by a surge in services and a modest gain in goods. Services exports and imports have rebounded to around 82% and 73% of pre-COVID levels, respectively.**
- **Net exports are expected to detract 0.2 percentage points from growth in the March quarter. The terms of trade (ratio of export to import prices), rose 2.8% in the March quarter.**
- **New public sector demand grew 0.6% in the March quarter and is expected to contribute 0.2 percentage points to GDP growth in the March quarter.**
- **The economy is slowing as the RBA fights to contain elevated inflationary pressures. Today's data provides another piece of the puzzle. We expect that GDP advanced 0.3% in the March quarter, to be 2.4% higher through the year.**



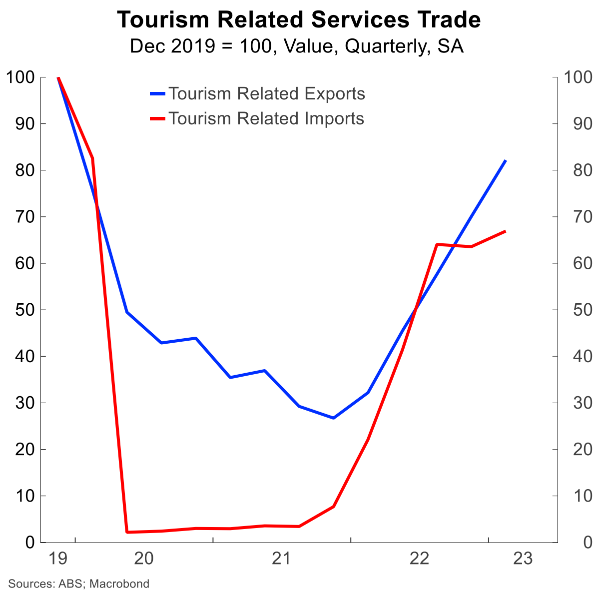
Current Account

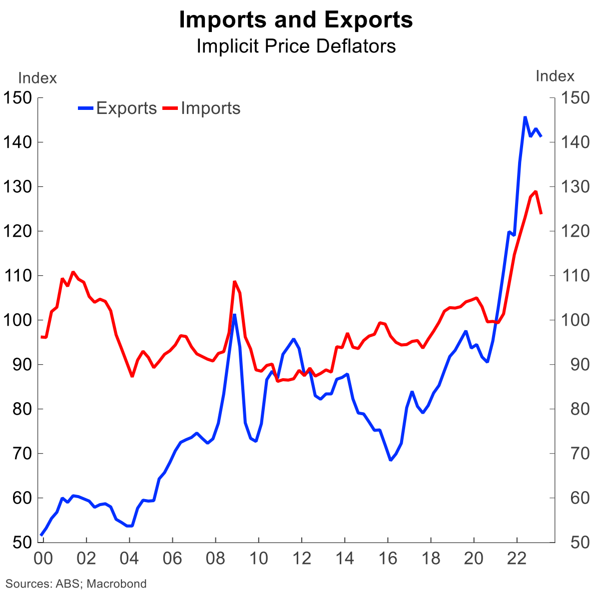
Australia's current account surplus widened in the March quarter of 2023. The current account surplus printed at $12.3 billion in the quarter. This reflected a slight widening of $0.6 billion compared to the $11.7 billion surplus in the December quarter of 2022.

The record run of current account surpluses is over, yet again, as it was interrupted by a further revision to the September quarter of 2022. The September quarter first printed as a deficit of $2.3 billion before being revised to a small surplus of $0.8 billion. The latest update has revised the estimate further, to a small deficit of $0.8 billion. The revisions mean that the record run of current account surpluses ended at 13 consecutive quarters in the September quarter of 2022.

The current account surplus was driven by an improvement in the balance on goods and services (or trade surplus) of $2.0 billion, to $41.1 billion in the March quarter. This was the second highest trade surplus on record, following the $42.7 billion outcome in the June quarter of 2022. The improvement was driven by a 0.4% increase in the value of exports and a 0.9% decrease in the value of imports. While the record run of current account surpluses may have been broken, the record run of trade surpluses continues, extending to the 21 consecutive quarters.

The stronger trade surplus was partly offset by a rise in the net primary income deficit. The net primary income deficit widened by $1.6 billion to $28.5 billion in the March quarter. This reflected a $2.9 billion decline in primary income credits, to $21.5 billion and a $1.3 billion decline in primary income debits, to $50.0 billion. This category captures the flows of income to and from Australia. Profits paid to foreign investors in the mining sector, which constitute a large share of these income flows, remain elevated but declined in the quarter, reflecting weaker prices across some commodities.





The increase in the value of goods and services exports was driven by a $2.0 billion (9.0%) increase in services exports, partly offset by a $1.2 billion (0.8%) decrease in goods exports. Services exports continue to rebound strongly and have been driven by a resurgence in the international student population and a rapid pick up in overseas tourism. In fact, international student numbers are now back to 94% of their pre-COVID levels and the value of tourism-related services exports (including tourism and expenditure by international students) has risen to be 82% of its pre-COVID level (as at the December quarter of 2019).

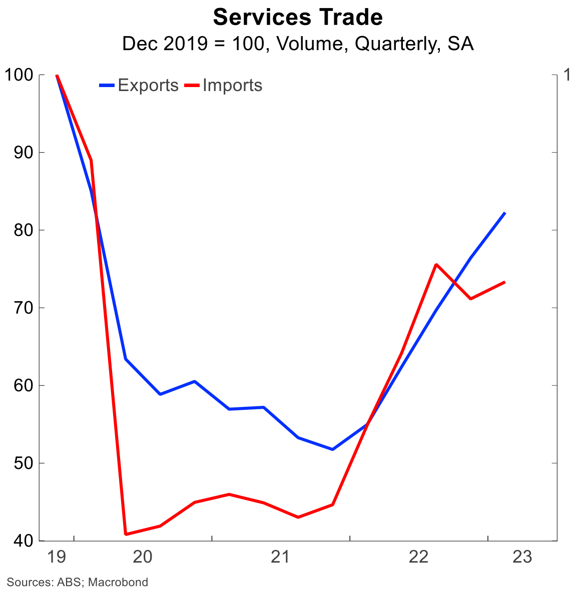
The fall in the value of goods and services imports was driven by a $0.7 billion (0.7%) decline in goods imports and a $0.5 billion (2.0%) fall in services imports. The decline in the value of imports was driven by falling prices, as evidenced by the fact that the volume of imports grew by 3.2% in the quarter. In fact, import prices recorded their largest quarterly fall since the December quarter of 2010. This is a positive sign for the inflation outlook and represents the gradual easing of global supply-chain disruptions across many categories. Goods import prices fell 3.7% in the quarter, reflecting declines across all major categories, including intermediate and other mechanise goods (-6.0%), consumption goods (-2.4%), and capital goods (-0.4%). Prices for fuels and lubricants plunged 12.4% in the quarter, following a 5.3% decline in the previous quarter. This reflects the decline in the global oil price amid investor expectations for weaker global growth.

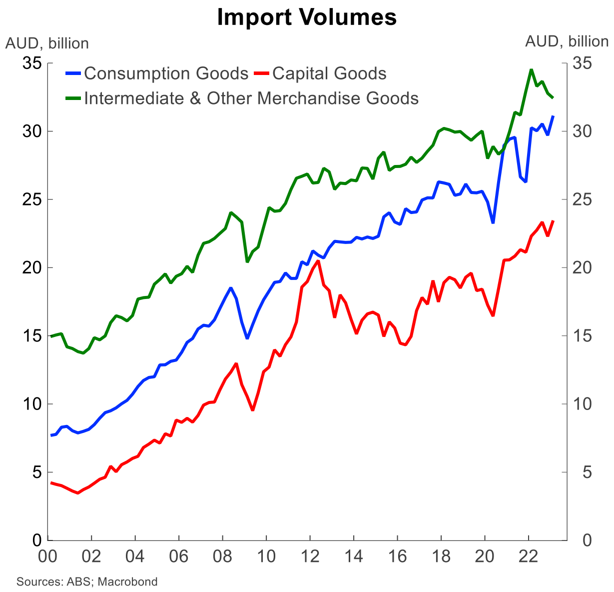
Export and Import Volumes

Net exports are expected to detract 0.2 percentage points from growth in the March quarter. This outcome was better than the 0.5 percentage point detraction expected by consensus and follows a positive 1.1 percentage point contribution in the December quarter.

The expected detraction from growth reflects a 3.2% increase in import volumes (i.e. stripping out price effects), which was partly offset by a 1.8% gain in export volumes. Strong import volumes reflected gains across both goods (3.3%) and services (3.1%). Export volumes were supported by a surge in services (7.7%) and a modest gain in goods (0.7%).

Services trade continues to rebound strongly and has further narrowed the gap on pre-COVID levels. Indeed, services exports were around 82% of their pre-COVID levels, while services imports were around 73% of the pre-COVID levels. The recovery of services trade is expected to continue through the remainder of 2023 and into 2024.





Looking further into the detail, growth in the volume of goods exports was driven by rural goods (6.5%), and particularly meat & meat preparations, which surged 36.9% in the quarter. Other mineral fuels (3.6%), namely LNG, was the strongest contributor among non-rural commodities. Metal ores and minerals (0.3%) also added to growth, reflecting exports of iron ore and lithium. However, non-rural commodities detracted from export growth in the quarter, as exports of coal, coke & briquettes (-7.8%) and metals (-7.6%) pulled back.

Growth in goods imports was driven by consumption goods (4.9%), largely reflecting an 11% surge in non-industrial transport equipment (i.e. vehicles). This category also recorded strong growth of 10.8% and 14.7% over the December and September quarters, respectively. Improvements in global supply chains and shipping capacity have contributed to a surge in vehicle imports after extended delays during the pandemic. Indeed, vehicle imports were almost 54% above pre-pandemic levels. Strong demand by consumers and businesses has also supported this strength.

Capital goods (5.2%) also contributed strongly to import growth. Telecommunications equipment (25.1%) and machinery & industrial equipment (6.3%) led growth across the sub-categories. Import growth was partly offset by intermediate & other merchandise goods, which slipped 1.1%.

Generous tax incentives have also supported business investment and demand across many import categories. These incentives are ending in June 2023 and are being replaced by a temporary measure which is less generous and applies to a smaller pool of businesses. As a result, some business may also be looking to purchase new investment goods, such as vehicles and machinery & industrial equipment before these measures expire.

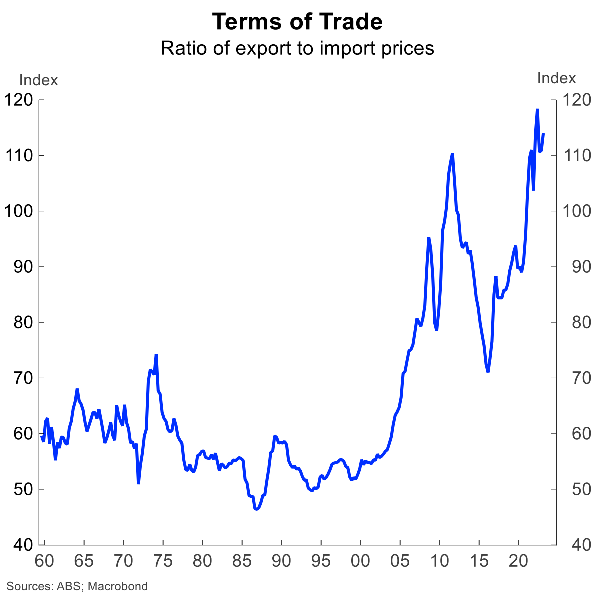
Terms of Trade

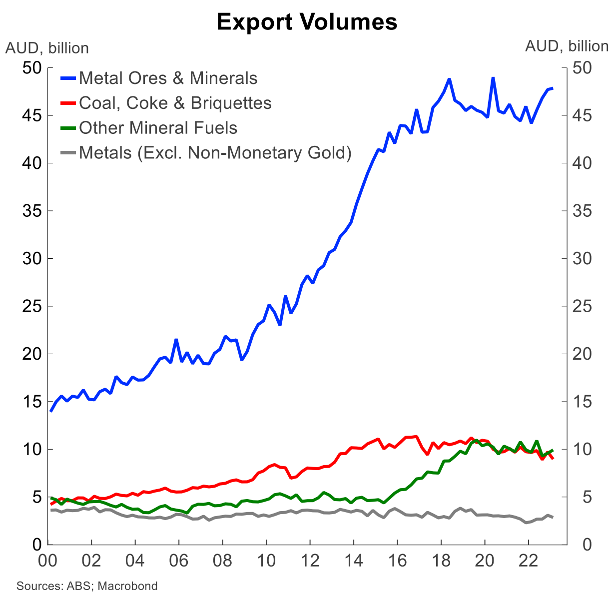
The terms of trade, which is a ratio of export prices to import prices, rose 2.8% in the March quarter, to be 0.1% higher in annual terms.

Both import prices (-4.0%) and export prices (-1.3%) declined in the quarter. However, the fall for import prices was larger than the fall for export prices, resulting in an improvement in the terms of trade. Weakness in export prices was driven by falls in commodity prices, including rural (-9.8) and non-rural goods (-0.1%). The Reserve Bank's (RBA) commodity price index declined 2.6% over the March quarter as global growth concerns weighed on expectations for future demand.

Import price declines reflected falls across services (-4.9%) and goods (-3.7%), as easing supply chain disruptions helped to push import prices lower.

It is also important to consider the performance of the Australian dollar over the quarter as this has an impact on trade prices. A stronger domestic currency makes our exports more expensive on the global market but decreases the cost of our imports. The Aussie dollar appreciated by 4.0% against the US dollar over the March quarter and 0.3% on a trade-weighted basis.





Government Finance Statistics

New public sector demand grew 0.6% in the March quarter. This represents a 0.7% gain over the year to the March quarter. The outcome followed 0.3% growth over the December quarter.

Public consumption expanded 0.1% in the quarter, driven by an increase in national non-defence spending, which rose 1.1%. This was partly offset by declines across national defence (-0.9%) and state and local consumption (-0.4%). Over the year to the March quarter, public consumption declined 0.1%, as spending has slowed slows from elevated levels driven by the COVID-19 pandemic response.

New public investment grew by a very solid 3.0% in the quarter. New public investment expanded by 4.2% over the year to the March quarter. Investment is being supported by a large pipeline of infrastructure projects which remains in place across the public and private sectors. This pipeline has contributed to strong growth in public investment and is expected to support GDP growth in the March quarter. The outcome followed a 1.0% contraction in the December quarter. Work across the sector has been impacted by weather-related disruptions, in addition to materials shortages and challenges sourcing labour. These disruptions had less of an impact in the March quarter as supply-chain disruptions and labour shortages ease.

New public sector demand is expected to contribute 0.2 percentage points to GDP growth in the March quarter.

GDP Preview

The economy is slowing as the RBA fights to contain elevated inflationary pressures. Today's data provides another piece of the puzzle and reinforces our expectations for growth in the March quarter. Incorporating today's data and other partial economic information available, we expect that GDP advanced 0.3% in the March quarter, to be 2.4% higher through the year.

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