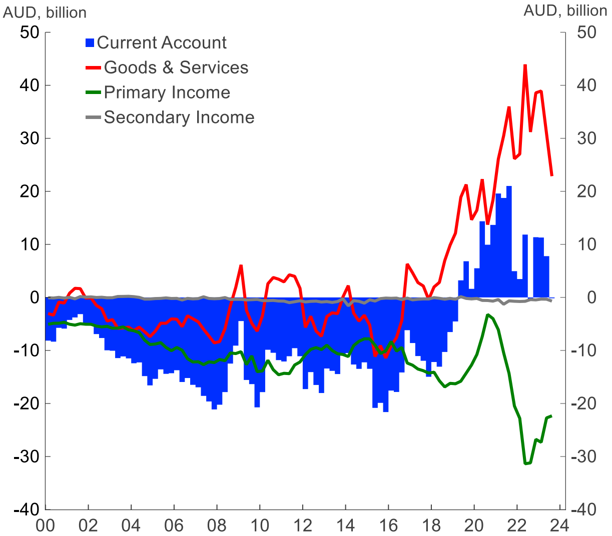
Tuesday, 5 December 2023

Current Account and GDP Preview
Only Second Deficit in Almost 5 Years

- **Australia's current account balance fell into deficit for the first time in a year in the September quarter. Australia recorded a $0.2 billion deficit, a $7.9 billion narrowing compared to the June quarter. This marks only the second deficit in 4.5 years – since the June quarter of 2019.**
- **The turnaround reflected a $8.0 billion narrowing of the trade surplus, to $22.9 billion, from $30.8 billion. This was due to a 2.1% fall in the value of exports, in addition to a 3.3% increase in the value of imports. The net income balance, the other key component, was largely unchanged.**
- **Services trade continues to recover and the value of tourism-related exports rose to be more than 5% above pre-pandemic levels (as at December quarter 2019). The recovery has been driven by a surge in international students, as the number of international students hit a record.**
- **In volume terms (i.e. stripping out price effects), exports declined 0.7%, reflecting a 1.2% drop in goods, partly offset by a 1.9% rise in services. The weakness in goods was driven by non-rural commodities, which declined a material 4.7%. Rural goods surged 11.8%.**
- **Real imports rose 2.1%, driven by an 8.4% surge in services imports as Aussies continue to be bit by the travel bug. However, services imports are still around 21% below pre-pandemic levels.**
- **Net exports are expected to detract 0.6 percentage points from growth in the September quarter while new public demand is expected to contribute 0.4 percentage points.**
- **Resilience has been a key theme throughout 2023. We expect the economy expanded 0.5% in the September quarter. This would correspond to a 1.9% annual increase. While below trend, this represents a robust pace of growth, particularly given the headwinds facing the economy.**

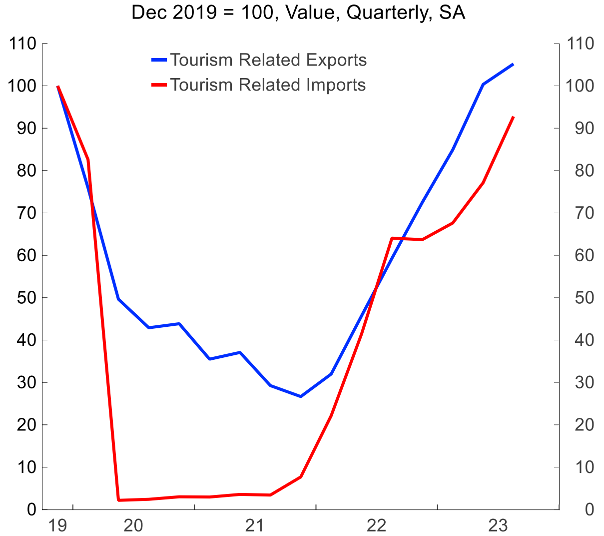
Current Account Balance



Sources: ABS; Macrobond

Tourism Related Services Trade

Dec 2019 = 100, Value, Quarterly, SA



Sources: ABS; Macrobond

Current Account

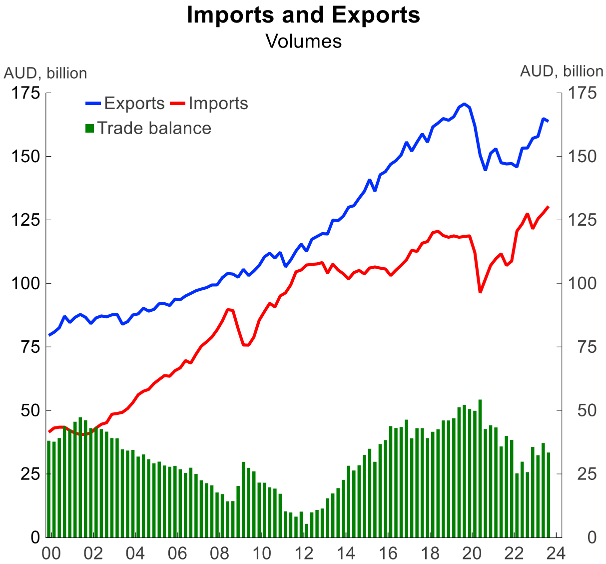
Australia recorded a $0.2 billion current account deficit in the September quarter, from a $7.8 billion surplus in the June quarter – a $7.9 billion narrowing. This was first current account deficit in a year. It also marks only the second time that the current account has been in deficit in 4.5 years – since the June quarter of 2019.

The turnaround in the current account reflected an $8.0 billion narrowing of the trade surplus, to $22.9 billion, from $30.8 billion. The other key component – the net income balance – was broadly unchanged, as a $0.4 billion narrowing in the primary income deficit was offset by a $0.4 billion widening in the secondary income deficit.

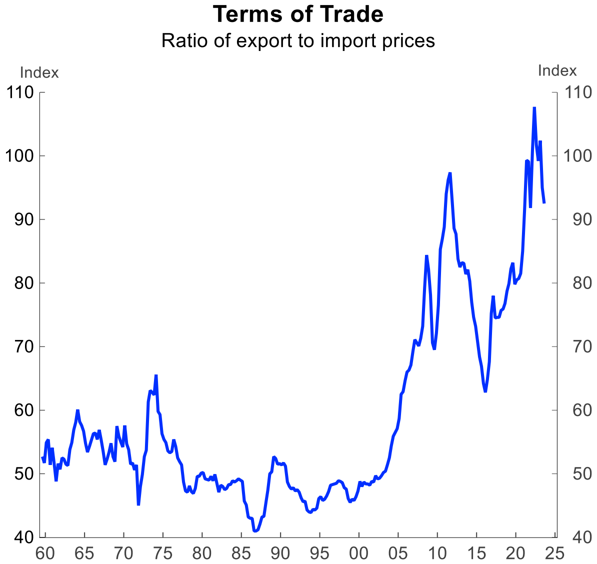
The narrowing of the trade surplus reflected a 2.1% fall in the value of goods and services exports, in addition to a 3.3% increase in the value of goods and services imports. Despite the narrowing, the trade balance remained comfortably in surplus– the 23rd consecutive quarter of surpluses.

Services trade continued to recover and the value of tourism-related exports rose to more than 5% above pre-pandemic levels (as at December quarter 2019). The recovery has been driven by a surge in international students. Indeed, the number of international students in the country rose to a record high. Services imports continue to recover as more Australia's travel overseas. However, this category is still around 7% below pre-pandemic levels.

A 2.6% fall in the terms of trade – the ratio of Australia's export prices to import prices – also contributed to the narrowing of the trade surplus.



Sources: ABS; Macrobond



Sources: ABS; Macrobond

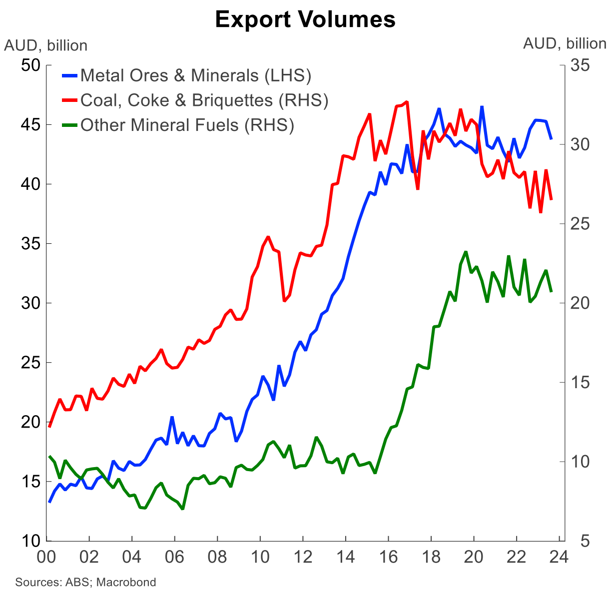
Export and Import Volumes

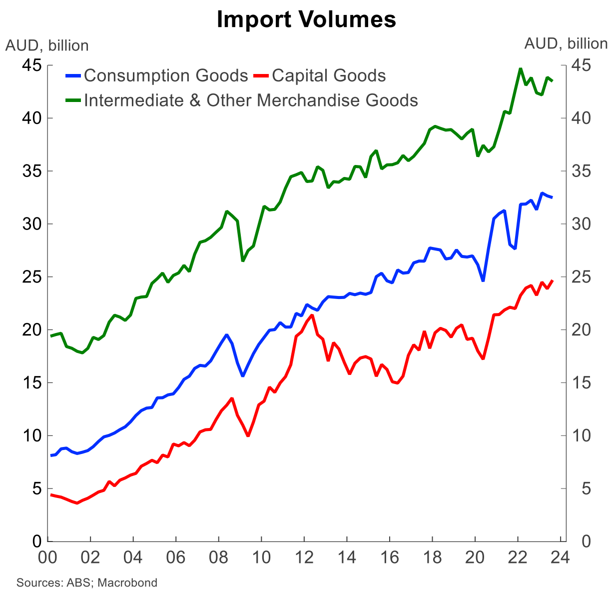
Net exports are expected to detract 0.6 percentage points from growth in the September quarter.

The volume of exports declined 0.7% in the quarter. This reflected a 1.2% drop in goods exports, which was partly offset by a 1.9% rise in services exports. The weakness in goods exports was driven by non-rural commodities, which declined a material 4.7% in the quarter. Coal, coke & briquettes (-6.8%), other mineral fuels (-6.3%), and metal ores & minerals (-3.4%) were all down. Only metals (3.4%) were higher in the quarter, but this is a small sub-category of non-rural commodities and therefore has little impact on overall movements. On the positive side, rural goods were the strongest contributor to growth, surging 11.8%. Non-monetary gold (12.2%) was another strong sub-category. The volume of services exports (i.e. education and travel exports) continues to recover and has almost returned to pre-pandemic levels – less than 4% below.

The volume of imports rose 2.1% in the quarter. This reflected an 8.4% surge in services imports, as Aussies continue to be bit by the travel bug. Despite strong growth in recent quarters, services imports are still around 21% below pre-pandemic levels and thus have some way to go until they recover all of the lost ground. Services imports are likely to continue to recover over coming quarters.

Goods imports were also higher, but by a more muted 0.5% in the quarter. This reflected strength in capital goods (3.4%) as businesses continue to look to invest amid an environment of strong capacity utilisation and still robust demand. Other industrial transport equipment (16.6%) and telecommunication equipment (10.8%) were the standouts in the quarter. Consumption goods (-0.5%) were lower as household budgets continue to be stretched. However, the detail was mixed. Non-industrial transport equipment (i.e. vehicles) rose 4.6% in the quarter as supply-chain disruptions and delivery backlogs continue to ease. Household electrical items were 2.5% higher, while other consumption goods declined – led by food & beverages (-6.5%).





Terms of Trade

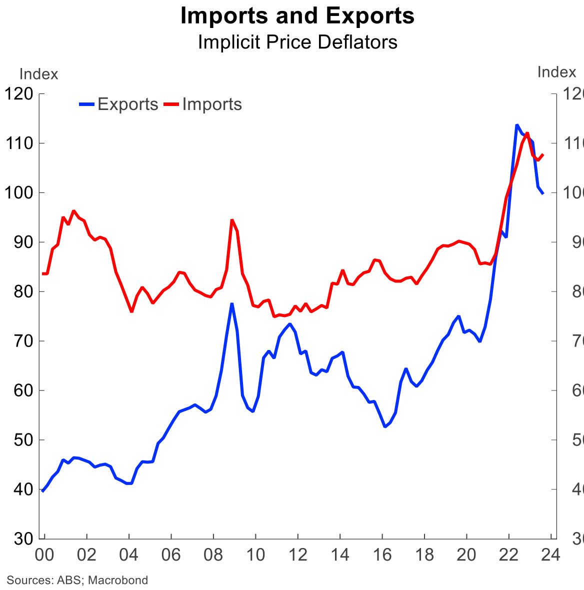
The terms of trade, which is a ratio of export prices to import prices, fell 2.6% in the quarter. In annual terms, the terms of trade declined by 9.0% and was at the lowest level since the December quarter 2021.

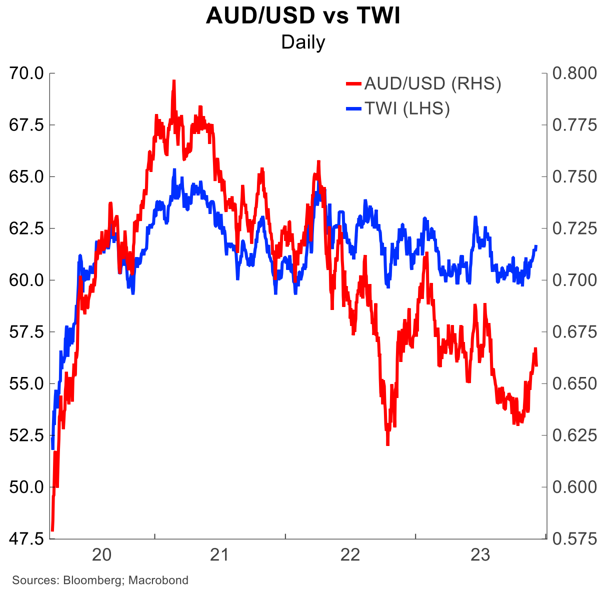
Export prices declined 1.5%, reflecting a 2.0% decline in the prices of the goods we export. This was partly offset by a 0.7% increase in services export prices. Commodity prices continued to recede from elevated levels in the September quarter. The Reserve Bank index of commodity prices fell 2.9% in Australian dollar terms, following an 11.1% plunge in the June quarter.

On the other hand, import prices were 1.2% higher, reflecting a 1.7% increase in the prices of imported goods, partly offset by a 0.9% decrease in services export prices. Fuels & lubricants (e.g. petrol) stood out significantly as prices surged 13.5% in the quarter – well above any other sub-category. Although for context, this price surge only partly retraced significant falls of 13.2% and 13.5% over the June and March quarters, respectively.

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 domestic currency makes our exports more competitive on the global market but increases the cost of our imports. The Aussie dollar depreciated by 2.1%

against the US dollar over the September quarter and 0.1%% on a trade-weighted basis (TWI). Despite rebounding strongly over the past few weeks, the AUD/USD pair has depreciated materially over the past few years. However, for domestic inflation pressures, the TWI is more important and this has remained in a narrower range over the same period.





Government Finance Statistics

New public sector demand grew 1.4%% in the September quarter, following 1.6% growth in the June quarter. This represents a 4.4% gain over the year to the September quarter.

Public consumption grew 1.1% in the quarter, following 0.6% growth in the previous quarter. All sub-categories of public consumption were higher in the quarter. Growth was strongest for national defence spending (4.7%). State & local consumption (1.2%) and national consumption (1.1%) were also higher. In annual terms, public consumption was 2.6% higher.

New public investment grew 2.4% in the quarter. This follows growth of 5.6% and 3.8% in the previous two quarters, respectively. Public investment continues to be supported by a strong pipeline of projects, including transport infrastructure. This is flowing through into material growth in investment work. Reflecting this, new public investment was 12.2% higher in annual terms.

New public sector demand is expected to contribute 0.4 percentage points to growth in the September quarter.

GDP Preview

Resilience has been a consistent theme throughout 2023. While economic growth is slowing, the data continues to show that there remains underlying resilience in the economy. Households are feeling the pinch and we are in a per-capita recession, however, strong population growth and robust investment are supporting aggregate growth outcomes.

We expect the economy expanded 0.5% in the September quarter, up from 0.4% over each of the previous two quarters. This would correspond to a 1.9% annual increase. While below the long-run average of a around 2.5%, this still represents a robust pace of growth, particularly given the headwinds facing the economy.

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