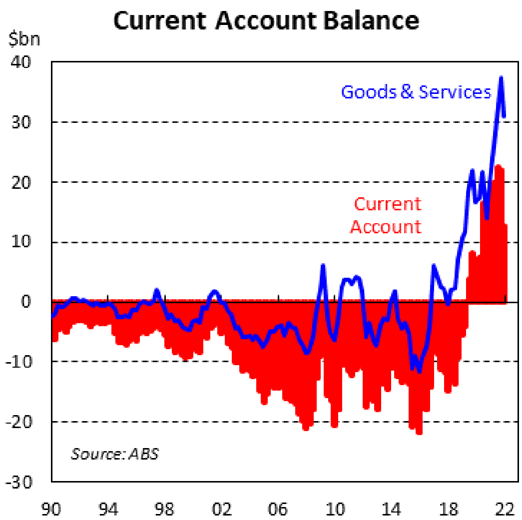
Data snapshot

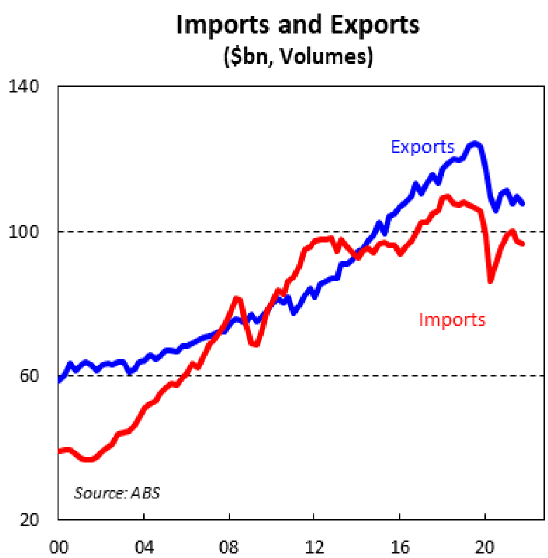
Tuesday, 1 March 2022

Current Account and GDP Preview

Surplus Narrows, Q4 GDP Looking Robust

- **Australia reported its 11th consecutive quarterly current account surplus, the longest on record, in the December quarter of 2021. However, the surplus narrowed by $9.3 billion to $12.7 billion.**
- **The decrease largely reflected a drop in the trade surplus. This fell $6.4 billion over the quarter as import values increased ($4.9 billion, or 4.9%) and export values fell (-$1.5 billion, or -1.1%).**
- **In volume terms (i.e. stripping out price effects) exports declined by 1.5% over the quarter. This reflected falls in non-rural goods (-2.6%). In particular, other mineral fuels, namely LNG (-5.3%), coal, coke & briquettes (-4.9%), and metals (-13.5%) dropped. The decline was partly offset by an increase in grain exports (23.8%).**
- **Import volumes were also down 0.9%. Goods (-0.4%) and services (-4.8%) imports both fell. The fall in goods imports reflected declines in imports of capital (-3.9%) and consumption goods (-2.6%), partly offset by a gain in intermediate goods (4.0%).**
- **Demand from the government sector fell 0.4% in the December quarter, as government spending pulled back after very strong growth associated with the COVID-response. New public final demand is expected to detract 0.1 percentage points from growth in the quarter. Net exports are also expected to detract 0.2 percentage points from growth.**
- **The terms of trade declined by 5.1% from a record high in the September quarter.**
- **We expect economic activity rebounded by 3.3% in the December quarter, led by a spike in consumer spending as pent-up demand was unleashed. Inventories likely added to growth, whilst net exports dragged and dwelling investment pulled back. Annual growth is expected to near 4%, well above the long-run average.**





Current Account

Australia reported its 11th consecutive quarterly current account surplus in the December quarter of 2021. However, the surplus narrowed by $9.3 billion to $12.7 billion. This is down from a revised outcome of $22.0 billion in the September quarter. This is the longest run of quarterly current account surpluses since the series began in 1959.

The decrease reflected a decline in the trade surplus. The trade surplus dropped by $6.4 billion over the December quarter. This reflected both an increase in imports of goods and services (up $4.9 billion, or 4.9%) and a decrease in exports of goods and services (down $1.5 billion, or 1.1%).

The fall in export values was largely due to declines in the prices of metal ores & minerals (-28.2%). This category largely reflects iron ore exports. In fact, iron ore futures prices fell from an average of around $137 over the September quarter to an average of around $106 over the December quarter. Chinese curbs on steel production to cut carbon emissions ahead of the Winter Olympics reduced iron ore demand and prices over the quarter. Blackouts in China also impacted production. However, this was partly offset by increases in coal, coke & briquettes (38.9%), other mineral fuels, namely LNG (24.5%), and grain exports (29.8%).

The jump in import values was largely driven by an increase in intermediate and other merchandise goods (up $4.4 billion, or 12.3%). Fuels and lubricants also rose by $1.5 billion, or 16.3% as economic activity rebounded following the lifting of Delta lockdowns across our largest states.

The net primary income deficit widened by $2.7 billion over the quarter and contributed to the narrowing in the current account surplus. This reflected an increase in dividends and other income distributions to non-residents as mining companies reported strong profits on the back of high commodity prices.

Export and Import Volumes

Net exports are expected to detract from growth in the December quarter by 0.2 percentage points. This is better than the 1.0 percentage point detraction that was expected by consensus.

In volume terms (i.e. stripping out price effects), exports of goods and services declined by 1.5% over the quarter. This follows a 1.5% gain over the September quarter. The drop reflected a contraction in exports of goods (-1.1%) and services (-4.6%).

The decline in goods exports reflected falls in non-rural goods (-2.6%). In particular, other mineral fuels, namely LNG (-5.3%), coal, coke & briquettes (-4.9%), and metals (-13.5%) dropped. The decline was partly offset by an increase in grain (23.8%) and metal ores & minerals (0.7%) exports.

Import volumes also fell over the December quarter, down 0.9%. Imports of both goods (-0.4%) and services (-4.8%) were negatively impacted over the quarter. The fall in goods imports reflected declines in imports of capital goods (-3.9%) and consumption goods (-2.6%), partly offset by a gain in intermediate goods (4.0%).

Surprisingly, consumption goods imports declined despite the easing of Delta lockdowns and a pick-up in economic activity over the quarter. However, the decline was driven mostly by a large fall in non-industrial transport equipment (-10.3%), i.e. cars. This followed a 16.1% fall in the September quarter. Vehicle demand has been strong since the pandemic began. However, supply continues to be impacted by supply-chain disruptions, including shortages of computer chips.

Toys, books & leisure goods, textiles, clothing & footwear, and other consumption goods all recorded gains over the quarter. Following large increases earlier in the pandemic, household electrical items continued to decline (-2.6%). This follows a fall of 10.9% and 19.6% over the previous two quarters, respectively.

Despite the pullback over the quarter, consumption goods imports remain 2.5% above pre-pandemic levels (as of December 2019).

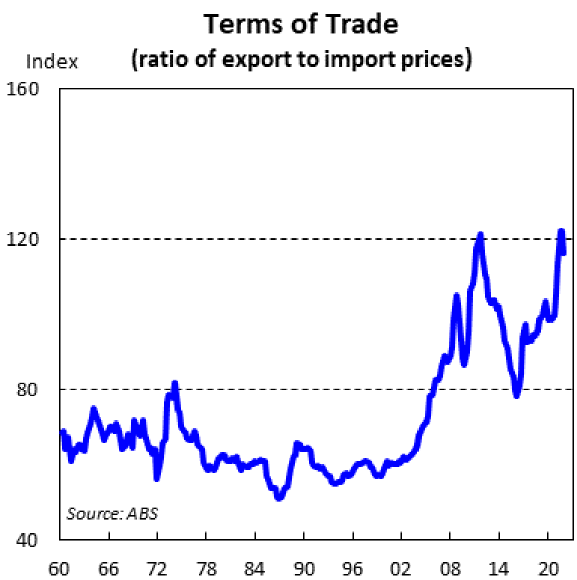
Services exports and imports both declined in the quarter, by 4.6% and 4.8%, respectively. These categories include inbound and outbound tourism and international education. Trade in these areas remained significantly subdued due to closed international borders. Encouragingly, international borders opened in February 2022 and services trade is likely to rebound over 2022. However, as international travel has changed following the pandemic, it is likely to take some time before services trade recovers to pre-pandemic levels.

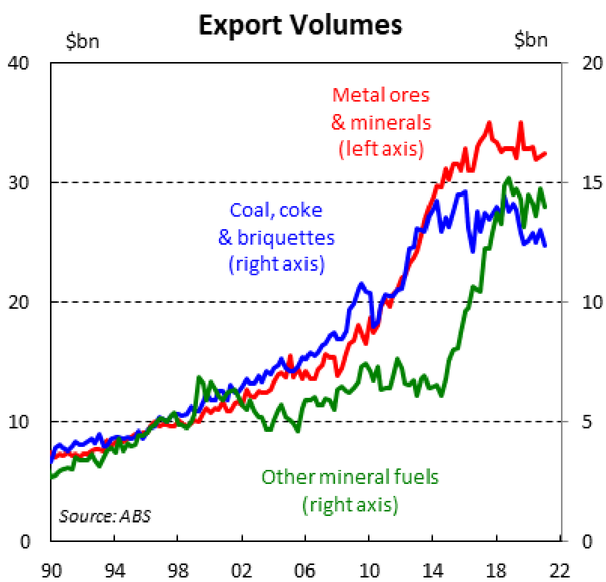
Terms of Trade

The terms of trade, which is a ratio of export prices to import prices, declined by 5.1% from a record high in the September quarter. The decline in the December quarter breaks a streak of five consecutive quarterly increases.

Despite the fall, the terms of trade remains elevated and was 10.3% higher over the year to the December quarter. A higher terms of trade supports national income through higher income for exporters and greater tax receipts for government.

The drop reflects decreases in the price of Australia's commodity exports. The Reserve Bank's index of commodity prices fell 2.4% over the December quarter. Lower prices for non-rural commodities, such as iron ore, contributed to the decline in the terms of trade.





Government Finance Statistics

Demand from the government sector fell 0.4% in the December quarter, as government spending pulled back after very strong growth associated with the COVID-response. It follows a solid gain in the September quarter of 3.3%, which was the fastest quarterly rise since March 2010.

Government consumption rose modestly, by 0.1%, but it was not enough to offset the 2.2% slide in government investment spending in the quarter.

In terms of the contribution from the government sector, it dragged slightly on GDP growth in the quarter – by 0.1 percentage points.

GDP Preview

Economic activity in the Australian economy likely rebounded in the December quarter, after the first contraction in just over a year in the September quarter. We anticipate the rebound was led by a sharp pickup in consumer spending, as Australians in the big states of NSW and Victoria emerged from their long lockdowns, unleashing pent-up demand. Plus, household savings remain elevated, interest rates are low, and the jobs market bounced back quickly from the Delta lockdowns. Consumption accounts for just over half of GDP. Inventories are also likely to have added to growth, whilst we are anticipating net exports dragged and dwelling investment likely pulled back.

Today's batch of data wraps up the partial economic indicators ahead of tomorrow's GDP numbers. We have upgraded our GDP forecast from 2.8% in the December quarter to 3.3% - which will be the biggest quarterly rise in a year if our forecasts come to fruition. It would take the annual growth rate to nearly 4% - well above the long-run average.

The GDP data is lagged with the current March quarter almost finished. We expect GDP was sidelined in the March quarter due to Omicron and many Australians in isolation due to COVID-19 or in a shadow lockdown. The high frequency economic data in recent weeks has been very encouraging and suggests the economic hit from Omicron was modest and the recovery has resumed.

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