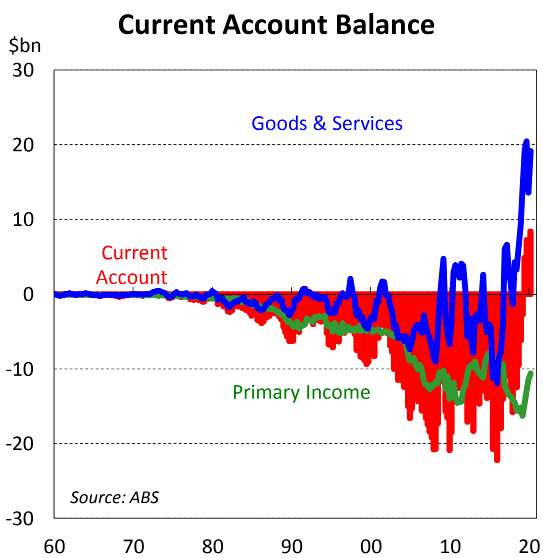
Data snapshot

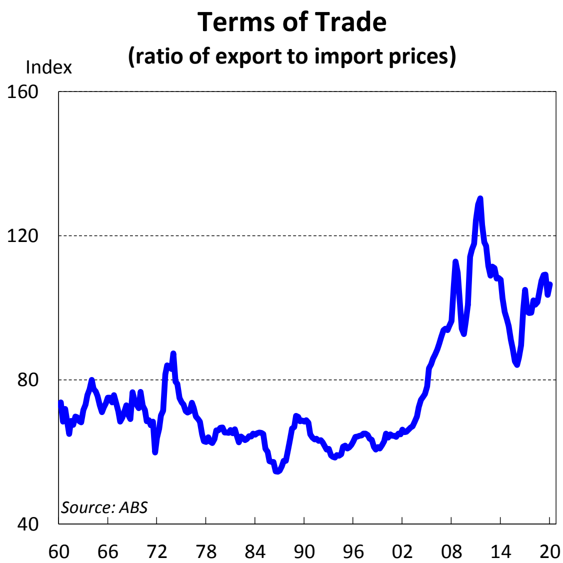
Tuesday, 2 June 2020

Current Account

Another Record Surplus

- **The current account registered its fourth and largest ever surplus in the March quarter. It widened by $6.7 billion to $8.4 billion.**
- **The mammoth surplus did not come under ideal circumstances. A health crisis and a natural disaster resulted in imports falling by more than exports. However, commodity prices rose over the quarter, which provided support to incomes. The goods and services surplus rose to $19.2 billion.**
- **Export volumes fell 3.5% and import volumes dropped 6.2%. Net exports are expected to make a solid contribution of 0.5 percentage points to GDP growth in the March quarter.**
- **Trade in services was disproportionately affected due to international travel restrictions placed on China and other countries affected by COVID-19. The volume of services exports fell by 12.8% in the March quarter, the weakest result since Q4 of 2000. The volume of services imports fell 13.6%, their largest fall in the history of the series, dating back to the December quarter of 1959.**
- **The outsized fall in imports raises concerns over domestic demand while the impact of COVID-19 on the global economy is continuing to darken the outlook for exports. Despite these negatives, there are upside risks, including the potential for fiscal stimulus in China and if the domestic and global economy can fully reopen safely and quickly.**





Current Account

The current account registered its fourth and largest ever surplus in the March quarter. Australia's current account surplus widened to $8.4 billion in the March quarter following a $1.7 billion surplus in the December 2019 quarter. The start to 2020 was marred by significant disruptions, including international travel and movement restrictions in China due to COVID-19 and cyclone Damien disrupting iron ore exports. The net effect was that exports fell by less than imports, leaving the goods and services balance significantly higher. The net income deficit narrowed slightly despite a surge in activity in financial markets.

Goods exports in value terms rose 1.9% in the March quarter, bouncing back from a 6.4% decline in the previous quarter. Mining exports benefited from a weaker Australian dollar and upward pressure on prices due to supply disruptions. Exports of metal ores & minerals (1.5%), coal, coke & briquettes (1.4%) and other mineral fuels (6.0%) grew over the quarter, bouncing back from negative outturns last quarter.

The value of goods imports fell 5.1% in the March quarter, following a 0.9% increase in the December quarter. The significant impact on global-supply chains due to China's lockdown in the face of the COVID-19 was highlighted by a 10.0% drop in capital-goods imports, which suffered the largest quarterly decline in 7 years. Intermediate-goods imports fell by 6.7% in value terms, the largest fall in 4 years.

The outsized fall in the value of imports led to a widening of the goods and services surplus to $19.2 billion in the March quarter, up from $13.6 billion previously. The surplus easily overshadowed a $10.6 billion deficit on the primary income account. Heightened volatility in financial markets is yet to show any evidence of causing dramatic moves in income credits or debits, with the income balance continuing its recent trend lower in the March quarter after recording a deficit of $11.4 billion in the December quarter.

Terms of Trade

The terms of trade, or the ratio of export prices to import prices, improved in the March quarter, led by a recovery in commodity prices. The terms of trade index rose 2.9%, as the prices of goods rose 3.8% over the quarter. Prices of services fell by 1.9% over the quarter.

Commodity prices have been supporting the terms of trade over the past year. Notwithstanding a pullback in the December quarter of 2019, the terms of trade has improved in 6 of the past 7 quarters. A reduction in global demand amid the economic slump caused by COVID-19 is expected to unwind some of this advantage in the near term. A worsening terms of trade puts downward pressure on national incomes through reduced company profits and taxation revenue.

Export and Import Volumes

Volume-based measures of trade declined across the board in the March quarter, as disruptions imposed physical constraints while increased uncertainty added an additional disincentive to trade. Exports fell by 3.5%, the largest quarterly decline in 9 years. Imports fell even more, by 6.2% over the quarter, the largest decline in 11 years. The larger decline in imports means that net exports will add to GDP growth in the March quarter, with a 0.5 percentage point contribution.

Services volumes were disproportionately affected due to international travel restrictions placed on China and other countries affected by COVID-19 early in the year. The volume of services exports fell by 12.8% in the March quarter, the weakest since the December quarter of 2000, following a return to a normal level of tourism after the Sydney 2000 Olympics. The Australian Bureau of Statistics (ABS) noted that services exports would have declined even further if it weren't for a substantial number of international students arriving early for Semester 1 study before travel bans were imposed. Meanwhile, services import volumes fell 13.6%, their largest fall in the history of the series, dating back to December 1959.

The disruption to goods trade was less severe than for services, but was still affected. Exports of iron ore, in particular, were impacted by cyclone Damien in Western Australia, resulting in a 1.8% decrease in the volume of metal ores & minerals in the March quarter. Exports of coal, coke & briquettes registered their second consecutive quarterly increase, up by 0.8% in the March quarter. “Other mineral fuels” (which includes LNG) rose 3.4% while metals (excluding non-monetary gold) exports bounced 9.6% higher.

Rural-goods exports fell 1.5% in the March quarter following a 2.8% increase in the December 2019 quarter. Rural-goods exports were impacted by the bushfires and have seen a large fall over the last year due to the drought.

Goods imports suffered from supply-chain disruptions, which resulted in uneven trade over the quarter, but softness in domestic demand probably played a role as well. Shipments went into catch-up mode late in March following the gradual reopening of the Chinese economy. Goods imports fell 3.9% over the quarter after rising 0.2% previously. Capital-goods imports plunged 10.3% while intermediate-goods imports fell 3.2%. The sharp decline in capital-goods imports, in particular, highlights the likelihood of a sharp contraction in business investment. Consumption-goods imports fell 2.1% in the March quarter, partially reflecting supply-chain disruptions and weak demand from consumers.

Outlook

Net exports are expected to provide a solid contribution to GDP growth in tomorrow’s GDP release. However, it was the result of a unique set of anomalies, including a natural disaster and a health crisis. The outsized fall in imports raises concerns over domestic demand while the impact of COVID-19 on the global economy is continuing to darken the outlook for exports. Despite these negatives, there are upside risks on the horizon, including the potential for fiscal stimulus in China and if the domestic and global economy is fully able to reopen safely and quickly.

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