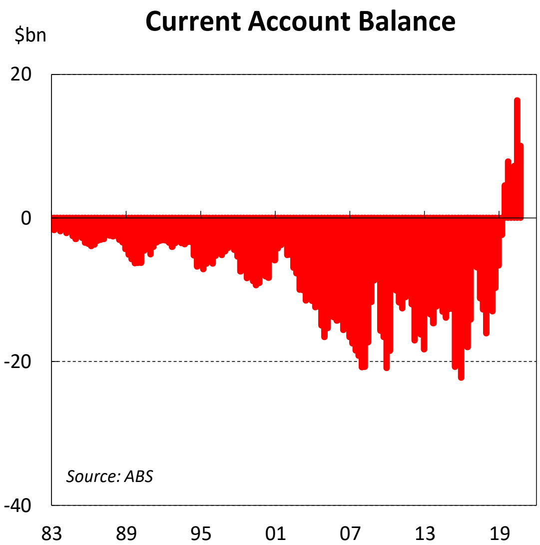
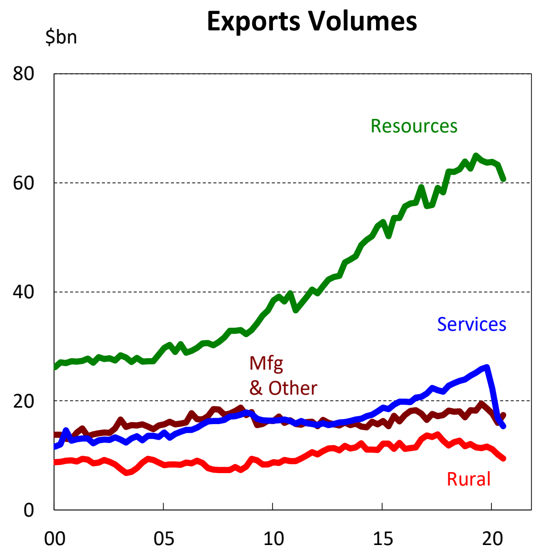
Data Snapshot

Tuesday, 1 December 2020

Current Account & GDP Preview
Longest String of Surpluses Since 1970s

- **The current account surplus shrunk by $6.3 billion in the September quarter to stand at $10.0 billion. But it is the sixth consecutive quarter in which a surplus has been printed. We need to go back to the early 1970s to find a string of surpluses this long.**
- **The exports of goods and services in the September quarter fell 3.2%, which is the fourth consecutive quarterly fall and leaves exports 14.9% lower on a year ago.**
- **The drop in exports has been led by another sharp fall in services exports. Services exports fell 8.8% in the September quarter, as the ongoing closure of international borders continues to bite hard on this sector. Indeed, services exports have dropped 41.4% since the end of 2019. Commodity exports have also borne the brunt of weaker global economic activity.**
- **Imports of goods and services rebounded by 6.5% in the September quarter, but this rise represents only a partial recovery from the significant drops in the first half of this year.**
- **The encouraging aspect of the rebound in imports is the lift in consumer-goods and capital-goods imports. If this lift continues, it points to a deeper recovery underway in consumer and business spending. Consumer-goods imports jumped 13.1% in Q3, the biggest quarterly gain in almost 32 years, and capital-goods imports rose 11.5%, the best quarterly gain in nearly 4 years.**
- **Net exports are likely to detract 1.9 percentage points from GDP growth in the Q3.**
- **Tomorrow's data is likely to show a rebound in Australian economic activity in the September quarter, after a severe recession in the first half of this year. We are anticipating growth of 3.0% in the September quarter, after falls of 7.0% in the June quarter and 0.3% in the March quarter.**





Current Account

The current account surplus shrunk by $6.3 billion in the September quarter to stand at $10.0 billion. But it is the sixth consecutive quarter in which a surplus has been printed. We need to go back to the early 1970s to find a string of surpluses this long. Significant disruptions to global supply chains and international borders and movements have spurred weakness in exports. But the drop in imports has been greater than the decline in exports over the first half of this year. This trend shifted in the September quarter when exports contracted, and imports rebounded. The pullback in exports and recovery in imports led the international trade surplus to narrow.

Export and Import Volumes

The exports of goods and services in the September quarter fell 3.2%, which is the fourth consecutive quarterly decline, leaving exports 14.9% lower on a year ago. The drop in exports has been led by services, which fell 8.8% in the quarter and is down 40.7% on a year earlier.

Rural-goods exports fell 7.3% and non-rural-goods exports fell by 2.6% in the quarter while services fell 8.8%. Services exports have been the hardest hit by the pandemic with the closure of international borders hurting this sector hard, especially the exports of education. Indeed, services exports have dropped 41.4% since the end of 2019. Weaker economic activity in the global economy has also reduced demand for Australian commodity exports, including for our key exports of liquified natural gas (LNG) and coal.

Imports of goods and services rebounded by 6.5% in the September quarter, but this rise represents only a partial recovery from the significant drops of 12.8% in the June quarter and 7.2% in the March quarter. The recovery in imports has been spurred by the reopening of the economy and the lifting of restrictions during the quarter. Furthermore, there was a reduction in the disruptions to global-supply chains.

The recovery in imports in the September quarter, despite being only a partial recovery, is encouraging. The encouraging aspect is that imports rose across the key categories of consumption goods and capital goods. If this recovery continues it would point to a deeper recovery underway in consumer spending and business spending.

Consumption-goods imports lifted 13.1% in the September quarter, which is the strongest quarterly rise in nearly 32 years. Household-electrical goods imports posted the strongest gain within this category, reflecting the trend towards working and learning from home.

Capital-goods imports lifted 11.5% in the September quarter. It is a modest gain but is the first quarterly gain in three quarters and the biggest quarterly rise in almost four years.

Intermediate and other merchandise goods imports retreated 0.3% in the September quarter.

Terms of Trade

The terms of trade, or the ratio of export prices to import prices, improved by 0.7% in the September quarter. The terms of trade have improved through this year, despite the effects of the pandemic. An improving terms of trade index helps support national incomes through a lift in company profits and taxation revenue. On a year ago, the terms of trade are lower, down 2.5% compared to the September quarter of last year.

GDP Preview

The balance of payments data has revealed that in net volume terms, net exports are likely to detract 1.9 percentage points from GDP growth in the September quarter.

The Australian Bureau of Statistics also released the government statistics today. These revealed that the government sector likely made a strong contribution to GDP growth in the September quarter. The data showed public demand rose 1.7% in the September quarter, driven by a rise of 2.8% in government investment and an increase of 1.4% in government consumption.

Tomorrow's national accounts are likely to show a rebound in Australian economic activity in the September quarter, after a severe recession in the first half of this year. We are anticipating growth of 3.0% in the September quarter after falls of 7.0% in the June quarter and 0.3% in the March quarter. However, heightened uncertainty in the economy leaves a greater than usual variability around our point forecasts.

The rebound reflects the rolling back of restrictions across most of Australia in the quarter, although the rebound has been capped by the second lockdown in Victoria. This easing of restrictions encouraged a resumption of spending by consumers. Government stimulus is also likely to have underpinned the rebound, as well as inventories.

Today's updated Bloomberg survey of 21 economists revealed every economist expects a recovery for Q3 GDP, although the range of estimates is very wide. The median expectation is for GDP quarterly growth of 2.5% with 0.5% growth at the low end of the range and 4.1% growth at the high end.

A lift in economic activity in line with our forecast would still leave GDP nearly 4% weaker than a year ago. It would also still leave economic output substantially below the level at the end of 2019.

More importantly, this data is now dated and since the end of the September quarter, consumer and business confidence have improved and many interstate borders have reopened. The suppression of the virus in the populous States of NSW and Victoria have also been remarkably successful in recent months.

The economic recovery underway across Australia, therefore, is likely to continue. For now, it remains an uneven path of recovery with ongoing social-distancing restrictions and closed international borders still impacting industries differently. The recent vaccine news is encouraging and if a vaccine can be effectively deployed next year we could see economic outcomes surprise to the upside.

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