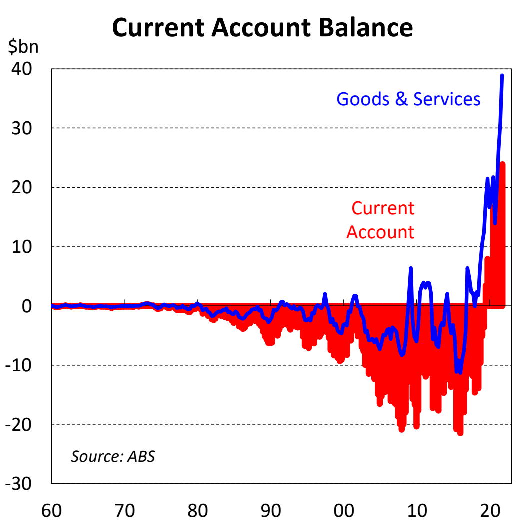
Data Snapshot

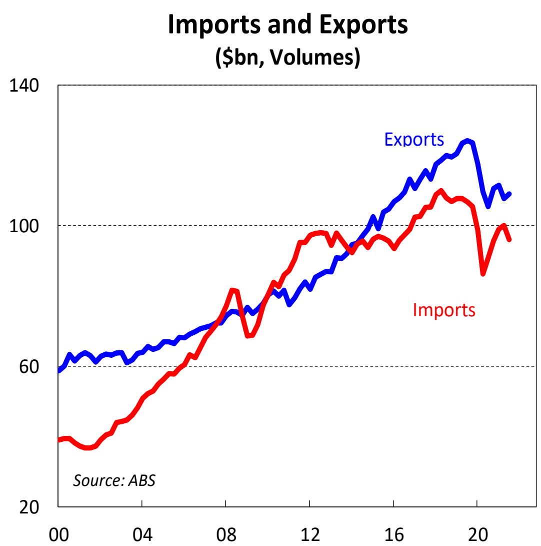
Tuesday, 30 November 2021

Current Account and GDP Preview

Run of Record Surpluses Extends

- **Australia reported a fresh record current account surplus of $23.9 billion in the September quarter. It is the fourth consecutive record posted and a $1.0 billion increase from the surplus registered in the June quarter. It is also the tenth consecutive current account surplus and the longest run of surpluses in the history of the series.**
- **A widening in the trade surplus, underpinned by a lift in exports, led the expansion in the current account surplus. Export volumes rose by 1.2% in the quarter. There were firm gains in the exports of rural goods, especially wool & sheepskins and meat. Exports of non-rural goods were also firm, particularly for metal ores & minerals and other mineral fuels.**
- **Import volumes fell by 4.0%, as Delta lockdowns led to a drop in spending and demand for imported goods. This was the largest quarterly percentage fall since the June quarter of 2020.**
- **Net exports will make a solid contribution of 1.0 percentage points to GDP growth in the September quarter.**
- **The terms of trade, a ratio of export to import prices, increased for the fifth consecutive quarter (up 0.5%) to be 23.1% higher over the year. The uplift reflects strong prices for commodity exports. Despite falls in iron ore prices, prices of coal and other mineral fuels remained strong.**
- **New public final demand increased by 3.0% in the September quarter and is expected to contribute a robust 0.8 percentage points to GDP growth for the quarter.**
- **GDP is out tomorrow. We expect GDP to contract by 2.5% over the September quarter, led by a sharp contraction in economic activity in NSW and Victoria. Encouragingly, the contraction is not as deep as initially feared. Annual GDP growth is likely to slide to 3.2%.**





Current Account

Australia reported a fresh current account surplus record of $23.9 billion in the September quarter. It is the fourth consecutive record surplus. It is a $1.0 billion increase from a revised $22.9 billion surplus in the June quarter. The June quarter estimate was revised up from $20.5 billion. It is also the tenth consecutive quarterly current account surplus and the longest streak in the history of the series (since 1959).

The increase was driven by a widening in the trade surplus. This increased by $8.1 billion in the quarter, reflecting a rise in exports of goods and services of $9.7 billion, partially offset by a rise of goods and services imports of $1.6 billion. High prices for Australia's commodity exports supported strong export values over the quarter.

The net primary income deficit jumped by a record $7.7 billion over the quarter. This partly offset the increase to the current account surplus driven by the goods and services balance.

Export and Import Volumes

Exports of goods and services rose by 1.2% over the quarter. This outcome follows a 3.4% fall over the June quarter when commodity export volumes were affected by maintenance and weather-related disruptions.

The increase in exports was driven by the exports of goods, which rose 2.7% over the quarter. There were firm gains in the exports of rural goods (up 4.8%), especially wool & sheepskins and meat. Exports of non-rural goods were also firm (up 2.5%), particularly for metal ores & minerals and other mineral fuels.

Import volumes fell by 4.0% over the September quarter. This fall was the largest since the June quarter of 2020. Imports of both goods (-3.5%) and services (-8.2%) were down over the quarter, as the Delta lockdowns led to a sharp fall in consumer spending and imported products. As a result, consumption goods imports fell 9.5% over the quarter. This is the largest quarterly fall in almost 13 years.

While imports of goods fell over the quarter, they remain 7.3% above pre-pandemic levels (as of the December quarter of 2019), reflecting a shift away from the consumption of services and towards the consumption of goods during the pandemic.

Imports of capital goods increased by 4.4% over the quarter. This was driven by strength in automatic data processing (ADP) equipment (e.g. computing equipment) and aircraft. However, these items can be volatile. Within the capital goods category, there was weakness in machinery and industrial equipment, which fell 5.2% over the quarter. Imports of intermediate and other merchandise goods fell by 1.5%, largely driven by a fall in fuels and lubricants.

Services exports and imports both declined in the quarter, by 8.4% and 8.2%, respectively. These categories include sectors such as inbound and outbound tourism and international education. Trade in these areas remains significantly subdued due to closed international borders.

Terms of Trade

The terms of trade, which is a ratio of export prices to import prices, increased by 0.5% over the quarter to be 23.1% higher over the year. This is the fifth consecutive quarterly rise.

The increase in the terms of trade reflects strong prices for Australia's commodity exports. The Reserve Bank's index of commodity prices rose 7.3% in Australian dollar terms in the quarter. This is the fourth consecutive quarterly rise in the index. Despite falls in iron ore prices over the quarter, prices of coal and other mineral fuels remained strong.

The terms of trade has increased by 24.6% since the pandemic lows in the June quarter of 2020. This rise supports higher national income through greater income for exporters and higher tax receipts for the government.

Government Finance Statistics

Government finance statistics data, also released today, showed that the government sector is expected to make a solid contribution to GDP. New public final demand increased by 3.0% in the September quarter and is expected to contribute 0.8 percentage points to GDP growth for the quarter.

Government consumption rose by 3.6% in the September quarter. However, new government investment growth was more modest, increasing by 0.8% in the quarter, following three consecutive quarters of solid growth.

GDP Preview

Net exports are expected to contribute 1.0 percentage points to GDP growth in the September quarter. The public sector is also expected to contribute positively to GDP, adding 0.8 percentage points to growth. The positive solid contributions of net exports and the public sector will help limit the size of the fall in GDP in the quarter.

We expect GDP to contract by 2.5% over the September quarter, led by a sharp contraction in economic activity in NSW and Victoria. Consumer spending, business investment and inventories are expected to contribute to the decline. The first half of this year saw the economy bounce back strongly. However, prolonged lockdowns in the country’s two largest cities, as well as scattered lockdowns across other parts of the country, have dented economic output. Encouragingly, the contraction is not as deep as initially feared. In annual terms, GDP is expected to slide to 3.2% growth.

Despite the weak expected September quarter outcome, the economy remains on solid footing and is set to rebound strongly over the coming year. However, recent days have demonstrated that risks to the outlook remain. Developments around the Omicron variant and their potential impacts on the economic recovery will be closely monitored.

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