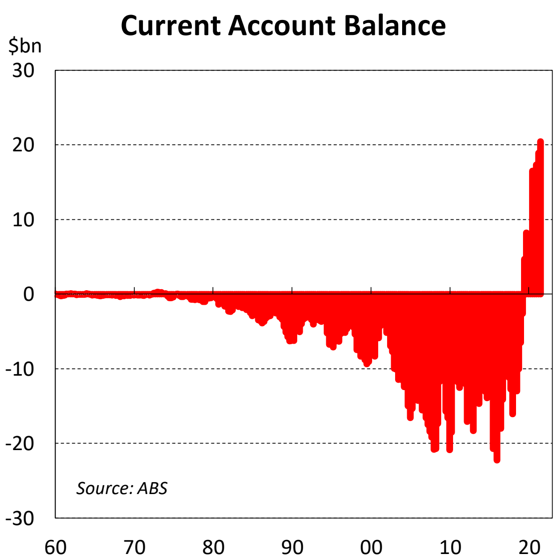
Data Snapshot

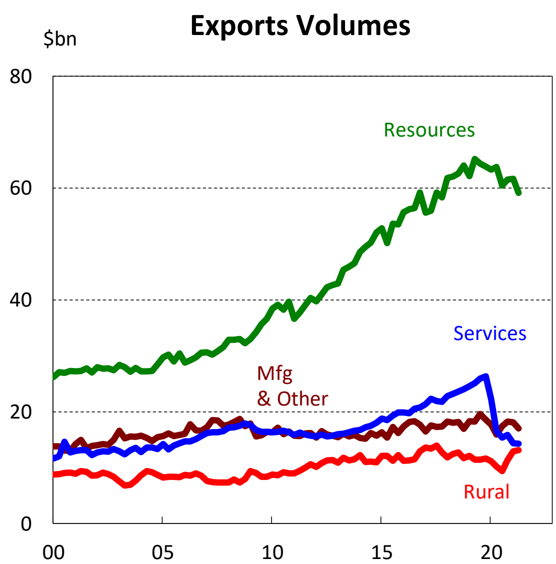
Tuesday, 31 August 2021

Current Account and GDP Preview

Record Run of Current Account Surpluses

- **Australia reported a record current account surplus of $20.5 billion in the June quarter. This is a $1.5 billion increase from the $18.9 billion surplus in the March quarter. This is the ninth consecutive surplus and extends the longest run of current account surpluses in the history of the series (since 1959).**
- **The volume of exports of goods and services fell by 3.2% in the June quarter, to be 2.6% lower over the year to June. Non-rural commodities, which include iron ore and coal, fell by 4.1%. Export volumes and shipments were impacted by disruptions from COVID-19, the weather and maintenance-related issues.**
- **The terms of trade, the ratio of export to import prices, rose by 6.9%, to be up 24.0% over the year. This was driven by increases in export prices, particularly commodities – notably iron ore.**
- **Net exports are expected to detract from June quarter GDP growth by a sizeable 1.0 percentage point. Separate statistics also released today show that new public final demand is expected to contribute 0.5 percentage points to growth.**
- **We expect tomorrow's GDP numbers to show the economy grew by just 0.1% over the June quarter with the trade sector and inventories large drags. A contraction in the June quarter cannot be ruled out and is almost a line-ball call.**
- **GDP in the September quarter is all but guaranteed to contract sharply due to the protracted lockdowns across NSW and Victoria. If tomorrow's numbers show that the economy contracted in the June quarter, we are in the midst of a technical recession.**





Current Account

Australia reported a record current account surplus of $20.5 billion in the June quarter. This is a $1.5 billion increase from the $18.9 billion surplus in the March quarter. This is the ninth consecutive surplus and extends the longest run of current account surpluses in the history of the series (since 1959).

The value of both exports and imports increased in the quarter. The value of exports (up $7.0 billion, 5.9%) increased by a greater amount than the value of imports (up $3.5 billion, 3.7%). The net primary income deficit grew by $1.1 billion in the quarter.

Export values were supported by continued strength in the prices received by Australia's commodity exporters, particularly iron ore. Strong demand for raw materials, alongside supply constraints, has supported commodity prices and contributed to spot iron ore prices averaging almost US$200 over the June quarter.

Export and Import Volumes

The exports of goods and services fell by 3.2% in the June quarter, to be 2.6% lower over the year to June. The fall was driven by falls in goods exports, which were down 3.6% in the quarter and 0.6% over the year. Non-rural commodities, which include iron ore and coal, were particularly affected, falling by 4.1% in the quarter. Commodity exports were negatively impacted by COVID-19, weather and maintenance related disruptions. Exports of other goods were also down and contributed to the fall.

Services exports fell by 0.2% over the quarter but didn't significantly contribute to the overall fall in exports. The exports of services, such as education and tourism, have been hard-hit by the pandemic and the closure of international borders. They remain around 45% below their pre-pandemic level as at December 2019.

The imports of good and services increased by 1.5% as the economy and domestic demand continued to recover. Goods imports drove the increase, up 1.8% in the quarter and 17.5% over the year. Services imports, which includes things like overseas travel, fell by 0.2% in the quarter.

The growth in goods imports reflects strength in the intermediate and other merchandise goods category. This was up 3.1% in the quarter and contributed 1.2 percentage points to the growth in goods imports. The import of fuel was particularly strong, as Australians took advantage of the international travel bubble with New Zealand.

Capital goods imports also grew by 2.2%, contributing 0.5 percentage points to goods imports growth. This was in line with strength we have seen in public and private investment over the quarter.

Growth in the imports of consumption goods, such as electrical equipment, was down 0.1% in the quarter. This category benefitted from changing consumption patterns during the pandemic towards goods and away from services. While growth has slowed over the past few quarters, the category remains almost 16% above its pre-pandemic level.

Terms of Trade

The terms of trade, which is ratio of export prices to import prices, rose by 6.9% in the quarter, to be 24.0% higher over the year. The terms of trade have now improved for four quarters in a row. The growth was driven by an increase in the prices of the goods we export relative to prices of the goods we import. Commodity prices have risen strongly over the June quarter. The Reserve Bank's index of commodity prices jumped 11.5% in Australian dollar terms in the quarter. The increase reflected strong demand for raw materials globally as the world economy recovers from the

COVID-19 downturn.

Improvements in the terms of trade flow through into 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 strong contribution to GDP growth. New public final demand increased by 1.9% in the June quarter and is expected to contribute 0.5 percentage points to GDP growth in the June quarter.

Government consumption rose by 1.3% in the quarter. New government investment also grew strongly, increasing by 4.4% in the quarter as Federal and state governments increase their investment to stimulate the economy.

GDP Preview

Today's data shows that net exports are expected to detract from GDP growth in the June quarter by 1.0 percentage point. This impact is larger than our expected detraction of 0.7 percentage points. On the other hand, the government sector is expected to contribute positively to GDP growth by 0.5 percentage points. This will partly offset the detraction from net exports.

The greater-than-expected detraction from net exports has led us to revise down our forecast for growth over the June quarter to 0.1%. This is down significantly from growth of 1.8% in the March quarter and only a whisker away from falling into negative territory. This would take annual GDP growth to 8.8%. Annual growth is high due to base effects; in the June quarter of last year, the national economy entered a lockdown and GDP fell sharply.

The momentum in the economy was strong going into the extended lockdown in NSW and other lockdowns across Australia. The labour market was continuing to recover and unemployment had fallen to below 5% in June, a 10 year low. Domestic final demand is likely to have grown by 1.5% in the June quarter, but large drags from the net exports sector and inventories means that there is a chance of a contraction having occurred in the June quarter.

The extended lockdown in NSW and lockdowns of varying lengths across other states and territories have put the brakes on economic growth. The September quarter is all but guaranteed to be sharply negative due to the lockdowns.

A negative quarter of growth in the June quarter cannot be ruled out. Indeed, it is almost a line-ball call. If tomorrow's numbers show that the economy contracted in the June quarter, we are in the midst of a technical recession.

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