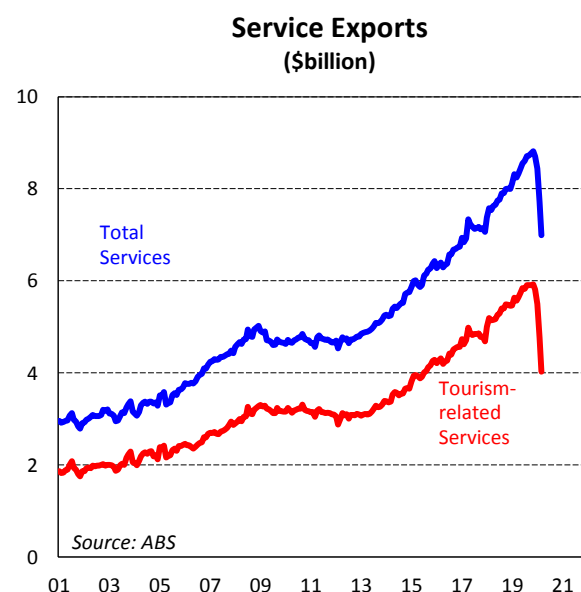
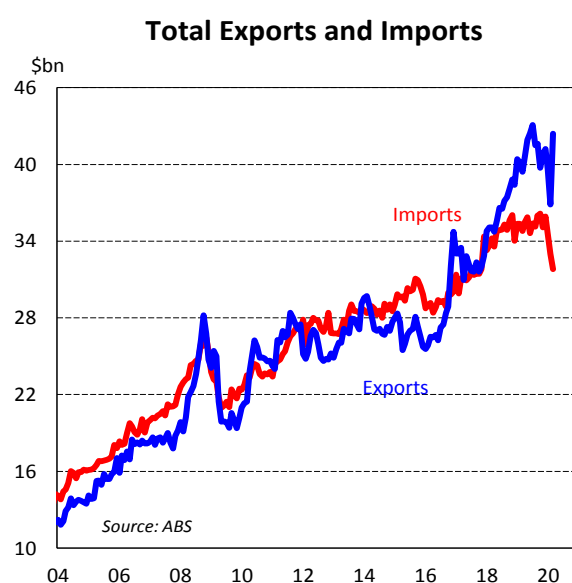


Thursday, 7 May 2020

Trade Balance

COVID-19 Warps Trade Flows

- The trade surplus widened \$6.7 billion to a surplus of \$10.6 billion in March. It was the largest surplus on record, with the series dating back to 1971. The record high surplus reflected the large distortions at play, mostly due to the impact of COVID-19 restrictions around the world.
- Exports surged 15.1% in March, rebounding after being disrupted in January and February. The combination of the bushfires, cyclone activity and the shutdown of production in China over much of February resulted in sharp declines in key commodity exports earlier in the year.
- Travel restrictions severely dented service exports and imports. Service exports declined 9.4% in March. It was the largest fall since October 2000, following the Sydney Olympics. Service imports declined 18.6% in March, the largest fall since records began in 1981.
- Total imports declined 3.6% in March, and have declined for three consecutive months. Imports were down 8.6% in the year to March, the weakest annual pace since 2009.
- It was encouraging to see some recovery in exports after weather disruptions earlier in the year and as China reopened parts of its economy. Nonetheless, the world economy is undergoing a deep contraction, and trade flows are expected to be hit significantly. Both exports and imports are likely to be negatively impacted in the months ahead.



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The combination of the bushfires, cyclone activity and the shutdown of production in China over much of February resulted in sharp declines in key commodity exports earlier in the year.

With China emerging from lockdown measures in March, a recovery in business activity also likely helped drive the rebound.

Most notably, exports of metal ores and minerals (which include iron ore) rose 32.1% in March, after falls of 8.8%, and 14.4%, in January and February, respectively. Other exports also rose significantly, including coal, coke & briquettes (6.0%), and other mineral fuels (9.6%). Total resource exports rose 29.0% in the month, the largest monthly increase since 1997.

The mining sector is one of the sectors relatively less affected by COVID-19, according to recent business surveys. In a survey conducted by the Australian Bureau of Statistics (ABS), 38% of businesses within the mining sector were expecting an adverse impact from COVID-19 compared with 69% of businesses nationwide. However, the sharp downturn in the global economy will weigh heavily on demand for commodities. The impact of weaker demand has already taken a toll on oil prices, which will likely impact negatively on prices of other energy sources, including LNG and thermal coal.

Although goods exports were strong, service exports were extremely weak, declining 9.4% in March. It was the largest fall since October 2000, following the Sydney Olympics.

The travel restrictions imposed to contain the spread of COVID-19 had a significant impact on imports. Service imports declined 18.6% in March, the largest fall since records began in 1981.

There was also weakness in the imports of capital goods (-3.3%), pointing to weaker business spending. It corresponds with a sharp drop in business confidence amid the uncertainty generated by COVID-19.

Imports for consumer goods (0.1%) and intermediate goods (0.3%) were relatively resilient, but we would expect that imports of these categories will weaken in coming months as domestic demand drops sharply.

Outlook

It was encouraging to see some recovery in exports after weather disruptions earlier in the year and as China reopened parts of its economy. Nonetheless, the world economy is undergoing a deep contraction, and trade flows are expected to be hit significantly.

A weaker world economy will dent demand for commodities, and place downward pressure on prices. Border controls and ongoing uncertainty about the outlook suggest that tourism and education exports will remain very weak for some time.

We are already witnessing signs of weakness in imports as a result of softer domestic demand and

travel restrictions, especially among service imports and capital spending.

Both exports and imports are likely to be negatively impacted in the months ahead.

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