

31 May 2022

Australia's current account: Surplus moderates to \$7.5bn.

Q1 Current a/c:

Net export, ppts cont'n:

Terms of trade:

\$7.5bn (1.3% of GDP)

-1.7qtr, -2.4yr

5.9qtr, 8.3%yr

Australia's current account remains in surplus, for a 12th consecutive quarter.

However, the size of the surplus has narrowed, moderating to \$7.5bn (1.3% of GDP) in the March quarter. That is down from \$13.2bn for the final quarter of 2021. The current account surplus peaked in the June quarter 2021, at \$22.3bn, 4.1% of GDP.

The net income deficit (NID) has "normalised" over recent quarters. The net income deficit represented -3.6% of GDP in the March quarter 2022, not greatly different from levels prevailing around mid-2018.

Prior to this, the NID narrowed to unusually low levels during the pandemic, touching only -0.5% of GDP in the December quarter 2020. The key driver of these swings - fluctuations in returns to international investors in Australia's mining sector. With commodity prices up sharply since late 2020, payments to international investors have strengthened.

In the March quarter, the current account narrowed by \$5.7bn, including a small \$0.9bn decline in the trade surplus, to \$28.2bn, and a sizeable \$4.8bn increase in the NID, to -\$20.7bn.

Little change in the trade surplus for the quarter reflected a balancing out of a large increase in import volumes and a sizeable rise in export prices.

Export earnings rose by 8.7% in the March quarter (a rise of \$11.8bn) - centred on a 9.6% increase in prices, with volumes edging 0.9% lower.

The import bill rose by 11.9% in the March quarter (up \$12.7bn) - driven by an 8.1% rise in volumes, as well as a 3.5% increase in prices.

The terms of trade is elevated, increasing by 5.9% in the March quarter on higher commodity prices (resource prices rose by 12.7%). The terms of trade is now up by 23% since the September quarter 2020.

Import volumes snapped back, led by consumer goods, as Australia emerged from the delta lockdowns over the second half of 2021. Consumer goods jumped by 14.9% in the March quarter, to be up only a modest 2.9% over the past year.

Service imports are beginning to stir as trade flows improve and with the international border reopening. Service import volumes rose by 6.8% in the quarter, to be 3.4% higher over the year - but are still a hefty 51.6% below pre-pandemic levels. The correction has only just begun and has a long way to run.

Export volumes remain a source of disappointment, centred on supply disruptions in the resource sector.

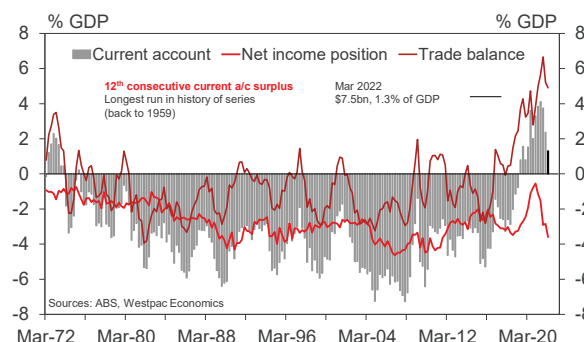
External accounts

AUDbn	Quarter		Annual	
	Dec-21	Mar-22	Dec-21	Mar-22
Trade balance	29.1	28.2	122.0	124.0
Income balance	-15.9	-20.7	-45.8	-60.6
Current account balance	13.2	7.5	76.2	63.4
% of GDP	2.4	1.3	3.5	2.9

%chg	Quarter		Annual	
	Dec-21	Mar-22	Dec-21	Mar-22
Export volumes	-0.9	-0.9	-2.6	-4.2
Import volumes	0.7	8.1	2.3	7.6
Net exports, contr'n ppts	-0.3	-1.7	-1.0	-2.4
Terms of trade	-4.9	5.9	10.1	8.3

Sources: ABS 5302, Westpac Economics

Current a/c: surplus moderates to \$7.5bn in Q1



Export volumes declined by -0.9% in the March quarter, including a 3.0% fall in resources - the figures for over the year are -4.2% and -7.1%, respectively.

Notably, resource export shipments peaked in September 2019, having declined by -9.9% since then, down by \$7.2bn. Falls are broadly based - across gold, base metals, mineral fuels, coal, and metal ores.

Manufactured goods exports - which have been impacted by lockdowns and supply chain disruptions - rebounded strongly in March, up by 12%.

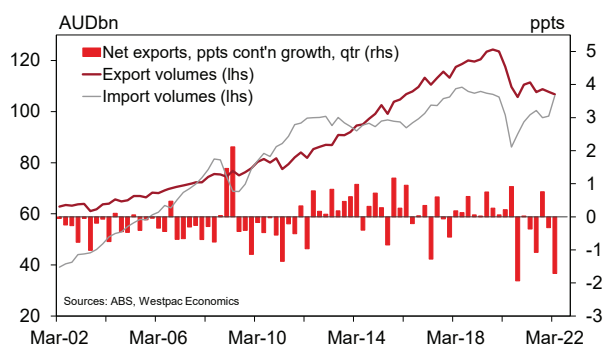
Service exports are still down 47.7% on pre-covid levels. A 2.3% rise in the March quarter represents a small step forward.

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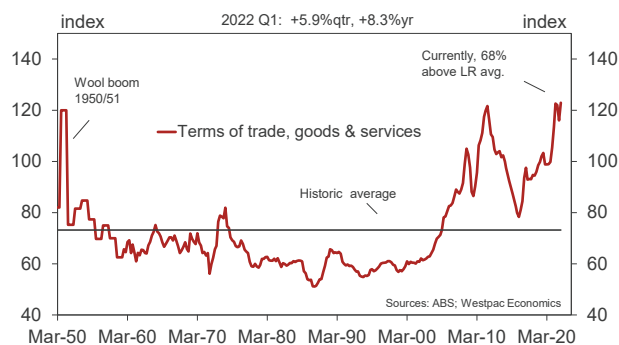
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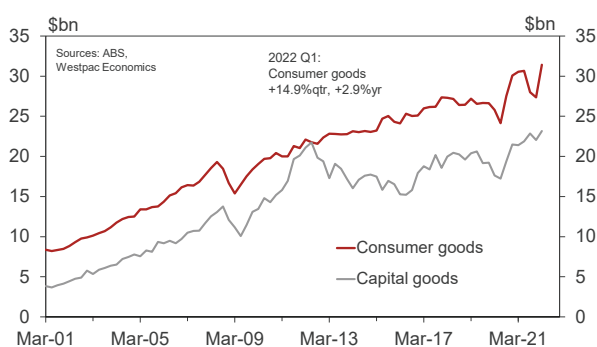
Net exports, Q1: -1.7ppt qtr, -2.4ppts yr



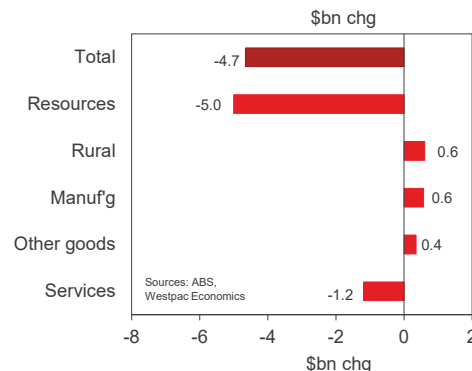
Terms of trade, elevated



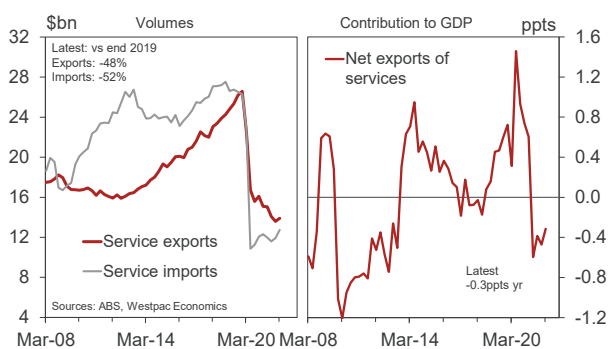
Import volumes rebound sharply post delta



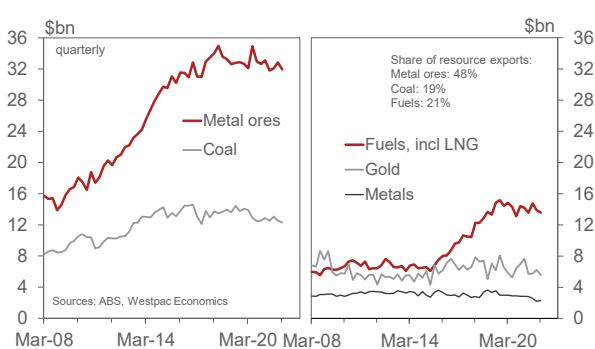
Export performance (volumes): yr to Mar 2022



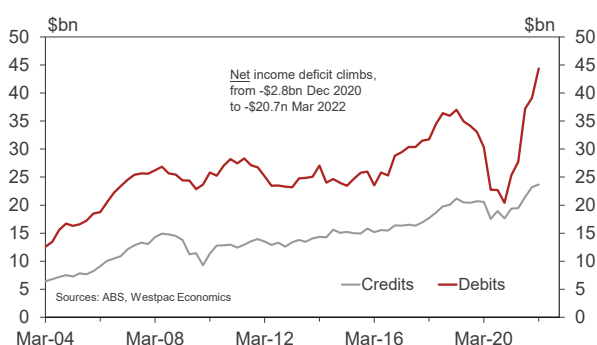
Border reopens: trade in services begins to stir



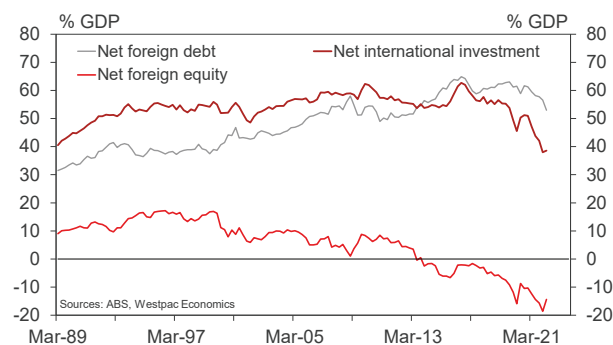
Resource exports: volumes



Income flows: net income deficit, \$20.7bn



Australia's external position



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