

6 December 2022

Australia's current account: Slips into deficit - record run of surpluses comes to an end. Q3 Current a/c: **-\$2.3bn (-0.4% of GDP)** Net export, ppts cont'n: **-0.2qtr, -2.0yr** Terms of trade: **-6.7qtr, -0.4%yr**

Australia's current account slipped into deficit, following 13 consecutive quarters of surplus - the longest run in the history of the series (dating back to 1959).

The current account balance deteriorated by \$17n, from a surplus of \$14.7bn for the June quarter to a deficit of \$2.3bn for September.

That move reflected an \$11.1bn narrowing of the trade surplus (to \$31.2bn from \$42.3bn) and a \$5.9bn increase in the income deficit (to \$33.5bn from \$27.5bn).

The net income deficit, having touched an historic low of \$3.9bn in December 2020, has widened progressively, to be at \$33.5bn currently, representing -4.4% of GDP.

The net income deficit, as a share of the economy, is in line with the "peak" of 2007 (associated with the earlier commodity price boom). Currently, international investors in Australia's mining sector are receiving increased returns due to the higher global commodity prices.

The trade surplus is still very sizeable, at 5.4% of GDP in September, descending from the record high of 5.8% in June. The \$11.1bn reduction in the trade surplus in the quarter reflected a terms of trade decline and a small net export drag, of -0.2ppts.

Export earnings were broadly flat in the quarter, -0.2%, following a 36.8% jump over the year to June. That flat outcome reflected a 2.8% decline in prices and a 2.7% rise in volumes.

The import bill climbed by another 8.2% to be 41.3% above a year ago. Prices rose by 4.1%qtr, 18.6%yr and volumes rose by 3.9%qtr, 19.1%yr.

The terms of trade descended by 6.7% in the quarter, down from the June record high, as commodity prices eased on global recession fears. That still leaves the terms of trade well above its long-run average, by some 62%.

The 3.9% increase in import volumes in the quarter was centred on services, which jumped by another 16.2% as overseas travel rebounds on the national border reopening.

Service imports have rebounded sharply over the past year, up by 73.8% - they have now recovered 57% of the decline between December 2019 (pre covid) and the low of June 2020.

Goods imports rose by 1.5%qtr, 11.1%yr in the September quarter, a sharp rebound from the delta lockdown disruptions of the corresponding quarter a year ago - responding to rising domestic demand and an inventory rebuild.

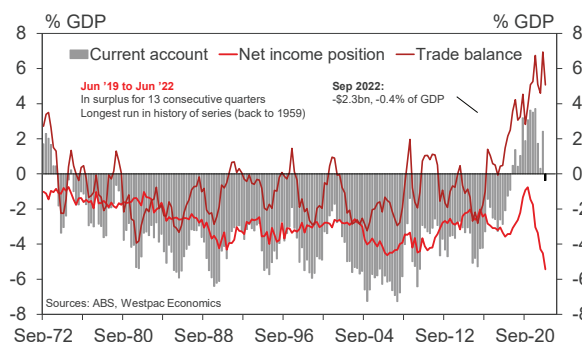
Export volumes grew by 2.7%qtr, 6.8%yr in the September including a 1.4%qtr, 3.6%yr outcome for goods and a 10.6%qtr, 29.4%yr result for services.

External accounts

	Quarter		Annual	
AUDbn	Jun	Sep	Jun	Sep
Trade balance	42.3	31.2	134.3	128.9
Income balance	-27.5	-33.5	-87.9	-104.9
Current account balance	14.8	-2.3	46.4	24.0
% of GDP	0.5	-0.4	2.0	1.0
	Quarter		Annual	
%chg	Jun	Sep	Jun	Sep
Export volumes	5.3	2.7	4.7	6.8
Import volumes	1.4	3.9	9.9	19.1
Net exports, contr'n ppts	0.8	-0.2	-0.8	-2.0
Terms of trade	4.8	-6.7	7.5	-0.4

Sources: ABS 5302, Westpac Economics

Current a/c slips into deficit: -\$2.3bn for Q3



Total service exports declined from \$26.8bn at the end of 2019, pre-covid, to a low of \$13.9bn at the end of 2021 - a reduction of \$12.9bn. The rebound to date in 2022 has total service exports up by \$4.6bn from the low, a rise of 33% - or alternatively, 35% of the overall decline has been reversed.

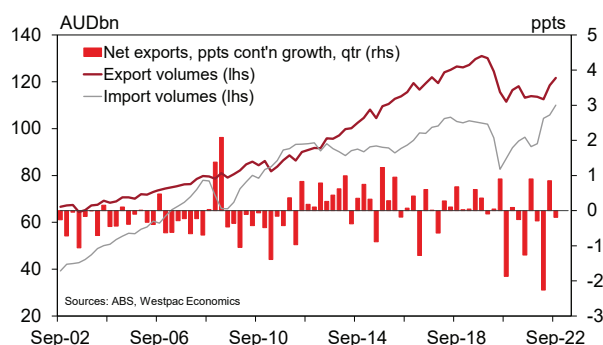
Goods exports are \$3.6bn above the level of a year ago, led higher by a surge in rural exports associated with improved seasonal conditions, up by \$2.0bn (+9.8%qtr, +15.9%yr). Resource export volumes have struggled to make headway, impacted by supply disruptions (including inclement weather). They rose by 0.3%qtr, 1.9%yr, an increase of \$1.4bn for the year. Resource export volumes remain a little below pre-covid levels, down by -0.9%, a decline of \$0.7bn.

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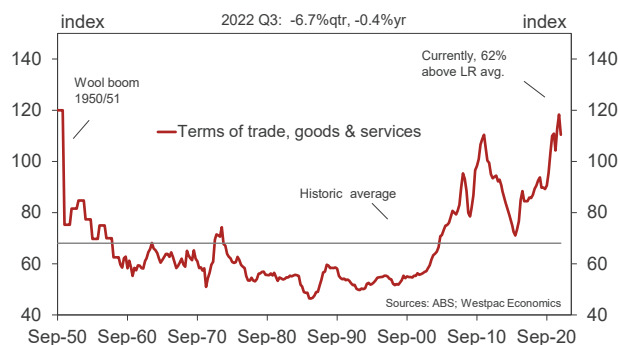
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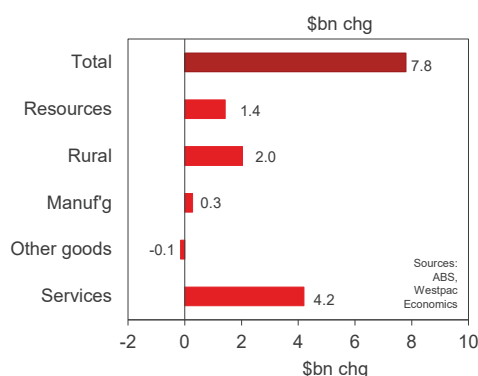
Net exports, Q3: -0.2ppts qtr, -2.0ppts yr



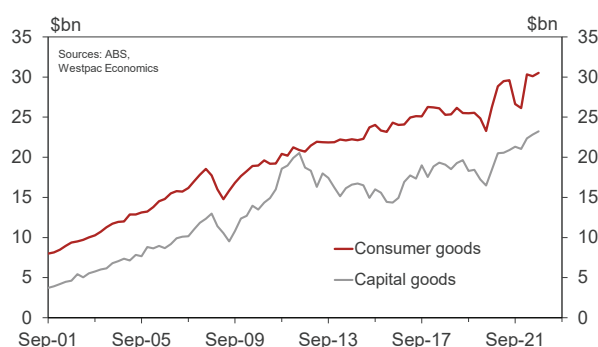
Terms of trade, descends from June peak



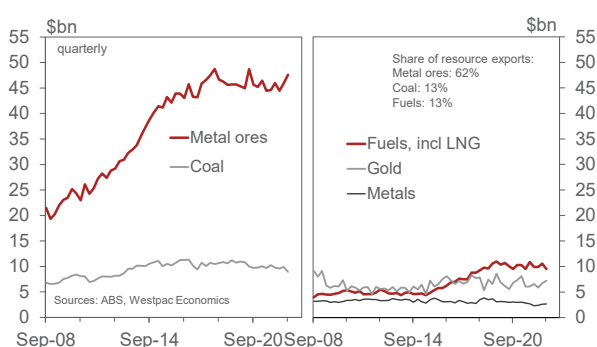
Export performance (volumes): yr to Sep 2022



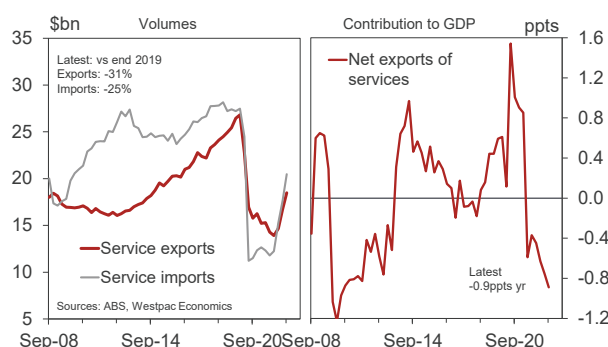
Import volumes rebounded sharply post delta



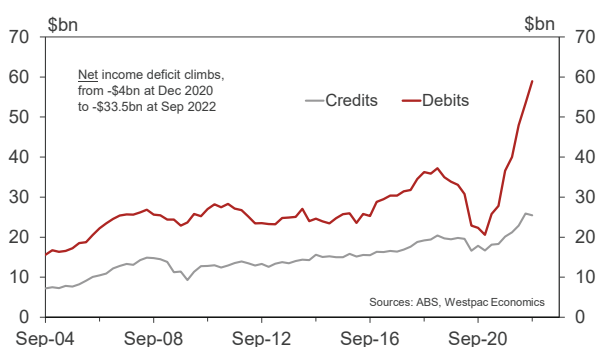
Resource exports: volumes



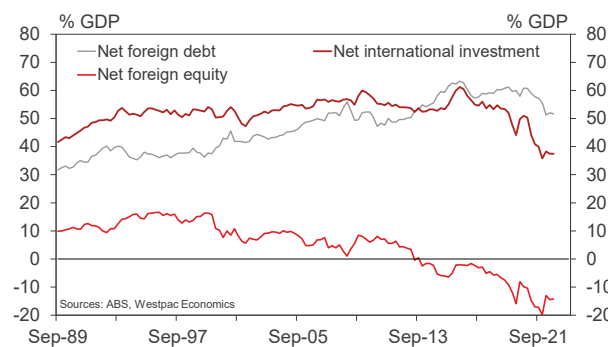
Border reopens: trade in services rebounds



Income flows: net income deficit, \$33.5bn



Australia's external position



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