BULLETIN

28 February 2023

Australia's current account: Surplus widens, net exports a sizeable positive for growth.

Q4 Current a/c: +$14.1bn (+2.2% of GDP)
Net export, ppts cont'n: +1.1qtr, -0.5yr
Terms of trade: +0.5qtr, +7.2%yr

Australia's current account surplus widened to $14.1bn in the final quarter of 2022, representing 2.2% of GDP.

This outcome, along with the revision to the September quarter (upgraded from a deficit of $2.3bn to a surplus of $0.8bn), was a positive surprise - expectations were for a more modest December quarter surplus.

The current account has now been in surplus for 15 consecutive quarters (from June 2019 onwards), the longest run in the history of the series (dating from the late 1950s).

The trade position recovered, improving to a surplus of $40.9bn, little different from the June outcome ($41.6bn) and up from $31.5bn for September. Key to this rebound in the trade position was a lift in export volumes (1.1%) and a pull-back in imports, -4.3%.

The trade surplus is still elevated at 6.5% of GDP, a touch below the record high of 6.8% for both Q3 2021 and Q3 2022.

Net exports made a sizeable positive contribution to growth in the December quarter, adding 1.1ppts. Over the year, net exports were still a negative, subtracting -0.5ppts. Imports were particularly strong in 2022, up 12.1%, in part to meet rising domestic demand on the reopening from delta lockdowns.

The terms of trade broadly consolidated in the December quarter, edging 0.5% higher, after a -5.9% pull-back in September. Recall that the terms of trade hit a fresh record high in June, as global commodity prices spiked, in part due to the impacts of Russia's invasion of Ukraine. The terms of trade is currently a stunning 64% above the long-run average.

The net income deficit narrowed a little in the December quarter, to -$26.8bn, representing -4.3% of GDP. The deficit hit a low of $5.1bn at the end of 2020 (distorted during the initial outbreak of covid). Since then, debits have climbed, more than reversing falls during 2020 - in part reflecting higher returns to foreign investors in the resource sector.

Export volumes grew by 1.1%qtr, 7.7%yr in the December quarter including a -0.5%qtr, +2.3%yr outcome for goods and a +9.8%qtr, +46.4%yr rebound in services.

Total service export volumes are currently 24% below their level at end 2019, prior to the pre-pandemic. They fell from $26.8bn to a low of $13.9bn at end 2021, recovering to be at $20.4bn. Tourism and foreign student numbers are recovering.

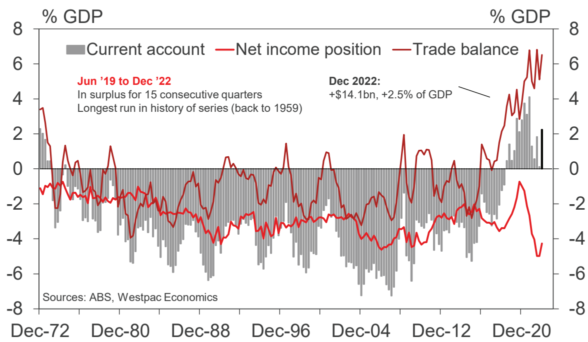
Goods export volumes are still 0.8% below the level at end 2019, a disappointing performance during the pandemic, held back by supply disruptions. Resources, which accounted for 75% of goods exports pre-pandemic, have fallen by -1.9% over the past 3 years, a dismal performance in part due to a lack of investment in capacity expansion - with falls across coal, fuels, and gold, in part offset by a rise in metal ores.

External accounts

	Quarter		Annual	
AUDbn	**Sep**	**Dec**	**Sep**	**Dec**
Trade balance	31.5	40.9	128.4	141.0
Income balance	-30.7	-26.8	-105.8	-111.6
Current account balance	0.8	14.1	22.6	29.4
% of GDP	0.1	2.2	0.9	1.2
	Quarter		**Annual**	
%chg	**Sep**	**Dec**	**Sep**	**Dec**
Export volumes	2.1	1.1	6.3	7.7
Import volumes	4.0	-4.3	19.0	12.1
Net exports, contr'n ppts	-0.2	1.1	-2.0	-0.5
Terms of trade	-5.9	0.5	0.0	7.2

Sources: ABS 5302, Westpac Economics

Current a/c surplus widens to $14.1bn



Import volumes declined by -4.3% in the December quarter, with a broad based pull-back.

For 2022, the story was one of import strength, to meet rising domestic demand and with the national border reopening.

Goods imports grew by 5.3% over the past year, led by consumption items, up 12.9% and capital items, up 5.0%, despite a flat result for intermediate goods. That has them 13.4% above the level at end 2019.

Service imports rebounded 58% over the past year, despite the 6.5% dip in Q4, as more of us holidayed abroad. That has service imports 30% below their end 2019 level (falling from $27.5bn to a June 2020 low of $11.2bn to be at $19.3bn currently).

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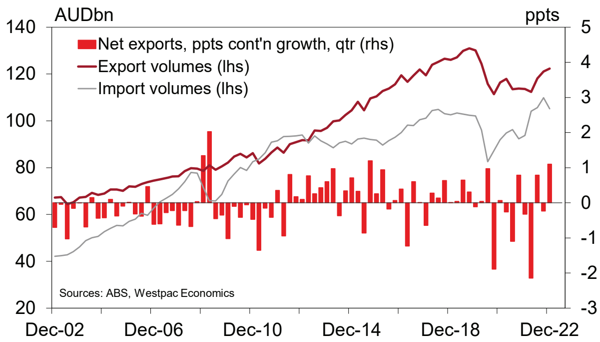
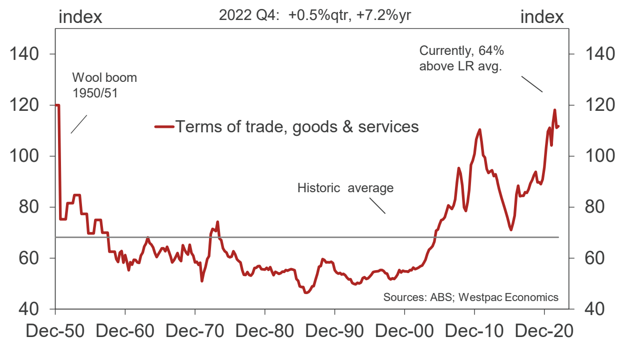
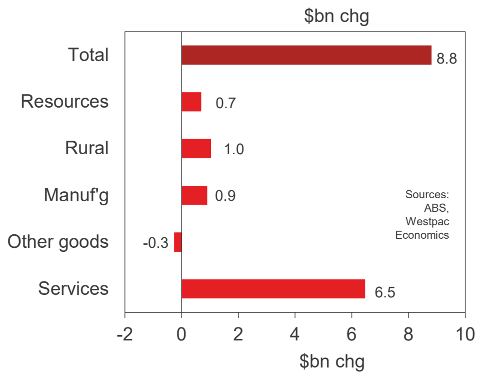
Net exports, Q4: +1.1ppts qtr, -0.5ppts yr



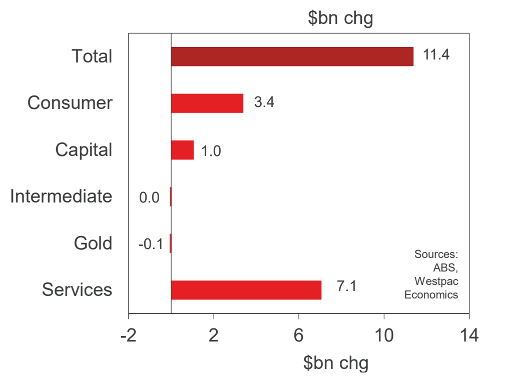
Terms of trade, consolidates in Q4



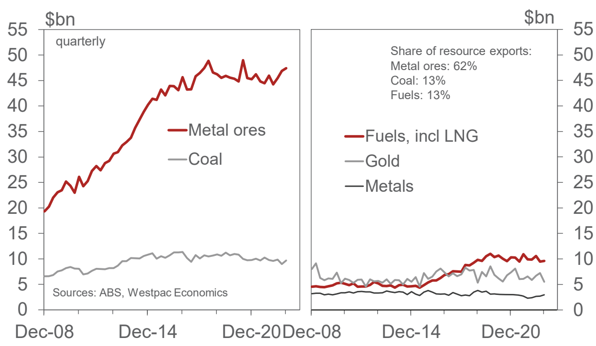
Export performance (volumes): yr to Dec 2022



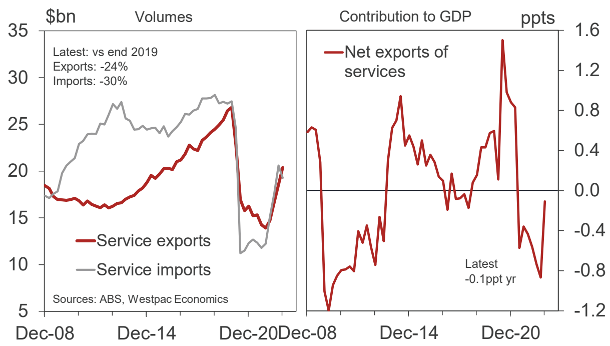
Import volumes: year to Dec 2022



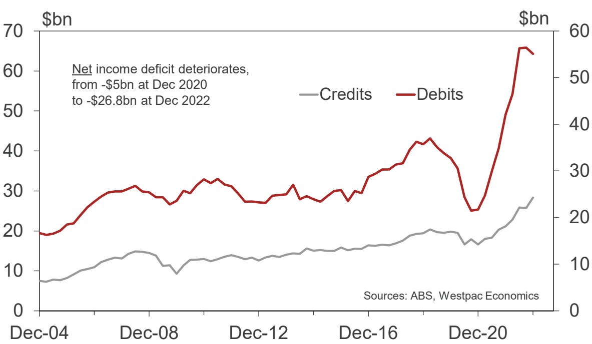
Resource exports: volumes



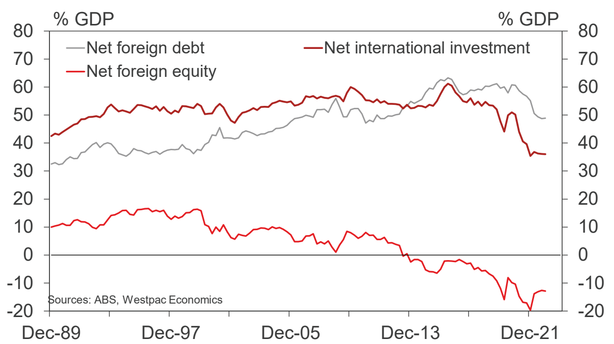
Border reopens: trade in services rebounds



Income flows: net income deficit, $26.8bn



Australia's external position



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