BULLETIN

23 August 2023

Australian goods export volumes: in focus. A dismal post covid performance. A modestly brighter 3 year outlook.

Australia's export sector has experienced the best of times and the worst of times in the 3 years since the pandemic, the years 2020 to 2022.

Export earnings are up sharply in the post pandemic period.

However, that is entirely due to significantly higher global prices.

Goods export volumes have gone backwards - with volumes in 2022 lower than they were in 2019.

Here we focus on goods export volumes. We assess the dismal 3 year performance and consider the prospects for the next 3 years, 2023 to 2025.

For this analysis, we draw upon the Resources and Energy Quarterly from the Department of Industry, Science, & Resources.

Goods export volumes: weakest 3 year performance in 6 decades.

Goods export earnings came in at $596.5bn for calendar 2022. It has been a stellar 3 years for export earnings, surging 52.8% from 2019 to 2022. That has lifted their share of the national economy from 19% in 2019 to a very substantial 27.1% in 2022.

This strength in goods export earnings is entirely due to higher prices, notably global commodity prices.

By contrast, goods export volumes have experienced their weakest performance in at least 6 decades (the data source begins from 1960). See chart opposite.

Goods export volumes went backwards over the past 3 years, to be 2.1% lower in 2022 than they were in 2019. The only other occasion they declined over 3 years was in the period to 1983, at -1.1%.

Goods export volumes have acted as a handbrake on economic growth over recent years, with their share of the real economy sliding from 20.7% in 2019 to 16.5% in 2022.

Resource shipments lead dismal export volume performance

So why the dismal performance of goods export volume over the past 3 years?

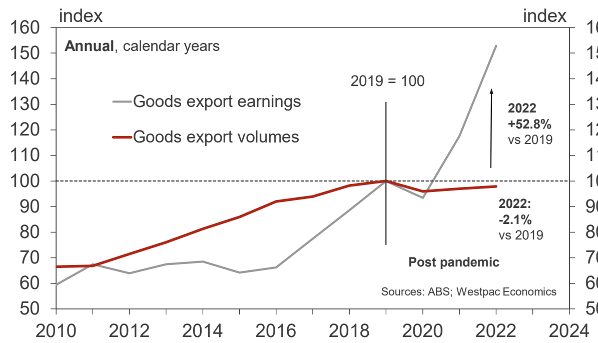
In short, shipments of resource exports, which were a source of strength for so many years, have faltered.

Resource export volumes in 2022 were about 4% lower than in 2019 (which is discussed in more detail below).

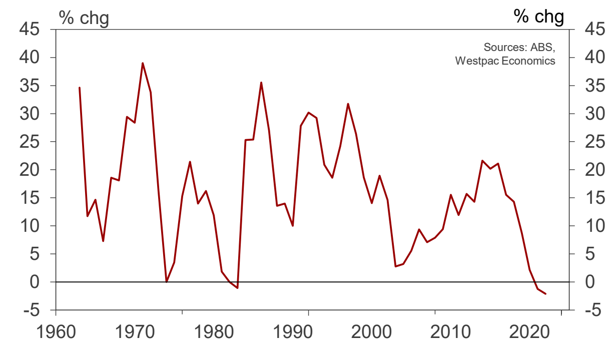
Non-resource exports have fared far better, posting a 5.8% expansion over the period. This was more than fully accounted for by the rural sector - with favourable seasonal conditions resulting in an 18.8% jump in rural goods export volumes. That result is unlikely to be repeated, with the pendulum swinging from La Nina to El Nino.

Australia's export basket is heavily skewed towards the resource sector. In 2019, resource exports accounted for 76% of goods export volumes, up from 69% in 2010.

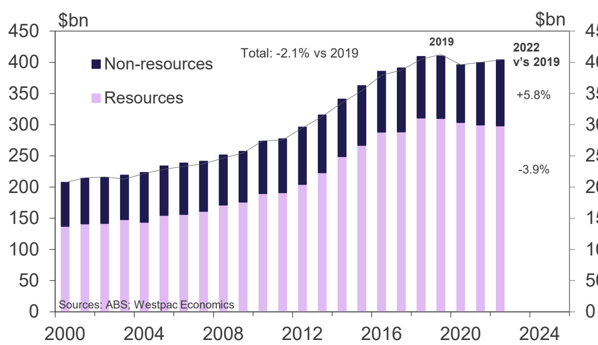
Goods exports: volumes slip, prices soar



Goods export volumes: growth over 3 years



Goods exports, volumes



Moreover, within that basket of resource exports, there is a concentration in the "Big 3", namely: metal ores (dominated by iron ore), coal, and other fuels (dominated by LNG). The Big 3 accounted for 65% of all goods export volumes in 2019, up about 55.5% in 2010.

So, typically, where goes shipments of iron ore, coal and LNG, so too goes Australia's goods export performance.

With this in mind, it is insightful to focus on the fortunes of these key commodity exports - over the past 3 years and prospects for the upcoming 3 years.

Together real exports of metal ores, coal and other fuels, weakened over recent years. In 2022, they were 2.0% lower than in 2019 (as well as being 2.4% lower than the peak year of 2018).

That combined 2.4% decline since the peak of 2018 stands in stark contrast to the rapid growth over the years prior to that. In the four years to 2014, together they posted a 40% increase, followed by a further 26% increase over the four years to 2018.

Resource exports hit by under investment and disruptions

Investment across the resource sector has been unresponsive to higher global commodity prices for some time now, see chart opposite. From 2016, mining investment as a share of the economy flat-lined, impervious to rising prices. This under investment is resulting in a lack of new supply coming on stream.

With limited upside on potential resource output, the sector was hard hit by the supply disruptions (covid, wet weather, maintenance) which were a feature of the years 2020 to 2022.

Coal exports have been particularly weak, with volumes in 2022 some 12% lower than in 2019, contributing -2.0ppts to the combined performance of the Big 3 over that period. Other fuels retreated by 5%, contributing -0.8ppts, while metal ores rose 1%, adding 0.7ppts.

Beyond the Big 3, covid disruptions hit metal export volumes in 2020 and again in 2021, followed by a stabilisation in 2022. While gold exports were hit in 2020 as the global appetite for gold purchases weakened - gold exports then stabilised in 2021 and 2022.

A mildly brighter outlook: contingent on fewer disruptions

So where to for export shipments over the next 3 years - notably for the Big 3?

The Resources and Energy Quarterly (REQ), from the Department of Industry, Science & Resources, provides an official view on export prospects for the upcoming 3 years. Currently, the REQ anticipates a mildly brighter outlook for Australia's key exports.

The REQ forecasts, which we need to translate to export volumes, point to growth in the Big 3 of around 2% for both 2023 and for 2024, slowing to around 1% for 2025.

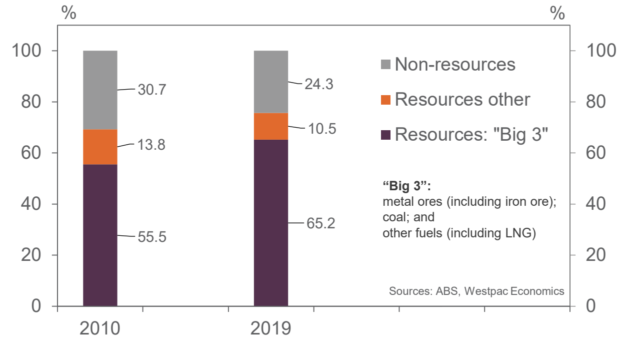
This outlook includes a rebound in coal (albeit still failing to return to 2019 levels) and modest growth in metal ores (including the emerging upward trend in lithium). However, other fuels (LNG and crude oil) are set to weaken further.

For coal, the return to drier conditions, after the above average rainfall of recent years, points to the potential for fewer disruptions.

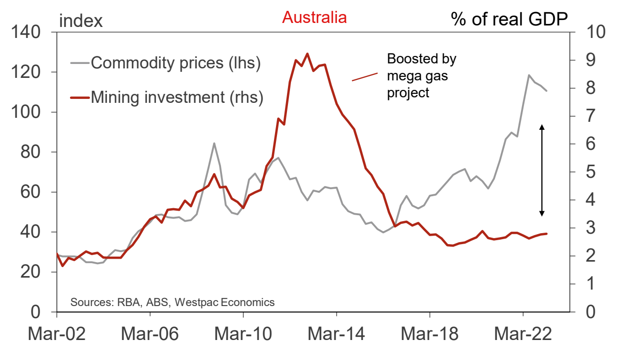
We caution that while the REQ forecasts anticipate a turnaround in the export performance of Australia's commodities, the outlook is for only modest growth - providing little wriggle room for any significant negative supply shocks. The key from here is for the resource sector to materially boost investment levels.

Andrew Hanlan, Senior Economist

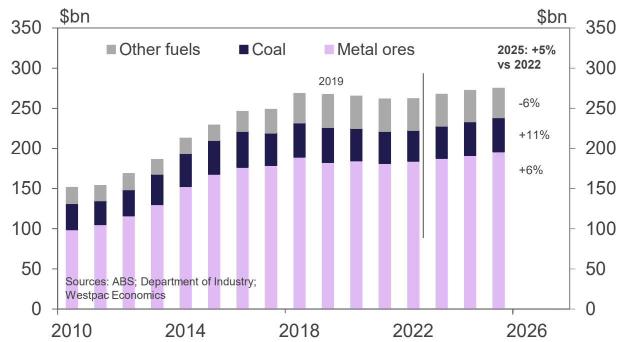
Goods export volumes: mix



Mining investment unresponsive to higher prices



Resource export volumes: "Big 3"



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