



WESTPAC ECONOMICS

TALKING ABOUT TRADE

Elliot Clarke, Head of International Economics

Mantas Vanagas, Senior Economist

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Global Economy



Growth opportunities for the world are broad, persistent and trade rich, but at risk from inflation.

The Middle East conflict has pushed fuel prices higher in all major advanced economies, especially diesel where lower inventories and refining disruptions have amplified the increase.

Australia's temporary excise cut softened the blow, but prices are likely to increase if excise goes back up in July.

The impact has been more muted in the US, however, strong domestic production providing a buffer against the shock.

Central banks are likely to maintain a hawkish bias. The RBA stands out, having to manage risks emanating from the energy shock as well as limited domestic capacity.



Growth opportunities for the world are broad, persistent and trade rich, but at risk from inflation.

The US and Australia are both net energy exporters and so are better placed than most to absorb the income hit from higher energy prices, particularly compared to the UK and the euro area economies.

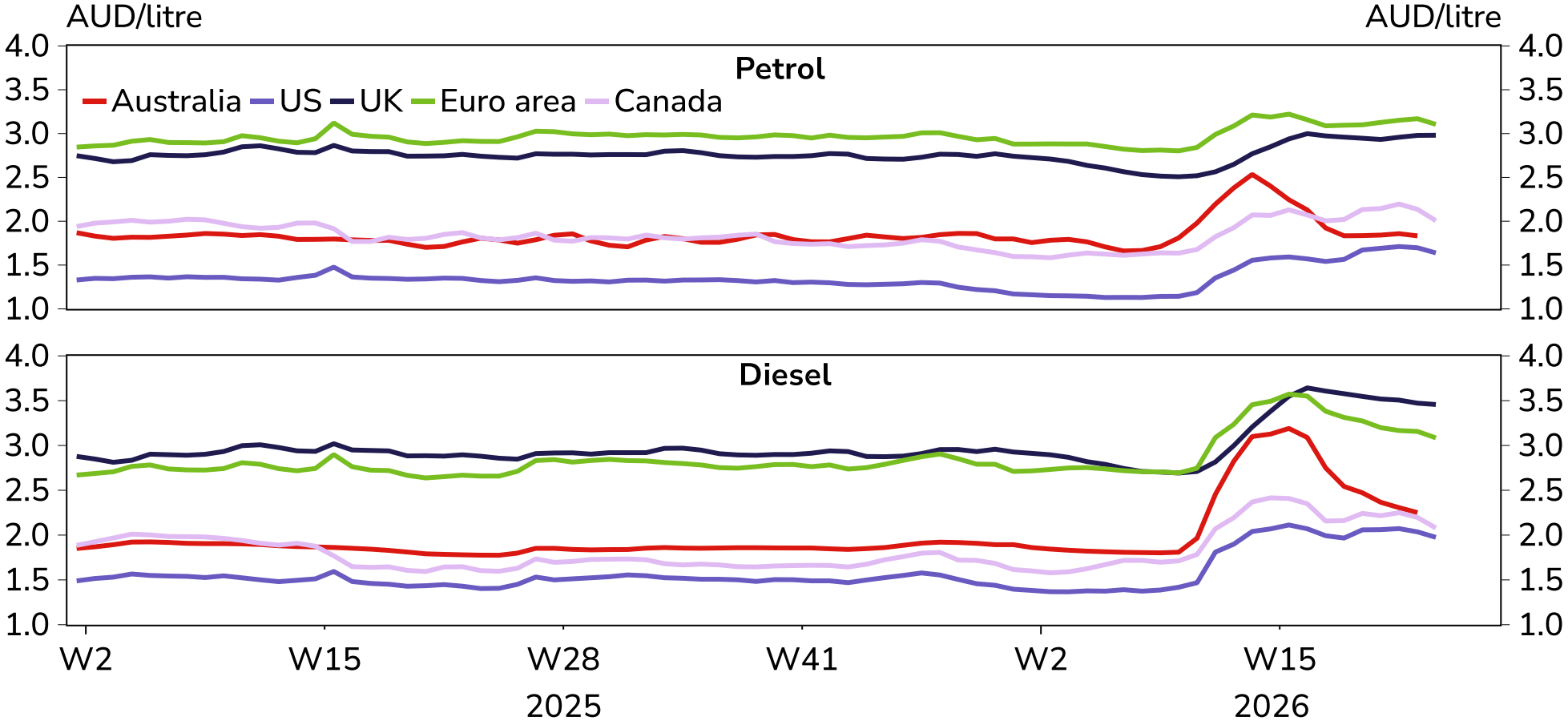
But the latest partial data points to building downside risks to economic growth here and across the developed world.

The full hit from the shock may emerge only gradually. As they take precautions against inflation, central banks will constantly assess the risks to activity in their own economy and those that hold significance for exports.

Higher fuel...



Auto fuel prices

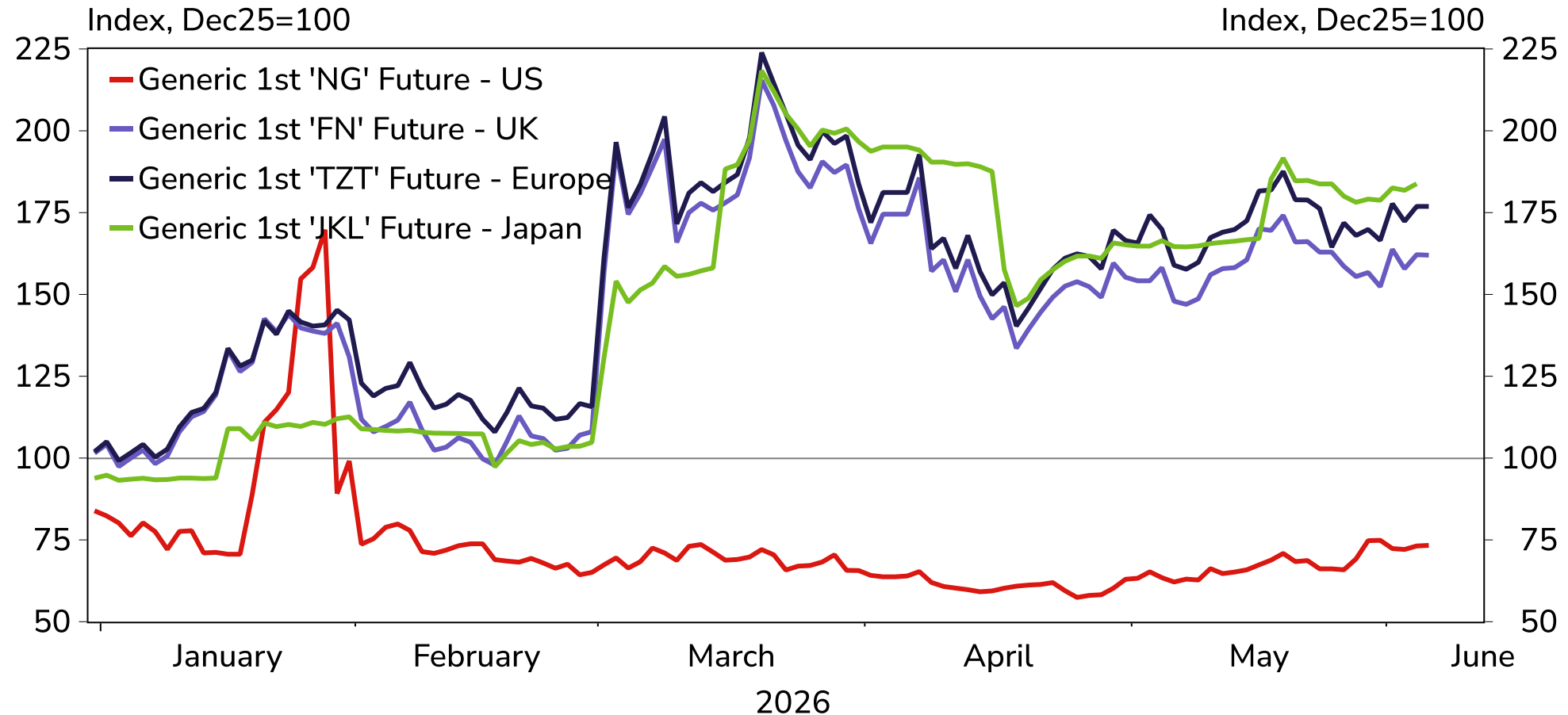


Source: EIA, BEIS, DG ENERGY, NRCAN, Macrobond, Westpac Economics

...and gas prices are driving inflation higher



LNG major benchmarks

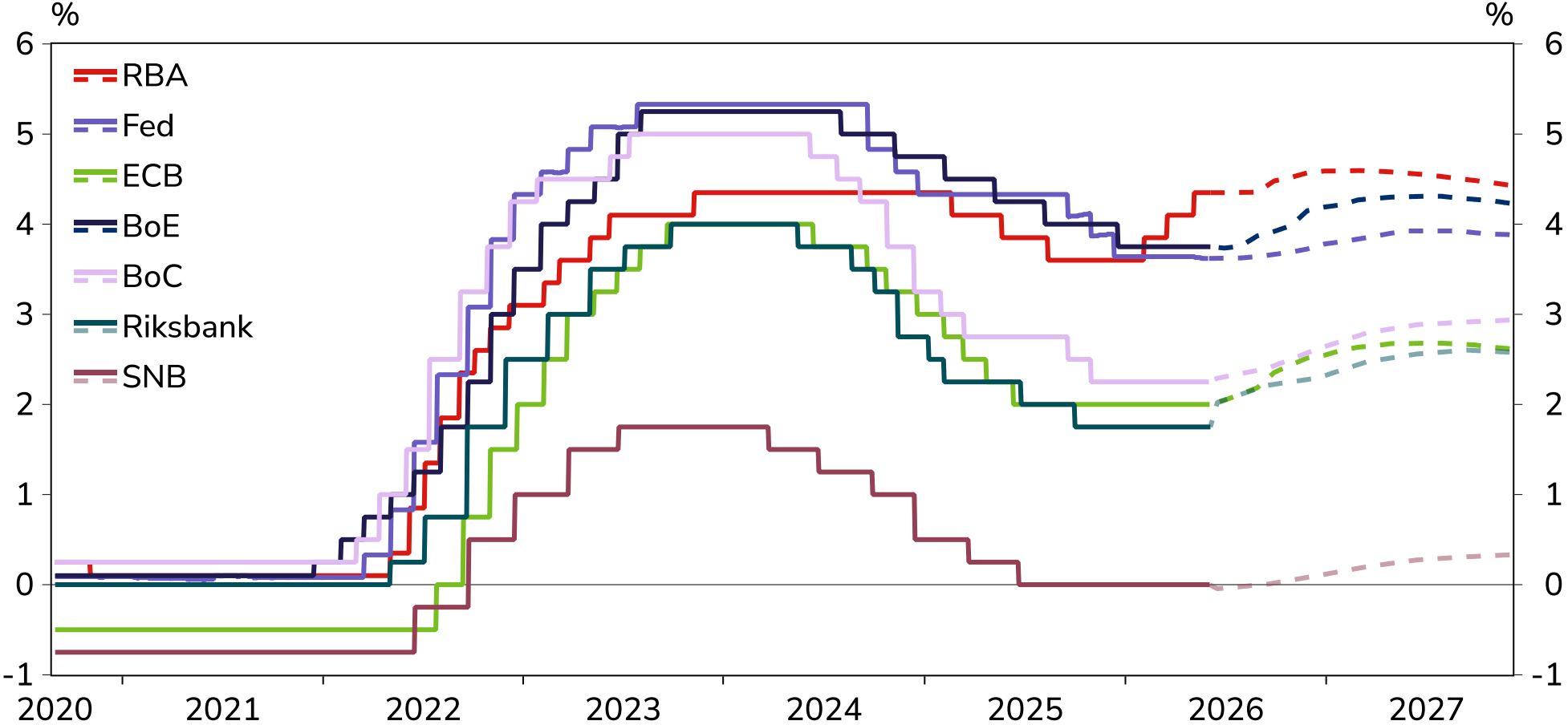


Source: , Macrobond, Westpac Economics

Central banks to defend against risks with hawkish bias



Central Bank Policy Rates (Market Expectations)

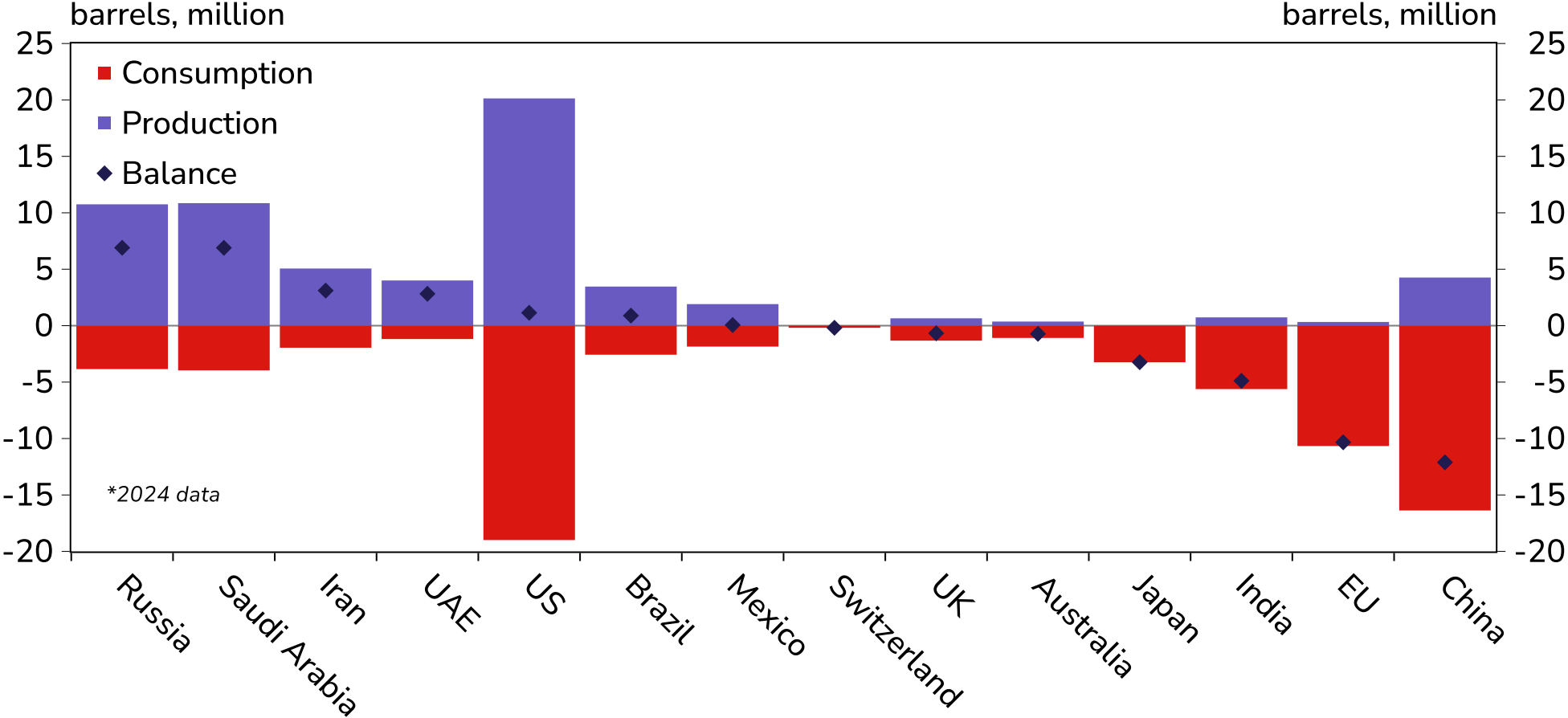


Source: RBA, ASX, New York Fed, CME Group, ECB, ICE, BoE, BoC, TMX, Riksbanken, Nasdaq OMX Nordic, SNB, Macrobond, Westpac Economics

Net exporters vs net importers of oil



Oil dependency*

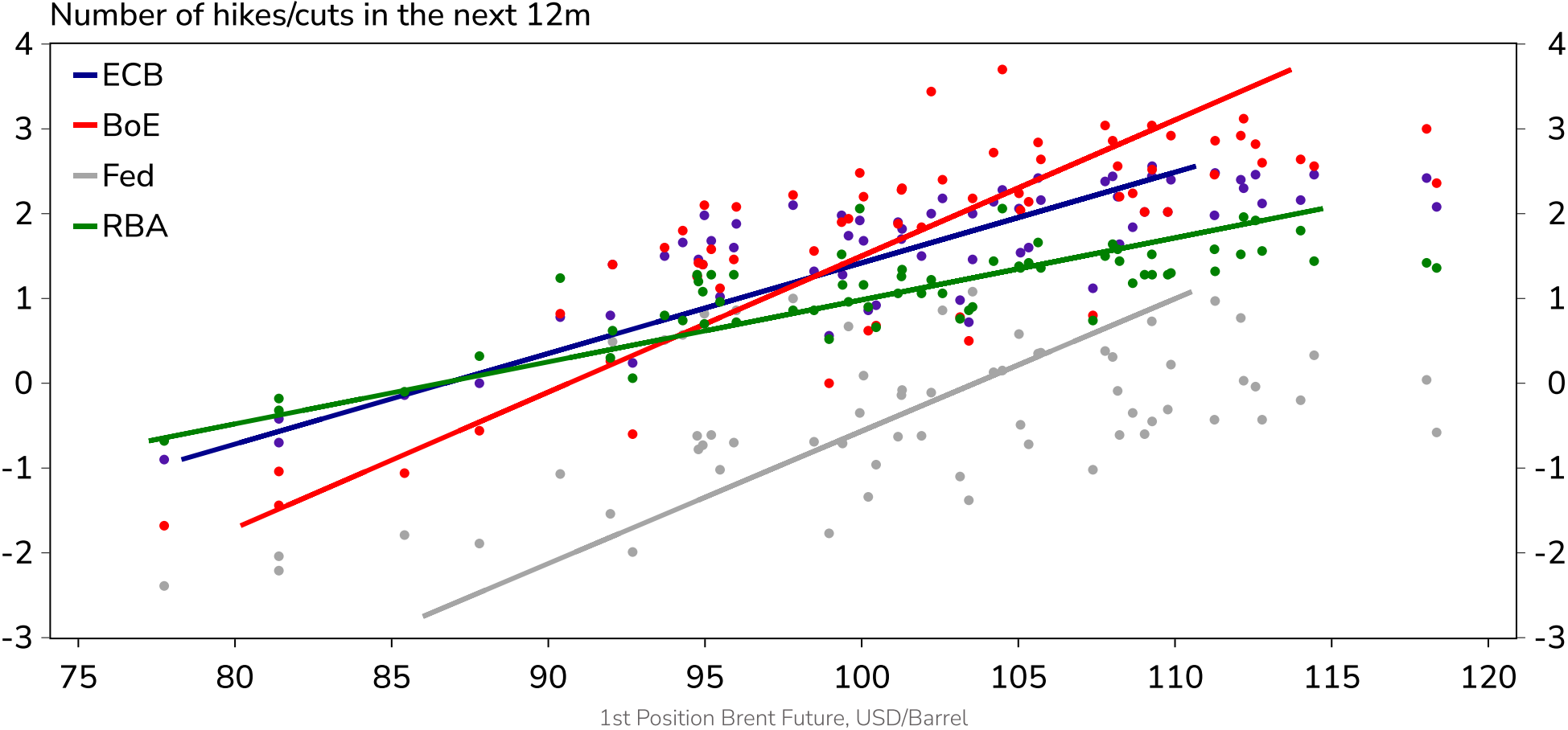


Source: Energy Institute, EIA, Macrobond, Westpac Economics

US and Australia less exposed to the energy price shock?



Oil vs Implied Rate Path

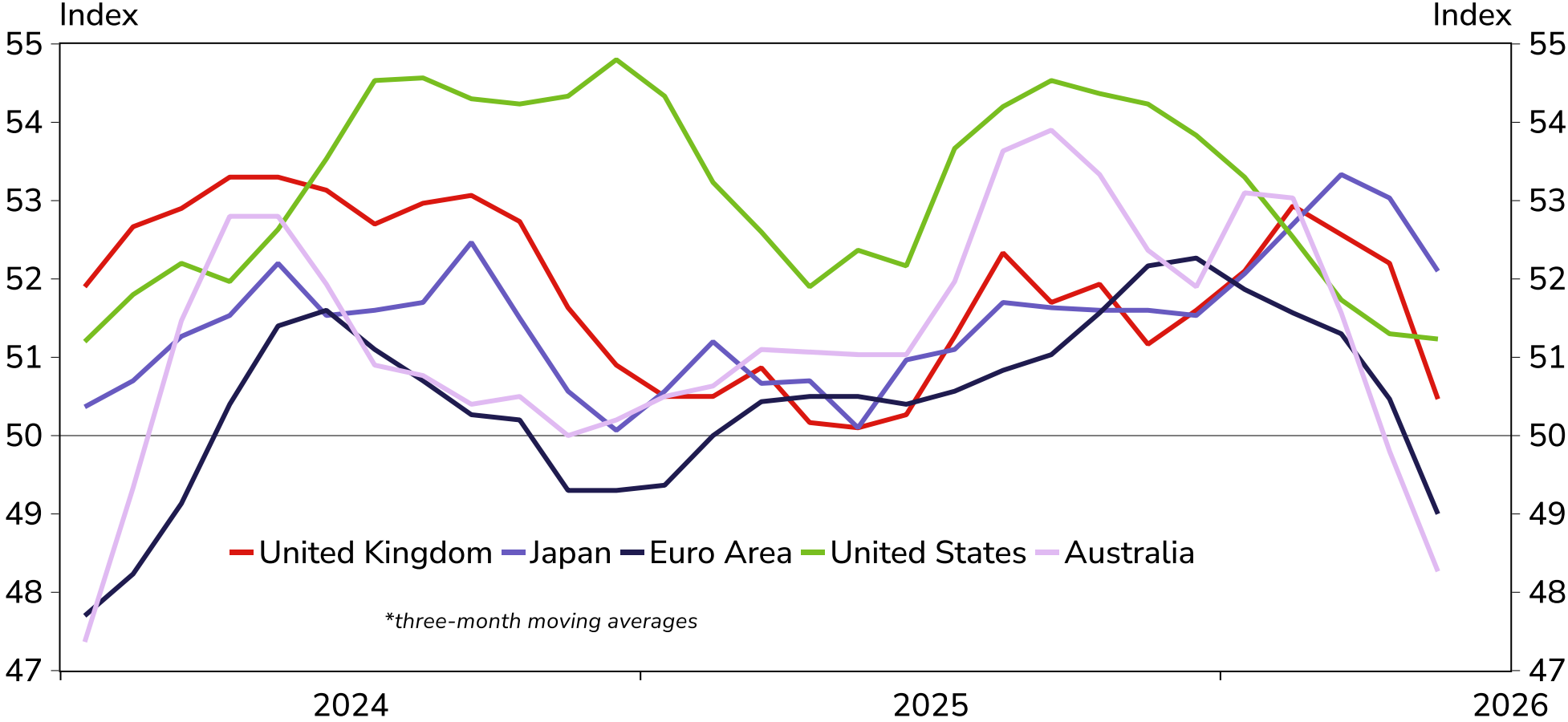


Source: CME Group, ICE, ECB, BoE, Fed, ASX, RBA, Macrobond, Westpac Economics

Growth momentum is slowing; downside risks clear



Composite PMIs*



*three-month moving averages

Source: S&P Global, Macrobond, Westpac Economics



Australia's Economy



Key domestic themes

In the [Australian CPI data for April](#), the effects of the energy shock on prices was partly masked by government policy. Transport prices fell 2.7%^{mth} overall, thanks to the excise cut and free public transport in Victoria and Tasmania. Over the year, petrol still rose 21.5%^{yr} and diesel 63.6%^{yr}.

The underlying detail suggests second-round inflationary effects are emerging, albeit less than initially feared. New dwelling prices saw the clearest impact, up 0.7%^{mth}, the biggest increase since November 2023, as builders passed through fuel and materials cost increases without delay. Takeaway food, restaurant meals and postal services also showed some pass-through.



Key domestic themes

April's labour-force report was softer than expected, albeit in part due to seasonality related to Easter. Younger workers bore the brunt of the deterioration, with the decline in employment concentrated in this cohort.

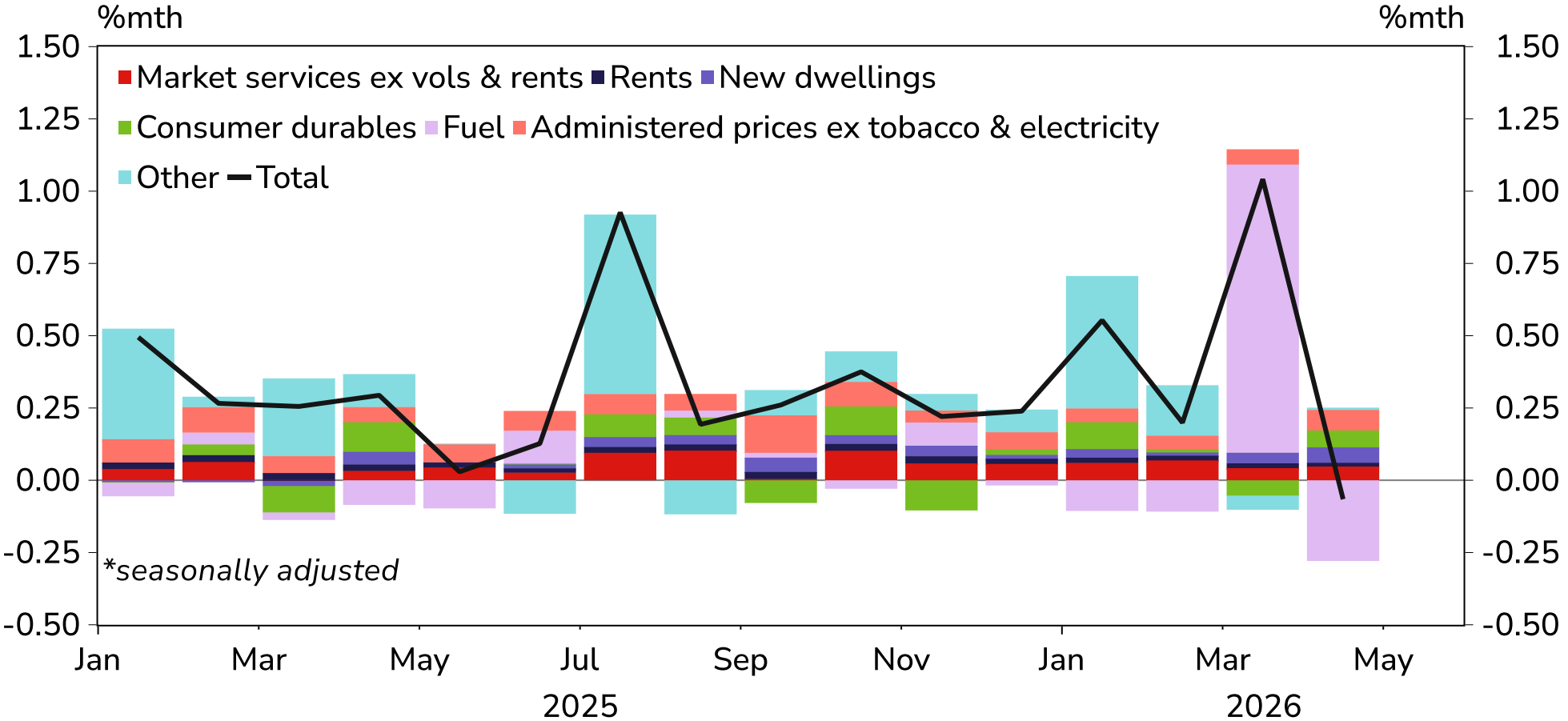
Despite the decline in jobs, hours worked firmed as individuals 'supplied' more hours to offset the hit to their discretionary spending power from higher prices.

Households are also cutting back on non-discretionary spending to offset the hit from higher fuel costs. The Westpac-DataX Card Tracker suggests spending momentum is fading, with non-fuel spending flat this quarter and total spending growth halving to 0.6%qtr.

Excise cut helping to offset the energy price shock



Contribution to monthly CPI inflation*

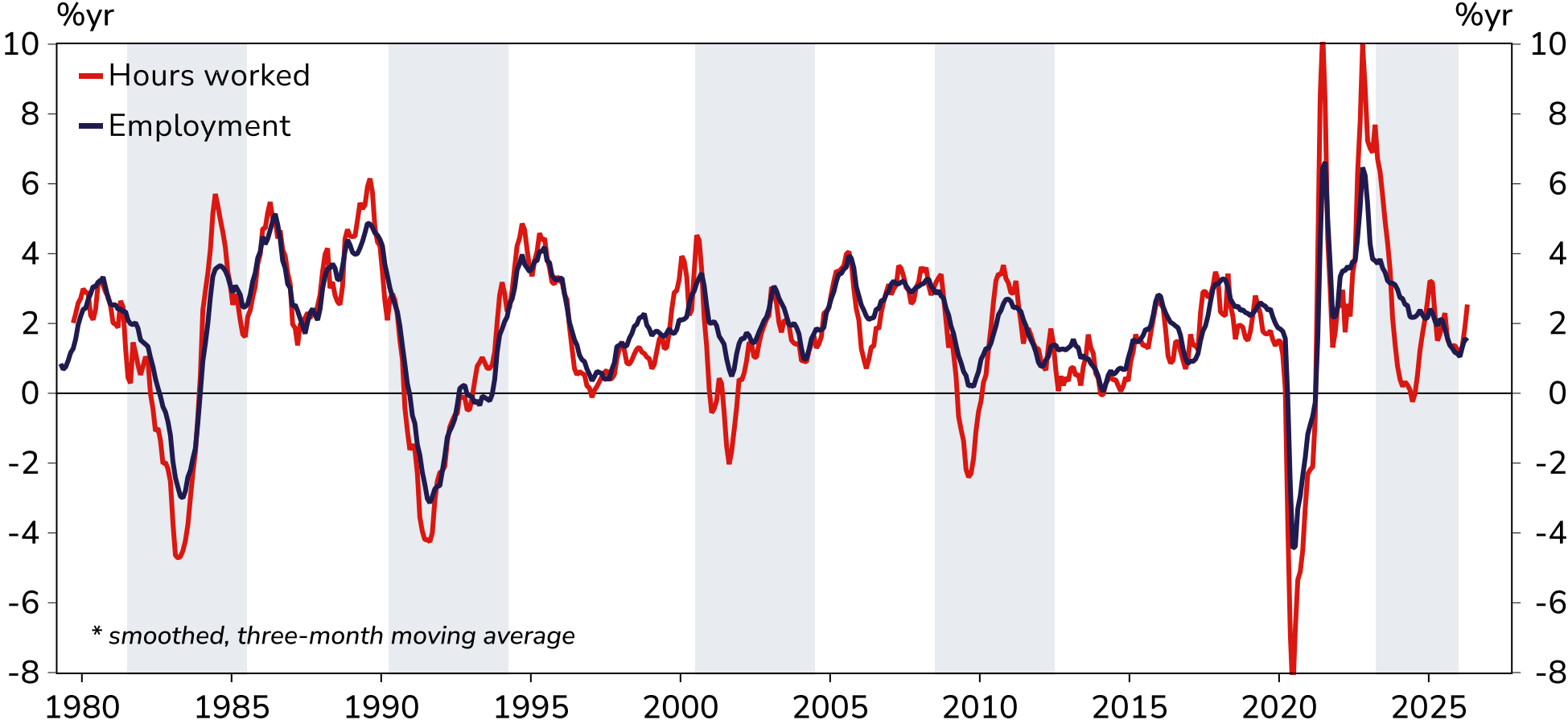


Source: ABS, Macrobond, Westpac Economics

People working more hours in response to rising prices



Hours worked and employment growth



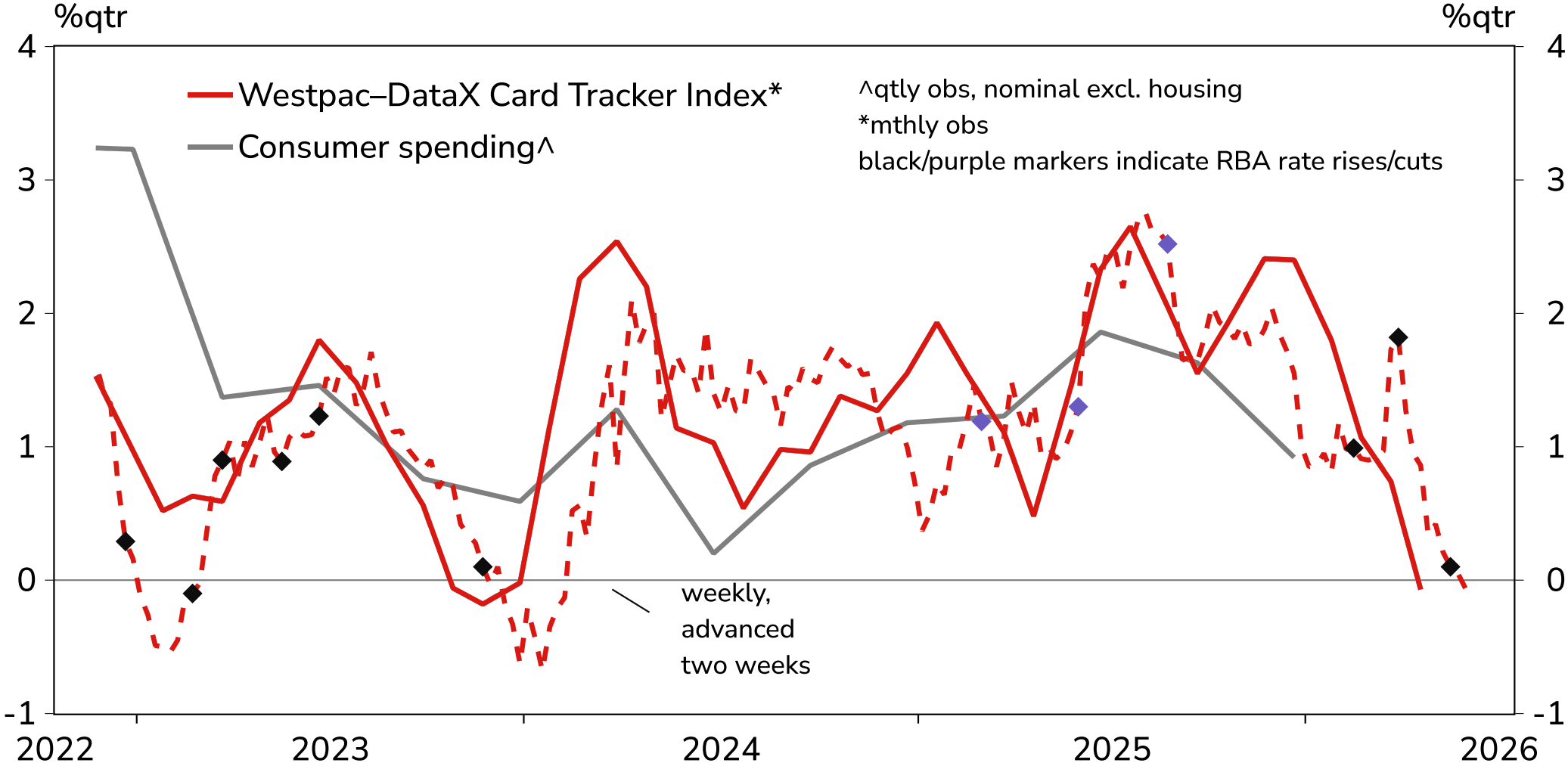
* smoothed, three-month moving average

Source: ABS, Macrobond, Westpac Economics

Consumer spending has lost momentum in Q2



Westpac-DataX Card Tracker, excluding fuel



Source: Westpac-DataX, Westpac Economics



Australian Trade

Australia is a net energy exporter. The full impact of the energy shock is yet to show up in the Q2 economic data.

Australia imports about \$40bn of oil per year, but in 2025 was a net exporter of more than \$120bn of coal and gas. That makes our economy a net energy exporter, creating a positive income shock overall despite the hit to households.

Australia's oil supply chain runs through Asia, which is highly exposed to Middle East disruption. Around 80 – 90% of Middle East oil exports go to Asia.

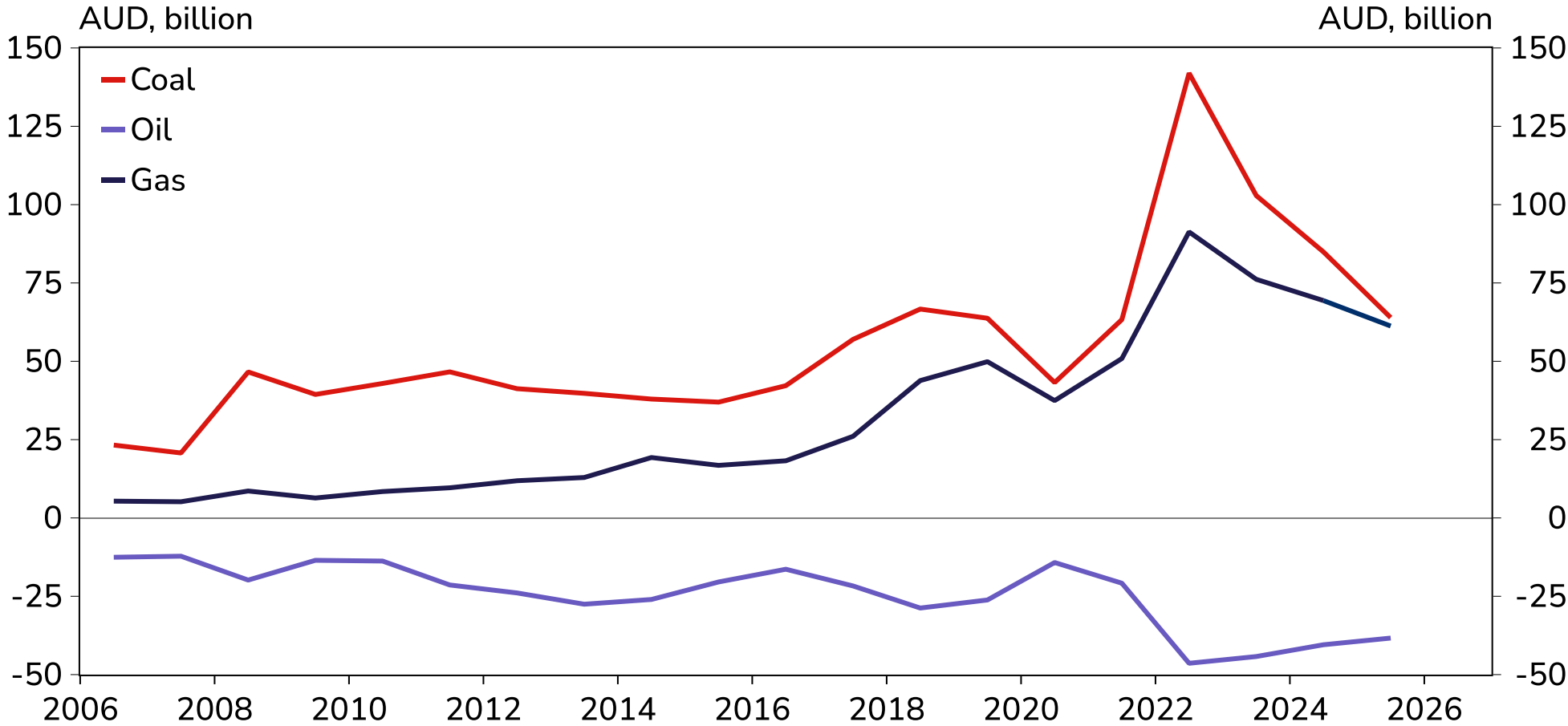
Q1 trade prices captured only the beginning of the stress as the conflict began at the end of February. A firmer AUD also softened the blow.

Prices will adjust more meaningfully this quarter. Monthly goods trade figures are pointing to surging fuel import values (petrol, diesel and jet fuel).

Australia is a net energy exporter



Net energy exports

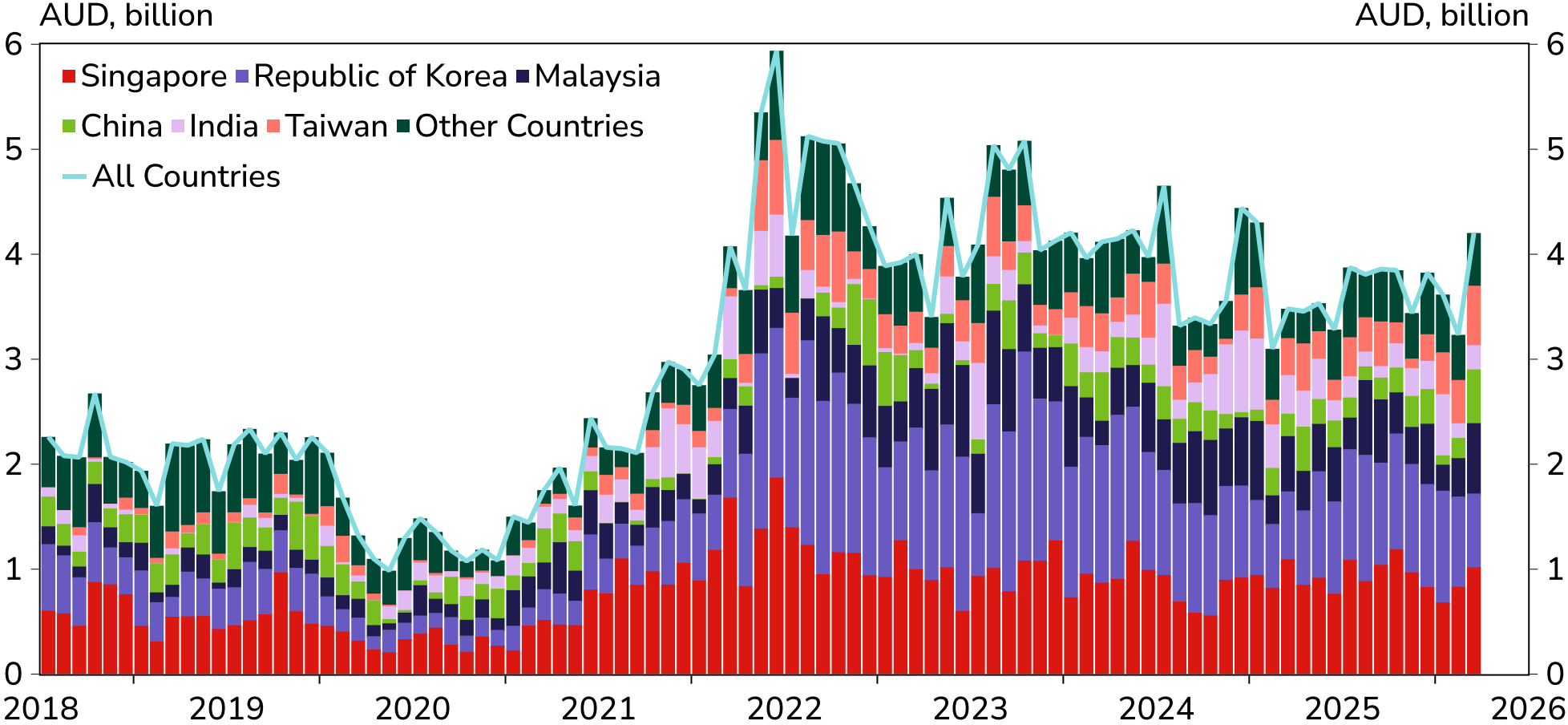


Source: DFAT, Macrobond, Westpac Economics

Most of our oil imports come from Asian countries



Australia imports - refined petroleum (monthly values)

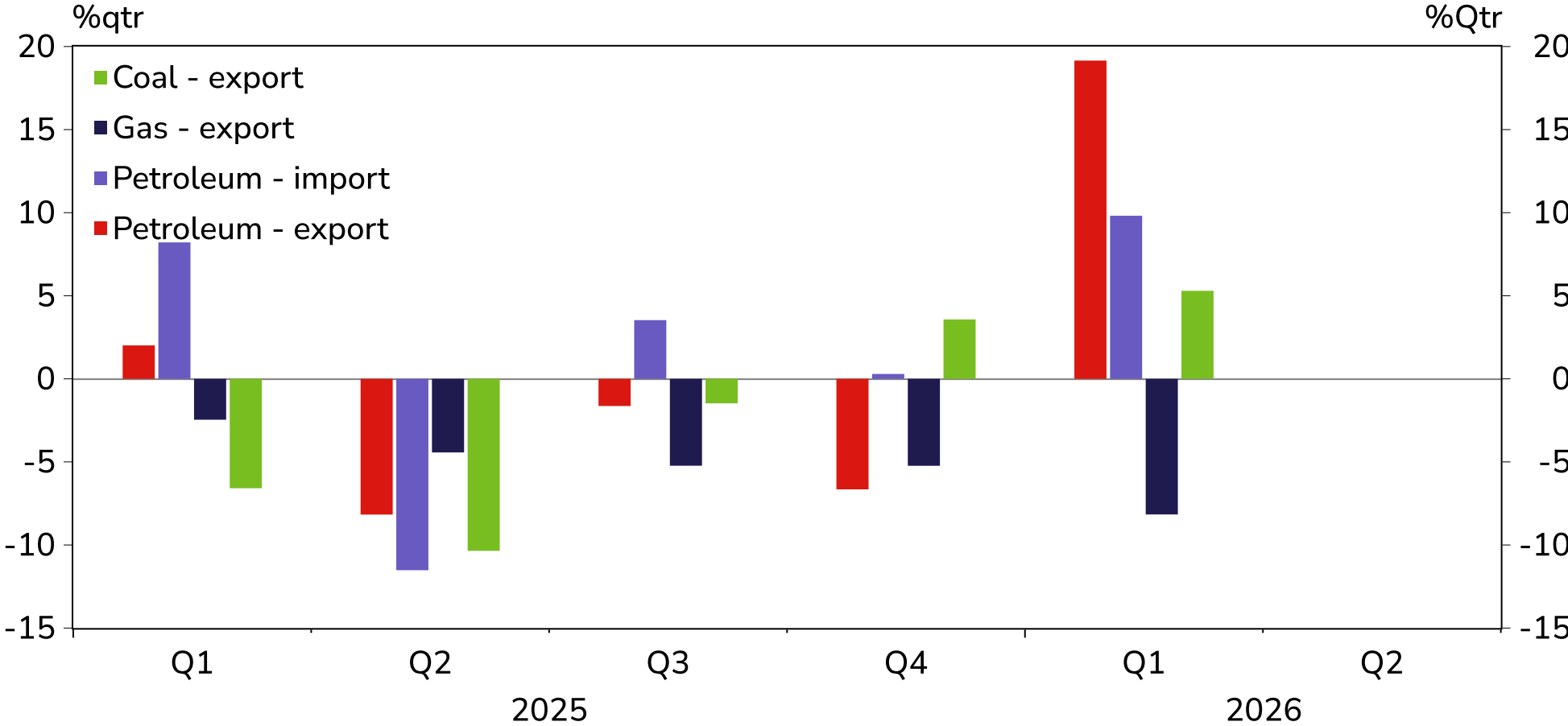


Source: DFAT, Macrobond, Westpac Economics

Q1 2026 Trade prices capture the beginning of the stress...



Export & import price indices

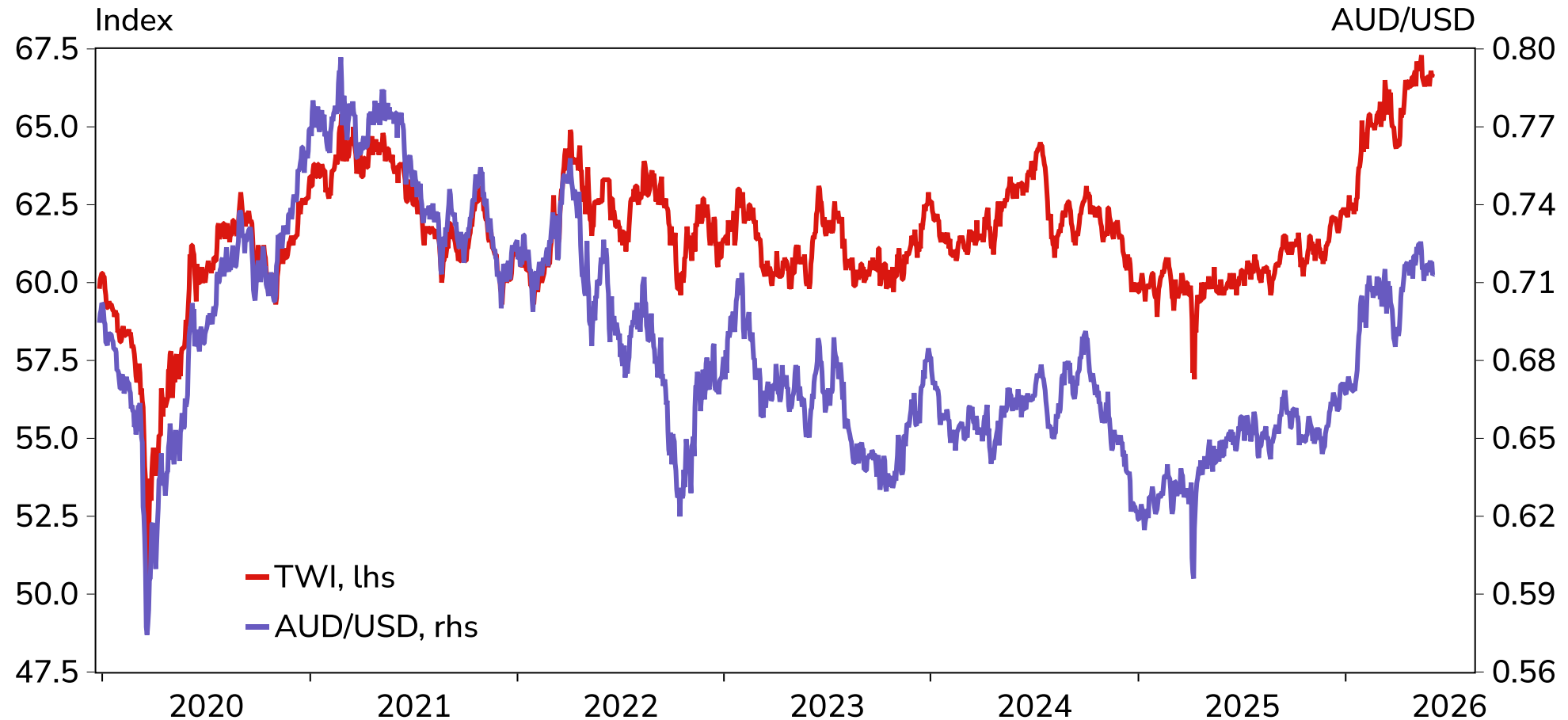


Source: ABS, Macrobond, Westpac Economics

...which a stronger AUD is helping to offset



Australian dollar – spot USD rate and TWI



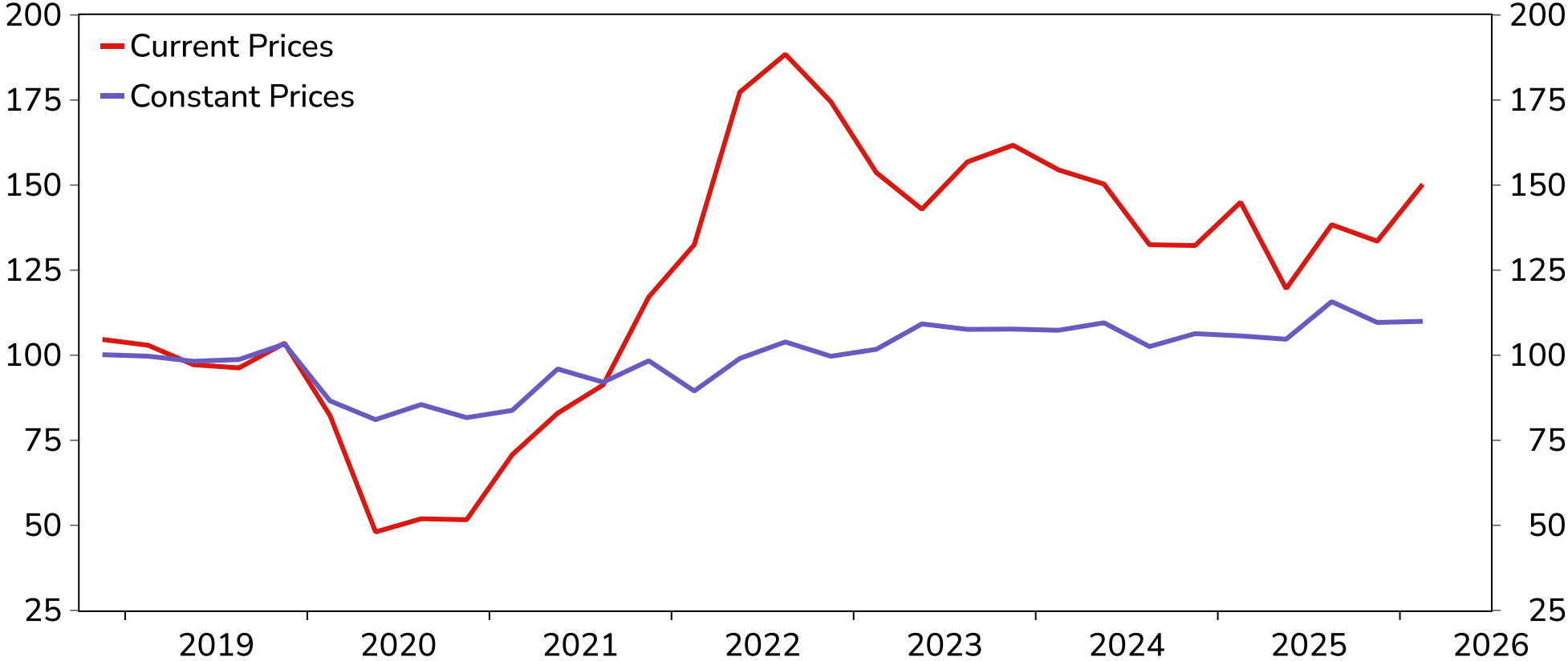
Source: Bloomberg, Macrobond, Westpac Economics

The Q1 fuel import increase was mostly due to prices



Fuels & Lubricants imports

Index, 2019=100

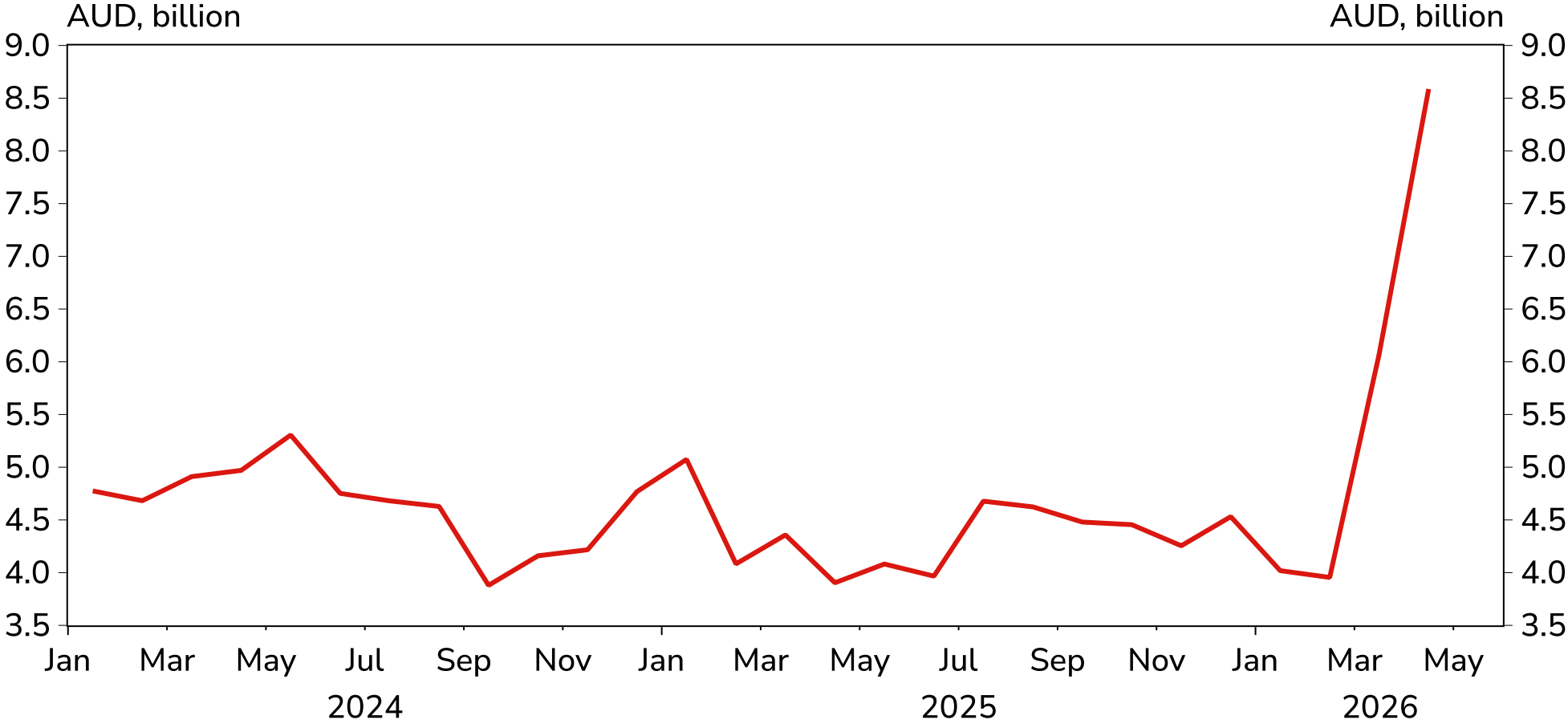


Source: ABS, Macrobond, Westpac Economics

A further increase is likely on the way in Q2



Monthly Fuels & Lubricants imports



Source: ABS, Macrobond, Westpac Economics

AI INVESTMENT SURGE



Booming AI investment will drive import growth.

Automated Data Processing (ADP) equipment imports almost tripled in March, signalling a surge in data-centre investment. Most of the equipment came from Taiwan, China and Malaysia. The sharp decline in April points to elevated monthly volatility.

Monthly trade data in March showed Australia's first goods deficit since late 2017, partly on weaker exports but mainly the 14% jump in imports (29% for capital goods). It bounced back to a surplus in April.

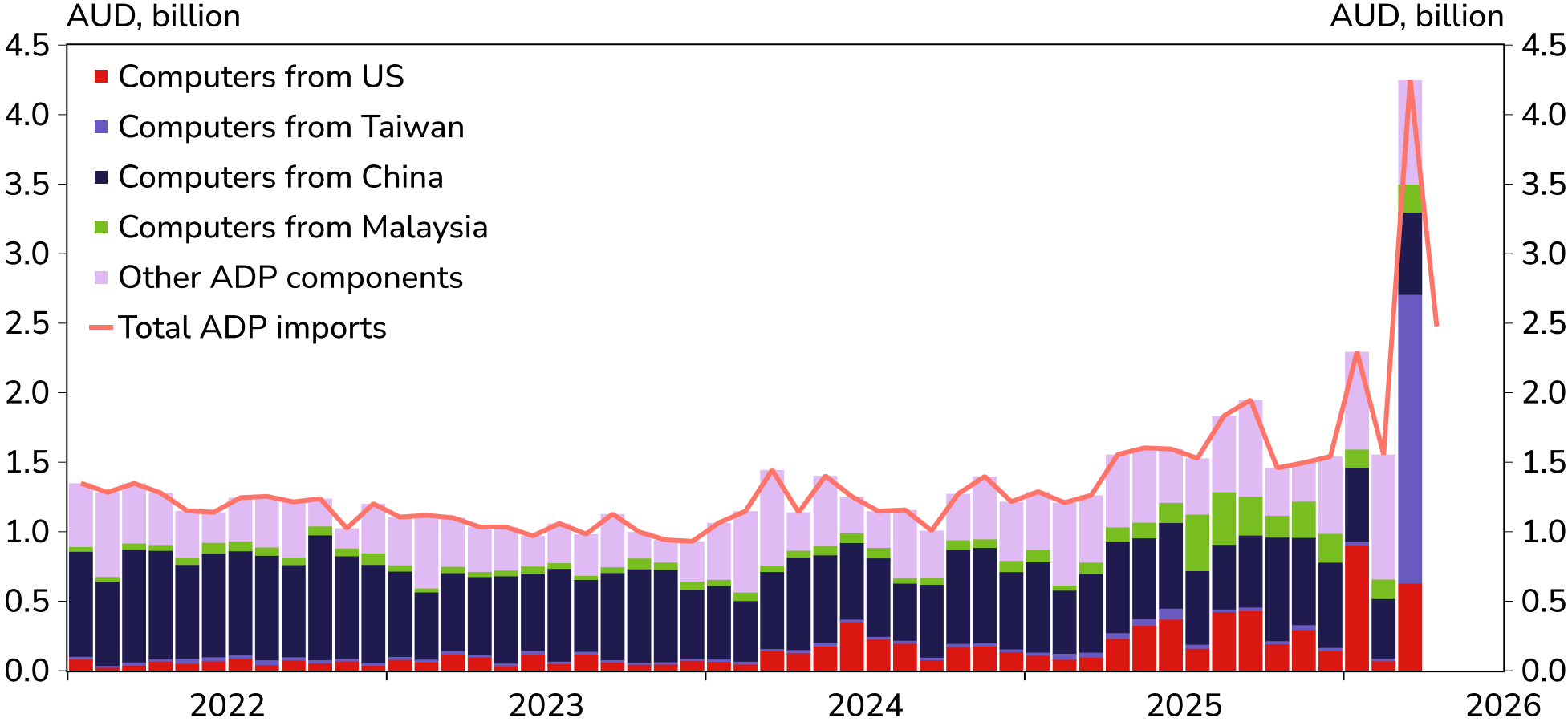
Capex data back this up, rising 6.5%qtr and 14.6%yr in Q1, the largest quarterly increase since the height of the mining boom in 2012.

Our estimates suggest a pipeline of around \$155bn of future data-centre investment in Australia. The building component should lean more on domestic inputs, but the equipment fit-out will be very import-intensive, implying further surges in capital goods imports and sporadic trade deficits.

A surge in ADP equipment imports...



Imports of automated data processing (ADP) equipment



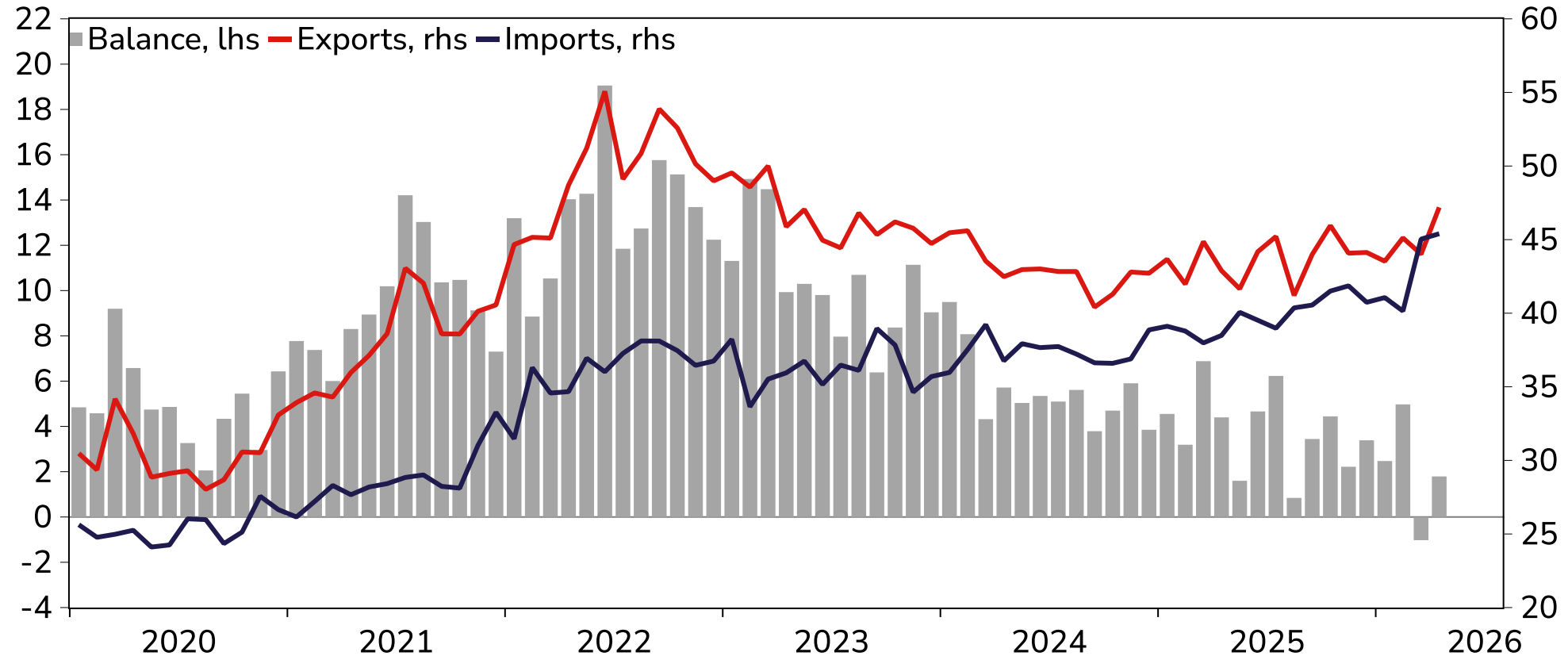
Source: ABS, DFAT, Macrobond, Westpac Economics

... saw the goods trade balance briefly turning negative



Goods Trade Balance

Value, \$bn

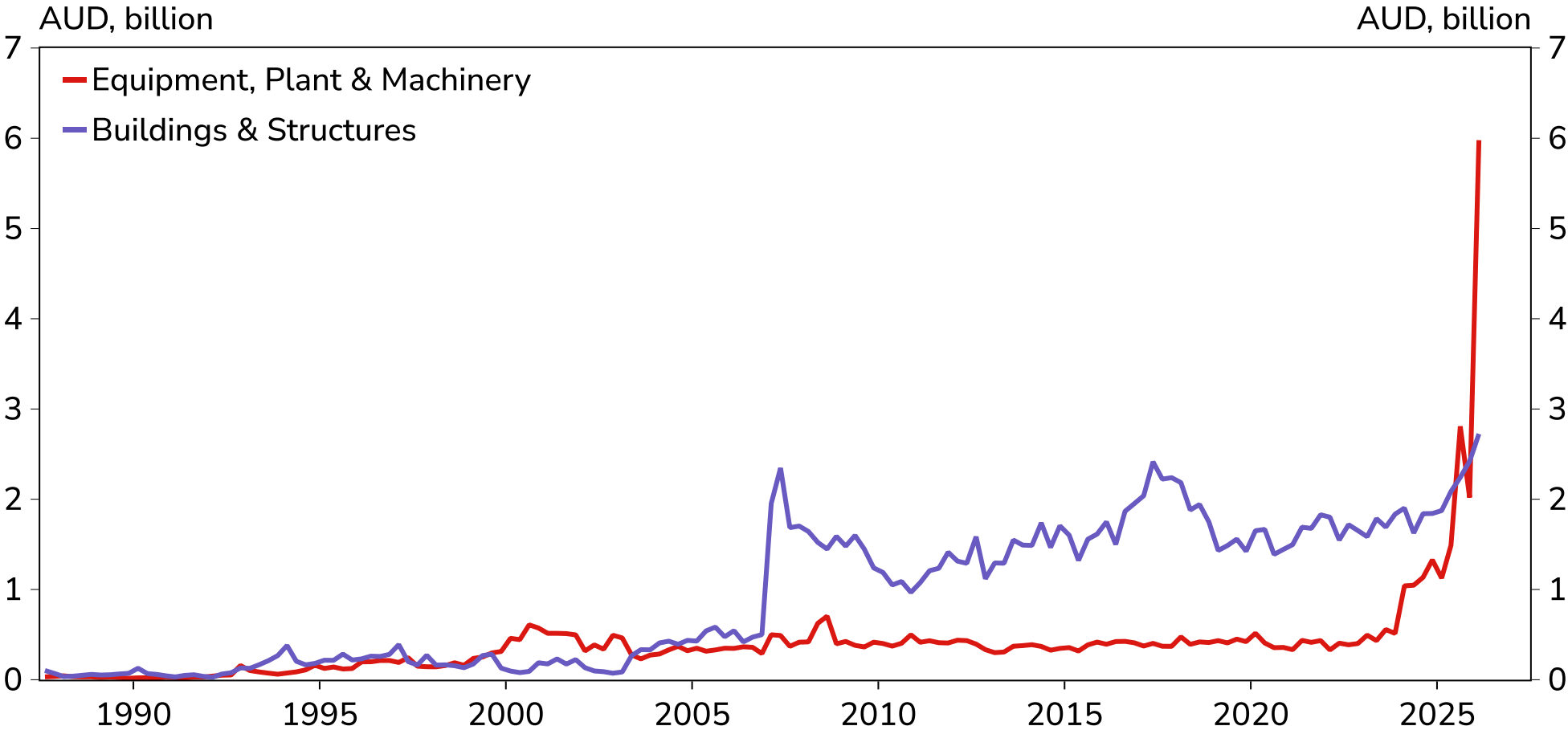


Source: ABS, Macrobond, Westpac Economics

Data centre investment drove the economy in Q1



Capital Expenditure in Information Media & Telecommunications

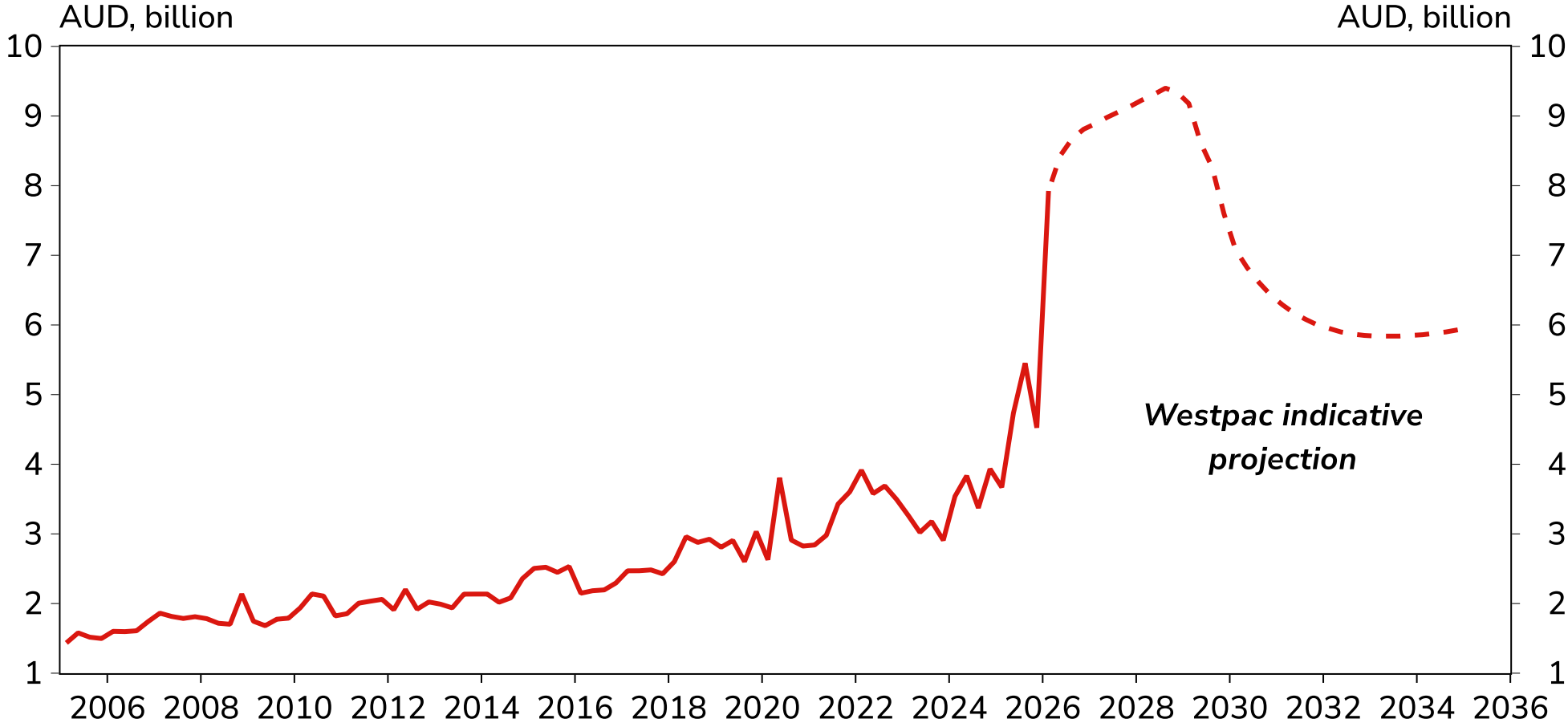


Source: ABS, Macrobond, Westpac Economics

Upside potential to import growth



ADP equipment imports



Source: ABS, Macrobond, Westpac Economics



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