Talking about trade

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IT TAKES A LITTLE

Global Economy

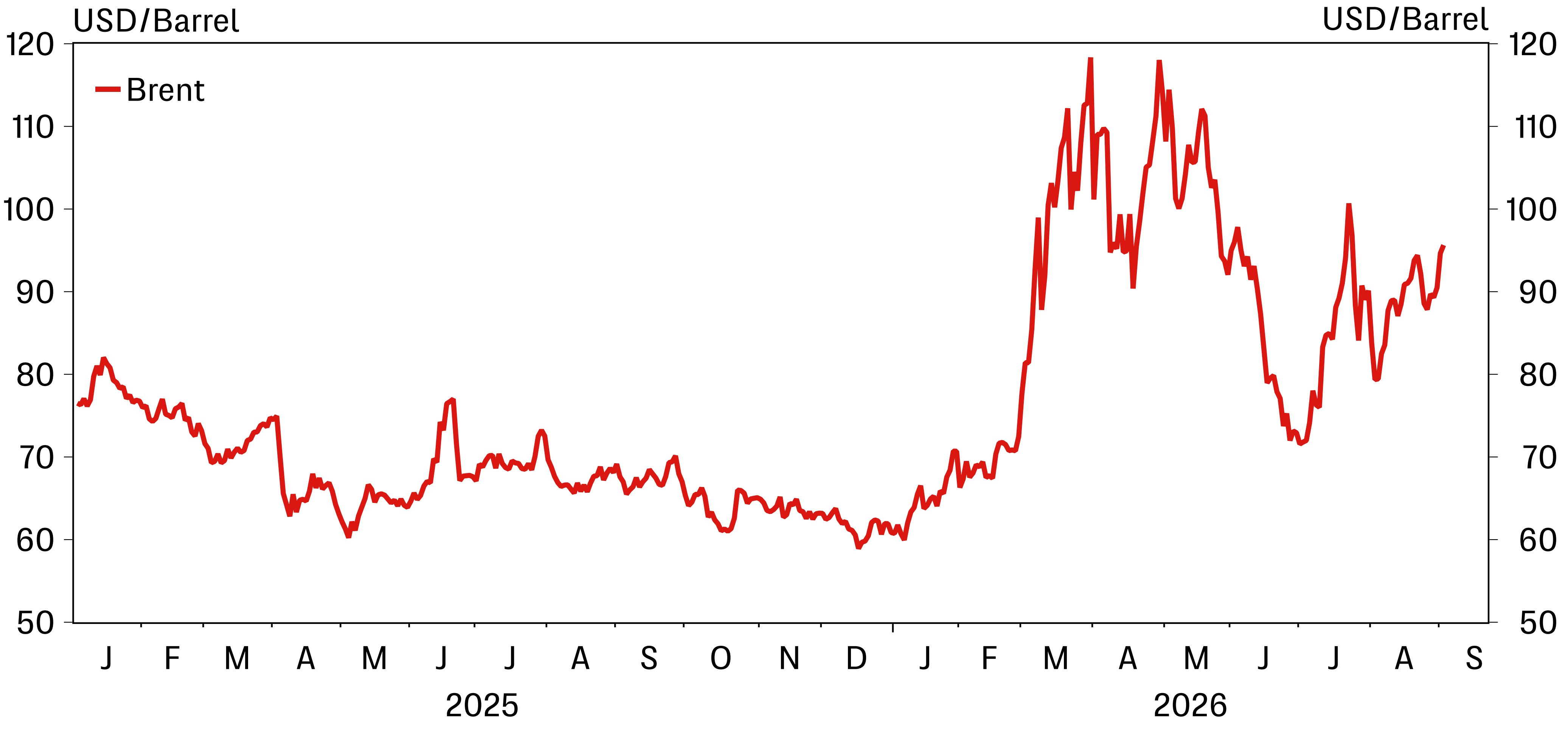
Risks from higher energy prices remain

- With no resolution to the US-Iran conflict in sight, energy prices remain high and volatile.
- Higher oil prices have pushed goods inflation higher, however, there has been little to no second-round effects.
- Central banks are maintaining tightening bias, however, it does not look like the energy price shock is going to bring significantly higher interest rates.
- Growth momentum eased after a good start to the year, but GDP in major economies continued rising in Q2 at a decent pace.

Energy prices remain high and volatile...

Crude Oil

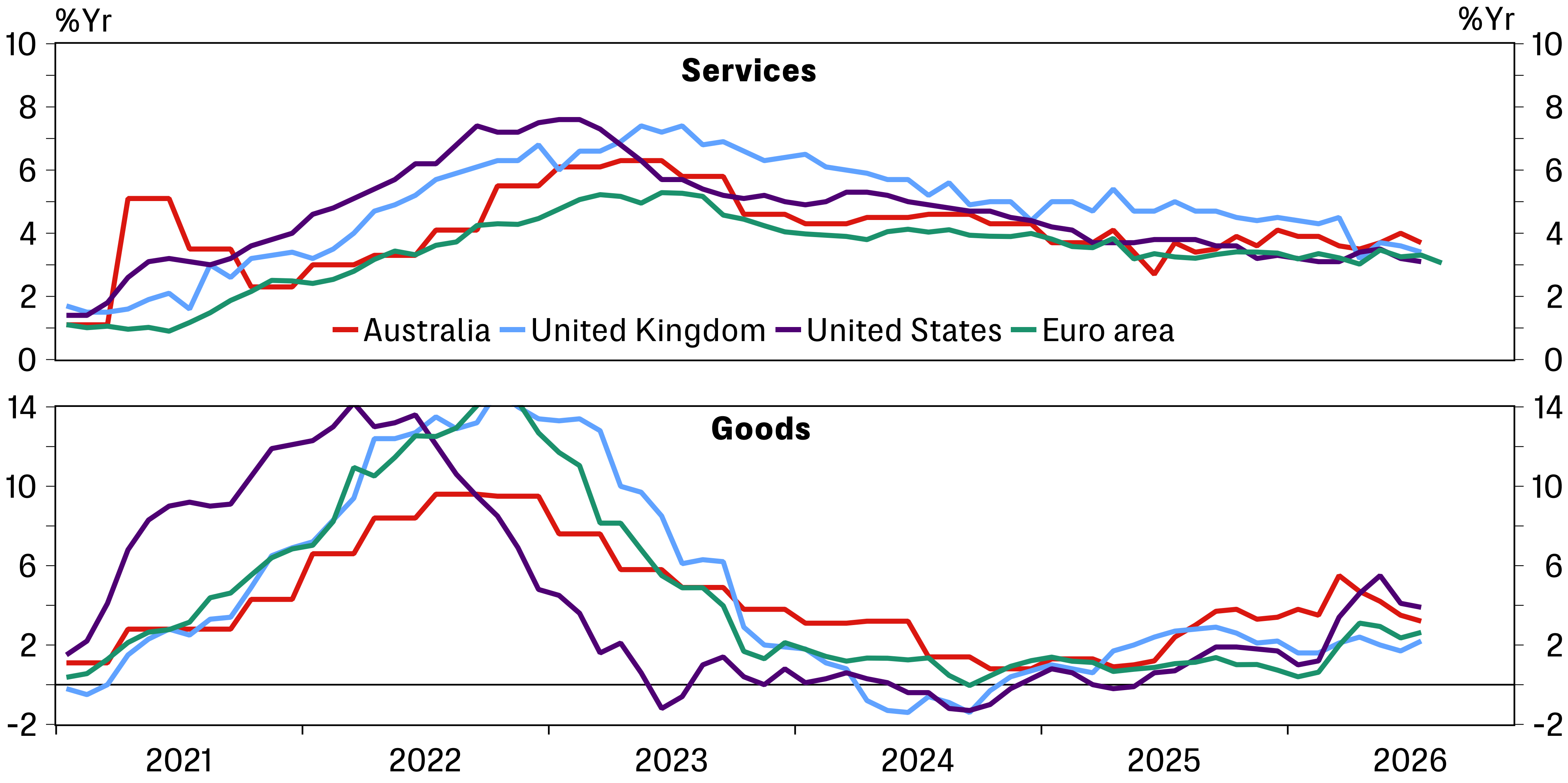
daily, $US per barrel



Source: CME Group, Macrobond, Westpac Economics

...pushing goods inflation higher

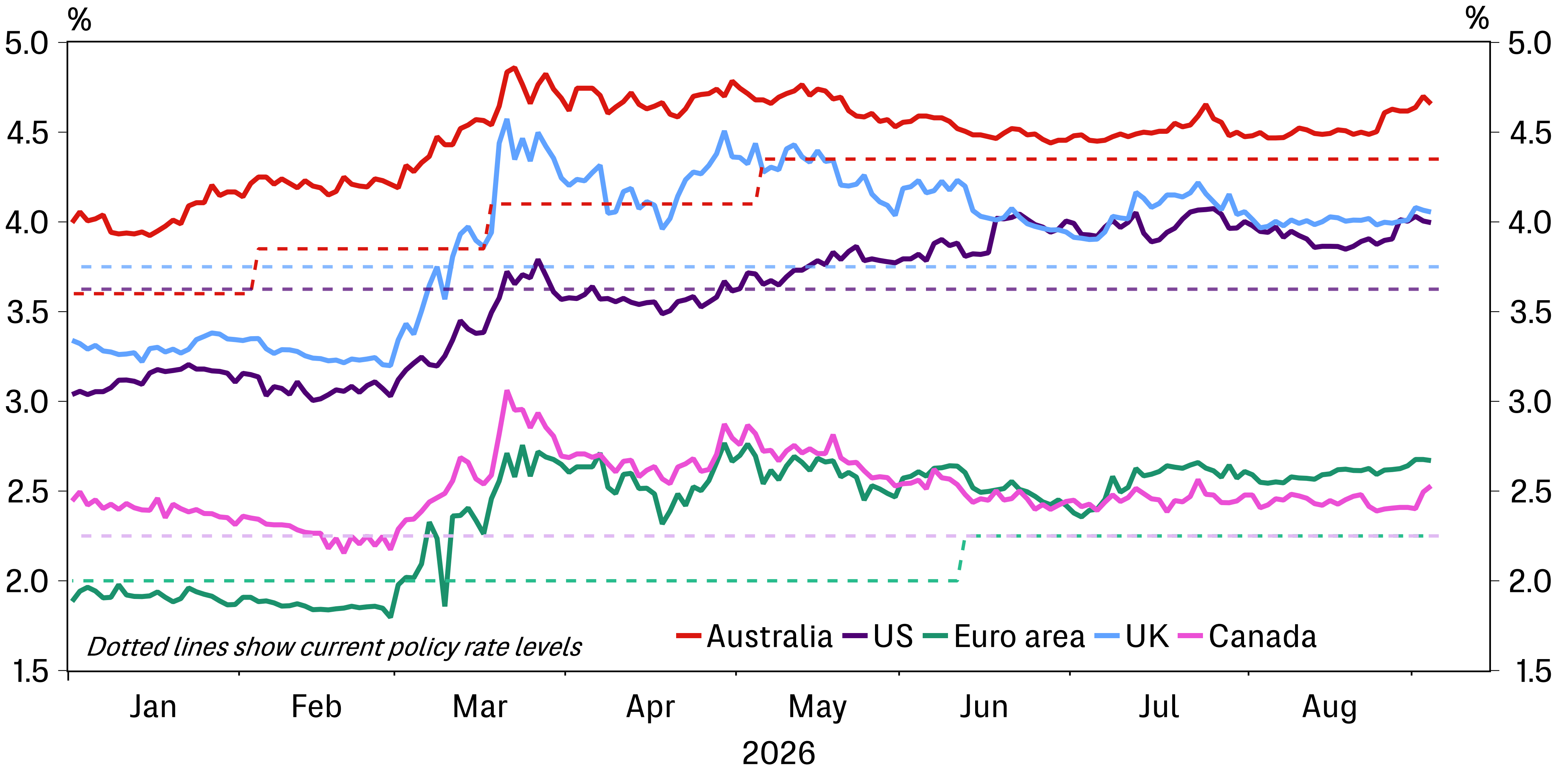
Inflation: Services and Goods



Source: ABS, ONS, BLS, Eurostat, ECB, Macrobond, Westpac Economics

Central banks biased towards higher policy rates

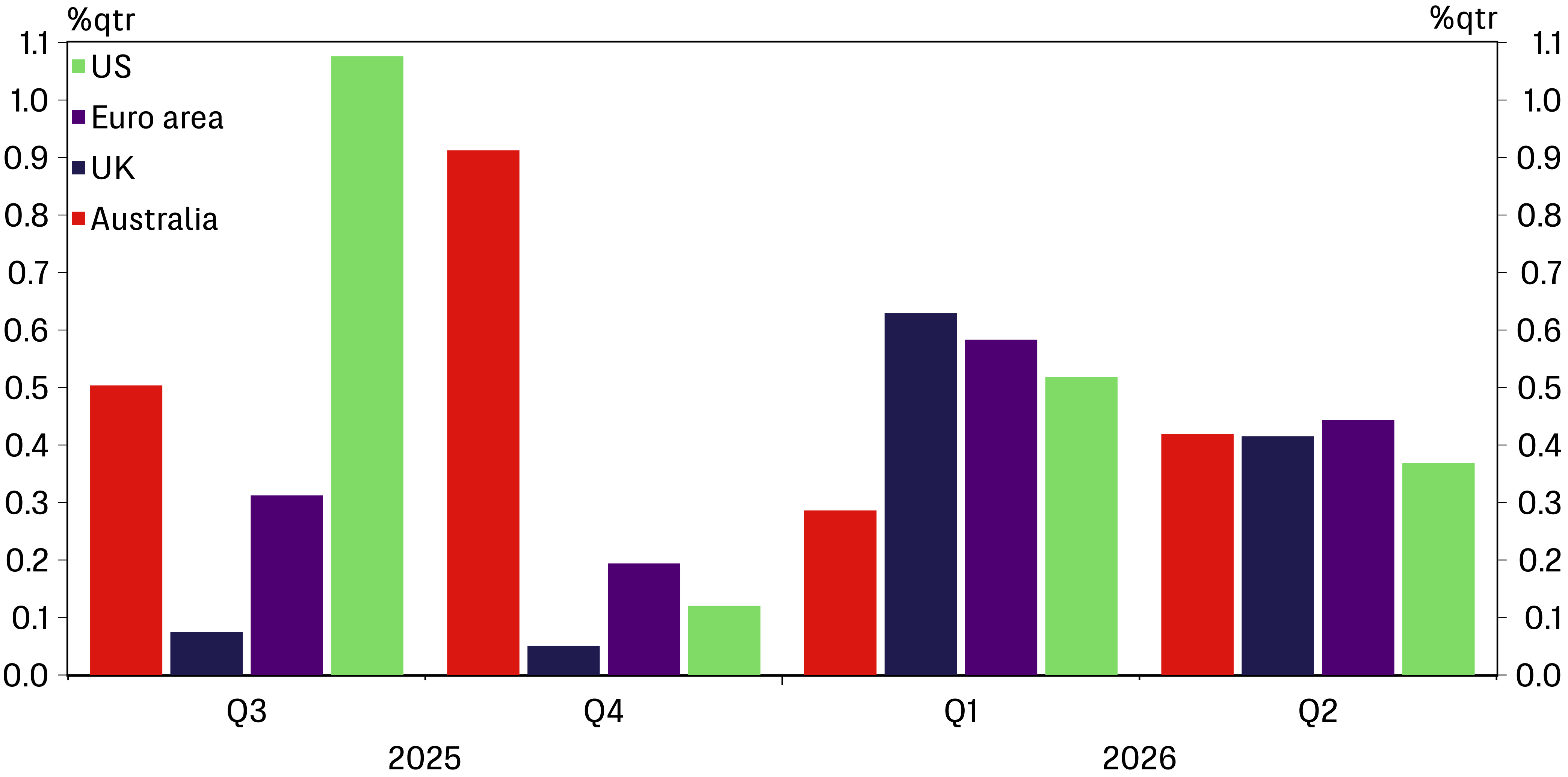
Market-implied policy rates for December 2026



Source: RBA, ECB, Macrobond, Westpac Economics

Growth slowed in Q2, but worst outcomes have been avoided

GDP growth



Source: ABS, BEA, ONS, Eurostat, Macrobond, Westpac Economics

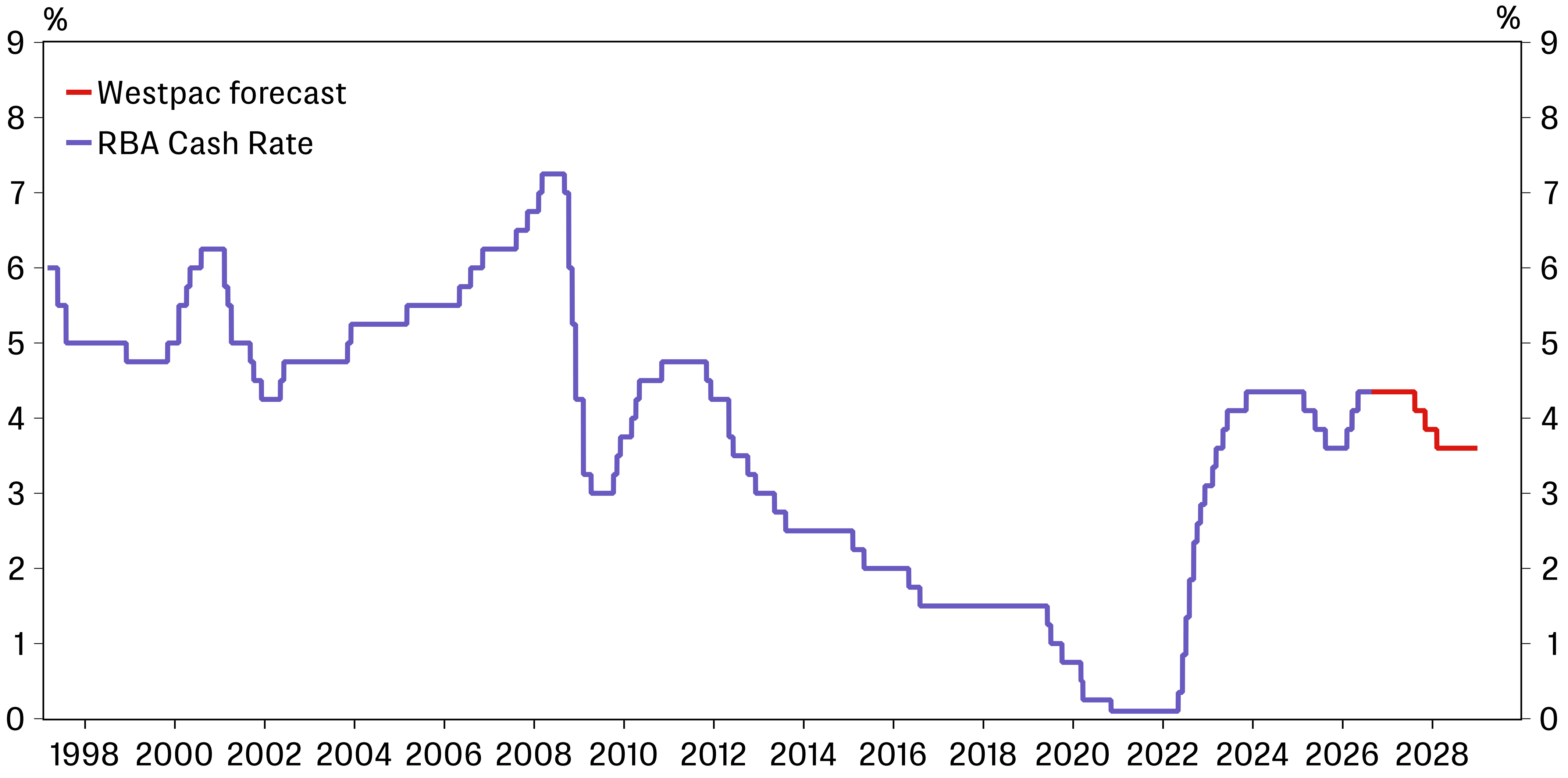
Australian Economy

RBA to remain on hold, the economy is slowing.

- After a downside surprise to Q2 inflation, no more RBA hikes expected in the near-term. We expect the RBA to start easing policy from H2 2027.
- Australian GDP grew by 0.4%qtr in Q2, suggesting some resilience to the global and domestic headwinds. However, this still represented a significant loss of momentum in H1 2026 versus the second half of 2025.
- The adjustment in the housing market has attracted a lot of attention. Prices are now easing across most major capital cities. Nationally, we expect a fall 3% this year.

We do not expect further hikes, RBA will start cutting in H2 2027

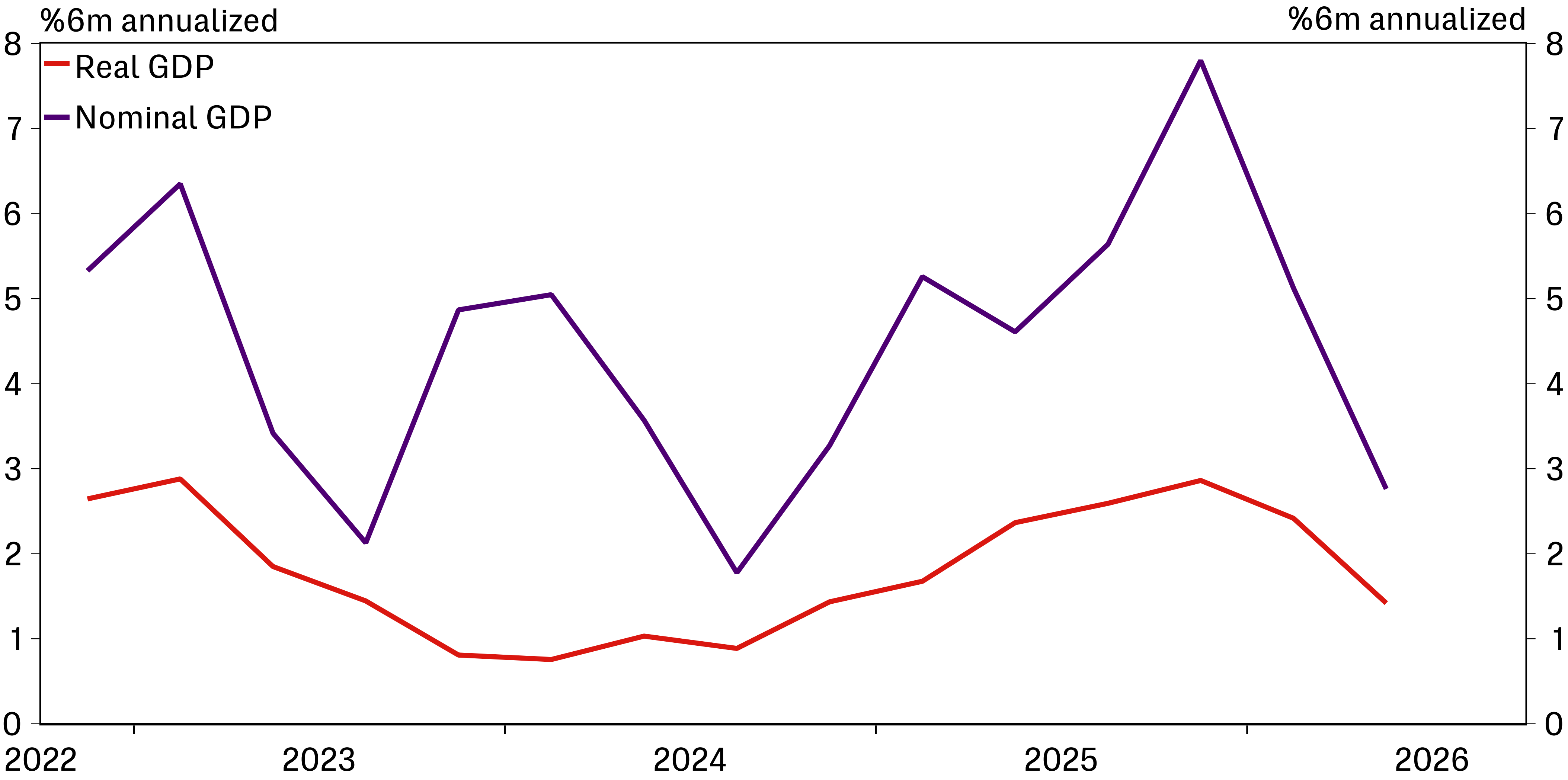
RBA cash rate



Source: RBA, Macrobond, Westpac Economics

Growth is now easing on both real and nominal basis

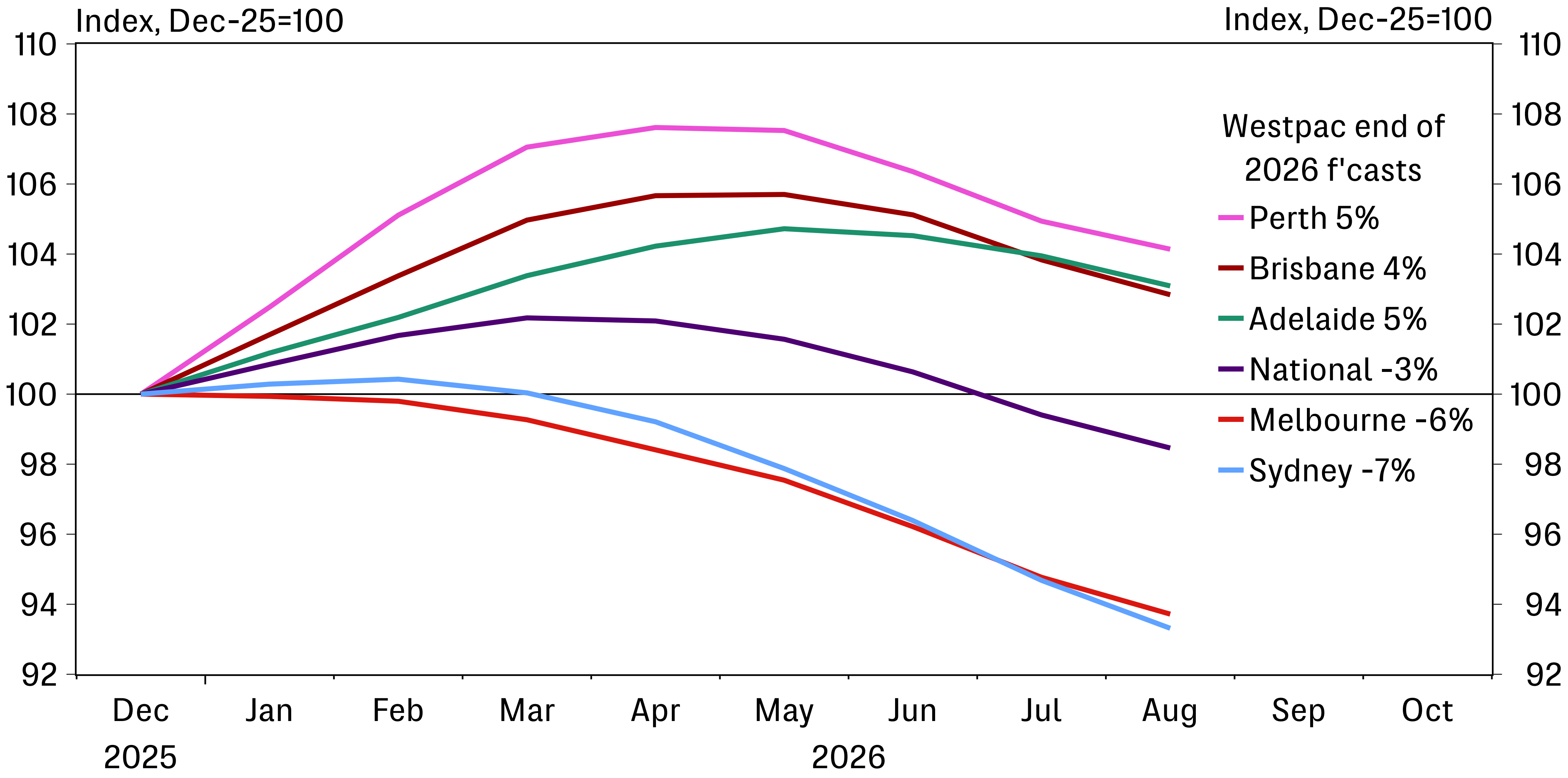
Australia's GDP



Source: ABS, Macrobond, Westpac Economics

Housing market in an adjustment mode

House prices



Source: Cotality Australia, Macrobond, Westpac Economics

Trade

Key insights from Q2 data, AI will increase services imports, eventually, services exports might go up too.

- Current account continues to deteriorate, driven by falling goods trade surplus. We expect that this trend will continue going forward.
- Use of AI is increasing services imports, either directly as Computer & Information services, or as intellectual property licencing, distributed by domestic companies. Imports growth in these categories has been very strong for a while, and that trend is set to continue.
- Falling student numbers suggest a drag from education exports, which is a major services exports category accounting for around 40% of the total services outflow.

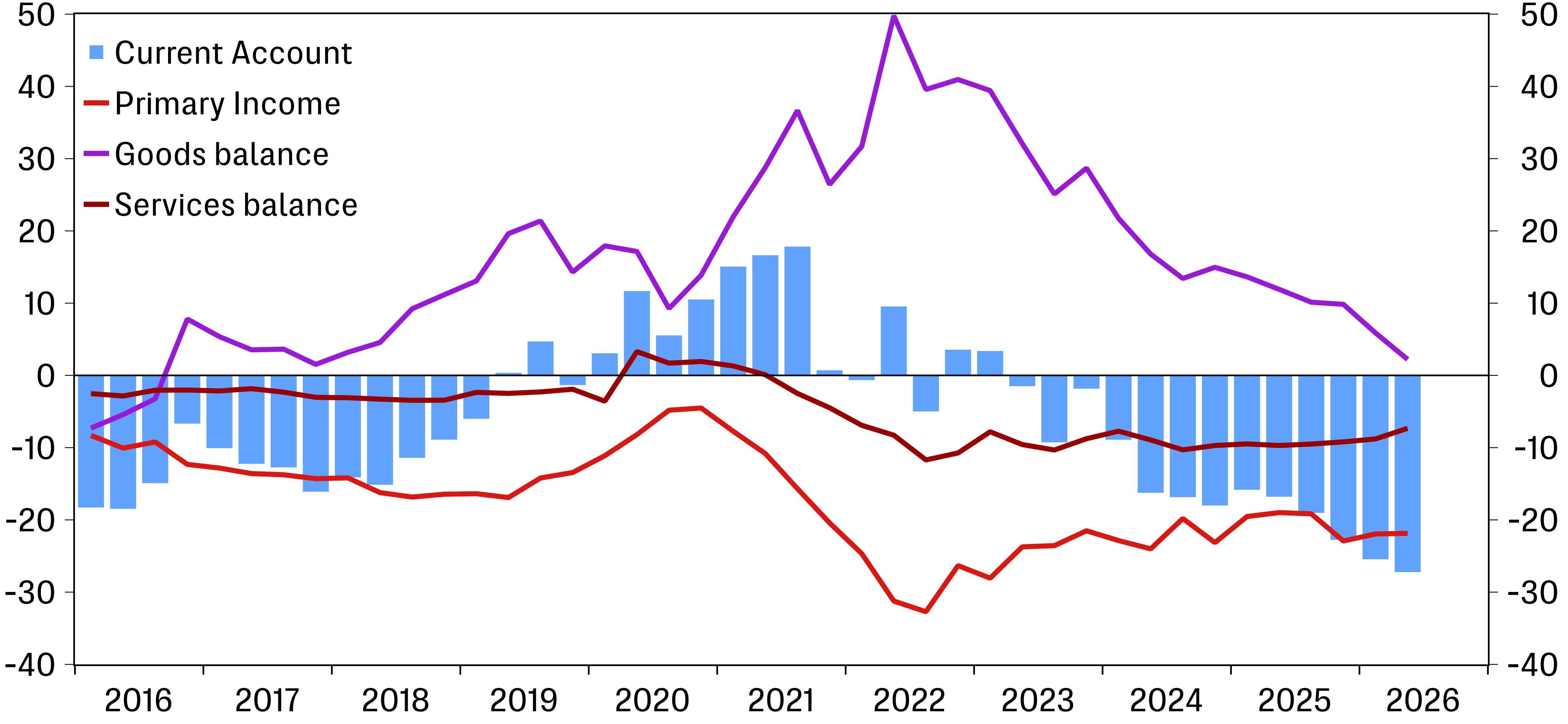
Insights from Q2 Balance of Payments

- Goods trade balance deteriorated further in Q2 driving the current account balance down. We expect this trend to continue going forward.
- Fuel imports jumped by more than 40% in Q2, mainly driven by price effects, but volumes were also higher, up 5.7%qtr. Consumers reacted to the energy shock by switching to EVs, which saw sales doubling and led a surge in vehicle imports.
- After almost doubling in Q1, imports of Automated Data Processing (ADP) equipment, used for data-centre fit outs, declined by around a quarter in Q2. The move confirmed easing data-centre investment last quarter, however, it is important to note a lumpy nature of the data.
- Tourism was the main story in services trade. The Middle East war impacted travel plans of Australians, with spending abroad (imports) falling sharply. Inbound tourism (exports) was more resilient, seeing an improvement in services balance.

Goods trade balance set to continue to deteriorate

Current Account Balance

Values, $bn

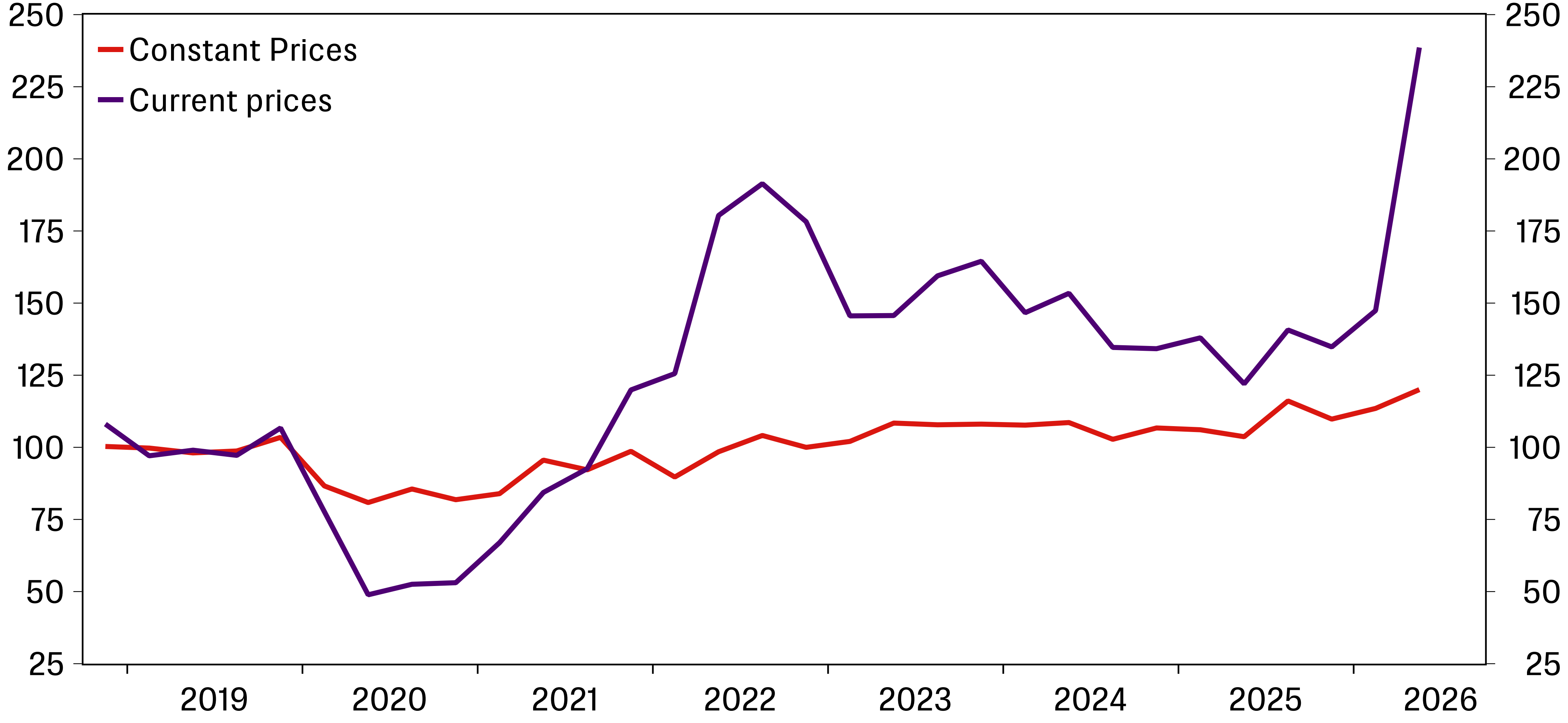


Source: ABS, Macrobond, Westpac Economics

Fuel imports surged due to prices, but volumes were also higher.

Fuels & Lubricants imports

Index, 2019=100

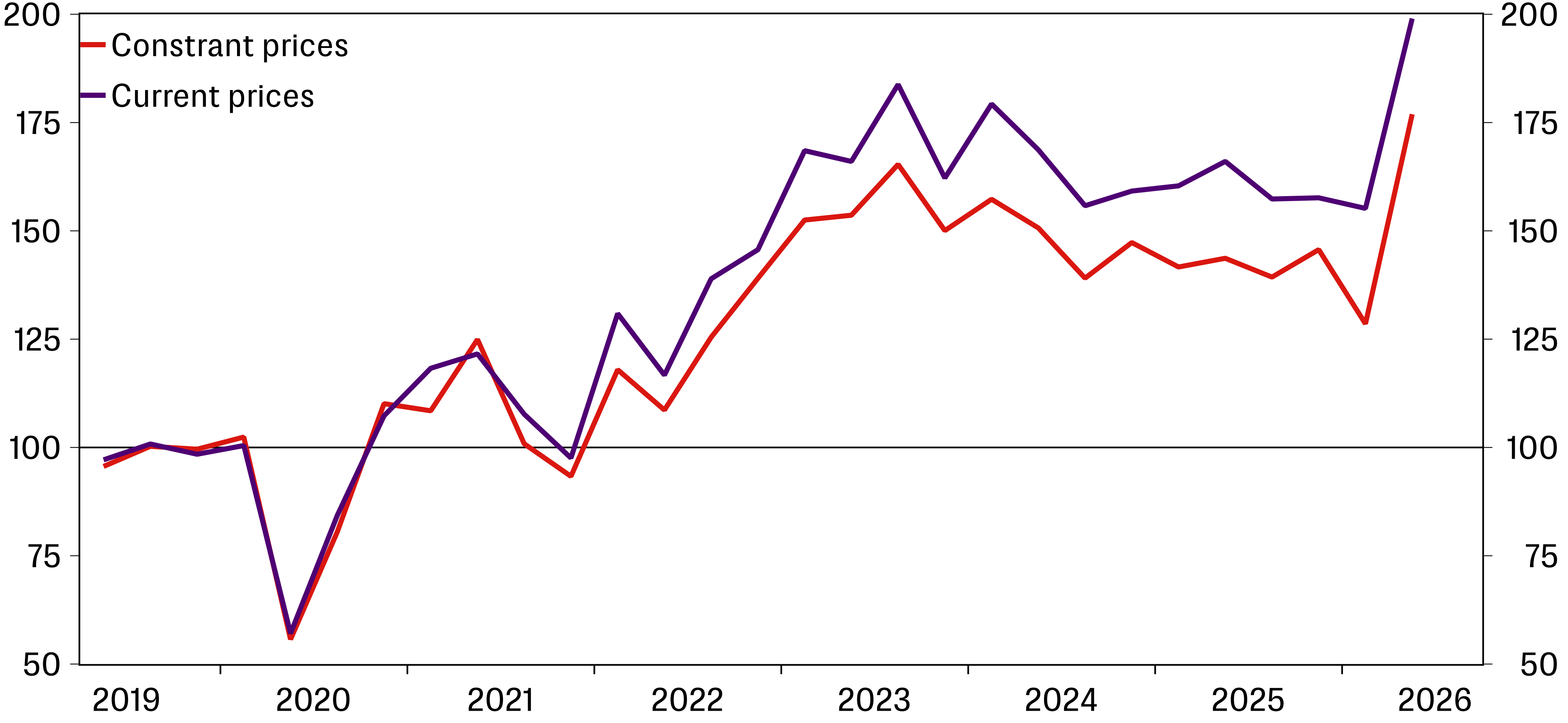


Source: ABS, Macrobond, Westpac Economics

Higher prices driving a surge in EV sales and vehicle imports

Non-industrial transport equipment imports

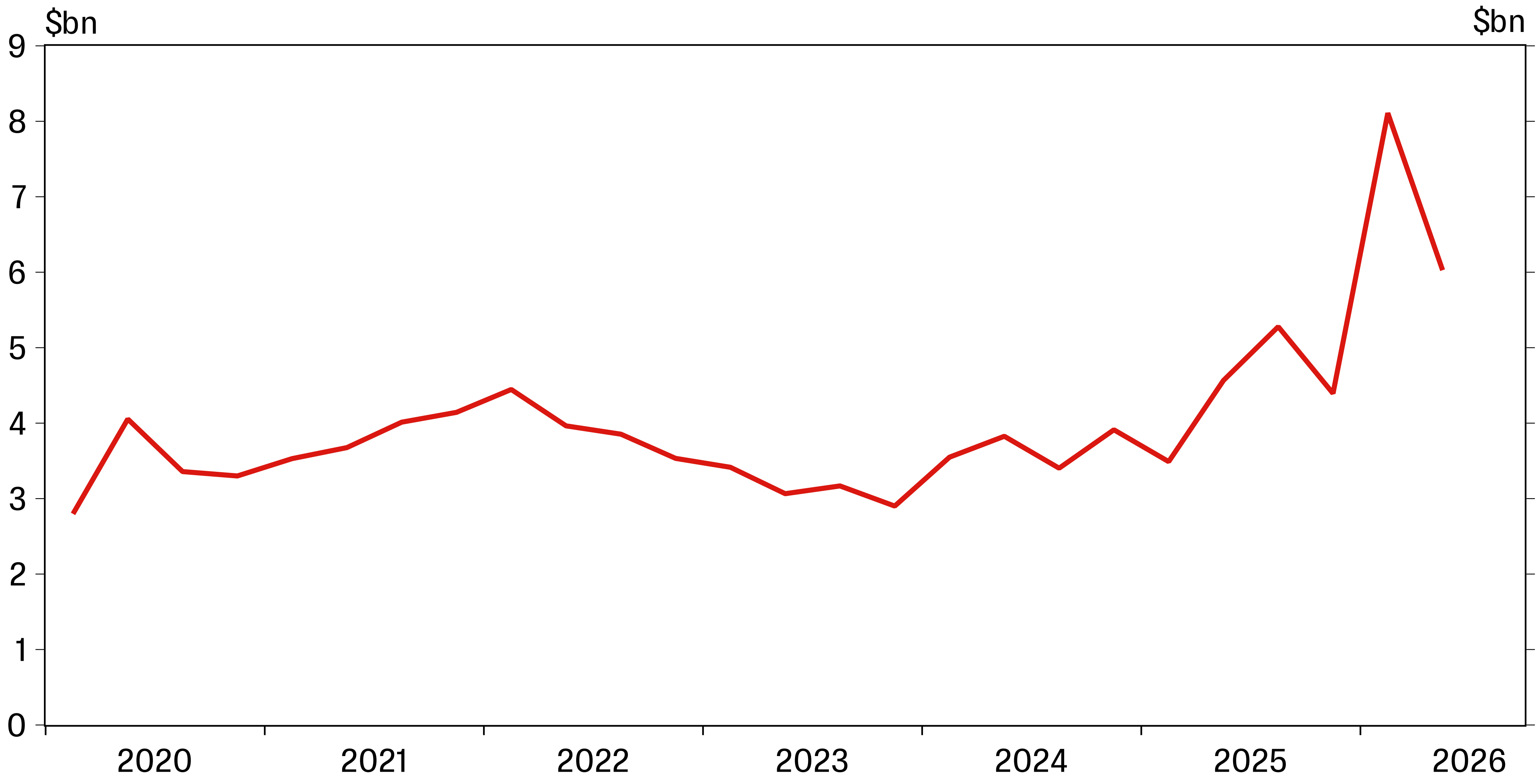
Index, 2019=100



Source: ABS, Macrobond, Westpac Economics

ADP imports consistent with lower centre investments in Q2

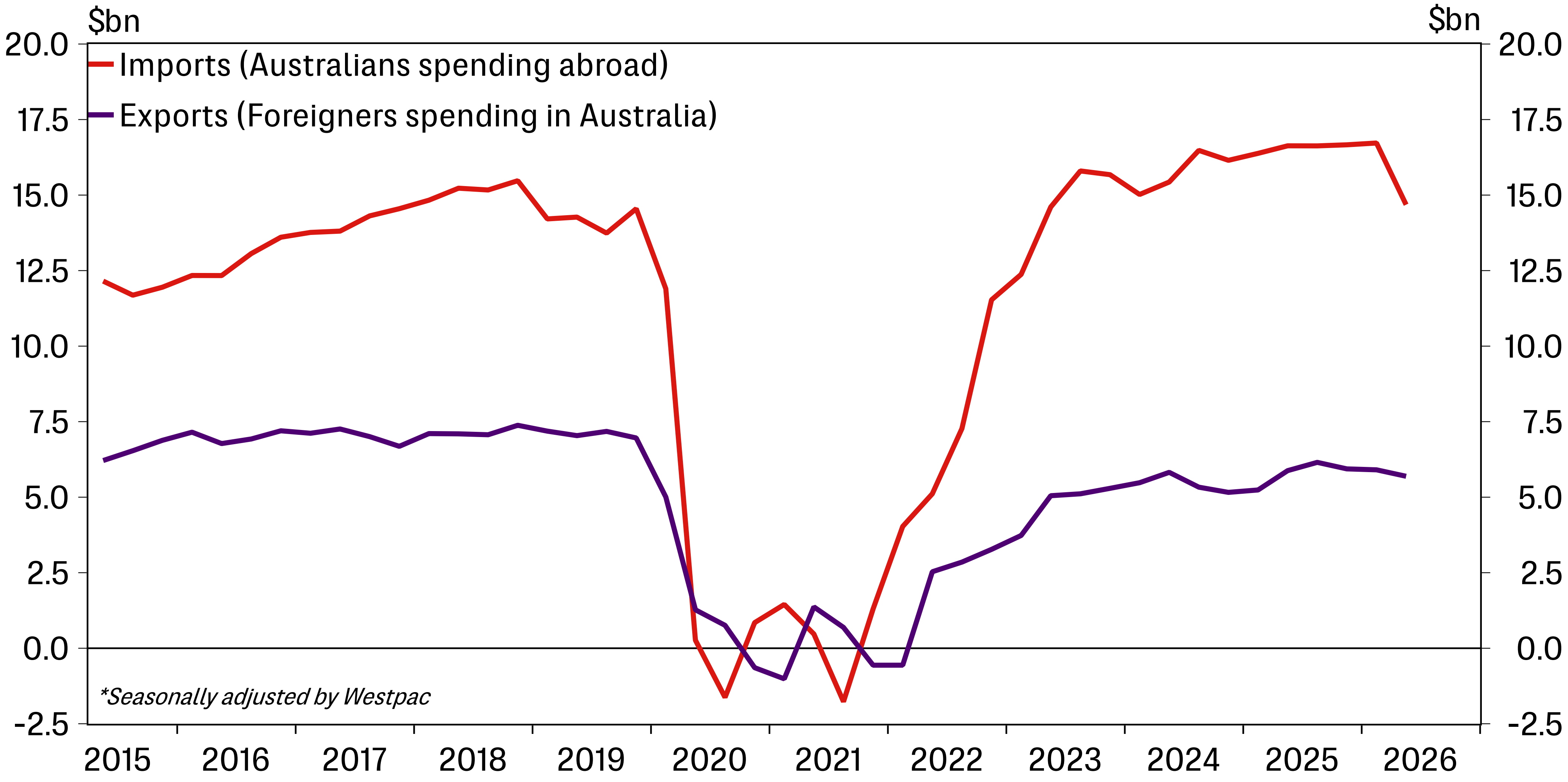
ADP Equipment imports (constant prices)



Source: ABS, Macrobond, Westpac Economics

Tourism spending abroad disrupted by the Middle East conflict

Tourism exports and imports (volume)*



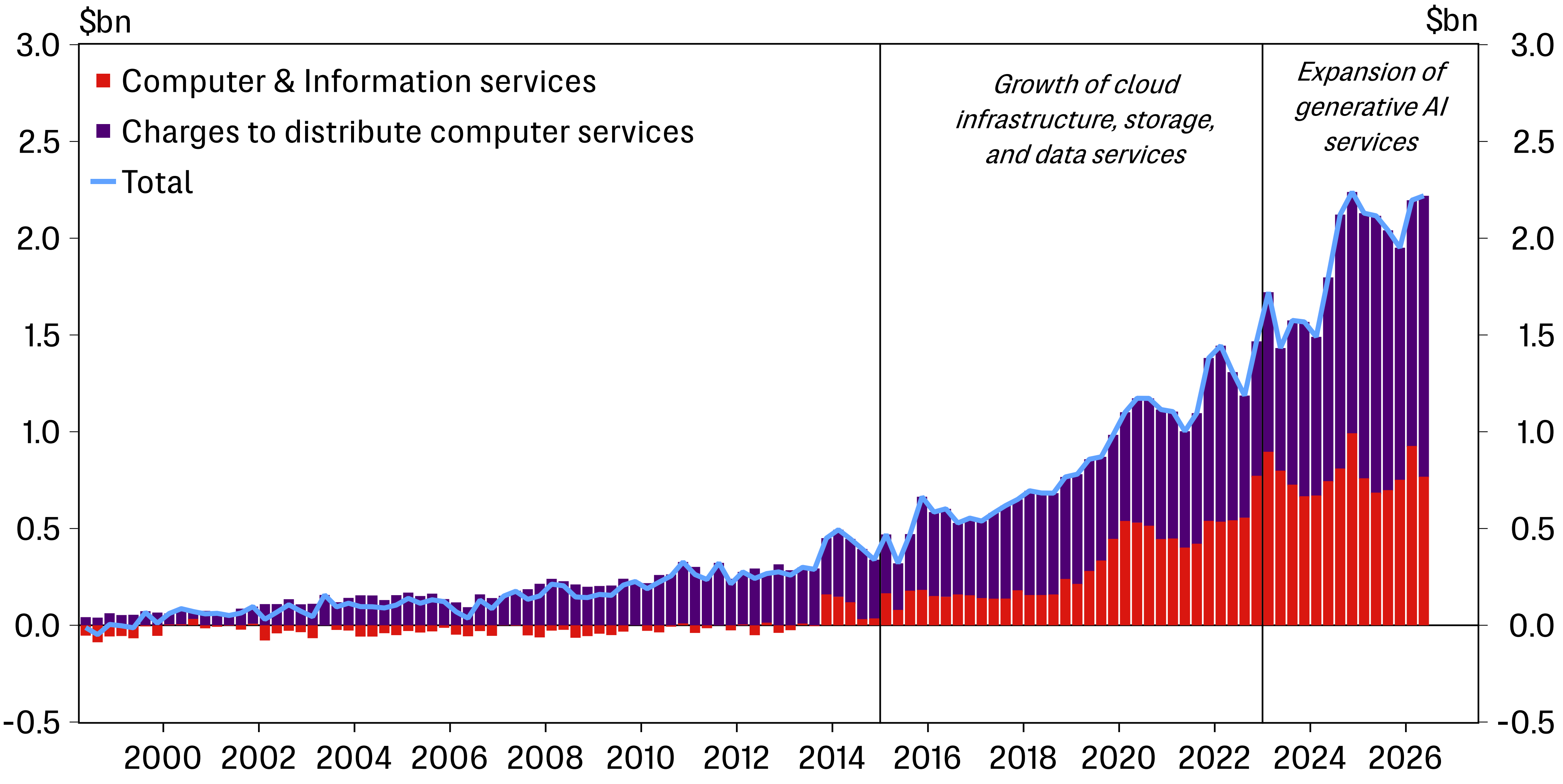
Source: ABS, Macrobond, Westpac Economics

AI impact on services trade

- The data centre investment has emerged as an important driver of growth in the Australian economy. Since most of the data centre equipment is imported, the focus has been on goods imports, mainly Automated Data Processing equipment.
- Once the data centre fit out stage is completed, AI activities will be driving services trade.
- Services of major AI models will be imported, either directly as Computer & Information services, or as intellectual property licencing, distributed by domestic companies. Imports growth in these categories has been very strong for a while, and that trend is set to continue.
- If the expansion of data centres leads to excess computing power, it has potential to boost services exports, however, it will take time build sufficient capacity.

AI services is likely to boost computer services imports further

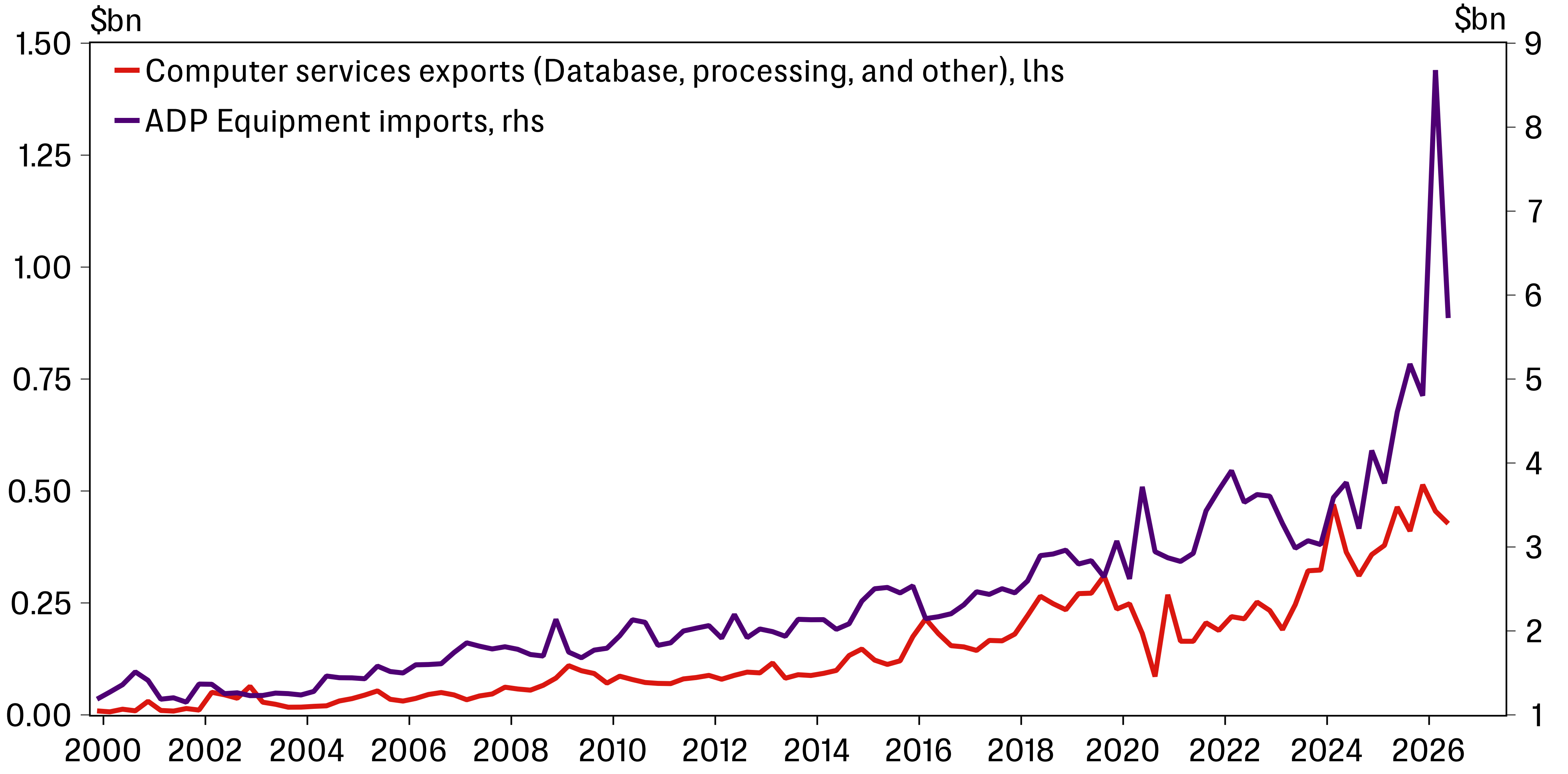
Computer services net imports



Source: ABS, Macrobond, Westpac Economics

Australia's data-centre capacity should eventually increase exports

ADP equipment imports and Computer services exports



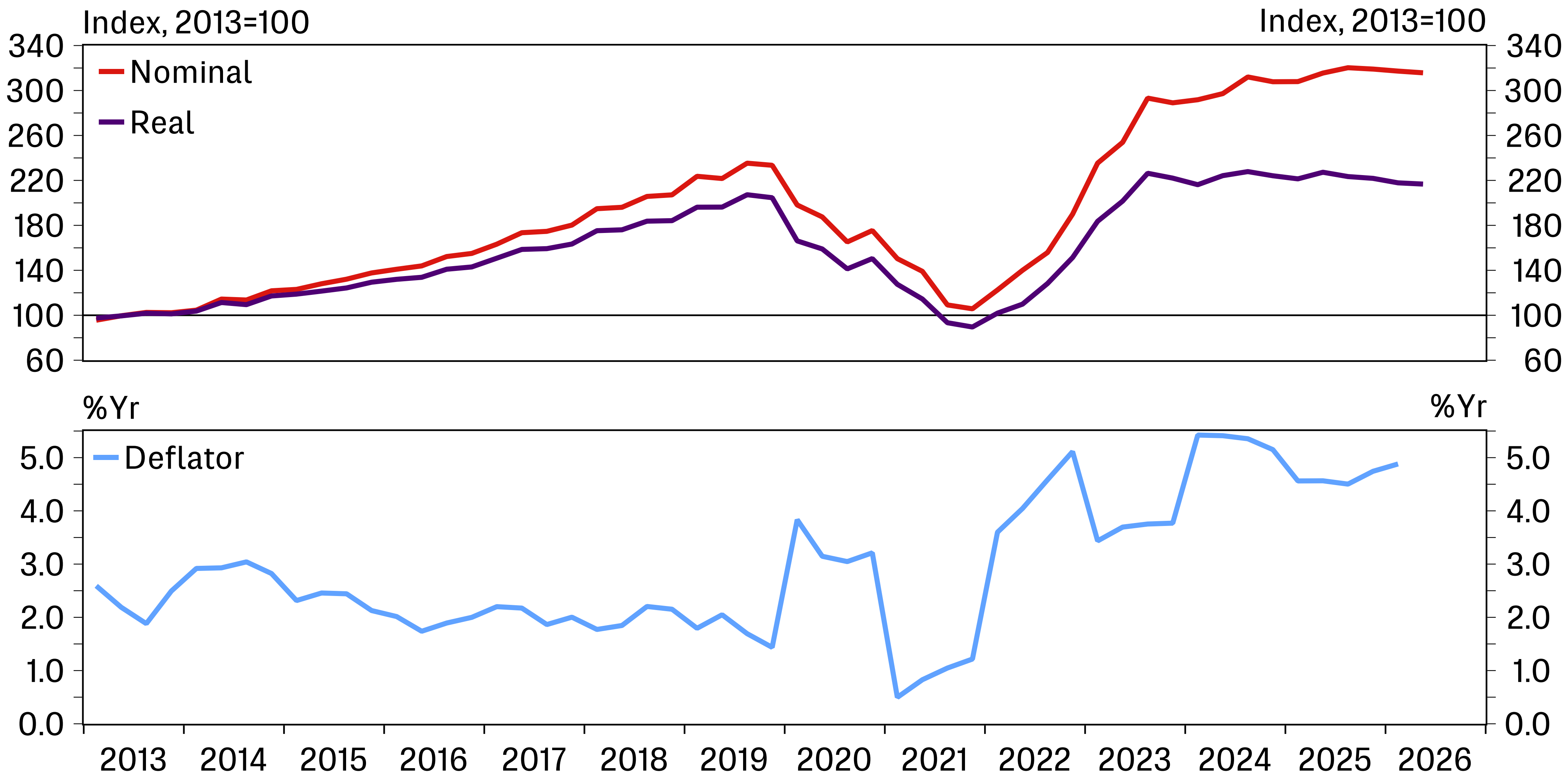
Source: ABS, Macrobond, Westpac Economics

Major drag from education exports

- Spending by foreign students in Australia on education, and goods and services are treated as services exports.
- Education exports have been an important source of growth, more than tripling in nominal term since 2013.
- Starting from 2023, the government has made a series of policy changes tightening requirements in the student visa application process, which led to a drop in both a number of applicants and visa grant rates.
- Falling student numbers suggest a decrease in education exports, which account for around 40% of the overall services exports. The effect is likely to play out slowly, but with a lot of inertia over the coming quarters.
- Increasing spending pressures on students might soften the impact.

Education exports tripled since 2013, helped by price effects…

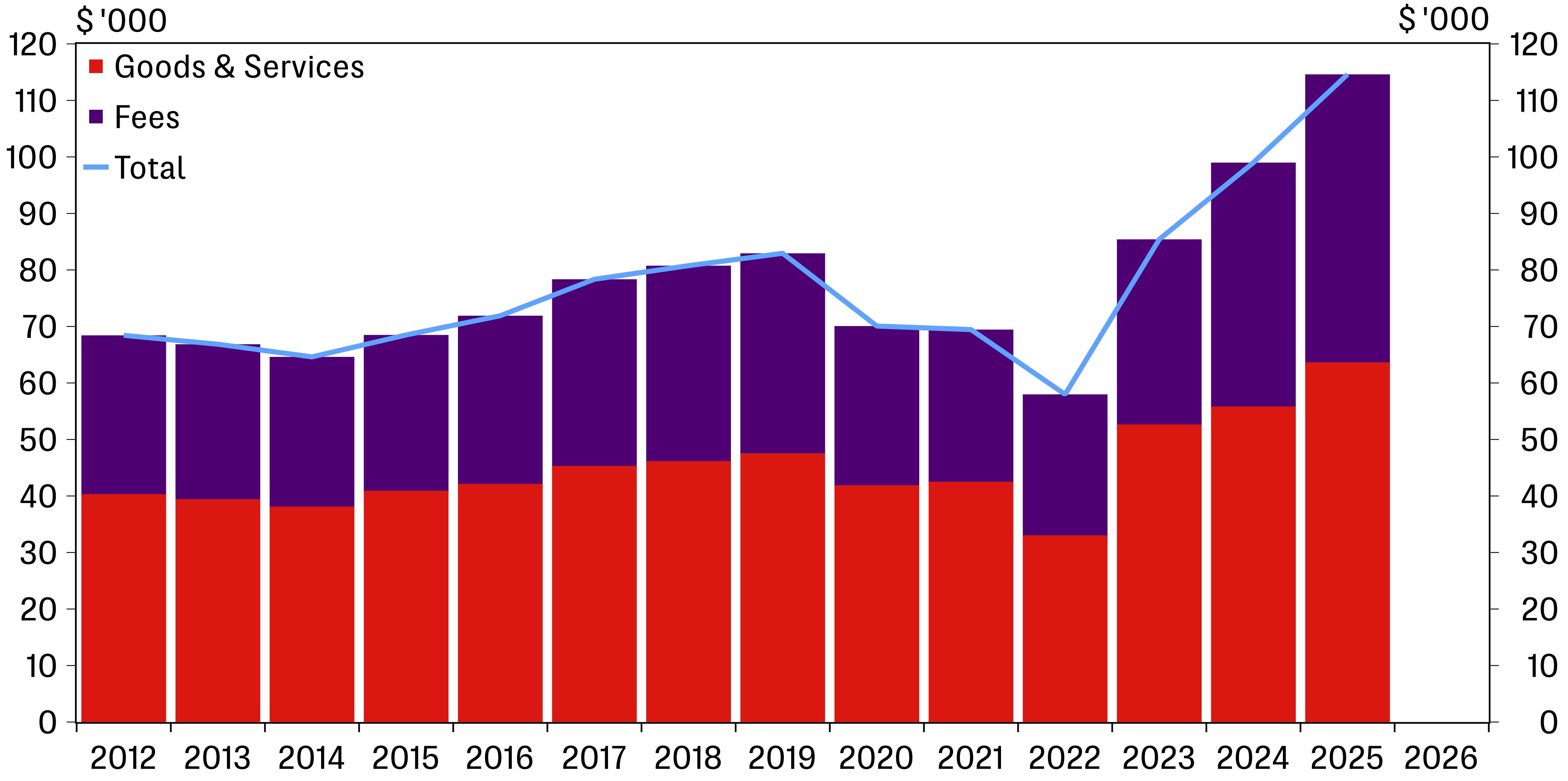
Education exports



Source: ABS, Macrobond, Westpac Economics

...supporting academic institutions and the whole economy

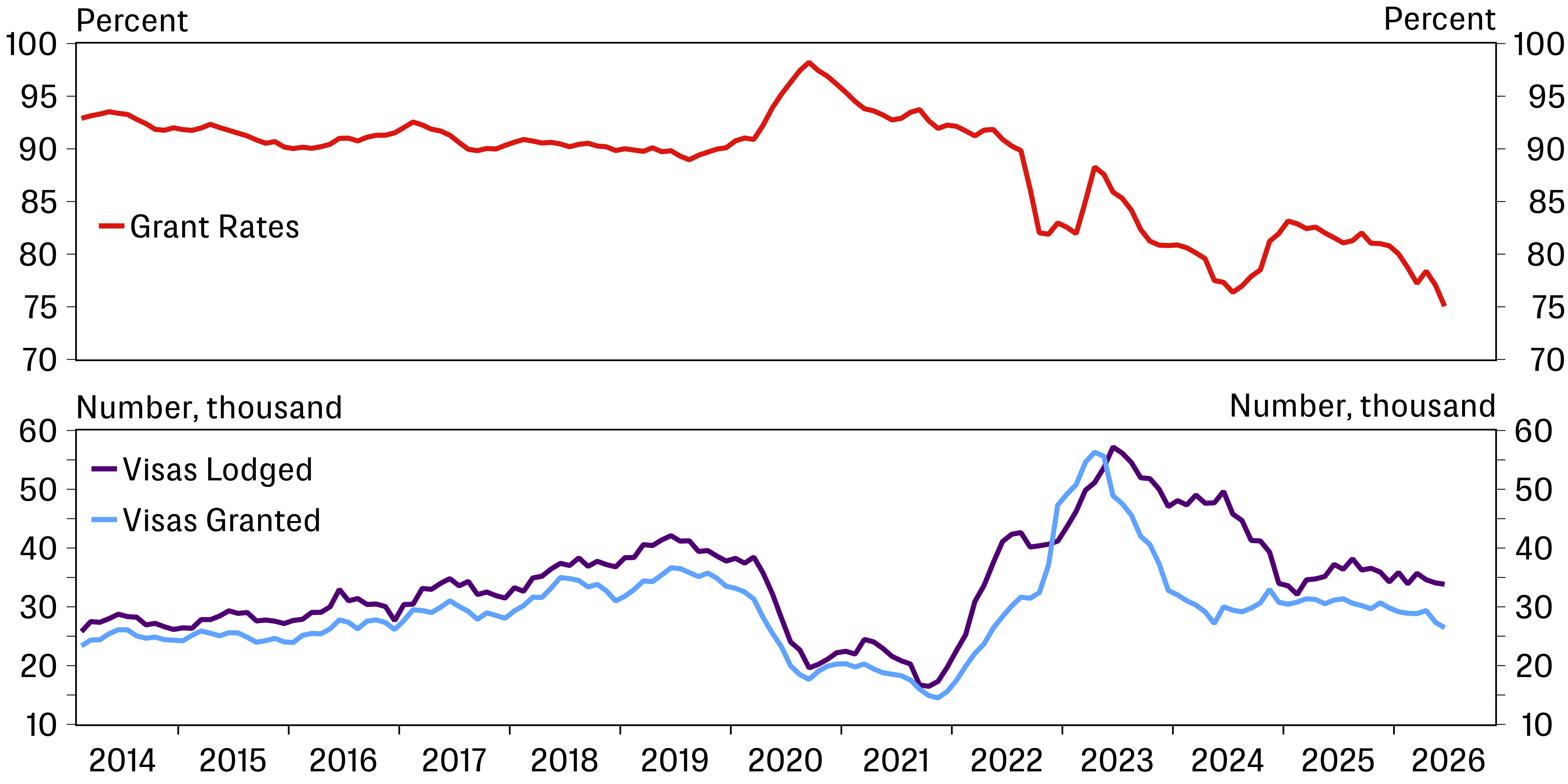
Spending per international student



Source: ABS, Tourism Research Australia, Australian Department of Home Affairs, Macrobond, Westpac Economics

Student numbers down after tightening of visa rules

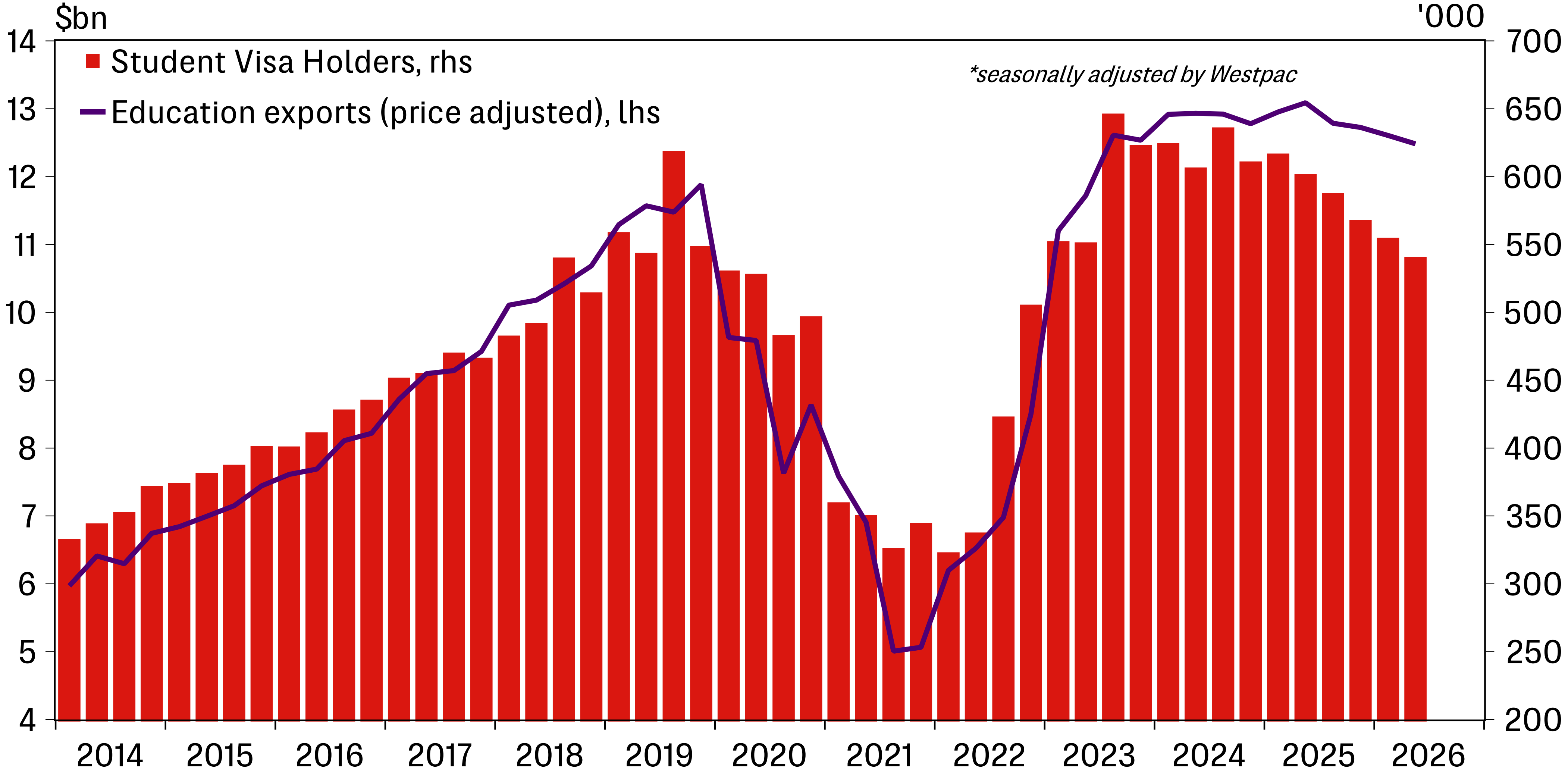
Student visas



Source: Australian Department of Home Affairs, Macrobond, Westpac Economics

Education exports in retreat

Eduction Exports and Student Visa Holders*



Source: Australian Department of Home Affairs, ABS, Macrobond, Westpac Economics

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