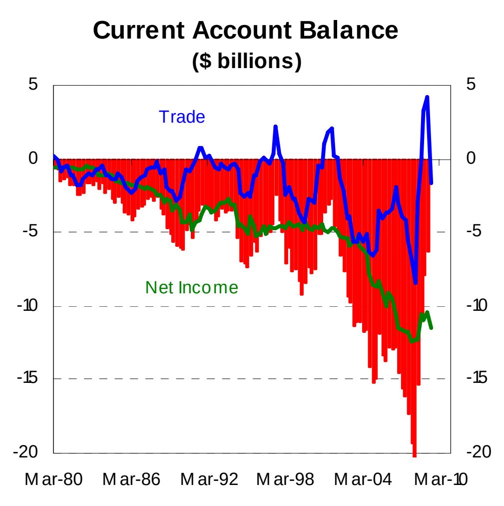
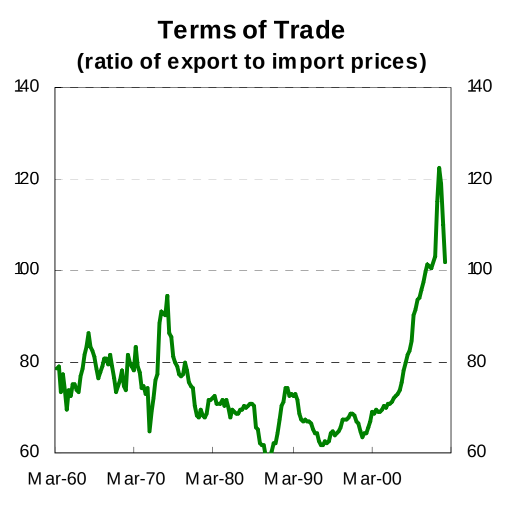
DATA SNAPSHOT

Current Acct & Govt Finance Stats – Q2 2009

Tuesday 1 September, 2009

- The current account deficit widened by $7.0bn to $13.3bn. It is the worst outcome in a year and was driven by a sharp $5.9bn widening in the trade deficit.
- Net exports are set to detract 0.2 percentage points from GDP for the June quarter. It is a sharp turnaround from the large positive contribution net exports made to GDP in the March quarter.
- The terms of trade index retreated further. It fell by 7.4% in the June quarter and fell by 11.6% on a year ago. The annual percentage drop is the largest in over 23 years.
- The government finance statistics reveal that public consumption and public investment each lifted by 0.8% in the June quarter. The public sector is clearly giving a boost to economic activity.
- Net exports and the government financial statistics allow us to finalise our GDP forecasts for Q2. We expect GDP fell by 0.2% in the June quarter (which takes us back to our original forecast). Consensus GDP forecasts have been revised down today from growth of 0.7% to growth of 0.3%.





Current Account Balance

The current account deficit widened by $7.0bn to $13.3bn. It is the worst outcome in one year and was driven by marked widening in both the trade and income deficits.

The balance on goods and services (i.e. the trade balance) widened by $5.9bn to a deficit of $1.7bn. It is the first trade deficit since June quarter 2008. The trade account was struck by the double whammy of sharply lower commodity prices and a much stronger Australian dollar during the June quarter. It caused exports in nominal terms to drop a record 14.9% in the quarter. On a year ago, exports are 8.3%, a massive turnaround from the record 44% growth posted in the December quarter of 2008.

It is a sea of red across most exports categories (in nominal terms) and records were broken. In the quarter, rural goods exports fell by 9% (the biggest fall in 4½ years), non-rural goods exports fell by 18.1% (the biggest fall on record) and other-goods exports fell by 37.1% (the biggest drop in nearly 12 years). Services exports bucked the overwhelming trend to rise by 2.6% in the June quarter.

Imports in nominal terms fell by 7.2% in the June quarter, after a fall if 9.8% in the March quarter. Consumptions goods imports rose by 3.1% in Q2, after a fall of 7.5% in Q1. Other imports segments were weak. Capital-goods imports fell by 14.6% in the quarter, the biggest fall in more than 17 years. Business investment unexpectedly lifted in the June quarter, but this investment was met by a run down in inventories rather than a pick up in imports or a lift in the production of capital goods. In volume terms, capital-goods imports fell by 6.2% in Q2. Intermediate & other merchandise goods imports fell by 6% and other goods imports fell by a record 46.6% in Q2. Services imports meanwhile were flat in the quarter.

The balance on income is the other large component of the current account balance. The net income balance refers to the income received from Australian owned assets less any payment of income of foreign owned assets in Australia. This income includes interest payments on borrowings of the private and public sectors and the return on investments in the form of rent, profit and dividends. The income deficit deteriorated in the June quarter by $1.1bn to $11.5bn.

The other remaining component of the current account is the current transfers balance, but this is a relatively small component. It deteriorated by $4mn to $192mn.

Terms of Trade

The terms of trade index is the ratio of export prices to import prices. It fell by 7.4% in the June quarter and by 11.6% in the year to the June quarter. The annual percentage fall was the largest in more than 23 years.

When the global financial crisis struck the world economy and during the heights of the global financial crisis Australia was experiencing a rising terms of trade. This upward trend in the terms of trade provided Australia with some crucial insulation from the world economic downturn, but this protection is now fading.

Net Exports Contribution to GDP

Export volumes (or exports in chain adjusted terms) fell by 1% and import volumes rose by 2.1%. It means net exports are set to detract 0.2 percentage points from GDP for the June quarter. It is a sharp turnaround from the large positive contribution net exports made to GDP in the March quarter.

Government Finance Statistics

The government finance statistics tell us that public consumption and public investment each lifted by 0.8% in the June quarter in inflation-adjusted terms. The public sector is clearly helping to underpin economic activity.

Implications for Q2 GDP Forecasts

The net exports data and the government finance statistics complete the release of all the partial economic indicators that allow us to finalise our GDP forecasts for Q2. The GDP report is released tomorrow. We expect GDP fell by 0.2% in the June quarter (which takes us back to our original forecast made prior to August 28). Consensus forecasts are for growth of 0.3% in Q2, revised down from last week of 0.7% growth. The range of forecasts is –0.4% to +0.7%.

Note that in the March quarter, it was reported by the Bureau of Statistics that GDP expanded by 0.4% after a fall of 0.6% in the December quarter of 2008. It meant that Australia avoided a technical recession, which is defined as two consecutive quarters or more of a contraction in economic activity. As Dow Jones pointed out, we cannot fully rule out the possibility that historical revisions to GDP data tomorrow could see the GDP outcome for the March quarter revised lower; if it is revised from growth to a contraction in economic activity, it means Australia entered a technical recession. It is not our core view that historical revisions will result in a contraction in economic activity in the March quarter, but we agree that there is some possibility. One trend this year has been that the Australian economy has tended to surprise on the upside not the downside.

Besa Deda, Chief Economist
Ph: (02) 9320-5854
Email: dedab@stgeorge.com.au

St.George Contact Listing

Economics & Strategy:

Chief Economist	Besa Deda	dedab@stgeorge.com.au	(02) 9320 5854
Senior Economist	Josephine Heffernan	heffernanj@stgeorge.com.au	(02) 9320 5751
Treasury Economist	Amanda Tan	tanam@stgeorge.com.au	(02) 9320 5816