

International Trade in Goods and Services – August 2010

ECONOMIC ALERT

5 October 2010

Trade surplus widens despite stronger Australian dollar

Trade surplus widens as imports declined more than exports

Australia's trade surplus has continued into its fifth consecutive month since April. In August, Australia's trade surplus widened by \$603 million to \$2.3 billion. This brings the cumulated trade surplus since April 2010 to \$11.1 billion, a sharp reversal from the \$12.7 billion trade deficit recorded in the year to April 2010. The significant improvement Australia's trade balance continues to be underpinned by strong increases in commodity prices since early this year.

Value of imports declined due to stronger dollar and not a weakening in domestic demand

In August, the value of goods and services exports declined 2.4%, due to the stronger Australian dollar which reduced export prices in Australian dollar terms. The value of imported goods and services dropped 5.1%, largely due to the strong Australian dollar reducing the price of imports, rather than a weakening of domestic demand. It is noteworthy that consumption goods imports rose 0.8% in August, despite the strengthening currency. Reflecting the pick-up in capital investment in Australia, the imports of capital goods less civil aircraft increased 2.6% in August.

Exports continue to benefit from strong economic growth in East Asia

Australian merchandise exports to China rose by a solid 52.6% in August, compared to the same time last year, reflecting robust economic growth in China. Consistent with the subdued economic recovery in the United States (US) and Europe, Australia's merchandise exports to the United Kingdom fell by an annual rate of 10.6% in August, while exports to the US increased by a mere 0.8%. Chart 1 reflects the growing dependence of Australian exports on China and East Asia, more generally.

Trade surplus could narrow as domestic demand strengthens

Looking further ahead, Australia's trade surplus could narrow even as strong growth in East Asian economies is expected to continue. This could happen as the recovery in consumer spending and business investment picks up speed. Furthermore, the strong increase in commodity prices that started early this year may moderate.

Chart 1: Australian merchandise exports

