

Balance of Payments

Australia's seasonally adjusted current account surplus surged to a record A\$17.7B in Q2 2020, exceeding market expectations of A\$13.0B.

Current Account Balance (A\$M, Seasonally Adjusted)

	Change	Q2 2020	Q1 2020
Current Account	8,715	17,738	9,023
Trade Balance	4,719	23,861	19,142
Net Primary Income	4,320	-5,583	-9,903

The widening in the current account surplus in Q2 was due to a rise in the trade surplus and narrowing in the primary income deficit.

The sharp increase in the trade surplus was driven by the balance on services, which turned positive amid a plunge in imports of travel services due to the Australian border closure.

Key Exports (Seasonally Adjusted)

	Change (A\$M)	Volume (%)	Prices (%)
Rural Goods	-913	-6.4	-1.2
Metal Ores and Minerals	2,744	5.4	3.1
Coal, Coke and Briquettes	-1,996	-8.3	-6.8
Other Mineral Fuels (Oil and Gas)	-2,571	-1.7	-15.1
Non-Monetary Gold	-171	-10.3	8.4
Services	-4,167	-18.4	-0.4

The surplus on goods declined, as exports fell faster than imports. Falls in both exports and imports were broad-based across most major categories. However, exports of metal ores and minerals (mainly iron ore), continued to rise in current prices and volume terms.

The ABS estimates that the rise in the trade surplus will add 1.0 percentage points to real GDP growth in Q2.

The terms of trade was slightly higher, as export prices fell a little less than import prices.

Key Imports (Seasonally Adjusted)

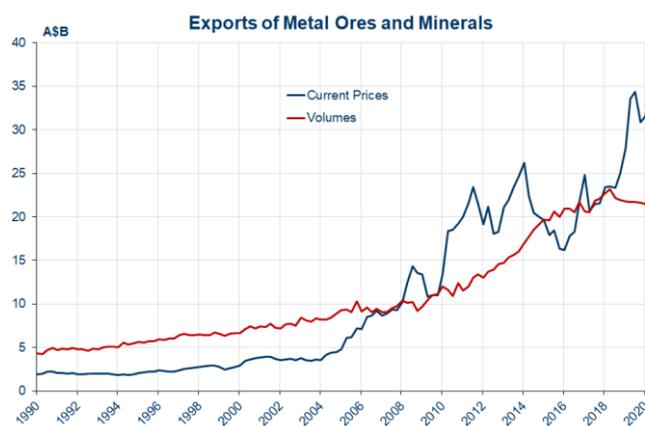
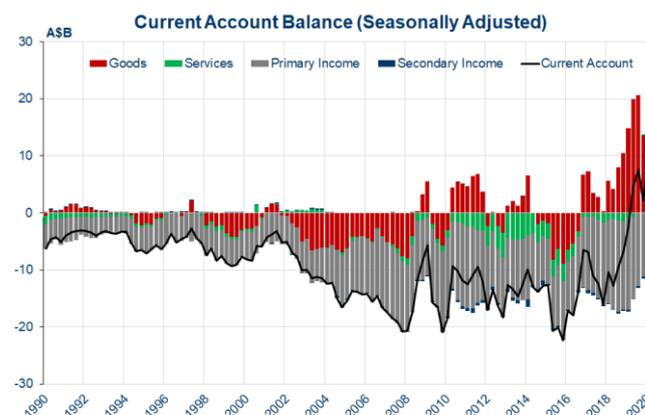
	Change (A\$M)	Volume (%)	Prices (%)
Consumption Goods	-1,123	-6.9	2.7
Capital Goods	-352	-2.5	0.6
Intermediate and Other Merchandise Goods	-1,919	0.5	-6.6
Non-Monetary Gold	558	15.5	8.3
Services	-11,156	-50.5	2.3

A narrowing in the primary income deficit was due to a drop in investment income paid to foreign investors in Australia more than offsetting a drop in income from Aussie investments abroad. Remittances of both foreigners working in Australia and Australians working abroad halved.

The financial account recorded a net outflow of A\$18.4B as a net outflow of debt of A\$50.1B more than offset a net equity inflow of A\$31.7B.

Net International Investment Position

Australia's net international investment liabilities widened by A\$59.3B to A\$910.6B in Q2, as an A\$134.4B drop in the net equity asset position more than offset an A\$75.2B fall in net debt liabilities.



Comment

The Q2 current account report showed more insight into the impact of COVID-19 on Australia and the global economy. While the current account balance reached a record high, this was largely due to non-existent holiday travel and very weak domestic demand.

Metal ores and minerals (including iron ore) were the only major export category to record an increase. This reflects not only the economic recovery in China, but also ongoing weakness elsewhere.

A rise in trade surplus will provide some support for Q2 GDP, which is to come out tomorrow. While recently released partial national account figures point to some upside risk to GDP, a large fall should still be anticipated. The current expectations are for around a 6% decline.

1 SEPTEMBER 2020

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