

Economic Analysis

Balance of Payments

Australia's seasonally adjusted current account surplus widened to another record high of A\$20.5b in Q2 2021, from A\$18.9b in the previous quarter. This is broadly in line with the market expectations (A\$21.0b).

The rise in the current account surplus in Q2 was driven by a A\$3.5b increase in the trade balance, partly offset by further deterioration in the primary income deficit.

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

	Change	Q2 2021	Q1 2021
Current Account	1,539	20,461	18,922
Trade Balance	3,469	28,902	25,433
Net Primary Balance	-1,133	-7,377	-6,244

The widening of the trade surplus reflected a further broad-based increase in the value of exports of goods, with non-monetary gold, which is usually volatile, being the only commodity to see a decline. Higher prices for metal ores and minerals (mainly iron ore) again contributed the most to the increase in the value of exports, and pushed the terms of trade to a fresh record high.

However, for the first time since Q3 2020, metal ores and minerals recorded a decline in the volume of exports. Export volumes also fell in all the other export categories but rural goods.

Key Exports (Seasonally Adjusted)

	Change (A\$m)	Volume (%)	Prices (%)
Rural Goods	838	1.8	4.9
Metal Ores and Minerals	4,398	-3.7	13.2
Coal, Cole and Briquettes	938	-4.3	14.6
Other Mineral Fuels (Oil and Gas)	1,616	-4.3	21.4
Non-Monetary Gold	-1,868	-25.7	1.5
Services	48	-0.2	0.6

Imports also rose, though less than the increase in exports. The rise in imports was driven by intermediate and other merchandise goods, which was in turn mainly due to an increase in fuels and lubricants imports. The value of services imports, particularly transport and travel, was boosted by the opening of the Trans-Tasman travel bubble.

Key Imports (Seasonally Adjusted)

	Change (A\$m)	Volume (%)	Prices (%)
Consumption Goods	-69	-0.1	-0.1
Capital Goods	429	2.2	-0.1
Intermediate and Other Merch. Goods	1,996	3.1	3.3
Non-Monetary Gold	96	3.5	1.5
Services	1,043	-0.4	8.7

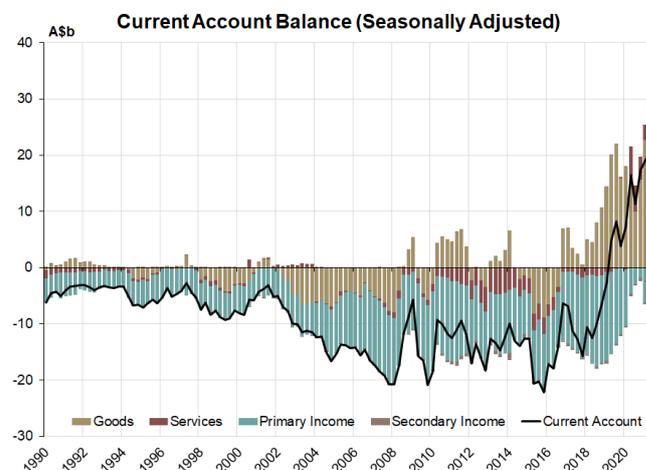
The trade surplus decreased by A\$4.9b in real terms, with the ABS estimating that net exports detracted 1.0 percentage point from Q2 GDP growth.

The primary income deficit widened by A\$1.1b in Q2 2021, mainly due to a 27.9% surge in income paid to foreign direct investors amid higher corporate profits in the mining sector.

Balance of Payments Q2 2021

Net International Investment Position

The net international liability position narrowed again throughout Q2, to A\$885.1b from A\$915.0b.



Comment

Australia saw a significant improvement in its external position over the past year. According to the 2021 External Sector Report (ESR) published recently by the International Monetary Fund (IMF), Australia's external sector is now broadly in line with the fundamentals, after years of persistent weakness.

The improvement in the current account balance in 2020 was driven to a large extent by COVID-related disruptions, particularly the large decline in the primary income deficit. While the income deficit has widened again in the first half of 2021, this was more than offset by the sharp rise in the trade surplus, largely driven by the big increase in iron ore prices, which helped push the current account surplus to fresh record levels.

The 2021 ESR expects the Aussie current account balance to gradually return to a relatively narrow deficit.

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