AUSTRALIA'S TRADE AND FINANCIAL FLOWS

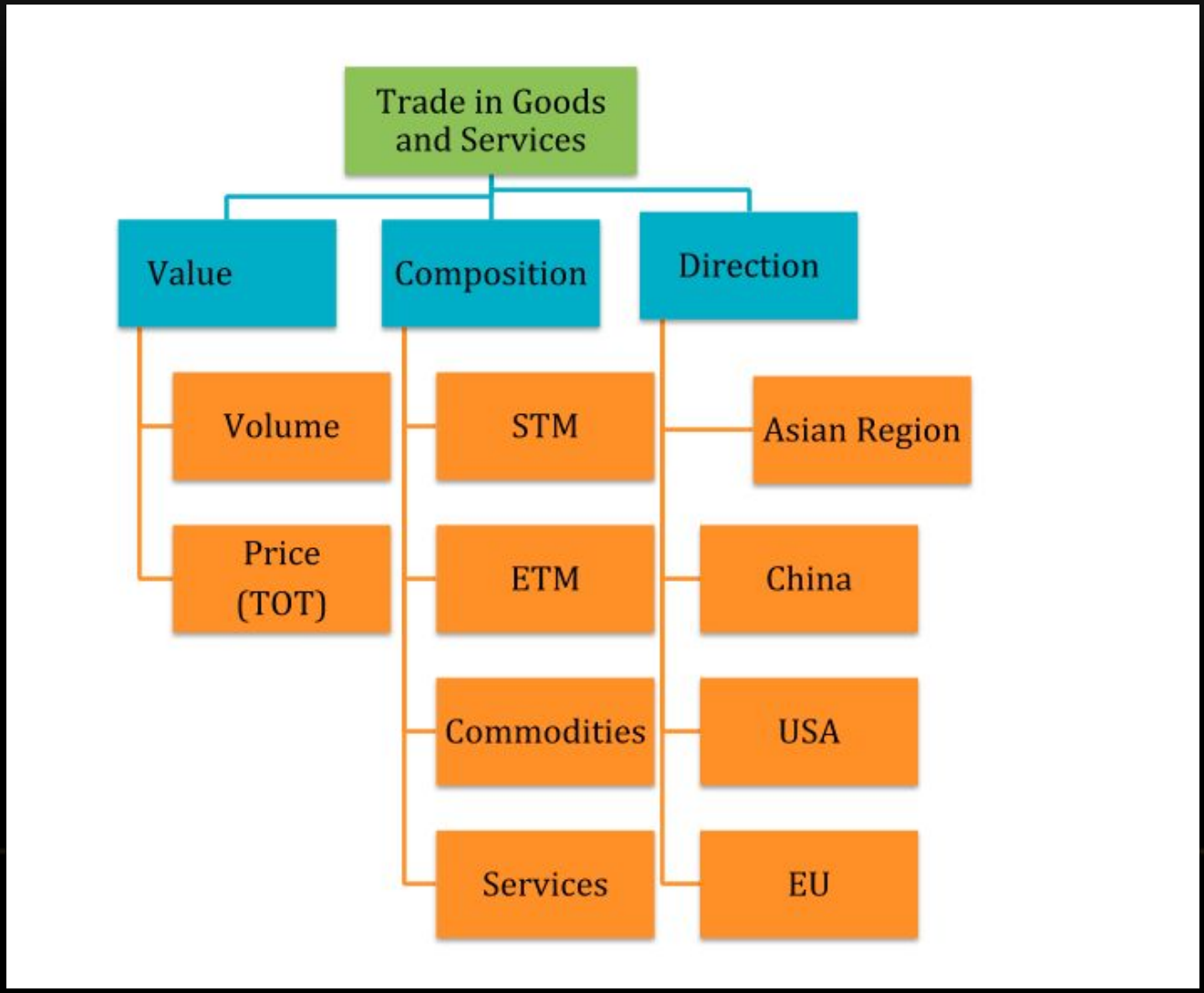
Trade: Value, Composition and direction

L.Thompson
2019

TRENDS IN AUSTRALIA'S TRADE PATTERN

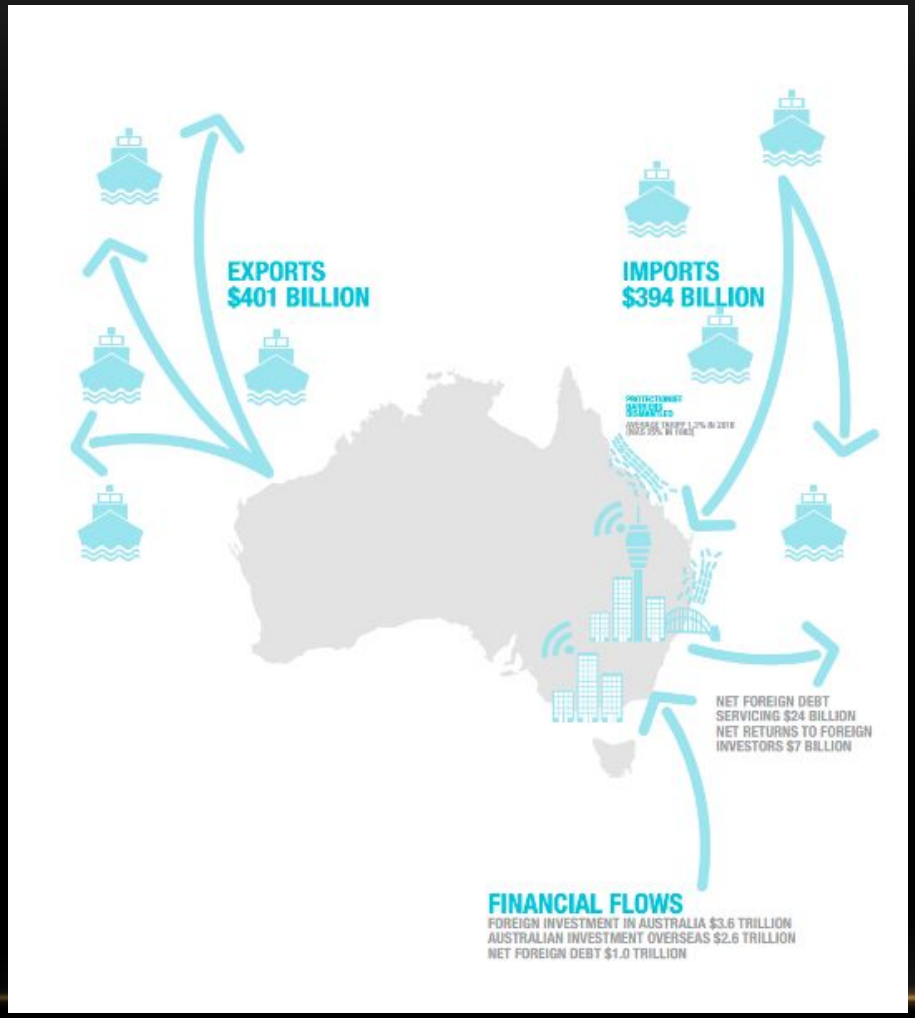
All graphs can be found at:
http://www.rba.gov.au/chart-pack/balance-payments.html
http://dfat.gov.au/trade/resources/trade-at-a-glance/Pages/default.aspx

When we talk about Trade….



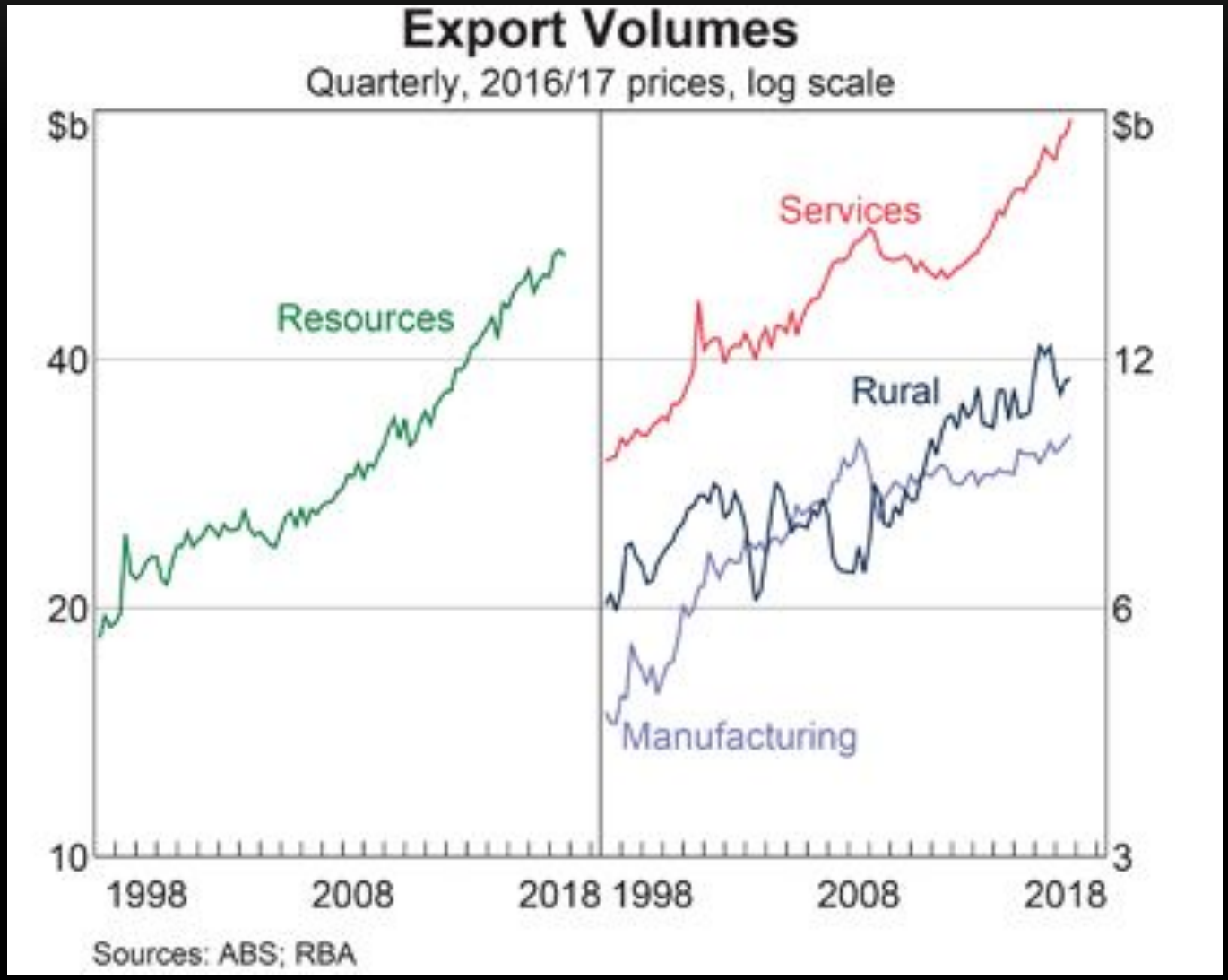
Value

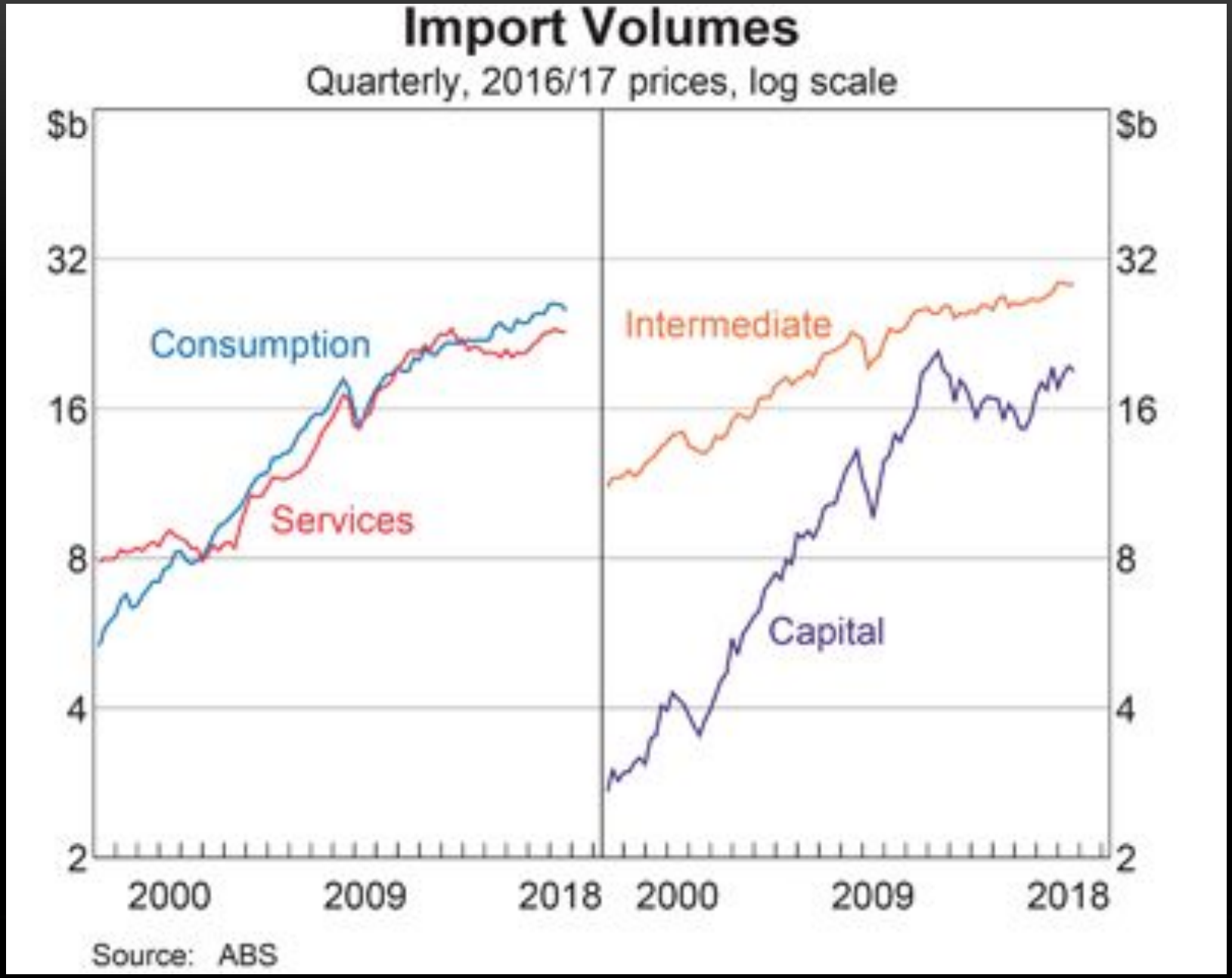
Value



Dixon and O'Mahony Chapter 4, pg 105

VOLUME


Export Volumes
Quarterly, 2016/17 prices, log scale
$b
$b
Services
Resources
40
12
Rural
20
6
Manufacturing
10
3
1998
2008
2018
1998
2008
2018
Sources: ABS; RBA


Import Volumes
Quarterly, 2016/17 prices, log scale
$b
32
16
8
4
2
Consumption
Services
Intermediate
Capital
2000
2009
2018
Source: ABS

Volume Narrative:

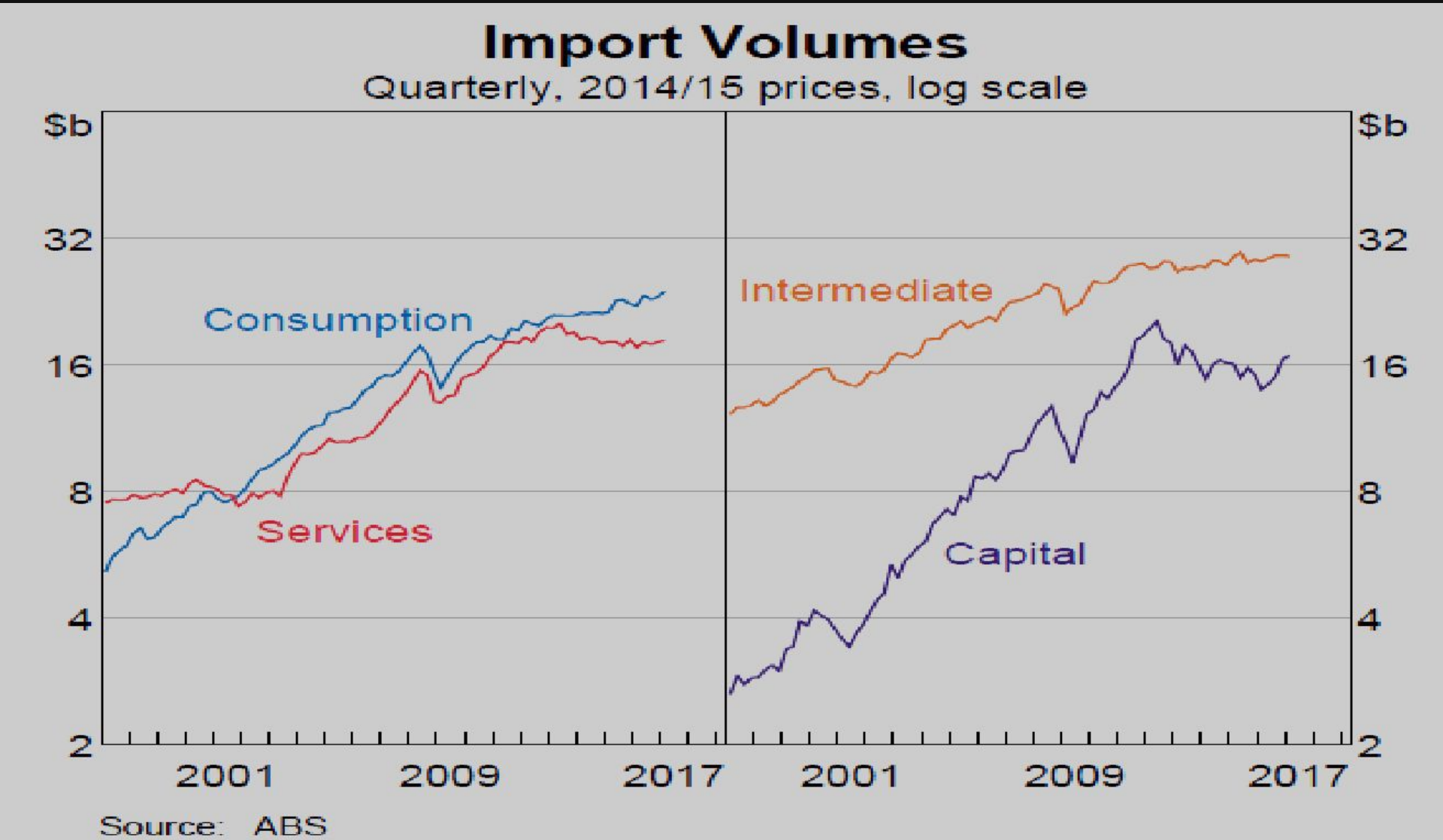
Trade flows both in and out of Australia have increased dramatically. Insert Stat here…

Export flows of resources have increased in importance with exports of services increasing in value more recently.

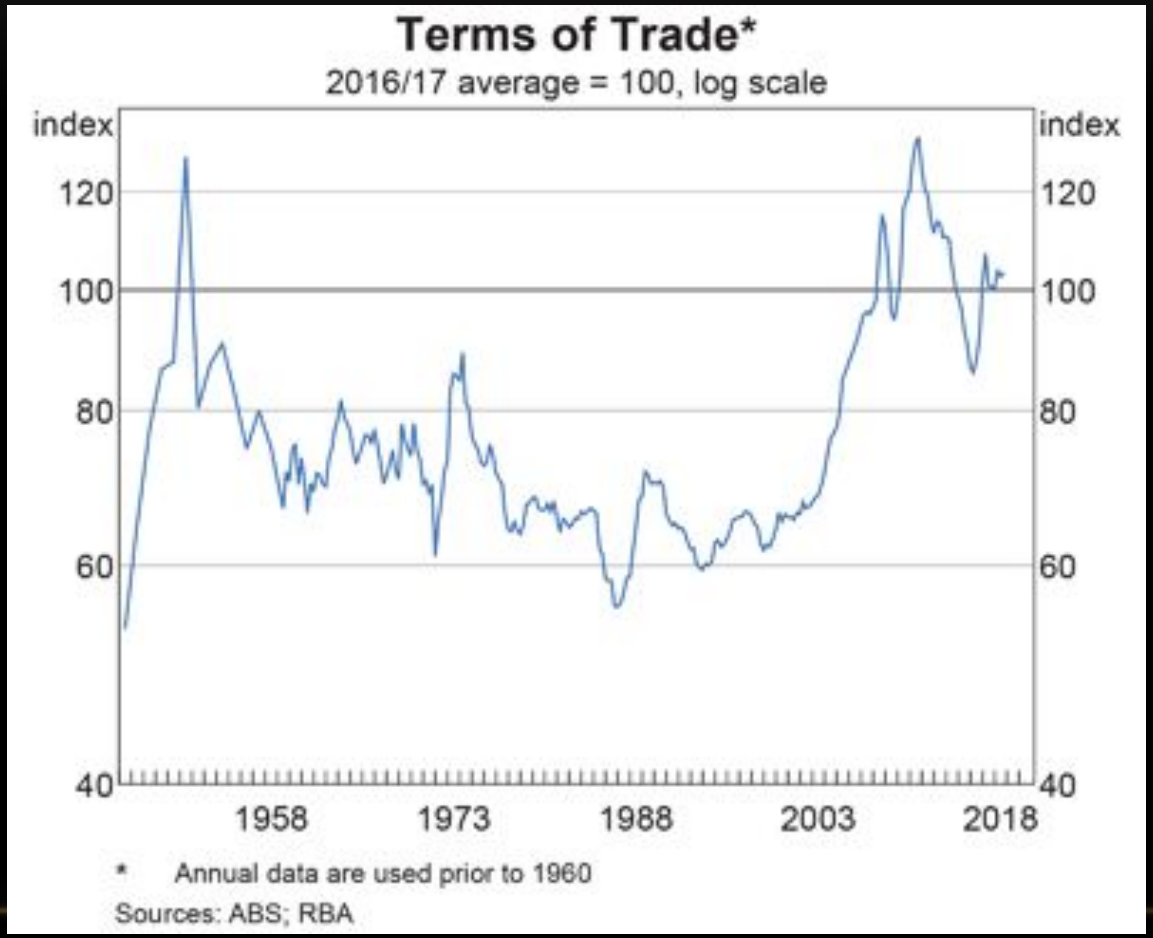
Currently, increases of services and consumables are gaining in value with the growing middle class in Asia. This can be seen by increasing value of exports such as beef, wine, dairy products including specialised milk(A2) and formula such as Bellamy's and well as vitamins and tourism. In the last decade the number of tourists visiting Australia increased from 400,000 to 1.4mill/year.

Education related tourism is now the 3rd largest export volume making up 8% of exports.

What do we Import?



Price


Terms of Trade*
2016/17 average = 100, log scale
index
120
100
80
60
40
1958
1973
1988
2003
2018
* Annual data are used prior to 1960
Sources: ABS; RBA

Price Narrative

TOT dramatically increased during MB1.

Due to increased demand for commodity exports to China and the rest of the Asian region.

This demand was relatively price inelastic, and so benefits to value were felt even more than they otherwise would be.

Due to the ‘narrow’ export base with an over reliance on commodities, the price we get for our exports is considered volatile. Global demand for commodities is a derived demand and therefore heavily influenced by global and regional demand. This causes the increased volatility in our exchange rate.

Direction

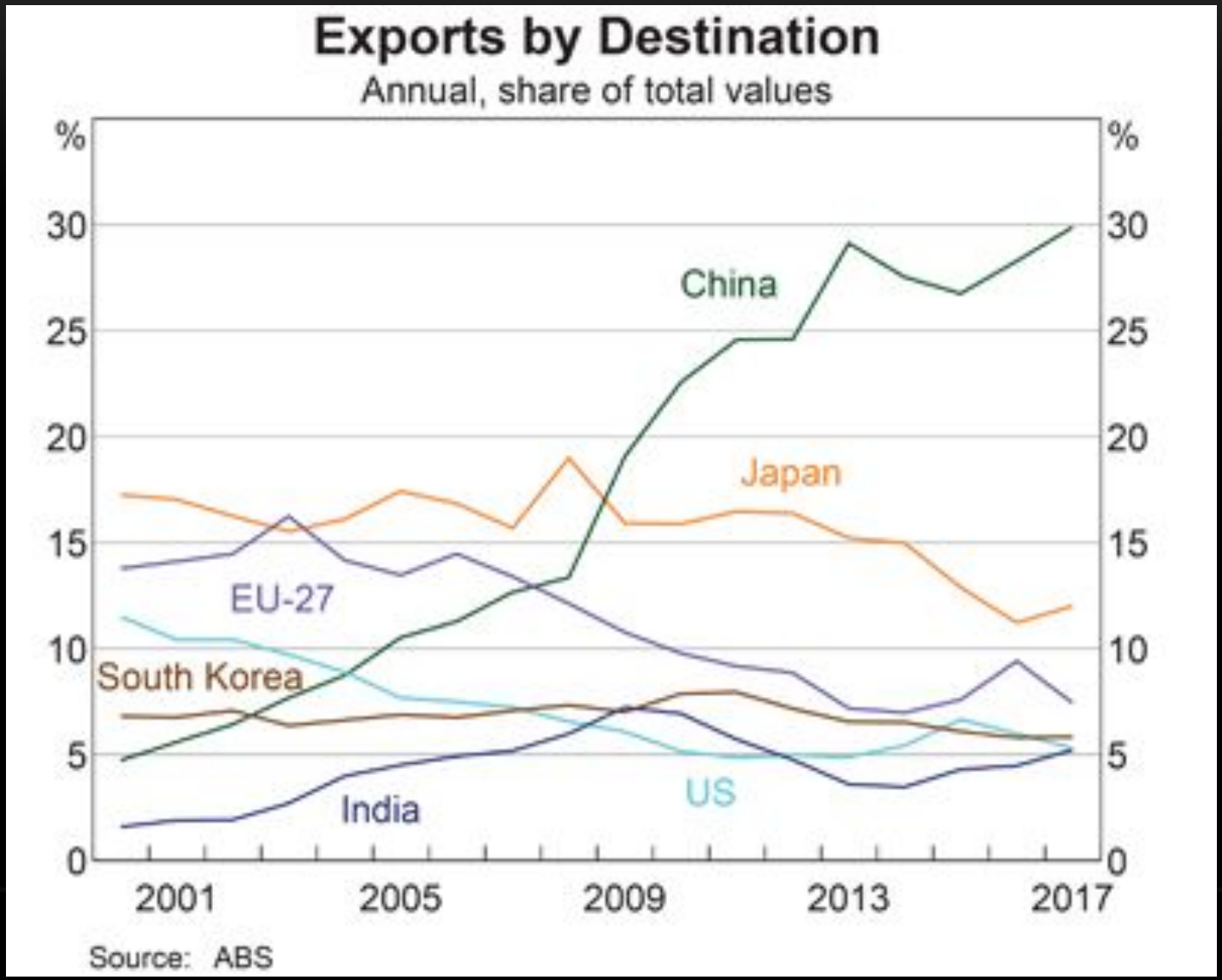
DIRECTION OF TRADE…THE STORY….

- 1950's-UK/Europe
- Then USA
- Then Japan became major buyer of exports
- NOW…China, China China and Sth Korea, Japan, ASEAN countries

WHY?

- UK joined EU
- Then Australia was swept up in Asian Region's growth

DIRECTION


Exports by Destination
Annual, share of total values
%
30
25
20
15
10
5
0
China
Japan
EU-27
South Korea
US
India
2001
2005
2009
2013
2017
Source: ABS

Composition

COMPOSITION

Exports | Imports

AUSTRALIA'S TOP 10 GOODS & SERVICES EXPORTS, 2017-18 (a)

(A$ million)

Rank	Commodity	Value	% share
	Total (b)	**403,241**	
1	Iron ores & concentrates	61,357	15.2
2	Coal	60,356	15.0
3	Education-related travel services (c)	32,434	8.0
4	Natural gas	30,907	7.7
5	Personal travel (excl education) services	21,580	5.4
6	Gold	19,293	4.8
7	Aluminium ores & conc (incl alumina)	9,448	2.3
8	Beef, f.c.f.	7,963	2.0
9	Crude petroleum	6,507	1.6
10	Copper ores & concentrates	5,720	1.4

(a) Goods trade are on a recorded trade basis, Services trade are on a balance of payments basis.
(b) Total is on a balance of payments basis.
(c) Includes international student expenditure on tuition fees and living expenses.

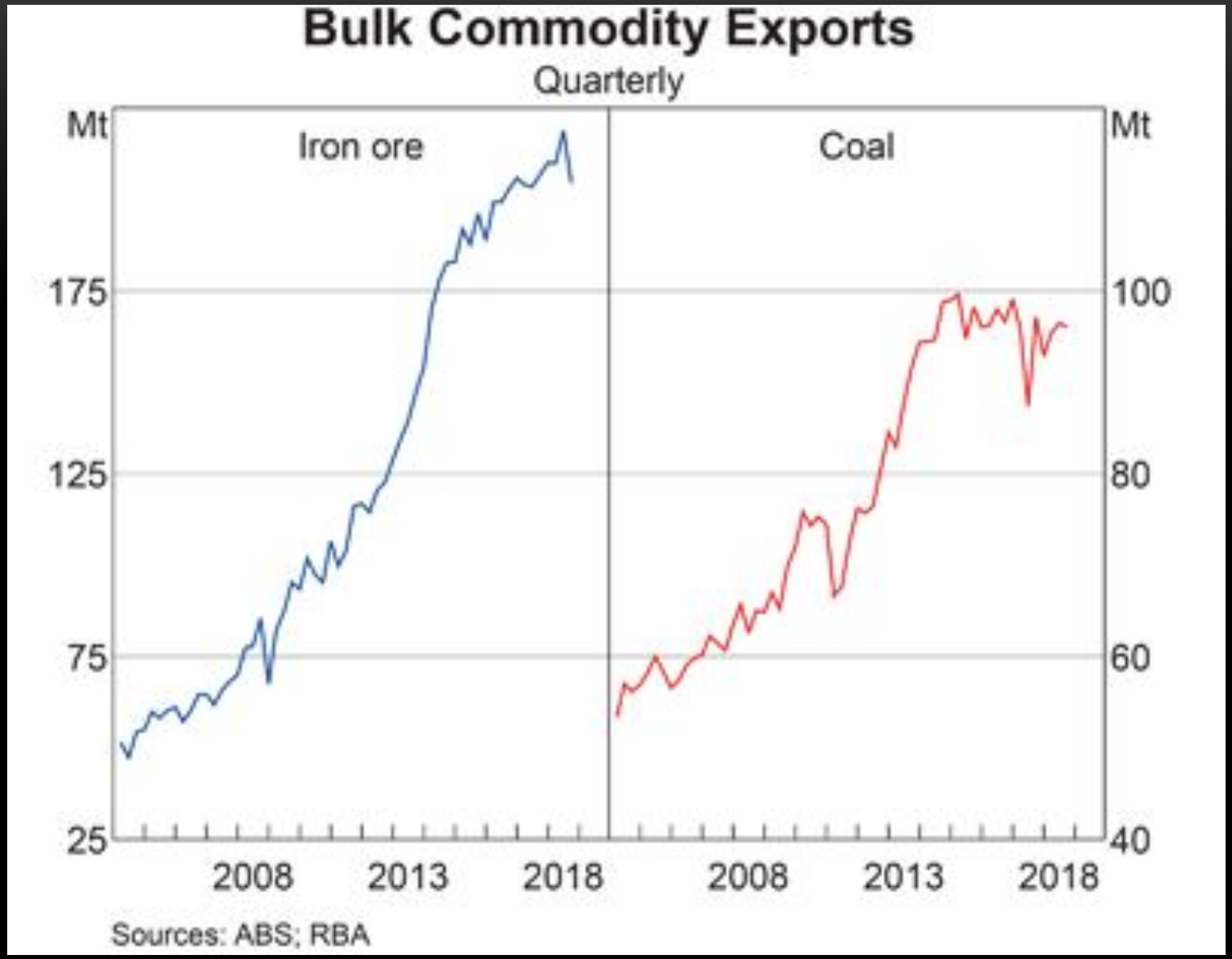
Based on ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

PRIMARY INDUSTRY ALWAYS A FOCUS

- Why?
  - Because we have a comparative advantage in the production of commodity goods

- Wheat
- Wool
- Beef
- Coal
- Iron ore
- Gold

BUT, AGRICULTURE HAS DECREASED IN IMPORTANCE WITH THE RISE IN IMPORTANCE OF MINERALS


Bulk Commodity Exports
Quarterly
Mt
Iron ore
Coal
Mt
175
125
75
25
100
80
60
40
2008
2013
2018
2008
2013
2018
Sources: ABS; RBA

Is this combination good?

- Narrow export base-Australia's exports are very heavily **reliant on commodities (raw materials).**
- Highly volatile-Demand for these products does not grow quickly and are usually highly influenced by **fluctuations in the world economy.**
- The **commodity price rise from 2003-2008** was not typical and the **GFC and falling commodity prices since 2013 has shown the weaknesses** in Australia's trading combination.
- Many of our **imports are capital** products-meaning that whenever Australia wants to expand, it will increase imports of capital, thus worsening the trade balance.

Composition(Dixon and O'Mahony)

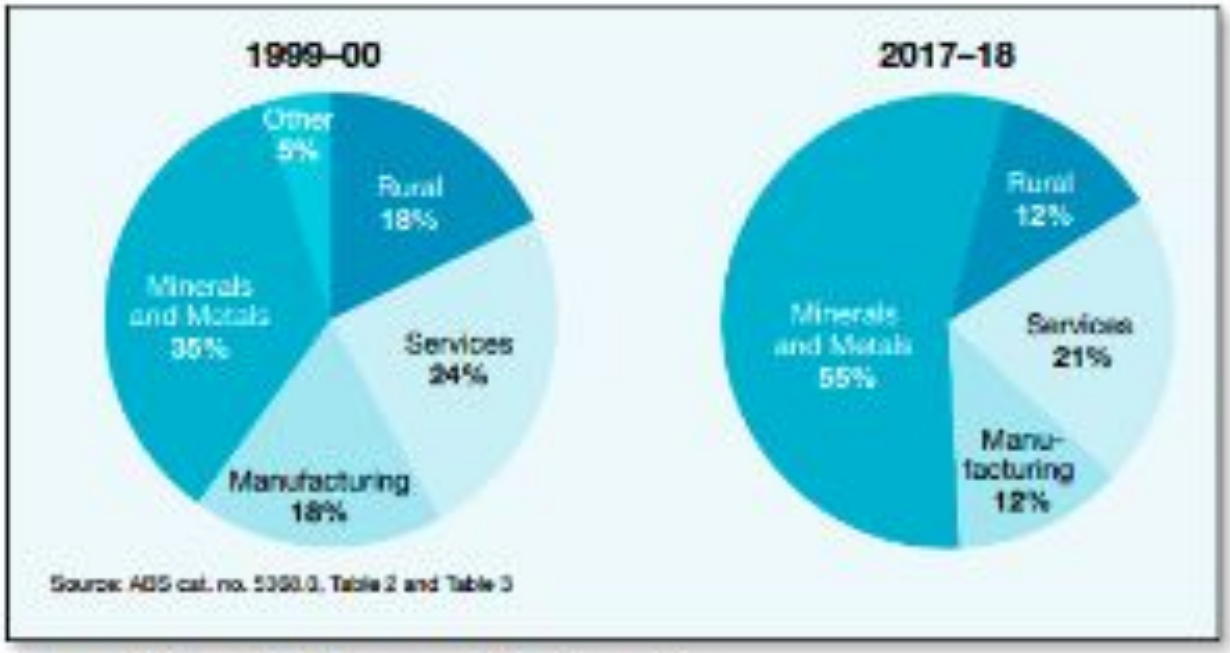


Figure 4.3 – Australia's composition of exports

Composition (Dixon and O'Mahony)

Year	Capital goods (%)	Consumer goods (%)	Intermediate goods and other (%)	Services (%)
1981–82	18.2	15.6	42.8	23.3
1986–87	19.2	17.2	39.6	23.7
1996–97	18.1	20.3	36.4	24.3
2001–02	17.6	24.2	34.7	22.0
2010–11	18.4	23.6	33.8	22.4
2011–12	21.0	22.2	33.4	21.2
2012–13	19.2	23.0	33.1	23.0
2013–14	17.8	23.8	34.0	23.1
2014–15	18.3	24.9	32.8	23.0
2015–16	17.9	27.0	29.6	24.0
2016–17	18.8	26.8	29.4	23.3
2017–18	18.7	26.0	30.6	23.2

Source: ABS cat. no. 5368.0, Table 1

Figure 4.4 – Australia's composition of imports

Complete the ‘Australia’s Trade: Key points 2017’ Activity

https://www.industry.gov.au/news-media/office-of-the-chief-economist-news/commodity-exports-are-forecast-to-reach-a-new-record-high-in-2018-19

Trends

Export values are being underpinned by a weaker Australian dollar and strong prices for several key commodities. A robust steel market in China boosted iron ore demand in Sept. quarter.

Stronger steel production also stabilised metallurgical coal prices after a fall in the June quarter.

Thermal coal prices were stable over the September quarter, on the back of strong demand from China. H

owever, prices for base metals lost ground amidst US-China trade tensions.

Looking forward

Looking out to 2019–20, growing bulk commodity supply and easing prices are expected to lead to a modest decline in commodity earnings to $238 billion.

Solid demand for high energy Australian thermal coal is expected to persist in the near-term as China tries to limit air pollution and restricts imports of low energy coal.

Oil prices are likely to lift as the US prepares to reimpose sanctions on Iran and as Venezuelan oil production declines.

Prices for lower grades of coal and iron ore likely to continue to decline, but other metals such as copper are expected to see a price rebound as market fundamentals re-assert themselves.