Australia’s Trade in Goods Account, July

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This week’s Balance of Payments release highlighted the major themes in Australian international trade in Q2, while the National Accounts confirmed how these developments affected domestic growth. Net trade contributed positively to GDP, largely due to an almost 5% drop in services imports. Goods trade was a drag, however, as the 1.4%qtr increase in exports fell short of the 2.4%qtr rise in imports. Strong EV sales were reflected in a 38% jump in car import volumes. Meanwhile, the payback in data centre investment growth following the surge in Q1 was illustrated by a 26% decrease in ADP equipment imports. Today’s goods trade figures provided an early indication of how these themes evolved at the start of Q3. The headline goods trade surplus narrowed slightly to $1.9bn in July but remained above our and consensus expectations. This was down from an upwardly revised surplus of $2.3bn in June. The relatively small monthly change contrasted with the considerable volatility of recent months, when the trade balance oscillated between deficit and surplus. Flows of non-monetary gold, the main driver of this volatility, again changed significantly in July. This time, however, movements in other components helped to even things between exports and imports.

Export revenue fell 3.3%mth, following a 7.6%mth decline in May and a 10.1%mth increase in June. Gold exports were down by about a quarter, and their monthly change more than fully accounted for the total exports change. Indeed, excluding gold, total exports rose 0.8%mth. Movements in the other major components were more muted. Exports of the three major commodities – iron ore, coal, and LNG – rose only 0.4%mth, as an increase of close to 10% in LNG exports offset declines in iron ore and coal. Additional detail provided by the ABS suggested that the increase in LNG revenue was mainly due to higher prices, with a much smaller contribution from volumes. Meanwhile, weakness in iron ore and coal exports largely reflected lower volumes. Elsewhere, manufactured goods exports were little changed and remained strong by recent standards. Rural goods exports rose 5.8%mth to their highest level since February, suggesting that the underlying strength seen in this category last year remains broadly intact. Looking ahead, however, we expect this momentum to soften, mainly due to lower supply in the Australian agricultural sector.

Import revenue fell 2.5%mth in July, marking a third consecutive monthly decline. As with exports, non-monetary gold was a significant driver. Its 31% drop accounted for a big chunk of the overall decline. Excluding gold, imports were down by about 1.0%mth. Performance across the major categories was mixed. Consumer goods imports rose 3.5%mth, well above the average pace recorded in the first half of the year. Most of the increase reflected an 8.2%mth rise in vehicle imports. This suggests that the momentum in EV sales seen in Q2 may again contribute to household consumption growth this quarter. Capital goods imports rose 6.7%mth, reversing a decline of a similar magnitude in June. The ADP category, which captures imports of data processing equipment used in data centres, rose by 50%. Following steep declines over the previous three months, the latest reading suggests that data centre investment may accelerate again this quarter after retreating in Q2. This is broadly consistent with our expectations that: 1) data centre investment has considerable upside potential over the medium term; 2) about a half of data centre investment will be matched by an increase in imports; and 3) investment flows may occur in fits and starts, reflecting both volatility in the data and the lumpy nature of large investment projects. Intermediate goods imports fell 7.8%mth, the weakest result since late 2023. Fuel imports declined 12.3%mth, extending the downward trend of recent months following the initial surge in oil prices in March and April after the war in the Middle East began.

With gold prices having taken a significant step higher in August, volatility in trade flows is likely to persist in the coming months as gold exports and imports fluctuate. Other major categories may also continue to record large month-to-month movements. For example, oil prices have risen from just above $70 in early July to above $95 now, which may place some upward pressure on fuel import values. Near-term movements in ADP imports are almost impossible to predict, but the medium-term outlook is clearer. As long as the economy continues to embrace AI, and Australia remains an attractive location for the data centres needed to support it, ADP imports are likely to remain strong. These factors, together with the expectation of firmer domestic economic momentum, point to strong demand for goods imports. At the same time, the outlook for exports of Australia's major commodities is neutral at best, while other categories, including rural goods exports, may begin to soften. The recent appreciation of the AUD is an additional headwind for exports, and we do not expect this effect to reverse. Against this backdrop, we continue to expect the goods trade balance to trend lower over the coming quarters, dragging the overall current account balance down with it.

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