

Confident Aussies; Stronger external accounts Government Finance; Balance of Payments; Consumer sentiment

- **Consumer sentiment:** The weekly ANZ-Roy Morgan consumer confidence rating rose by 0.8 per cent to 119.5 to remain firmly above the longer term average of 113.0.
- **Current Account:** The broadest measure of the trade accounts – the current account – improved in the September quarter (smaller deficit), with the deficit narrowing from \$12.1 billion to \$10.7 billion.
- **Debt servicing:** The ratio of net income on foreign debt to exports of goods and services was steady at 6 per cent in the September quarter, up from the 36½-year low of 5.7 per cent in the March quarter.
- **Government sector:** Overall spending by the government sector rose by 1.1 per cent in the September quarter after rising 0.8 per cent in the June quarter.
- **Economic growth:** The Australian economy may have grown by around 0.6 per cent in the September quarter and 3.3 per cent over the year. Net exports added 0.4 percentage points to quarterly growth.

The balance of payments data has implications for trade-exposed businesses and companies vulnerable to changes in the Aussie dollar. The government spending data is an input to the calculation of economic growth. The consumer confidence figures have implications for retailers, and other consumer-focussed businesses.

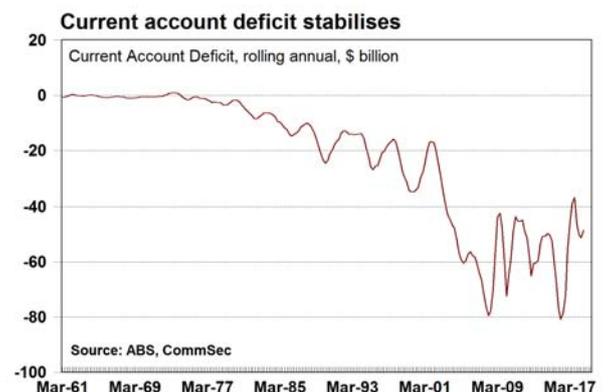
What does it all mean?

- Consumer confidence has lifted for a second week, and we can put it all down to perceptions of family finances. Consumers feel their finances are in better shape than a year ago and are hopeful that family finances will improve over the coming year. Certainly petrol prices have plunged, putting extra spending power in motorists' pockets. And there are more signs that wage growth is lifting in response to tighter job markets. All this is positive for consumer spending in the all-important Christmas trading season.
- The external accounts continue to improve. The current account deficit fell in the quarter while the trade surplus rose. The terms of trade also rose. And while external debt lifted again, debt servicing is still near the best levels recorded in 36 years, courtesy of firm export receipts. In short, Australia is paying its way in the world and external creditors would have few reasons to be concerned.
- All the so-called "partial" indicators are in – that is, those factors feeding into the economic growth equation. And the latest figures confirm that the economy is still growing above its supposed speed limit, growing at a 3.3 per cent annual pace.

What do the figures show?

Balance of Payments

- The broadest measure of the trade accounts – **the current account** – improved in the September quarter (smaller deficit), with the deficit narrowing from \$12.1 billion to \$10.7 billion.
- **The balance of goods and services** was in surplus by \$6.6 billion in the September quarter after a \$3.9 billion surplus in



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the June quarter.

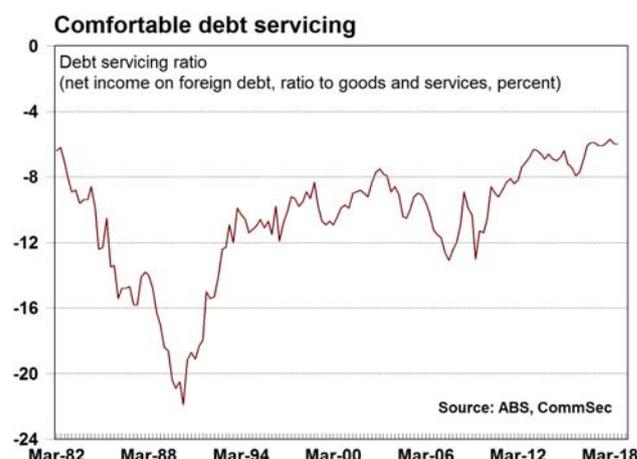
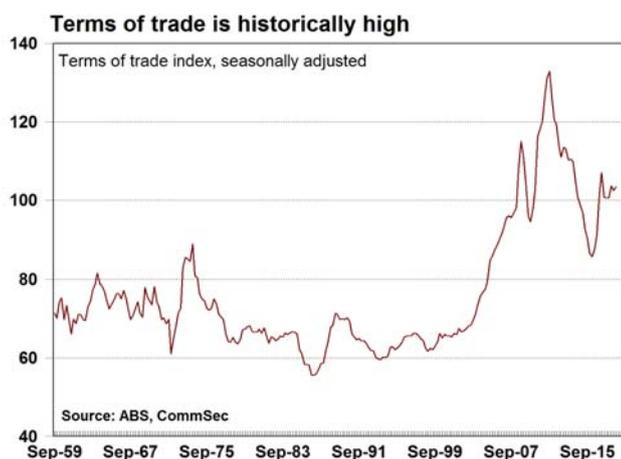
- **In real terms** exports of goods and services rose by 0.1 per cent in the September quarter with imports down by 1.5 per cent. Export prices rose by 3.1 per cent in the quarter with import prices up by 2.2 per cent.
- **Exports of rural goods** rose 2.4 per cent in current prices, with volumes up 0.5 per cent and prices up 1.8 per cent. Meat and “other rural” drove the gains.
- **Exports of non-rural goods** rose 3.0 per cent in current prices, with volumes down 1.7 per cent and prices up 4.8 per cent. Iron ore, metals and coal drove the result.
- **Exports of non-monetary gold** fell 1.4 per cent in current prices, with volumes up 1.8 per cent and prices down by 3.2 per cent.
- **Imports of consumption goods** fell 0.7 per cent in current prices, with volumes down 2.5 per cent and prices up 1.8 per cent. A fall in imports of cars drove the result.
- **Imports of capital goods** fell by 1.1 per cent in current prices, with volumes down 2.2 per cent and prices up 1.2 per cent. Lower imports of machinery & industrial transport equipment and aircraft drove the result.
- **Imports of intermediate and other merchandise goods** rose 3.5 per cent, with volumes up 0.2 per cent and prices up 3.2 per cent. Higher fuel volumes and prices drove the result.
- **The trade sector (exports less imports)** will add 0.4 percentage points to economic growth in the September quarter.
- **Terms of trade** (ratio of export to import prices) rose by 0.8 per cent in the September quarter, with an increase of 3.0 per cent in export prices outpacing a 2.2 per cent increase in import prices.
- **Net foreign debt** rose from \$1,031.5 billion as at the end of the June quarter to \$1,044.0 billion at the end of September.
- **The debt serving ratio** (net income on foreign debt, ratio to exports of goods and services) was steady at 6 per cent in the September quarter, up from the 36½-year low of 5.7 per cent in the March quarter.

Government Finances

- Government consumption spending rose by 0.5 per cent in the September quarter after a 0.9 per cent increase in the June quarter. Total public investment rose 3.4 per cent in the September quarter after a 0.4 per cent rise in the June quarter. **Overall, spending by the government sector** rose by 1.1 per cent in the September quarter after rising 0.8 per cent in the June quarter.

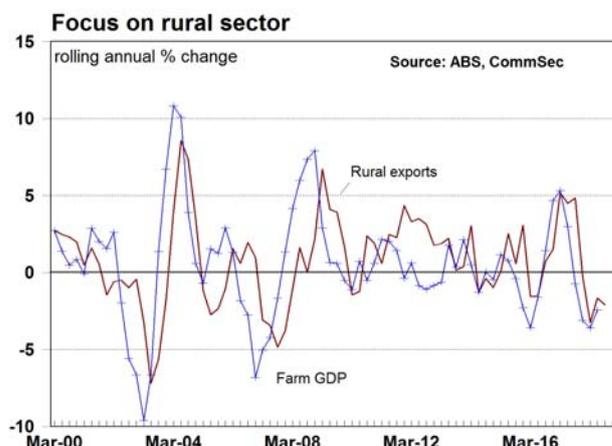
Consumer Sentiment

- The **ANZ-Roy Morgan consumer confidence** rating rose by 0.8 per cent to 119.5 in the past week. The index is well above the average of 114.2 held since 2014, and above the longer-term average of 113.0 held since 1990.
- **Three of the five components** of the index **decreased** last week:
 - The estimate of family finances compared with a year ago was **up** from +6.2 to +13.8;
 - The estimate of family finances over the next year was **up** from +21.4 to +24.2;
 - Economic conditions over the next 12 months was **down** from +15.4 to +12.5;
 - Economic conditions over the next 5 years was **down** from +15.7 to +15.3;
 - The measure of whether it was a good time to buy a major household item was **down** from +34.1 to +31.6.
- The **measure of inflation expectations** was steady at 4.1 per cent.



What is the importance of the economic data?

- The quarterly **Balance of Payments** figures have few short-term effects on financial markets. The importance of the data is merely to highlight Australia’s trading position with the rest of the world as well as the contribution of foreign trade (exports less imports) to the latest estimates of economic growth.
- The Australian Bureau of Statistics releases the quarterly **Government Finance Statistics** near the start of March, June, September and December. The data details public sector consumption and investment spending and indicates the sector’s contribution to economic growth.
- The **ANZ/Roy Morgan weekly survey of consumer confidence** closely tracks the monthly Westpac/Melbourne Institute consumer sentiment index but the former measure is a timelier assessment of consumer attitudes and is now closely tracked by the Reserve Bank.



What are the implications for interest rates and investors?

- The on-going strength of consumer confidence is encouraging for Aussie retailers in the lead up to Christmas. Over 2016 and 2017 most people were unaware about how much the value of their home prices was increasing. And similarly Sydney and Melbourne home owners are probably similarly unaware about how much home prices had softened over the past year. So home prices are probably not influencing consumer confidence in a material way as shown by the consistently high readings.
- At this stage there are few signs of the East Coast drought on rural exports. Actual export volumes rose 0.5 per cent in the September quarter with prices up 1.8 per cent.
- Australia still has a sizeable level of foreign debt as well as a current account deficit. So with interest rates low and stable, upside potential for the Australian dollar is limited. We expect the Aussie dollar to remain in the low to mid 70s against the greenback in coming months. Much will depend on whether the US Federal Reserve moves closer to a ‘pause’ in rate hikes.
- Australia’s economy probably grew around 0.6 per cent in the September quarter with annual growth holding near 3.3 per cent. The supposed speed limit of the economy is around 2.75 per cent but there are few signs of inflationary pressures lifting outside the construction sector.
- CommSec expects interest rates to remain unchanged until later in 2019. The job market, wages and prices are the economic variables to watch.

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