

## ANALYSIS AND COMMENTS

### BALANCE OF PAYMENTS

#### CURRENT ACCOUNT

In original, current price terms the June quarter 2010 current account deficit was \$4,204m, a \$11,439m decrease on the March quarter deficit. During the quarter the terms of trade increased 12.5%. The June quarter 2010 deficit was primarily funded by a net increase in direct investment equity liabilities.

Current account balances, in seasonally adjusted and trend terms at current prices, are shown in the following table.

#### BALANCE ON CURRENT ACCOUNT IN CURRENT PRICES—June Quarter 2010

	CHANGE IN:		
	Current prices	Current prices	Current prices
	\$m	\$m	%
SEASONALLY ADJUSTED			
Balance on current account	-5 640	10 817	65.7
Balance on goods and services	6 497	9 706	..
Net goods	7 434	10 119	..
Net services	-937	-413	-78.8
Net primary income	-11 909	1 112	8.5
Net secondary income	-227	—	—
TREND			
Balance on current account	-7 141	9 463	57.0
Balance on goods and services	5 664	9 201	..
Net goods	6 548	9 562	..
Net services	-884	-362	-69.3
Net primary income	-12 588	262	2.0
Net secondary income	-217	1	0.5

.. not applicable

— nil or rounded to zero (including null cells)

#### VOLUMES AND PRICES

##### *Goods and Services*

In seasonally adjusted chain volume terms, the balance on goods and services was a deficit of \$6,434m, a decrease of \$1,260m (16%) on the March quarter 2010 deficit after rising \$1,489m the previous quarter. This is the 4th consecutive quarter of volume deficits.

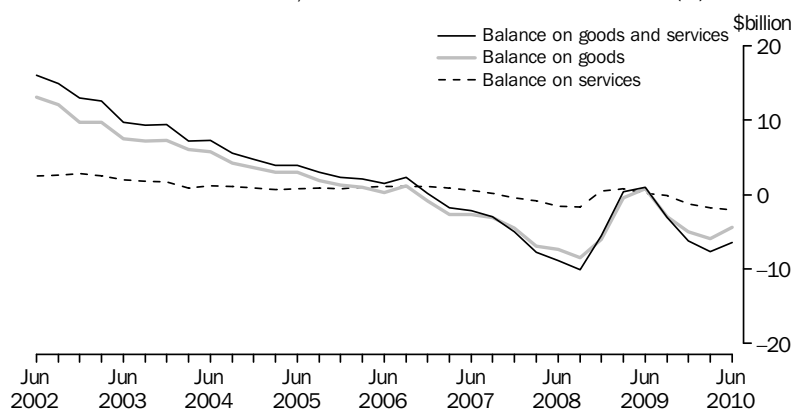
The net deficit on goods decreased \$1,597m (27%). Goods credits increased \$3,450m (7%) and goods debits increased \$1,853m (3%). The net services balance was a deficit of \$2,090m, an increase of \$337m (19%) on the March quarter 2010 deficit.

The decrease in the deficit on goods and services, in seasonally adjusted chain volume terms, is expected to contribute 0.4 percentage points to growth in the June quarter 2010 volume measure of GDP, assuming no significant revision to the GDP chain volume estimate for the March quarter 2010.

## ANALYSIS AND COMMENTS *continued*

Goods and Services  
*continued*

### GOODS AND SERVICES, CHAIN VOLUME MEASURES (a)



(a) Seasonally adjusted, reference year 2007-08

Terms of Trade

Australia's seasonally adjusted terms of trade rose 12.5% to 120.8 with an increase of 14.2% in the implicit price deflator (IPD) for goods and services credits and an increase of 1.6% in the IPD for goods and services debits. The trend estimate of the terms of trade for net goods and services increased 14.4% to 120.9.

Goods

### GOODS, Price and volume analysis: **Seasonally Adjusted**—June Quarter 2010

	CHANGE IN:			
	Current prices	Current prices	Chain volume measures	Implicit price deflators
	\$m	%	%	%
<b>Exports</b>	<b>12 868</b>	<b>26.4</b>	<b>7.3</b>	<b>17.8</b>
Rural goods	379	5.9	1.3	4.5
Non-rural goods	11 242	28.9	7.5	19.8
Net exports of goods under merchanting	36	97.3	51.4	31.7
Non-monetary gold	1 211	36.2	21.4	12.2
<b>Imports</b>	<b>2 750</b>	<b>5.3</b>	<b>3.5</b>	<b>1.8</b>
Consumption goods	675	4.3	4.4	-0.1
Capital goods	479	4.0	4.8	-0.8
Intermediate and other merchandise	640	2.9	0.2	2.7
Non-monetary gold	956	67.7	51.7	10.5

## ANALYSIS AND COMMENTS *continued*

### Services

### SERVICES, Price and volume analysis: **Seasonally Adjusted**—June Quarter 2010

	CHANGE IN:			
	Current prices	Current prices	Chain volume measures	Implicit price deflators
	\$m	%	%	%
<b>Exports</b>	<b>-122</b>	<b>-0.9</b>	<b>-1.2</b>	<b>0.2</b>
Manufacturing services on physical inputs owned by others	-25	-33.3	-33.8	0.2
Maintenance and repair services n.i.e.	-4	-30.8	-33.3	0.2
Transport	-47	-2.9	-3.1	0.2
Travel	-82	-1.0	-1.2	0.3
Other services	36	1.2	1.0	0.2
<b>Imports</b>	<b>291</b>	<b>2.1</b>	<b>1.4</b>	<b>0.8</b>
Manufacturing services on physical inputs owned by others	-2	-100.0	-100.0	-100.0
Maintenance and repair services n.i.e.	-12	-13.5	-14.3	0.8
Transport	352	10.0	8.9	1.0
Travel	-28	-0.5	-1.2	0.7
Other services	-19	-0.5	-1.3	0.8

### GOODS CREDITS

The trend estimate of goods credits at current prices rose \$10,657m (22%) to \$59,837m in the June quarter 2010.

In seasonally adjusted terms at current prices, goods credits rose \$12,868m (26%) to \$61,621m.

#### *Rural Goods*

Exports of rural goods, in seasonally adjusted terms at current prices, rose \$379m (6%) to \$6,797m, with volumes up 1% and prices up 5%. The main components contributing to the increase were:

- meat and meat preparations, up \$261m (17%), with volumes up 8% and prices up 8%
- other rural, up \$159m (5%), with volumes up 2% and prices up 4%.

#### *Non-rural Goods*

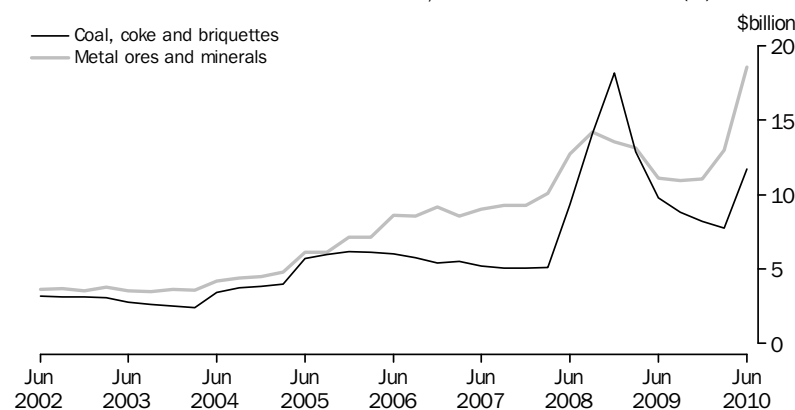
Exports of non-rural goods, in seasonally adjusted terms at current prices, rose \$11,242m (29%) to \$50,197m, with volumes up 8% and prices up 20%. The main components contributing to the increase were:

- metal ores and minerals, up \$5,616m (43%), with volumes up 3% and prices up 39%
- coal, coke and briquettes, up \$4,000m (52%), with volumes up 22% and prices up 25%
- other mineral fuels, up \$972m (20%), with volumes up 17% and prices up 2%.

## ANALYSIS AND COMMENTS *continued*

*Non-rural Goods continued*

### SELECTED MAJOR COMMODITIES, CURRENT PRICES (a)



(a) Seasonally adjusted

*Non-monetary Gold*

Exports of non-monetary gold, in seasonally adjusted terms at current prices, rose \$1,211m (36%) to \$4,554m, with volumes up 21% and prices up 12%.

#### GOODS DEBITS

The trend estimate of goods debits at current prices rose \$1,095m (2%) to \$53,289m in the June quarter 2010.

In seasonally adjusted terms at current prices, goods debits rose \$2,750m (5%) to \$54,188m.

*Consumption Goods*

Imports of consumption goods, in seasonally adjusted terms at current prices, rose \$675m (4%) to \$16,308m, with volumes up 4%. The main components contributing to the increase were:

- non-industrial transport equipment, up \$215m (5%), with volumes up 7% and prices down 2%
- consumption goods n.e.s., up \$144m (3%), with volumes up 1% and prices up 2%
- household electrical items, up \$140m (11%), with volumes up 19% and prices down 7%.

*Capital Goods*

Imports of capital goods, in seasonally adjusted terms at current prices, rose \$479m (4%) to \$12,496m with volumes up 5% and prices down 1%. The main components contributing to the increase were:

- machinery and industrial equipment, up \$475m (13%), with volumes up 14% and prices down 1%
- ADP equipment, up \$197m (10%), with volumes up 9% and prices up 1%
- industrial transport equipment n.e.s., up \$194m (11%), with volumes up 16% and prices down 5%.

Partly offsetting these increases was the capital goods n.e.s. component, down \$468m (25%), with volumes down 26% and prices up 2%.

## ANALYSIS AND COMMENTS *continued*

### *Intermediate and Other Merchandise Goods*

Imports of intermediate and other merchandise goods, in seasonally adjusted terms at current prices, rose \$640m (3%) to \$23,016m, with prices up 3%. The main components contributing to the increase were:

- fuels and lubricants, up \$879m (14%), with volumes up 7% and prices up 6%
- iron and steel, up \$154m (19%), with volumes up 17% and prices up 2%.

Components partly offsetting these increases were:

- other merchandise goods, down \$363m (60%) with volumes down 60% and prices up 2%
- other parts for capital goods, down \$196m (6%), with volumes down 5% and prices down 1%.

### *Non-monetary Gold*

Imports of non-monetary gold, in seasonally adjusted terms at current prices, rose \$956m (68%) to \$2,368m, with volumes up 52% and prices up 11%.

## SERVICES

The trend estimate of net services at current prices was a deficit of \$884m, an increase of \$362m (69%) on the March quarter 2010 deficit of \$522m.

In seasonally adjusted terms at current prices, net services recorded a deficit of \$937m, an increase of \$413m (79%) on the March quarter 2010 deficit of \$524m.

### *Services Credits*

Services credits, in seasonally adjusted terms at current prices, fell \$122m (1%) to \$13,022m. The main components contributing to the decrease were:

- travel services, down \$82m (1%), with volumes down 1%
- transport services, down \$47m (3%), with volumes down 3%.

Partly offsetting these decreases was the other services component, up \$36m (1%), with volumes up 1%.

### *Services Debits*

Services debits, in seasonally adjusted terms at current prices, rose \$291m (2%) to \$13,959m, with volumes up 1% and prices up 1%. The only increase was in the transport services component, up \$352m (10%), with volumes up 9% and prices up 1%, driven by the freight transport sub-component up \$276m (13%).

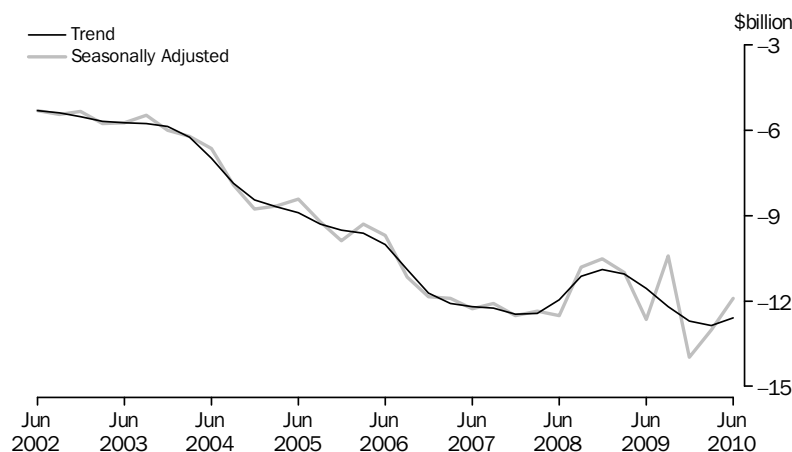
## ANALYSIS AND COMMENTS *continued*

### PRIMARY INCOME

The trend estimate of the net primary income deficit decreased \$262m (2%) from \$12,850m in the March quarter 2010 to \$12,588m in the June quarter 2010.

In seasonally adjusted terms the net primary income deficit decreased \$1,112m (9%) from \$13,021m in the March quarter 2010 to \$11,909m in the June quarter 2010.

#### NET PRIMARY INCOME



#### Primary Income Credits

Primary income credits increased \$1,000m (11%) to \$10,021m. The main contributors to the increase in primary income credits were:

- a \$797m (28%) increase in income on direct investment assets, particularly investment income on equity and investment fund shares
- a \$199m (4%) increase in income on portfolio investment assets.

#### Primary Income Debits

Primary income debits decreased \$111m (1%) to \$21,931m. The main contributors to the decrease in primary income debits were:

- a \$113m (1%) decrease in income on portfolio investment liabilities
- a \$59m (8%) decrease in income on other investment liabilities
- a \$59m (1%) decrease in income on direct investment liabilities.

In original terms the primary income deficit decreased \$886m (7%) to \$11,699m in the June quarter 2010. Primary income credits increased \$1,099m (12%) to \$10,292m and primary income debits increased \$213m (1%) to \$21,991m.

### FINANCIAL ACCOUNT

The balance on financial account recorded a net inflow of \$4.3b, with a net inflow \$0.9b of debt and a net inflow of \$3.5b of equity.

The financial account surplus decreased \$11.8b from \$16.1b in the March quarter 2010 to \$4.3b in the June quarter 2010 in line with the decrease in the current account deficit, which fell \$11.4b from \$15.6b last quarter to \$4.2b this quarter.

Direct investment recorded a net outflow of \$1.2b in the June quarter 2010, a turnaround of \$7.9b from the net inflow of \$6.7b in the March quarter 2010, where:

- direct investment assets recorded an outflow of \$8.8b, an increase of \$7.7b on the outflow of \$1.2b in the March quarter 2010
- direct investment liabilities recorded an inflow of \$7.6b, a decrease of \$0.3b on the inflow of \$7.9b in the March quarter 2010.

## ANALYSIS AND COMMENTS *continued*

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### FINANCIAL ACCOUNT *continued*

Portfolio investment recorded a net inflow \$18.3b, a decrease of \$2.1b on the net inflow of \$20.5b in the March quarter 2010. This was driven by:

- debt securities recording a net inflow of \$19.2b
- equity and investment fund shares recording a net outflow of \$0.8b.

Portfolio liabilities debt securities decreased \$20.0b from \$43.9b in the March quarter 2010 to \$23.8b in the June quarter 2010. The main contributor was long-term debt securities of deposit-taking corporations, except the central bank.

Financial derivatives recorded a net outflow of \$5.3b, a turnaround of \$13.5b from the net inflow of \$8.2b in the March quarter 2010.

Other investment recorded a net outflow of \$7.2b, a decrease of \$15.4b from the net outflow of \$22.6b in the March quarter 2010.

Reserve assets recorded a net outflow of \$0.3b, a turnaround of \$3.6b from the net inflow of \$3.3b in the March quarter 2010.

## ANALYSIS AND COMMENTS *continued*

### INTERNATIONAL INVESTMENT POSITION

#### ANALYSIS

Australia's net international investment position at 30 June 2010 was a net foreign liability of \$763.5b, up \$4.2b (1%) on the 31 March 2010 position of \$759.3b.

The changes contributing to this result are shown in the following table.

#### INTERNATIONAL INVESTMENT POSITION, Summary—June Quarter 2010

	<i>Net international investment position</i>	<i>Net foreign equity</i>	<i>Net foreign debt</i>
	\$m	\$m	\$m
Position at beginning of period	759 289	101 528	657 761
Changes in position reflecting			
Transactions	4 346	3 480	867
Price changes	11 445	11 042	403
Exchange rate changes	-10 278	-23 015	12 737
Other adjustments	-1 344	-1 461	118
<b>Total changes</b>	<b>4 169</b>	<b>-9 954</b>	<b>14 124</b>
Position at end of period	763 459	91 574	671 885



### SUPPLEMENTARY INFORMATION

#### CONDITIONS

The conditions in the global economy continued to improve in the June quarter 2010. According to the Organisation for Economic Cooperation and Development (OECD), gross domestic product (GDP) in OECD countries rose by 0.7% in the second quarter of 2010. Preliminary real GDP estimates in seasonally adjusted terms for some major countries showed positive quarterly growth: Germany (2.2%), UK (1.2%), France (0.6%), USA (0.4%), Italy (0.4%) and Japan (0.1%).

Australia's international investment activities increased moderately during the quarter. Foreign asset and liability transactions were  $-\$18.9\text{b}$  and  $\$23.3\text{b}$  in the June quarter 2010, compared to  $-\$6.2\text{b}$  and  $\$22.3\text{b}$  respectively in the March quarter 2010.

The Australian share market (MSCI) decreased 12.6% in June quarter 2010, a turn around from the 0.9% increase in March quarter 2010. Global share prices (MSCI) fell in all major markets: Japan down 14.9%, Switzerland down 10.5%, USA down 10.5%, UK down 13.5%, Germany down 5.6%, Hong Kong down 6.9% and Canada down 5.9%. The world index decreased 12.5%. This is reflected in price changes of  $-\$46.6\text{b}$  in Australia's foreign assets and  $-\$35.2\text{b}$  in foreign liabilities during June quarter 2010.

Mergers and acquisitions have been relatively flat in June quarter 2010. There were limited large Initial Public Offerings (IPO). Foreign equity transactions were subdued, with portfolio equity liabilities showing a third consecutive quarter of equity withdrawals.

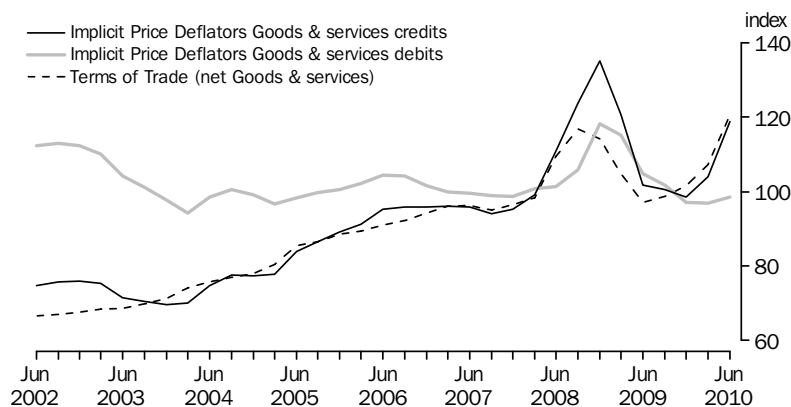
According to Reuters, the composite corporate benchmark yield decreased in Japan (1.5% to 1.3%), USA (5.4% to 5.1%) and in Germany (3.7% to 3.5%) and remained steady in UK at 6.2%. Long term government bond yields decreased in all major markets over June quarter 2010 including USA, Germany, UK, Japan and Australia. The 10 year government bond yields decreased from 3.8% to 3.0% in the US, 3.9% to 3.4% in the UK, 3.1% to 2.6% in Germany, 1.4% to 1.1% in Japan, and 5.6% to 5.3% in Australia. Market price changes increased for both portfolio debt securities liabilities ( $\$2.8\text{b}$ ) and assets ( $\$1.3\text{b}$ ) in the June quarter 2010.

The Australian dollar depreciated against most of the major currencies in June quarter 2010. It decreased against the Japanese yen (-11.8%), the Chinese Renminbi (-7.5%), the USD (-6.9%), Hong Kong dollar (-6.7%), the UK pound sterling (-6.7%), the New Zealand dollar (-4.6%), and the Canadian Dollar (-3.7%), while appreciating against the Euro (2.2%). The Trade Weighted Index (TWI) recorded a decrease of 6.1%. The net impact of exchange rate changes was a  $\$10.3\text{b}$  decrease on Australia's net foreign liability position.

## ANALYSIS AND COMMENTS *continued*

### IMPLICIT PRICE DEFLATOR

### IMPLICIT PRICE DEFLATOR AND TERMS OF TRADE, (a)



(a) Seasonally adjusted, reference year 2007-08 = 100

#### *Relationship to EPI and IPI*

In original terms, the IPD for total goods credits rose 17.8% and the chain Laspeyres price index for goods exports rose 16.1%. The export price index (EPI) rose 16.1% during the June quarter 2010.

The difference between the EPI and IPD is mainly driven by the other mineral fuels and other non-rural components. Differences in these two measures result from differences in pricing points, coverage and weights.

In original terms, the IPD for total goods debits rose 1.6% and the chain Laspeyres price index for goods imports rose 1.7%. The import price index (IPI) rose 1.9% during the June quarter 2010.

### GOODS AND SERVICES, Price comparison—June Quarter 2010

	SEASONALLY ADJUSTED	ORIGINAL		
	<i>Implicit price deflators</i>	<i>Implicit price deflators</i>	<i>International Trade price indexes (a)</i>	<i>Chain Laspeyres price indexes</i>
	%	%	%	%
<b>Exports</b>				
Goods	17.8	17.8	16.1	16.1
Services	0.2	0.2	na	0.1
<b>Imports</b>				
Goods	1.8	1.6	1.9	1.7
Services	0.8	0.8	na	0.7

na not available

(a) Source: International Trade Price Indexes, Australia (cat. no. 6457.0)

1 In this commentary movements in indexes are based on data to four decimal places.