

Economic Research**Sydney**

March 4, 2008

Australian economic update

4Q current account

Australia's current account balance deteriorated significantly in the December quarter, mainly owing to a sharp widening of the goods and services balance. The current gap blew out to -A\$19.3 billion (JPMorgan -A\$17.6 billion, consensus -\$18.0 billion) from a revised -A\$16.4 billion in 3Q (previously -A\$15.6 billion). The deficit widened to a record 7.0% of GDP in the December quarter from 6.0% in 3Q.

The goods and services balance spiked to a massive -\$6.9 billion in 4Q from -A\$4.8 billion in 3Q as imports surged on the back of strong AUD and firm domestic demand. Imports rose 3%, while exports fell 1%, primarily due to a decline in non-rural exports (-2%) which remain restrained by capacity constraints and infrastructure bottlenecks, problems we believe will be gradually alleviated during 2008 thanks to solid business investment, particularly in the mining sector, in recent years. The net services surplus fell A\$224 million to A\$299 million, as higher services debits (+4%) were partially offset by higher services credits (+2%). It is estimated that the goods and services deficit will subtract 1.0 percentage point from 4Q GDP growth.

The net income deficit rose 8% to A\$12.4 billion in 4Q. Income credits fell 11% due to a decline in profits accruing to Australian direct investors owing to falling commodity prices and divestment of non-resident subsidiaries, and a fall in interest payments on other investment assets, according to the ABS. Income debits declined 1% as portfolio investment income on debt fell. As a percentage of GDP, the net income deficit rose to 4.5% in 4Q from 4.2% in the previous quarter, signaling clearly that the economy still remains heavily reliant on imported capital. Additionally, the international investment position rose 8% to A\$736.8 billion - net foreign debt rose 4%, while net foreign equity was up 30%. The increase was due to price changes of A\$35.8 billion, resulting from falls in both Australian and global equity markets, net transactions of \$19.0 billion, and exchange rate changes of -A\$1.7 billion.

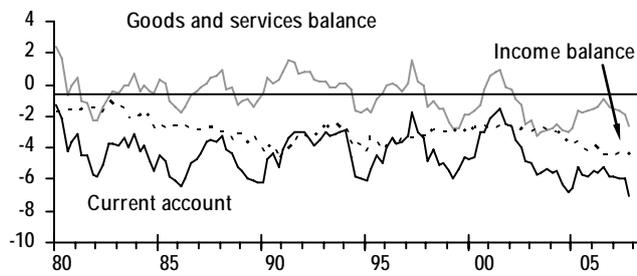
The details:

- The seasonally adjusted current account deficit rose to A\$19.3 billion in 4Q from A\$16.4 billion in 3Q.
- The goods and services deficit rose A\$2.1 billion, or 43%, to A\$6.9 billion.

- The income deficit rose A\$913 million, or 8%, to A\$12.4 billion.
- Net exports look set to subtract 1.0 percentage point from 4Q GDP.

Australia: current account deficit

% of GDP



Stephen Walters (61-2) 9220-1599
Stephen.b.walters@jpmorgan.com
Jarrod Kerr (61-2) 9220-1669
Jarrod.w.kerr@jpmorgan.com
Helen Kevans (61-2) 9220-3250
Helen.e.Kevans@jpmorgan.com

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