
Australia trade deficit widens as coal exports drop

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Bloomberg reported that Australia's trade deficit widened in May as a drop in coal shipments pushed exports to the lowest level in 14 months, signaling economic growth may slow.

Australia's Bureau of Statistics said that the shortfall swelled to AUD 556 million from a revised AUD 282 million in April. The median estimate in a Bloomberg survey of 20 economists was for AUD 125 million gap Exports fell 5%. Prices for iron ore and coal have declined, damping a mining boom that drove Australia's 17 year economic expansion. BHP Billiton Limited and Rio Tinto Group have pared output, fired workers and cut capital expenditure in response to the slowdown in world demand.

Mr Su-Lin Ong a senior economist at RBC Capital Markets said that "The global recession is starting to hit Australian export income. That will flow through the economy. Growth is likely to be weak and patchy in the quarters ahead."

Australia avoided a technical recession in the Q1 as government stimulus and interest rate cuts stoked consumer spending. The economy expanded 0.4% from the Q4 when it shrank 0.6%.

Australia's exports declined to AUD 20.39 billion, the lowest since March 2008. Shipments of non-rural goods, which include metals and minerals, fell 5%. Agricultural sales dropped 3%. Coal sales slumped 15% and shipments of cereals declined 7%.

Australian businesses cut spending on machinery and equipment in the Q1 by 9.6%, the most since 1991, amid faltering global demand. Rio Tinto slashed its global spending by more than half to USD 4 billion this year and BHP shut its USD 2.2 billion Ravensthorpe nickel mine. Still, even as miners are buffeted lower commodity prices, a recovery in global demand may support Australia's export earnings.

Mr Michael Blythe chief economist at Commonwealth Bank of Australia said that "We are seeing better economic numbers out of our major trading partners and that's good news for exports. That will help mitigate the decline in export prices."

(Sourced from Bloomberg)

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