

Australia's trade in 2007

Australia's trade (total two-way goods and services) rose in both value and volume terms in 2007. Exports of goods and services increased, despite falls of rural exports. Import growth outstripped export growth, leading to a widening of the trade deficit to the third largest on record for a calendar year. Coal remained Australia's largest export in 2007, despite falling by 10.8 per cent. Two services exports (Education and Personal travel) were among Australia's top five exports.

Trade overview 2007

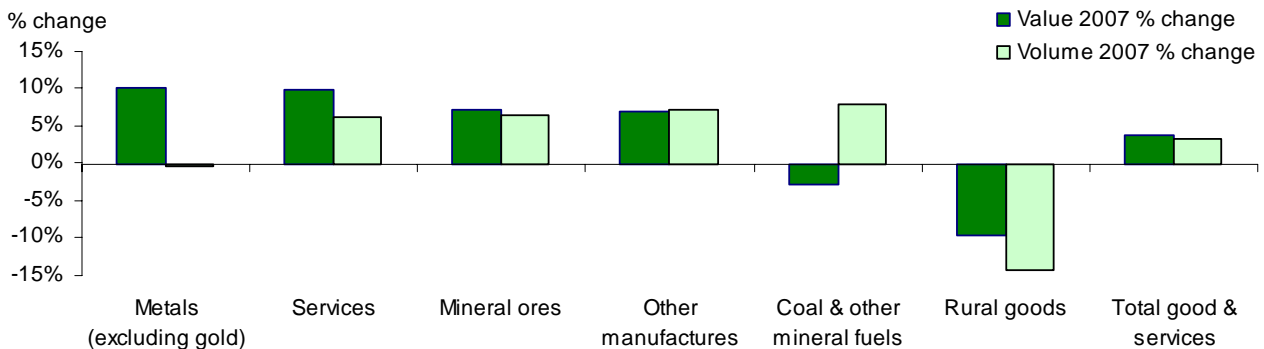
The value of Australia's goods and services exports rose by 3.8 per cent in 2007 to a record high of \$217.5 billion on a balance of payments basis (**Table 1, Chart 2**). With the exception of rural exports, all major export categories experienced growth in 2007. The volume of Australia's goods and services exports also reached record highs in 2007, up 3.3 per cent from the previous year, supported by higher volumes of resource and manufactured exports (**Charts 1 and 9**).

The value of Australia's goods and services imports rose by 7.0 per cent in 2007 to \$236.7 billion. There was also solid growth recorded in imports of

consumption goods (up 7.5 per cent to \$56.7 billion), supported by higher imports of passenger motor vehicles, medicines and computers. Imports of capital goods rose by 5.1 per cent in 2007 underpinned by strong business investment. Imports of intermediate and other goods rose by 7 per cent to \$91.0 billion. A strong Australian dollar also helped lift spending on services imports (up 8.3 per cent to \$46.3 billion) with personal travel imports up 9.3 per cent to \$17.0 billion. The volume of Australia's goods and services imports rose by 11.2 per cent in 2007.

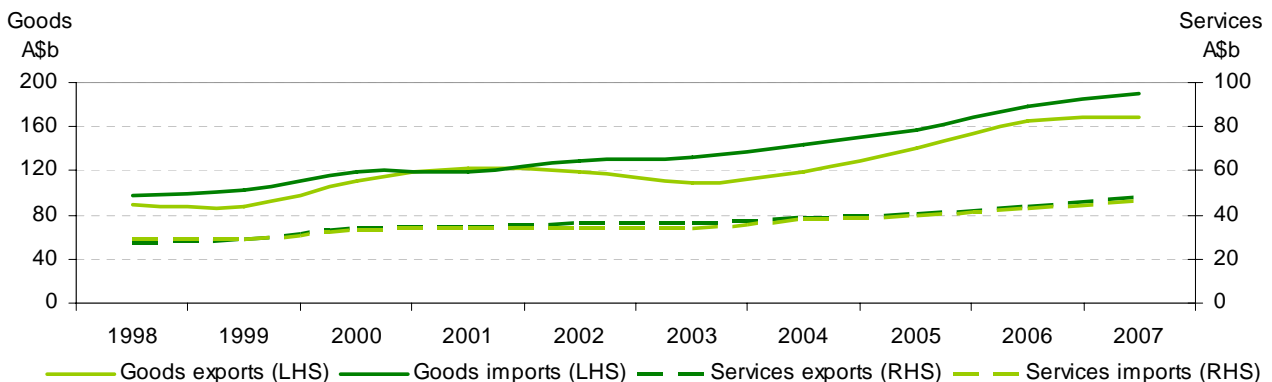
Strong import growth led to a widening of the trade deficit for 2007 to \$19.2 billion, the third-largest deficit on record for a calendar year.

Chart 1: Change in the value and volume of Australian exports in 2007



Source: ABS catalogue 5368.0.

Chart 2: Goods and services trade



Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

**Table 1: Australia's top 25 exports, goods and services
(A\$ million)**

Rank	Commodity (a)	2005	2006	2007	% growth
	Total (Balance of Payments)	180,933	209,609	217,518	3.8
1	Coal	21,825	23,276	20,764	-10.8
2	Iron ore	11,071	14,366	16,024	11.5
3	Education services (b)	9,587	10,737	12,864	19.8
4	Personal travel (excl education)	10,927	11,037	11,549	4.6
5	Non-monetary gold	5,822	9,154	11,344	23.9
6	Crude petroleum	6,281	6,674	7,987	19.7
7	Aluminium ores (incl. alumina)	4,684	6,127	6,040	-1.4
8	Aluminium	4,460	5,940	5,885	-0.9
9	Professional, technical and other business services	3,827	4,525	5,743	26.9
10	Natural gas	3,694	5,109	5,066	-0.8
11	Other ores	2,337	3,883	4,550	17.2
12	Bovine meat f.c.f.	4,670	4,856	4,489	-7.6
13	Passenger transportation services (c)	4,157	4,096	4,207	2.7
14	Other transportation services (d)	3,305	3,700	3,821	3.3
15	Copper ores	2,556	4,096	3,782	-7.7
16	Medicaments (incl. veterinary)	2,921	3,081	3,541	14.9
17	Copper	1,903	3,045	3,207	5.3
18	Refined petroleum	2,756	3,119	3,176	1.8
19	Alcoholic beverages	2,853	2,855	3,068	7.5
20	Passenger motor vehicles	3,147	2,876	2,887	0.4
21	Wool	2,320	2,367	2,748	16.1
22	Business travel	1,894	2,283	2,536	11.1
23	Meat (excl. bovine) f.c.f.	2,062	2,112	2,033	-3.7
24	Wheat	2,984	3,362	1,967	-41.5
25	Zinc	800	1,424	1,706	19.8

(a) Goods categories are on a recorded trade basis, services categories are on a balance of payments basis. (b) Includes *Education-related travel* and *Other education services*. For 2007 only, *Other education services* is a DFAT estimate. Actual data will be released by the ABS in May 2008. (c) Includes *Related agency fees and commissions*. (d) *Other transportation services* exports covers a range of services provided in Australian airports and ports, including cargo and baggage handling services, agents fees associated with passenger and freight transportation and airport and port charges.

Sources: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

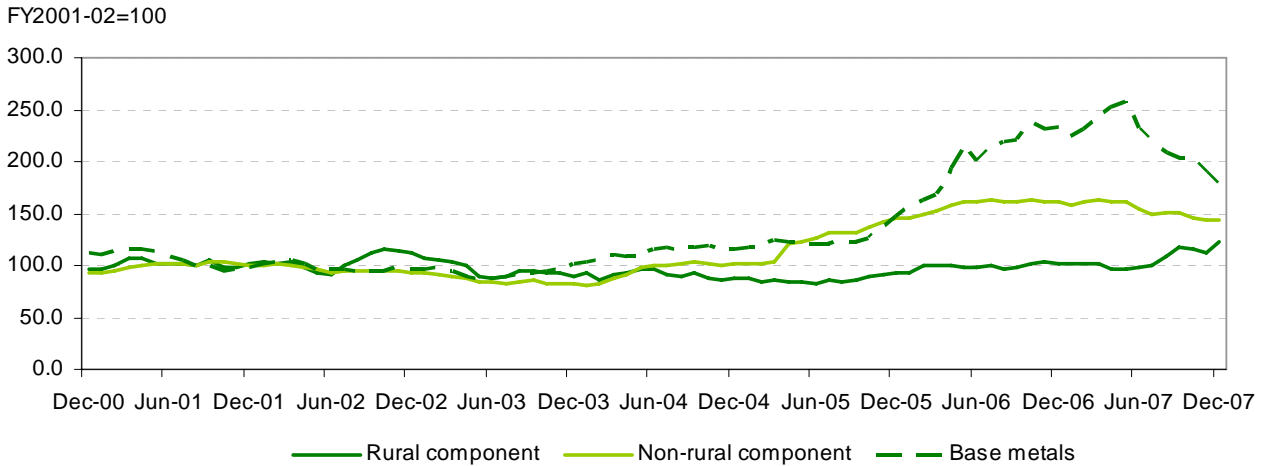
Commodity prices and terms of trade

Resource prices reached historical highs in 2007 (**Chart 3**), driven by growing demand from developing economies in Asia. The Reserve Bank of Australia's base metals commodity price index reached an all time high in May 2007, before slipping by the end of the year to be 21.3 per cent down over the calendar year in Australian dollar terms. This followed growth in base metal prices of 49 per cent in 2006. Rural commodity prices rose 20 per cent in \$A terms in 2007, following 9 per cent growth in 2006.

Australia's terms of trade – the ratio of export prices to import prices - grew by 1.2 per cent over the

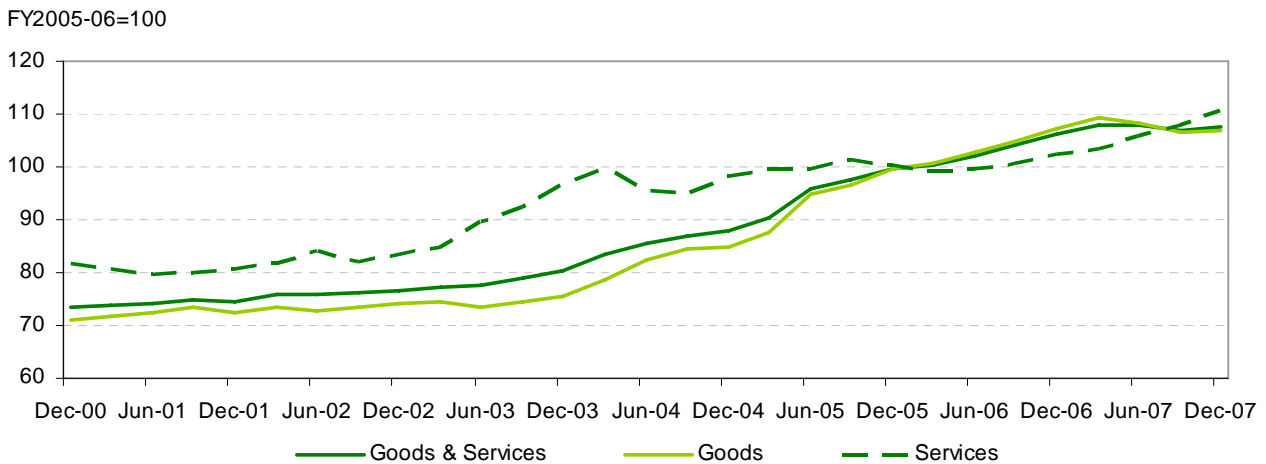
12 months to December 2007 (**Chart 4**). Due to the fall in global prices for base metals in the second half of 2007, Australia's terms of trade fell for the first time in five years in the June and September quarters before rising again in the December quarter. However, prices for services exports continued to grow faster than the prices of services imports, and the terms of trade for both goods and services remained at near record levels. The Reserve Bank of Australia noted in its February 2008 Statement on Monetary Policy that price rises of between 40 and 50 per cent for Australia's coal and iron ore exports would, on their own, increase Australia's terms of trade by 7 per cent or more in 2008.

Chart 3: Commodity prices (A\$)



Source: RBA commodity price index.

Chart 4: Terms of trade

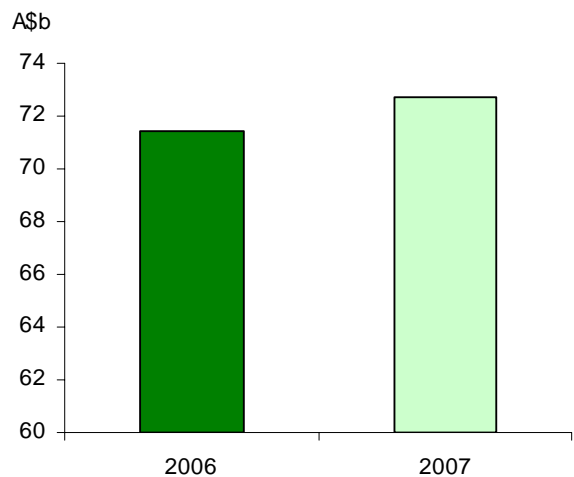


Source: ABS catalogue 5302.0.

Resource exports

Continued strong economic growth in the developing economies of Asia, coupled with record prices for some commodities, underpinned a 1.8 per cent increase in the value of Australia's resources exports in 2007 to \$72.7 billion (**Chart 5**). This followed growth of 21.6 per cent in 2006. Coal and iron-ore continued to be Australia's largest exports, despite a 10.8 per cent fall in the value of coal exports to \$20.8 billion as a result of lower prices. Iron ore exports rose 12 per cent to \$16.0 billion. Crude petroleum (up 20 per cent) and nickel (up 7 per cent) demonstrated significant growth, while exports of aluminium ores (down 1 per cent), natural gas (down 1 per cent) and copper ores (down 8 per cent) fell in value. Total resource export volumes grew by 7.3 per cent in 2007. Coal export volumes grew by 6 per cent, iron ore by 8 per cent, and aluminium ores by 9 per cent.

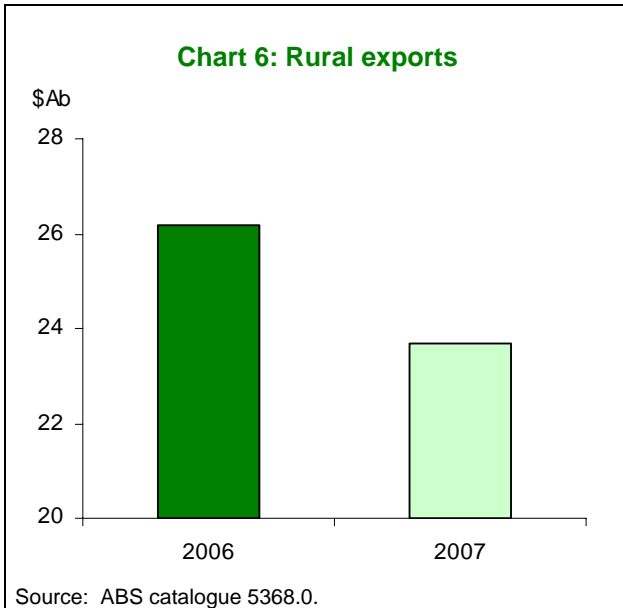
Chart 5: Resource exports



Source: ABS catalogue 5368.0.

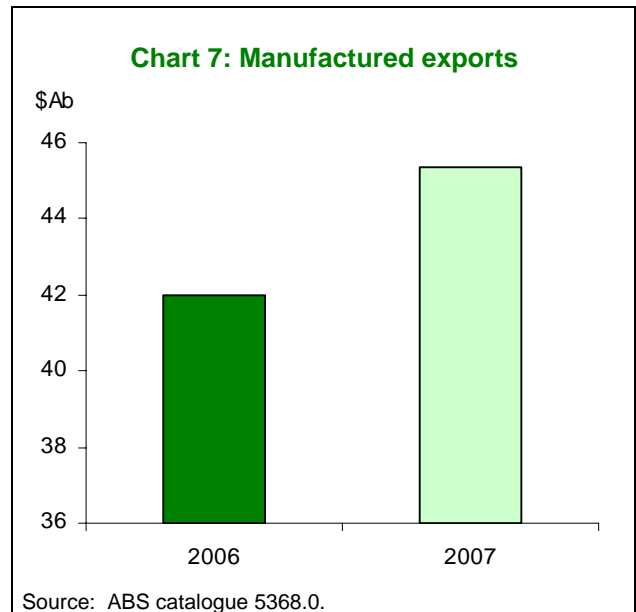
Rural exports

Drought conditions continued to constrain rural exports in 2007. Australia's rural exports fell by 9.6 per cent to \$23.7 billion (**Chart 6**), driven by a 41 per cent decrease in wheat export values and an 8 per cent fall in beef exports. Exports of wool grew by 16 per cent to \$2.7 billion while exports of alcoholic beverages (up 7 per cent) and cheese (up 6 per cent) also bucked the trend. Rural export volumes fell by 14.2 per cent in 2007, with increases in the price of some commodities (particularly wheat) reducing the impact on total export values.



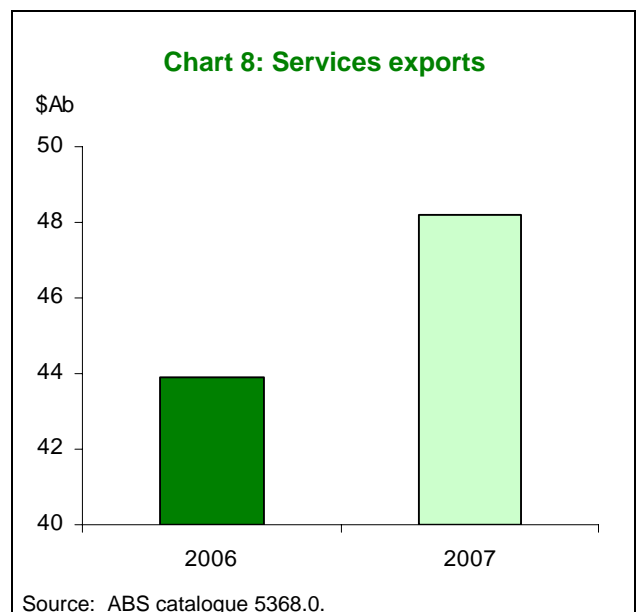
Manufactured exports

Manufactured goods exports grew by 7.9 per cent to \$45.3 billion in 2007 (volumes rose by 5.0 per cent) (**Chart 7**). Exports of *Simply transformed manufactures* (STM) grew by 7 per cent in 2007 to \$15.7 billion, driven in part by strong world demand and higher prices for metal exports. Unworked copper exports rose 2 per cent, while aluminium exports fell by 2 per cent. Exports of unworked lead (up 77 per cent) and unworked zinc (up 19 per cent) grew strongly. *Elaborately transformed manufactures* (ETM) exports grew by 8 per cent in 2007 to \$29.6 billion, driven by strong growth in the export of medicaments (up 15 per cent) and worked nickel (up 26 per cent). Exports of passenger motor vehicles remained stable at \$2.8 billion.



Services exports

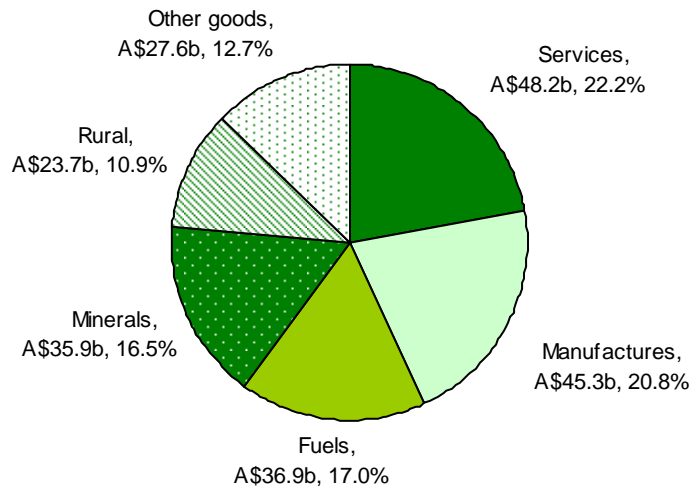
Services exports rose by 9.8 per cent in 2007 to reach a record \$48.2 billion (export volumes rose by 6.3 per cent in 2007) (**Chart 8**). Exports of travel services rose by 12.4 per cent to \$26.6 billion, while transportation exports increased by 2.2 per cent to \$8.6 billion. Education-related services exports also continued to grow strongly in 2007 (up 20.9 per cent), making education services Australia's third-largest export after coal and iron ore. Other services exports were up 10 per cent to \$12.9 billion, led by increases in architectural and engineering services (up 18.1 per cent), legal, accounting and management services (up 51.9 per cent), and research and development services (up 22.7 per cent).



Other exports

Non-monetary gold exports rose by 9.4 per cent to \$11.6 billion in 2008.

Chart 9: Composition of Australian exports in 2007



Source: ABS catalogue 5368.0.

Direction of trade in 2007 (Charts 10 & 11)

Mechandise exports to East Asia grew 2.7 per cent in 2007 to \$96.0 billion. The increase in demand for Australian minerals, metals and energy within East Asia was driven largely by robust industrial production growth and infrastructure spending.

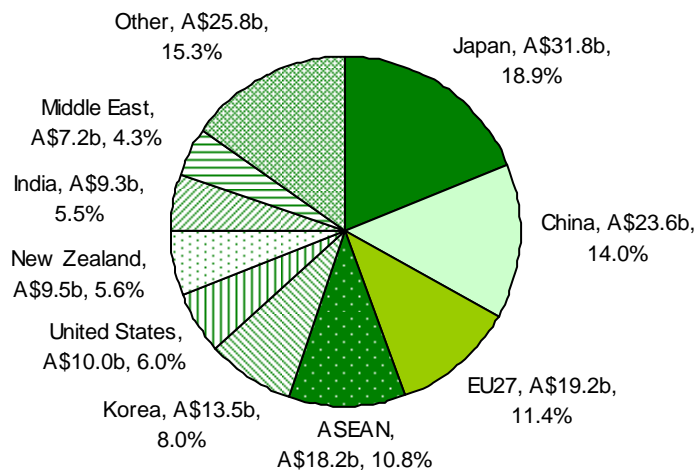
The value of goods exports to our largest export region, **North Asia**, grew by 4.2 per cent in 2007 to \$77.8 billion. Mineral exports were up 13.2 per cent, but ETM exports also grew 9.1 per cent. Australia's goods exports to China rose by 15.8 per cent in 2007 to \$23.6 billion, exports to the Republic of Korea were up 9.2 per cent, while exports to Japan fell by 1.9 per cent and exports to Taiwan fell 5 per cent from the previous year.

Goods exports to **ASEAN** fell by 3.1 per cent in 2007 to \$18.2 billion. However, some markets in ASEAN recorded solid growth, including Malaysia (up 12.4 per cent), the Philippines (up 11.5 per cent) and Thailand (up 3.3 per cent).

Merchandise exports to **India** grew by 5.3 per cent, while exports to the **Middle East** grew strongly, up 8.4 per cent to \$7.2 billion. Exports to the United Arab Emirates increased 56.9 per cent. Manufactured goods, which were up 19.9 per cent in 2007, account for the largest category of Australian exports to the Middle East.

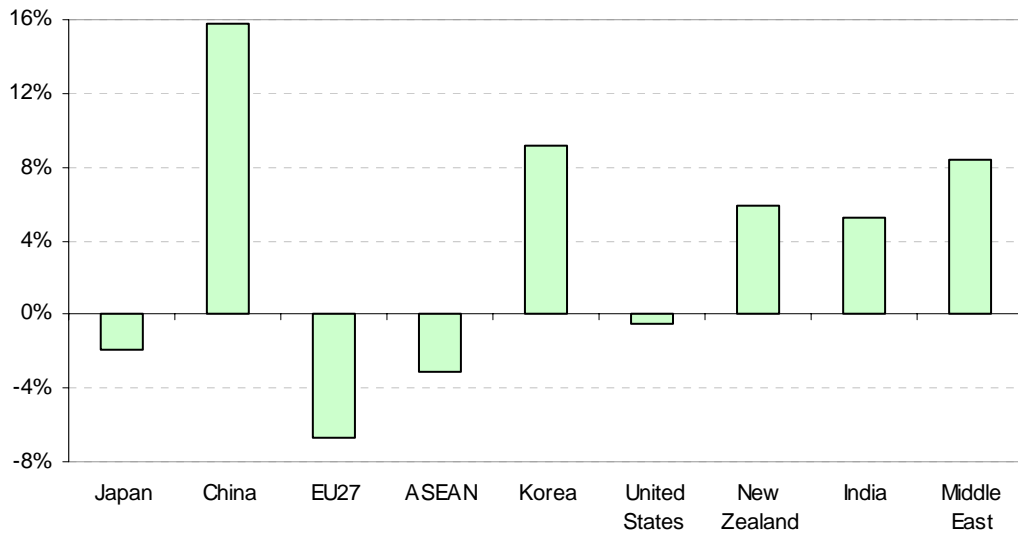
Australia's merchandise exports to the **United States** fell by 0.5 per cent in 2007 to \$10.0 billion and exports to the **EU27** fell 6.6 per cent. Exports to Canada rose 6.2 per cent to \$1.8 billion.

Chart 10: Goods exports markets, 2007



Source: ABS trade data on DFAT STARS database.

Chart 11: Exports growth rates by market, 2007



Source: ABS trade data on DFAT STARS database.

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