

Australia's export performance 2006

Exports in all sectors grew in 2006 and all sectors except rural achieved record levels. Exports benefited from solid economic growth in major trading partners. Resources exports grew rapidly, with high prices and growing demand, particularly from North Asia. Growth in manufactured exports reflected rising processed metals exports. Services exports continued to expand, with growing exports of education services and professional and business services. Rural exports improved despite the drought, due to growth in beef exports and the carry-over effects of earlier high crop yields on wheat exports.

Australia's top 25 exports, goods and services (A\$ million) (a)

Rank	Commodity	2004	2005	2006	% growth
1	Coal	13,379	21,825	23,286	6.7
2	Iron ore	6,164	11,071	14,450	30.5
3	Personal travel (excl education)	10,580	10,927	10,972	0.4
4	Education services (b)	8,620	9,587	10,874	13.4
5	Gold	5,641	5,822	9,155	57.2
6	Crude petroleum	4,965	6,281	6,714	6.9
7	Aluminium ores (incl. alumina)	4,119	4,684	6,072	29.6
8	Aluminium	4,020	4,460	5,925	32.8
9	Natural gas	2,584	3,694	5,000	35.4
10	Bovine meat f.c.f.	4,625	4,670	4,861	4.1
11	Professional and business services	3,388	3,827	4,397	14.9
12	Copper ores	1,390	2,556	4,170	63.1
13	Passenger transportation services	4,089	4,157	4,090	-1.6
14	Other ores	1,683	2,337	3,777	61.6
15	Other transportation services (c)	3,021	3,305	3,664	10.9
16	Wheat	4,194	2,984	3,372	13.0
17	Refined petroleum	2,104	2,756	3,143	14.0
18	Copper	1,584	1,903	3,098	62.8
19	Medicaments (incl. veterinary)	2,307	2,921	3,082	5.5
20	Passenger motor vehicles	2,800	3,147	2,880	-8.5
21	Alcoholic beverages	2,814	2,853	2,859	0.2
22	Wool	2,578	2,320	2,369	2.1
23	Business travel	1,783	1,894	2,275	20.1
24	Meat (excl. bovine) f.c.f.	1,798	2,062	2,119	2.8
25	Zinc	488	800	1,431	78.9

(a) Goods trade statistics are on a recorded trade basis, Services trade statistics are on a balance of payments basis.

(b) Includes education-related travel and other education services. For 2006, only 'Other education services' component is a DFAT estimate.

(c) 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.

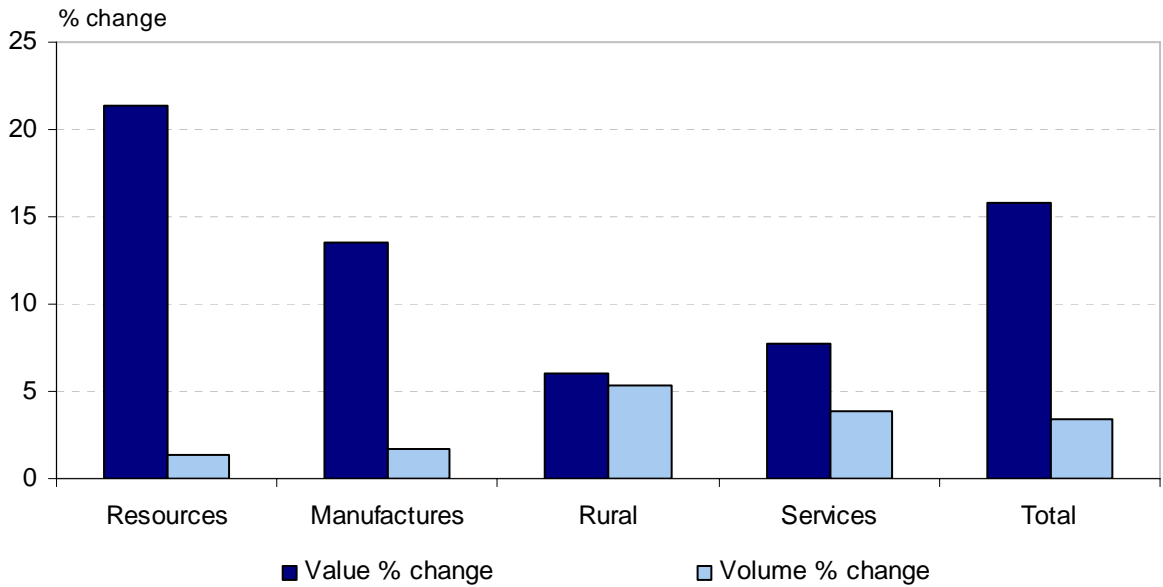
Source: DFAT STARS database & ABS catalogue 5368.0.

Exports of goods and services rose 16 per cent in 2006 to reach their highest value on record at A\$210 billion. This was the strongest growth in export values since 2000, when exports were boosted by the Sydney Olympics (especially tourism). Record export values were achieved by 19 of our top 25 goods and services exports.

Strong demand, particularly for iron ore, nickel, and gold, continued to fuel high non-rural commodity prices.

Export volumes rose 3 per cent in 2006. Services and rural exports showed the most significant increases in volume terms, while manufactures and resources showed steady volumes growth.

Figure 1
Change in the value and volume of Australian exports in 2006

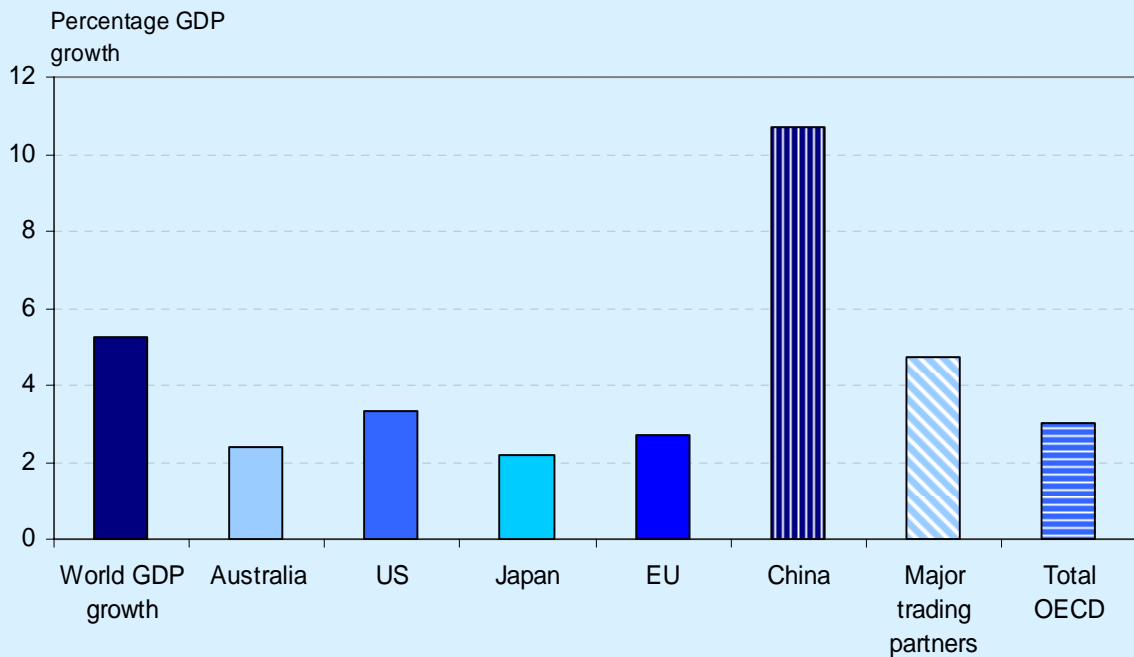


Source: ABS catalogue 5368.0 & 5302.0.

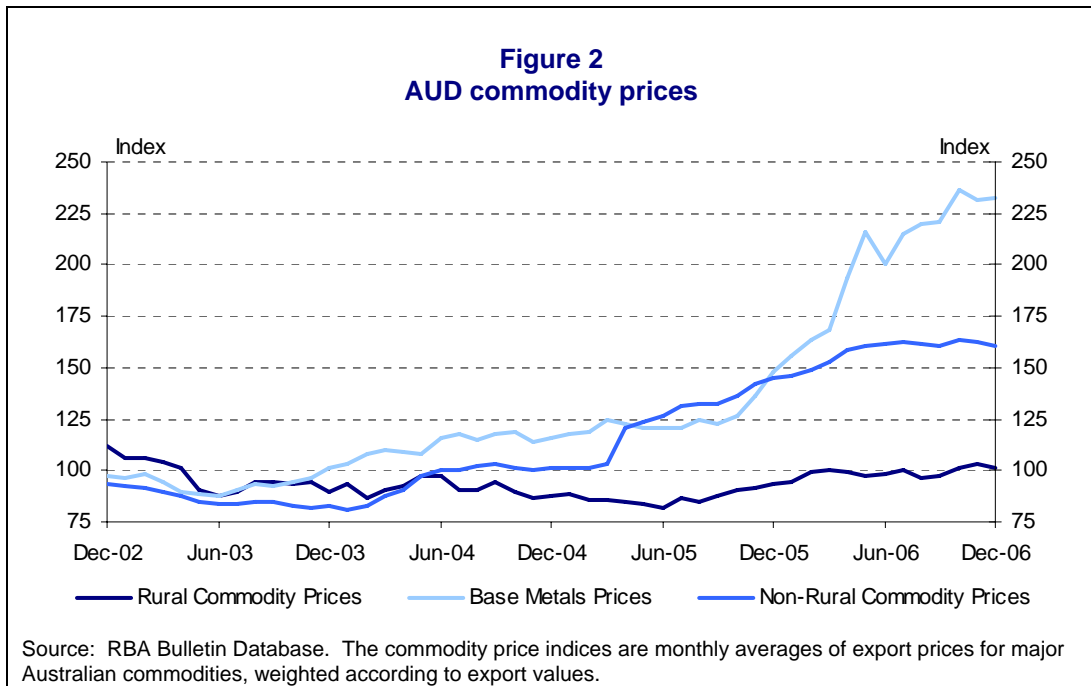
Box: World growth in 2006

The world economy grew solidly in 2006 at 5.25 per cent, with growth becoming more balanced across regions. The United States experienced a slowdown in the second half of the year, reflecting a weaker housing market and the lagged effects of interest rate rises. The EU experienced moderate growth, while Japan's recovery consolidated. China's growth was the fastest in more than a decade, driven by investment and supported by strong consumption and rising net exports. Growth in Australia's other key trading partners remained robust.

GDP growth rates 2006



Sources: National statistical sources, Treasury's MYEFO 2006-07.



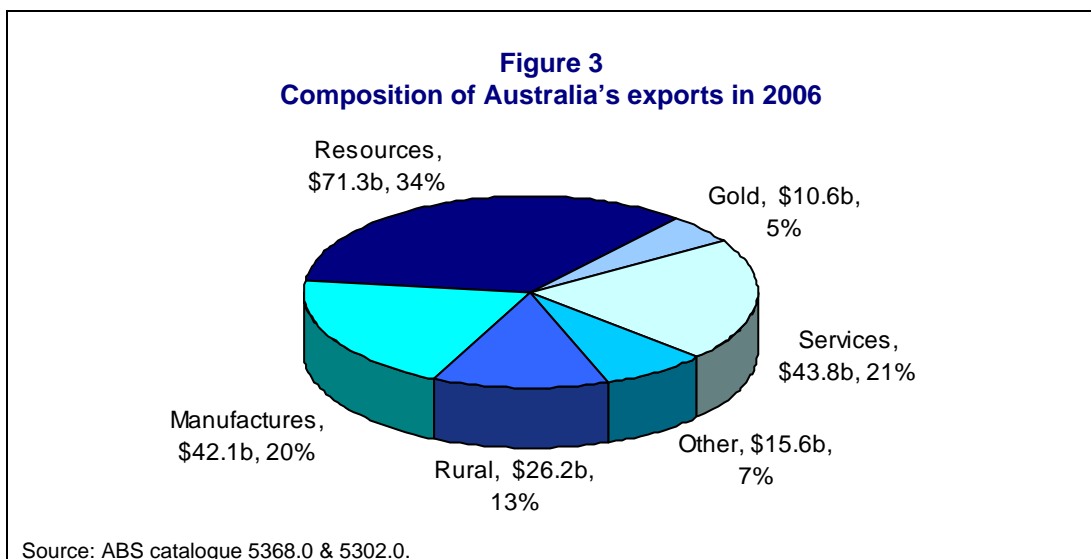
Commodity prices and the terms of trade

Resources prices have reached historical highs in recent years (**Figure 2**), driven by China’s rapid economic growth. The RBA’s A\$ non-rural commodity prices index (broadly covering resources prices and metals) rose by 27 per cent¹ in 2006. This followed growth of 31 per cent in 2005.

Rural A\$ commodity prices rose 14 per cent in 2006. Rural prices fell in the three preceding years, and in 2006 remained 14 per cent below the peak in October 2002. Total commodity prices rose 24 per cent in 2006.

The terms of trade—the ratio of export prices to import prices—reflects the capacity of a given amount of exports to pay for a quantity of imports. A rise in the terms of trade enables Australia to buy more imports for a given quantity of exports and thereby increases domestic real income. In 2006, Australia’s terms of trade index reached its highest level since the 1950-51 Korean War wool boom. Export prices rose 12 per cent in 2006, following a similar increase in 2005. Import prices were 4 per cent higher in 2006, after growing just 0.75 per cent in 2005.

¹ Average prices in 2006 compared to average for 2005.

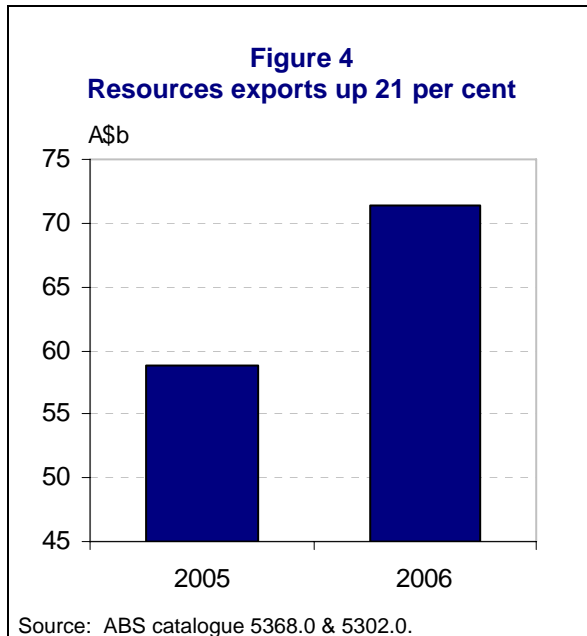


Composition of exports

Resources accounted for just over a third of Australia's exports in 2006. Services were the second largest export category, followed by manufactures and then rural exports. Gold exports have grown strongly.

Resource sector²

The value of Australia's resource exports grew strongly in 2006, rising 21 per cent to A\$71.3 billion. Coal maintained its position as Australia's largest export, worth a record A\$23.3 billion (7 per cent higher than 2005). Australia's second largest export, iron ore, also recorded strong growth in export values, rising 31 per cent to A\$14.5 billion. Other resource exports also rose strongly in value terms, including crude petroleum, aluminium ores, copper ores, and other ores.



Resource export volumes rose 1.4 per cent in 2006. Strong growth was recorded in export volumes of natural gas (up 21 per cent), iron ore (up 4 per cent), and aluminium ores (up 4 per cent). These were offset by falls in crude petroleum (down 12 per cent) and nickel and copper ore export volumes.³ Crude petroleum export volumes have declined since 2000 as oil fields mature and new fields come on stream at a slower rate.

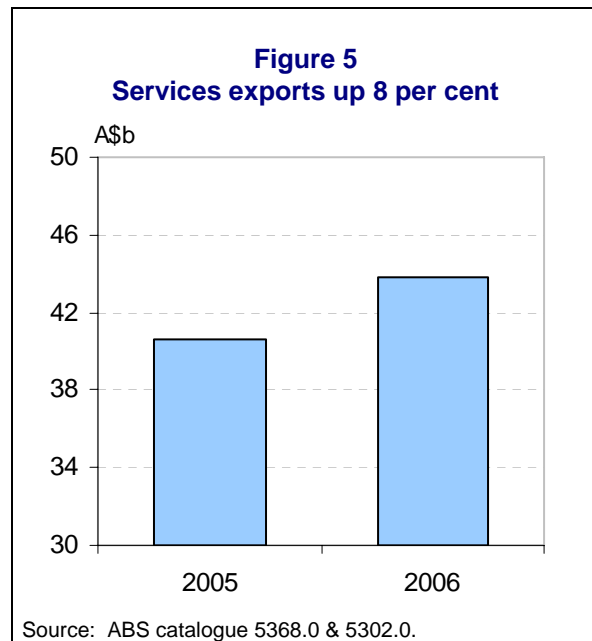
In 2006, coal exports volumes grew by 1.4 per cent, with supply growth continuing to be affected by capacity constraints. Projects to expand capacity are expected to come on stream in 2007.

² Includes minerals and fuels.

³ The difference between export values and volumes for a commodity reflects price movements.

Services

Strong global growth continued to have a positive effect on Australia's services exports in 2006. Services export values rose 8 per cent to A\$43.8 billion, while export volumes increase 4 per cent.



Two service exports categories, personal travel exports and education services exports fell within the top ten exports for the year. Education services exports rose strongly, by 13 per cent, while professional and business services rose 15 per cent. Other transportation services (such as cargo and baggage handling) increased by 11 per cent and business travel services grew 20 per cent.

Rural exports

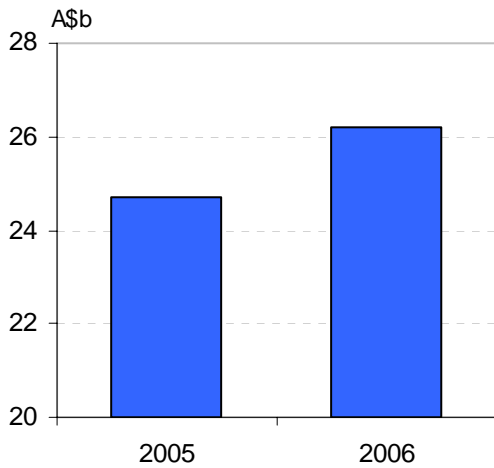
Export earnings from Australia's rural exports rose 6 per cent to A\$26.2 billion in 2006, with export volumes up 5 per cent. This mainly reflected higher exports (both values and volumes) for beef and wheat, and was achieved notwithstanding a fall in cereal exports in the last quarter due to the effects of the drought.

Higher world wheat prices and a carry-over of stocks from the 2005-06 crop resulted in wheat exports rising 13 per cent in 2006, to A\$3.4 billion.

Beef exports grew 4 per cent to A\$4.9 billion in 2006, due to a range of factors including increased exports to Korea, beef prices rising as a result of increased feed prices, and producers reducing stock as a result of drought.

Wool exports were steady in volume terms in 2006, with a slight rise in values due to prices. Other rural exports exhibited moderate growth in 2006.

Figure 6
Rural exports up 6 per cent

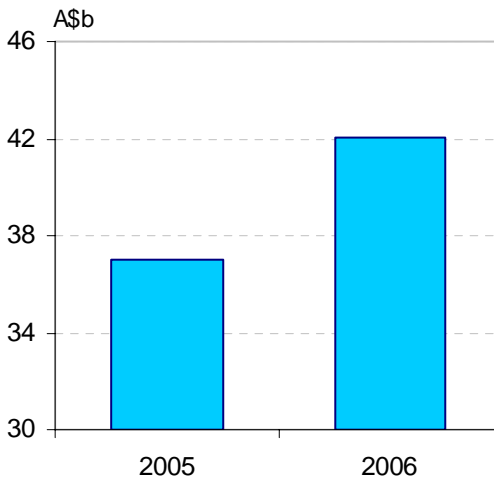


Source: ABS catalogue 5368.0 & 5302.0.

Manufactures

Australian exports of manufactures increased 13.5 per cent to A\$42.0 billion in 2006. In volume terms manufactured exports rose 1.7 per cent. The main driver of manufactured exports growth was strong demand from Asia for simply transformed manufactures (STM), mainly metals. STM exports rose 33 per cent to A\$14.6 billion, while elaborately transformed manufactures (ETM) exports grew by 5.3 per cent to A\$27.4 billion.

Figure 7
Manufactures exports up 14 per cent



Source: ABS catalogue 5368.0 & 5302.0.

Australia's largest STM export, aluminium, increased by 32.8 per cent to A\$5.9 billion in 2006. Niche ETM exports grew strongly. Medicaments continued to display robust growth, increasing 6 per cent to A\$3.1 billion, to become the largest ETM export, just ahead of passenger motor vehicles (A\$2.9 billion). Professional, scientific and controlling instruments exports as a group rose 12 per cent to A\$1.7 billion.

Gold

The value of gold exports grew strongly in 2006, by 57 per cent to A\$9.2 billion (from A\$5.8 billion in 2005). The growth in gold exports was largely due to an increase in gold imports, imported for refining and re-export. Australia's total domestic gold production was steady. India and the United Kingdom (as a key global centre for gold trading) accounted for 71 per cent of Australia's gold exports in 2006.

Direction of exports

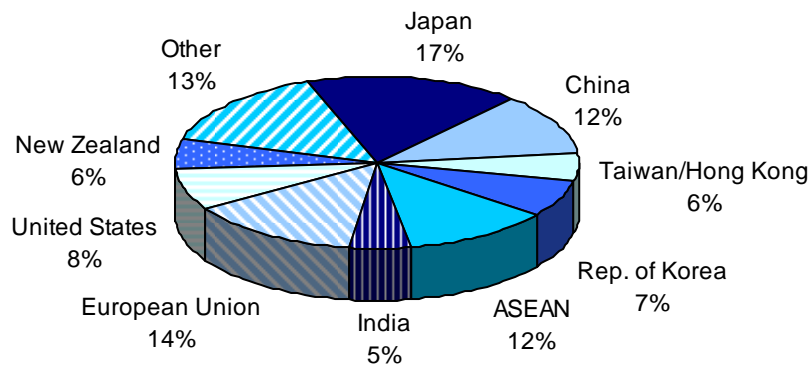
Australia's largest export market in 2006 was Japan. The country received around a third more Australian exports than any other country. After growing rapidly in recent years, China became Australia's second largest market for goods and services in 2005 (when it overtook the United States), and maintained this position in 2006. Combining these with the Republic of Korea and Taiwan, North East Asia remained a major focus for Australia's exports in 2006, receiving approximately 40 per cent of all exports. The United States (US) was Australia's third largest export market in 2006. The US is Australia's largest services market and a major investment partner.

Taken together, the European Union (EU) countries accounted for 14 per cent of Australia's exports in 2006, worth A\$28.5 billion. The EU country of most significance to Australian exporters is the United Kingdom, which ranked as Australia's 5th largest export market.

New Zealand consistently ranks in the top ten of Australia's export markets. India has risen in recent years to be our seventh largest exports market with rapidly growing demand for Australia's gold and coal exports.

With continued strong growth expected in most major trading partners in 2007, the prospects for Australian exports are positive.

**Figure 8: Australia's export markets in 2006
(goods and services)**



Source: DFAT STARS database and ABS preliminary services data.

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