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Australia Has Record Trade Surplus on Coal Demand (Update1)
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(Updates with car sales in 18th paragraph.)

By Jacob Greber

Aug. 4 (Bloomberg) -- Australia's trade surplus unexpectedly reached a record in June as Chinese demand spurred exports of coal and iron ore, while imports stagnated amid a slowdown in domestic spending.

The excess of exports over imports reached A\$3.54 billion (\$3.2 billion), almost double the median forecast in a Bloomberg News survey, a Bureau of Statistics report showed in Sydney today. A separate report showed house-price gains decelerated in the second quarter, underscoring the impact of the central bank's six interest-rate increases since early October.

The data highlight Australia's so-called two-speed economy, with domestic demand subdued even as the natural resources industry surges on sales by miners such as BHP Billiton Ltd. The acceleration in exports may put pressure on inflation as policy makers determine whether to extend their pause in raising rates.

"Australia is at a point where interest-rate sensitive sectors of the economy seem to be a little bit patchy, but the external sector is very strong," said Riki Polygenis, a senior economist at Australia & New Zealand Banking Group Ltd. "That means we're going to keep getting very rapid growth in income, which is going to put upward pressure on capacity and perhaps inflation," she said.

Currency Rebounds

The Australian dollar rebounded toward a three-month high, rising to 91.44 U.S. cents as of 12:54 p.m. in Sydney from 91.16 immediately before the report. It reached 91.50 U.S. cents yesterday, the highest since May 4.

Exports gained 7 percent in June to A\$26.7 billion, today's report showed. Sales of metal ores including iron surged 23 percent and coal shipments jumped 15 percent.

Today's trade surplus, the largest since the statistics bureau began measuring the balance in 1971, has expanded for three straight months, ending 11 consecutive months of deficits.

Prime Minister Julia Gillard's Labor Party plans to boost taxes on the profits of resources companies that have surged thanks to demand from China, a proposal that has cost it support in polls ahead of an Aug. 21 federal election. Opposition leader Tony Abbott, who has drawn level in some surveys with Gillard, has pledged to scrap the plan.

Soaring demand for iron ore and coal shipped by companies including Rio Tinto Group will fuel an expansion in Australia's economy, one of the few to skirt a recession last year, at close to its "trend" pace, central bank Governor Glenn Stevens said yesterday.

To prevent a mining boom forecast to last more than a decade from stoking inflation, Stevens boosted borrowing costs six times between October and May.

'Just Massive'

While policy makers had been anticipating a "big" trade surplus when they elected to keep borrowing costs unchanged at 4.5 percent for a third straight month yesterday, they "wouldn't have expected such a big number," ANZ Bank's Polygenis said. "This is just massive."

Increased demand for skilled workers at projects such as Chevron Corp.'s A\$43 billion Gorgon liquefied natural gas project, under construction in Western Australia, threatens to stoke wage growth and inflation.

Australia's jobless rate was 5.1 percent in June, below Japan's level and almost half that of the U.S. In the state of Western Australia, the unemployment rate was 4 percent.

Stevens said yesterday the nation's terms of trade, a measure of income from exports, "are around their peak of two years ago."

Households Trim Spending

The surge in exports contrasts with signs of waning domestic demand, as households trim spending after Stevens's rate moves added the equivalent of A\$3,600 a year to mortgage repayments on an average A\$300,000 home loan.

The weighted average of house prices in Australia's eight largest cities rose 3.1 percent in the three months through June compared with the previous quarter, the smallest gain since prices last fell in the first quarter of 2009, the statistics bureau said today.

Imports were little changed in June at A\$23.1 billion, today's trade report showed. While imports of consumer goods rose 1 percent, capital equipment dropped 3 percent.

Car sales fell a seasonally adjusted 4.6 percent last month from June, the Federal Chamber of Automotive Industries said today.

A separate report today showed Australia's services industry shrank in July for a third month. The performance of services index fell 2.2 points to 46.6 from June, Commonwealth Bank of Australia and the Australian Industry Group said. A figure below 50 indicates the industry is contracting.

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