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AUSTRALIA’S EXPORT PERFORMANCE IN FY2017

EXPORT VALUES ROSE SHARPLY IN 2016-17 . . .

Key points

- After falling in FY2015 and in FY2016, the value of Australian exports of goods and services jumped by almost 17 per cent in FY2017, rising to A$373.2 billion. That represented an increase of A$53.7 billion on the previous year’s outcome.

- Goods exports grew by more than 19 per cent to exceed A$291 billion, while the value of exports of services rose by more than eight per cent to A$81.6 billion.

- The main driver of the surge in export values was a jump in the value of minerals and fuels exports. In particular, exports of iron ore rose by about A$15 billion to A$62.8 billion (or nearly 17 per cent of total exports) while exports of coal jumped by almost A$20 billion to A$54.3 billion (14.5 per cent of total exports). Overall, exports of resources and fuels accounted for more than 45 per cent of total exports in FY2017.

- The share of services in total exports fell to roughly 22 per cent in FY2017. Services exports continue to be dominated by exports of travel services, which accounted for more than 64 per cent of all services exports and were worth A$52.7 billion. Exports of education-related travel services grew by about 16 per cent to A$28 billion.

- By destination, China continued to be Australia’s most important export destination. Exports to China exceeded A$110 billion in FY2017, accounting for nearly 30 per cent of all exports. Exports to East Asia overall accounted for roughly 66 per cent of total exports.

- Over the past decade, the key change in the composition of exports has been the rise in the importance of exports of iron ore, which have increased from about seven per cent of total exports in FY2007 to 17 per cent in FY2017. In terms of the direction of exports, the biggest shift has been the redirection of Australian trade towards China, which has seen its share in exports of goods and services rise from a bit more than 14 per cent in FY2007 to almost 30 per cent in FY2017.

- The share of exports of goods and services in GDP rose to more than 21 per cent in FY2017, reversing the two previous years of declines in the export ratio.

Mark Thirlwell
Chief Economist
Where to find the data:

Key source: Detailed information on Australia's export and export market rankings is available from the Department of Foreign Affairs and Trade web site. Additional data is available from the Australian Bureau of Statistics, including ABS

Publication date: The data cited here mostly refer to FY2017 (2016-17).
ANALYSIS

Australia’s export performance: Exports up sharply in FY2017

After two consecutive years of declines in the value of total exports of goods and services, exports bounced back in FY2017 (2016-17), rising by almost 17 per cent or A$53.7 billion to reach A$373.2 billion.¹ That leaves exports well above their previous peak of A$336.3 billion, reached in FY2014.

A big jump in the value of goods exports was the driving force behind this strong performance, reversing the story that has applied over the previous two years of falling values. In particular, goods exports grew by more than 19 per cent in 2016-17, rising by A$47.5 billion to A$291.6 billion.²

For their part, exports of services continued to enjoy an impressive period of sustained growth, rising by more than eight per cent for a fourth consecutive year. Still, expressed in absolute terms, this was a much smaller rise than the outcome for goods, with services exports showing a dollar increase of about A$6.3 billion, taking total services exports to A$81.6 billion in FY2017.

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² On a balance of payments basis.
For goods exports, and for exports overall, the big story was a rebound in resource and energy prices: in the past two years decent volumes growth for this sector had been more than offset by falling commodity prices, but in FY2017 stronger commodity prices applied to (slightly slower) volume growth delivered a large rise in values. In the case of services, volume growth remained healthy and drove most of the overall increase in value, alongside a modest increase in prices.
The composition of exports: Minerals and fuels still dominate the export mix

Australia’s export mix continues to be dominated by minerals and fuels, with the turnaround in commodity prices helping push their share in total exports up from a recent low of close to 40 per cent in FY2016 to more than 45 per cent in FY2017.

Exports of iron ore were worth almost A$63 billion in 2016-17 and accounted for nearly 17 per cent of total exports of goods and services. They were followed in the ranking of our top exports by exports of coal, which were worth more than A$54 billion and accounted for 14.5 per cent of total export sales.

Third in the export rankings, and the highest earning non-resource export, was education-related travel services, which generated A$28 billion in FY2017, or 7.5 per cent of total export revenues. 3

<table>
<thead>
<tr>
<th>Top 15 exports of goods and services 2016-17</th>
<th>AS bn</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Iron ores &amp; concentrates</td>
<td>62.8</td>
<td>16.6</td>
</tr>
<tr>
<td>2. Coal</td>
<td>54.4</td>
<td>14.5</td>
</tr>
<tr>
<td>3. Education related travel services</td>
<td>28.0</td>
<td>7.5</td>
</tr>
<tr>
<td>4. Natural gas</td>
<td>22.8</td>
<td>6.0</td>
</tr>
<tr>
<td>5. Personal travel (excl education) services</td>
<td>21.7</td>
<td>5.8</td>
</tr>
<tr>
<td>6. Gold</td>
<td>19.0</td>
<td>5.1</td>
</tr>
<tr>
<td>7. Aluminium ores &amp; coals (incl alumina)</td>
<td>7.5</td>
<td>2.0</td>
</tr>
<tr>
<td>8. Meat</td>
<td>7.1</td>
<td>1.9</td>
</tr>
<tr>
<td>9. Meat</td>
<td>6.1</td>
<td>1.6</td>
</tr>
<tr>
<td>10. Crude Petroleum</td>
<td>5.2</td>
<td>1.4</td>
</tr>
<tr>
<td>11. Professional services</td>
<td>4.8</td>
<td>1.3</td>
</tr>
<tr>
<td>12. Copper ores &amp; concentrates</td>
<td>4.6</td>
<td>1.2</td>
</tr>
<tr>
<td>13. Technical &amp; OTHER business services</td>
<td>4.2</td>
<td>1.1</td>
</tr>
<tr>
<td>14. Financial services</td>
<td>4.0</td>
<td>1.1</td>
</tr>
<tr>
<td>15. Other (incl fuels, etc.)</td>
<td>3.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>255.3</td>
<td>68.4</td>
</tr>
<tr>
<td>Total all countries</td>
<td>375.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Education</td>
<td>28.6</td>
<td>7.7</td>
</tr>
<tr>
<td>Tourism satellite account</td>
<td>37.2</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Source: DFAT and Austrade

Minerals and fuels also accounted for the lion’s share of the growth in export values last year, increasing by almost A$42 billion compared to a rise in total export values of A$53.7 billion. Other contributions to the overall increase in exports came from exports of services (up by more than A$6 billion) and food exports (up by more than A$3 billion). The latter were boosted by high rainfall and generally favourable growing in conditions in FY2017 which saw record

3 Note that according to the ABS Tourism Satellite Account (TSA), total tourism exports were worth A$37.2 billion in FY2017. International tourism consumption is defined by the TSA to include all visitors who stay in Australia for less than one year, regardless of their purpose for travel, and therefore includes business- and education-related travel as well as recreational travel. This means that tourism as defined in the TSA cannot be directly included in the rankings reported above, as doing so would involve double-counting with elements of education-related and business travel, as well as some other components of the balance of payments (such as transportation services). For a much more detailed look at the measurement issues surrounding education and tourism exports and the Visitor Economy more generally, see Tim Quinn’s June 2016 Trade and Investment Note, Our second largest export earner: Introducing the Visitor Economy.
Australian farm production. Exports of wheat, for example, were up by about A$1 billion.\footnote{See Agricultural commodities: December quarter 2017.} Exports of manufactures, on the other hand, were down by about A$0.5 billion.

AND POWERED EXPORT GROWTH IN 2016-17

By individual commodity, coal saw the largest increase in value in FY2017, with exports increasing by almost A$20 billion. Exports of iron ore were up by about A$15 billion, and exports of natural gas contributed a rise of A$5.7 billion to the overall growth in exports.

The big increases in exports of iron ore and coal in FY2017 were overwhelmingly price stories.\footnote{There was a modest increase in the tonnage of Australian iron ore exported in FY2017 and a small decline in the tonnage of total coal exports.} In the case of coal, for example, the average price per tonne of exported coal rose from less than A$89/t in FY2016 to more than A$142/t in FY2017, a jump of roughly A$54/t.\footnote{Metallurgical or coking coal is used to produce coke for use in steelmaking, while thermal or steaming coal is used for power generation.} While there was a significant increase in the price of thermal coal, the outsized price increases in FY2017 were mainly for metallurgical coal, reflecting disruptions to production in Australia and China plus strong growth in Chinese steel production. Iron ore price rises were less dramatic but still substantial, increasing from an average of about A$61/t in FY2016 to an average of around A$77/t in FY2017. Here again, China played a key role, with strong growth in steel production encouraging Chinese mills to restock their inputs of iron ore.\footnote{See the discussion in Resources and Energy Quarterly, September 2017.} In the case of natural gas, the average price per tonne actually fell in FY2017 relative to FY2016, but this price decline was more than offset by a substantial increase in export volumes as production from the expansion of Australia’s LNG capacity continues to gear up.
Gold exports were up A$2.4 billion in 2016-17, reflecting both higher prices (likely due to a combination of continued low global interest rates and geo-political risks) and increased export volumes.

What about the role of exports of services? As the earlier table on Australia’s top 15 exports showed, education-related travel services and personal travel (excluding education) services were two of Australia’s top five exports in 2016-17. Indeed, exports of travel services in general, and exports of personal and education-related travel in particular, continue to dominate Australia’s services exports overall, accounting for more than 64 per cent of all services exports in FY2017.

Travel services have seen a sustained increase in their importance over time, with their share in total exports of services rising from around 30 per cent in FY1985 to more than 50 per cent by FY2002 and to more than 64 per cent as of FY2017. While these ‘traditional’ services have performed quite strongly, over the same period exports of so-called ‘modern’ services have seen their share in services exports fluctuate between 20 and 26 per cent, and as of FY2017 stand at 23 per cent. This reflects a marked difference in growth performance. For example, over the past four years, the value of travel services has increased at a double-digit rate in every year, rising by 11 per cent in FY2017. In contrast, exports of modern services achieved a double-digit growth rate in only one of those same four years, and grew by just two per cent in FY2017.

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8 Exports of ‘modern’ services are defined here as comprising exports of financial, insurance and pension services; telecommunications, computer and information services; other business services; and charges for the use of intellectual property. Some alternative definitions exclude financial services from the ‘modern’ category. See my Primer on Australia’s exports of services.
Despite that strong overall performance by exports of travel services in general, which grew to reach A$52.7 billion, and by education-related travel services in particular (up 16 per cent to A$28 billion), the increase in the total value of service exports was not enough to stop the share of services in overall exports sliding from more than 23 per cent in FY2016 to less than 22 per cent in FY2017.
The direction of exports: still (nearly) all about China

Just as the composition of Australian exports is dominated by resources and fuels, the direction of our exports is (even more) dominated by East Asia in general and by China in particular. In FY2017, roughly 66 per cent of all Australian exports of goods and services were sold to the region, with almost 30 per cent going to China alone:

**EAST ASIA DOMINATES DIRECTION OF EXPORTS**

All of the top three destinations for Australian exports in 2016-17 were located in (North) East Asia, followed in the list of country rankings by the United States and India in fourth and fifth spot, respectively.

Exports to China jumped by more than A$22 billion last year, meaning that the market accounted for the lion’s share of the total increase in exports of A$53.7 billion. Other notable contributions came from increases in the value of exports to Japan (up A$6.4 billion), India (A$5.9 billion) and Hong Kong SAR (up A$4.3 billion). Exports to ASEAN as a whole increased by A$5 billion, although that was not enough to prevent a small drop in the share of exports going to Southeast Asia to 11.3 per cent from closer to 12 per cent in FY2016:
As might be expected given the previous discussion on the composition of exports, the big increases in exports to China reflected large rises in exports of iron ore (up by A$12.8 billion) and coal (up by A$5.6 billion). There was also an increase of A$3.1 billion in exports of confidential items: Chinese import data suggests that this was largely accounted for by exports of natural gas, which the Chinese numbers show increasing by A$3 billion in 2016-17. Exports of travel services to China also made a noteworthy contribution to the FY2017 outcome, rising by A$1.7 billion, with an A$2 billion increase in exports of education-related travel being slightly offset by a small drop in the value of exports of personal travel services excluding education.

Coal exports to Japan (up A$4 billion) and India (up A$3.7 billion) along with sizeable LNG exports to Japan and Korea also made a substantial contribution to the direction of trade story.

The only one of Australia’s top 15 export destinations to see a decline in exports in FY2017 was the United States where, following three consecutive years of strong growth, exports to the market fell by A$1.3 billion. That fall was mainly driven by a drop of A$1 billion in exports of beef, partly reflecting an ongoing expansion in US domestic supply.

A longer-term perspective: FY 2007 vs FY2017

The previous analysis has mainly looked at developments over the past financial year. But how have the direction and composition of exports changed over a longer period of time? The chart below compares the shares in total exports of the top 15 exports in FY2017 with the share of those same 15 exports in FY 2007. The major changes are the increased relative importance of exports of iron ore, coal, education-related travel services and natural gas:
In the case of the direction of exports, the key shift is rise in the share of exports going to China. This has been so large that it’s seen an offsetting fall in the share in Australian exports of many other leading destinations. Exceptions to that rule are Hong Kong (presumably linked to the China story, and therefore arguably not an exception at all) and Vietnam.
Changes in export intensity

Finally, we can take a look at how these developments have influenced one standard measure of trade openness and of export intensity – the ratio of exports to GDP. After falling from 21.1 per cent in FY2014 to 19.3 per cent in FY2016, the export ratio bounced back to 21.3 per cent in FY2017. That’s still below the high of 23 per cent recorded in FY2009, however.

Summary: Same old story, only more so?

This review of the export story in FY2017 has ended up highlighting a series of familiar themes. In particular, Australia’s mineral and fuels sector continues to play the leading role in driving our overall export performance, as swings in the commodity price cycle translate into large changes in export values. While in FY2016 the headline story was all about how falls in resource prices had produced a decline in overall export value, in FY2017 we’ve seen higher prices contribute to a big rebound in export receipts. That said, there are also some important modifications that now apply to this story with the expansion in capacity produced by the recent mining investment boom having now delivered an underlying rise in export volumes that is contributing to the overall result in addition to the price action. This capacity expansion has been especially noteworthy in the case of LNG.

An important secondary theme in terms of the composition of exports has been the sustained growth in exports of services. As described above, sizeable swings in the value of resource exports means that this hasn’t translated straightforwardly into a trend rise in the share of services in overall exports, but this shouldn’t disguise the marked increase in export values that’s been achieved over the past half-decade or so. In FY2017 services exports were worth about A$81.6 billion. That was much larger than the value of exports of manufactures (about A$44 billion) or of exports of food (about A$43 billion) and not too far behind their combined total value. Still, to keep the relative
size of services exports in perspective, it’s also worth remembering that just the increase in the value of minerals and fuel exports in FY2017 was equivalent to a bit more than half the total value of services exports.

An important subplot in the services story is the divergence in growth performance between ‘traditional’ travel services and more ‘modern’ business services, which has led to a steady rise in the relative importance of the former.

Turning from the composition to the direction of exports, the third familiar theme here is the centrality of China to the export story. It’s true that, as noted previously, the overall picture shows that East Asia overall has become an increasingly critical destination for Australia’s exports. But a closer look at the data also shows that the East Asia story has mostly been a story about the rising importance of China. Between FY2007 and FY2017, for example, the share of East Asia in Australia’s overall exports has risen by more than 13 percentage points (from almost 53 per cent to roughly 66 per cent). Over the same period, China’s share has increased by more than seventeen percentage points, while the share of East Asia excluding China has actually fallen by about four percentage points.9

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9 The share of Australian exports to ASEAN has been flat over this period.
In FY2017, not only was China the destination for about 33 per cent of all goods exports, a share previously exceeded only in FY2014, but it was also the destination for 18 per cent of services exports, a new record high. China also accounted for about 25 per cent of all the critical travel services category exports (another record high).

So not only have changes in China’s demand for resources continued to shape our merchandise export and (hence) our overall export outcomes, but increasingly Chinese demand for our services is playing a similar role.

Overall, then, to large extent Australia’s export story in FY2017 could be characterised along the lines of, the same old story, only more so.