

# National Accounts – September Quarter

**ECONOMIC ALERT**

1 December 2010

## Economic Growth by Expenditure

- Australia's economic growth has slowed to the lowest level since the peak of the global financial crisis in late 2008, amid a significant contraction in exports and weakness in key components of domestic demand.
- Australia's real GDP increased by a mere seasonally adjusted 0.2% in the September quarter (with non-farm GDP falling 0.2% in the quarter), significantly below the 1.1% growth achieved in the June quarter. Growth through the year to the September quarter slowed to 2.7% from 3.3% in the June quarter.
- In seasonally adjusted terms, the main positive contributors to GDP were household final consumption expenditure (0.3 percentage points), private gross fixed capital formation (0.1 percentage points) and public gross fixed capital formation (0.1 percentage points). The largest negative contributor was net exports (-0.4 percentage points) while changes in inventories detracted 0.2 percentage points.
- Exports of goods and services contracted 2.4% in the September quarter, sharply reversing the 5.9% positive growth recorded in the June quarter. The weak export performance reflected the sluggish and patchy global economic recovery and the strong Australian dollar.
- Household consumption expenditure slowed considerably, growing by 0.6% in the September quarter, down from 1.4% in the June quarter. This shows that households continue to be weighed by higher mortgage repayments and the softening of house prices, and have remained cautious despite recent improvements in the labour market.
- Consistent with the recent falls in housing approvals, investments in new dwellings contracted 1.3% in the September quarter after having risen 8.3% in the June quarter. This is attributed to higher interest rates and the phasing out of first home owners assistance.
- Private business investment was relatively subdued in the quarter, increasing by 2.1%.
- The growth in government consumption slowed from 1.6% in the June quarter to 0.5% in the September quarter, due to the withdrawal of fiscal stimulus. Total public investments grew by a moderate 1.9%.
- Consistent with the weakening of domestic demand, the imports of goods and services declined 0.5% in the September quarter, after having posted a strong growth of 3.9% in the June quarter.

## Contribution by Industry

- Data indicates that the agricultural, forestry and fishing industry of the Australian economy performed the best in the September quarter, growing by a seasonally adjusted 18.5%.
- The performance of the non-agricultural industries looked pale in comparison. For instance, the second best performing industry was the administrative and support services industry, which only grew 1.8% in the September quarter.
- Out of the 18 non-farm industries, 11 of them contracted in the quarter, resulting in the 0.2% contraction in non-farm GDP in the quarter.
- Manufacturing activity remained virtually flat, with gross value added rising by a mere 0.1% in the quarter.
- The information media and telecommunications industry was the weakest performer, contracting 1.4% in the quarter. The other industries that experienced considerable contractions were rental, hiring and real estate services (-1.3%) and arts and recreational services (-1.2%).

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**Table: Economic Growth by Industry**

	Growth rate (%)	
	September quarter	Year to September quarter
Agriculture, forestry and fishing	18.5	9.4
Administrative and support services	1.8	4.9
Accommodation and food services	0.7	0.4
Education and training	0.7	2.8
Other services	0.5	1.1
Financial and insurance services	0.4	4.5
Professional, scientific and technical services	0.2	6.0
Manufacturing	0.1	5.5
Retail trade	-0.1	1.8
Public administration and safety	-0.1	2.2
Health care and social assistance	-0.1	1.8
Electricity, gas, water and waste services	-0.2	4.0
Transport, postal and warehousing	-0.3	1.7
Mining	-0.7	4.9
Construction	-0.9	6.0
Wholesale trade	-0.9	-0.3
Arts and recreation services	-1.2	-4.2
Rental, hiring and real estate services	-1.3	-3.2
Information media and telecommunications	-1.4	4.1

## Policy Implications

- The weak economic growth recorded in the September quarter shows that private domestic demand is still too weak to completely fill the void left by the withdrawal of fiscal stimulus.
- That said, domestic demand may pick-up speed going forward, as strong corporate profitability could strengthen business and consumer confidence and improve employment prospects. In addition, recently released private capital expenditure expectations data suggests that there could be strong growth in the value of total investment in 2010-11.
- The key downside risks to the Australian economic outlook emanate from a deeper-than-expected slowdown in the Chinese economy, the weak economic recovery in the United States and the debt crisis in Europe.
- The Reserve Bank of Australia may hold off raising interest rates until it gets a better indication on the strength of the recovery in domestic demand in the Australian economy.