

Statement of Monetary Policy November 2010

ECONOMIC ALERT

5 November 2010

Key points

The outlook for the Australian economy

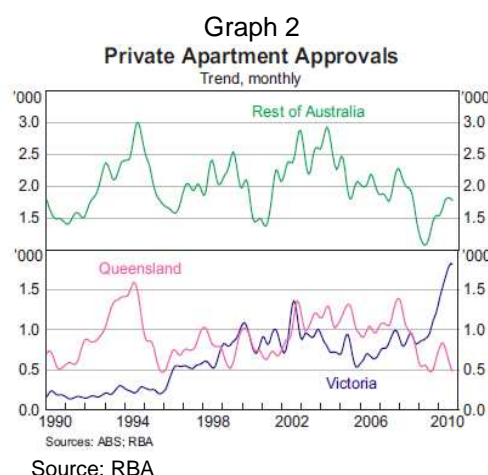
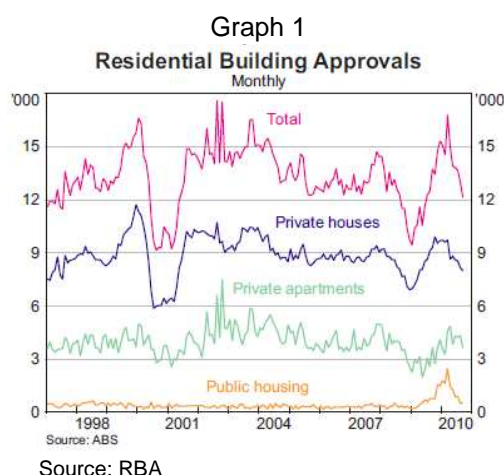
- GDP is expected to grow by over 3 ½ per cent in year-ended terms during 2011 and 2012 (Table 1).
- Activity is expected to be supported by strong mining-related investment, the high level of the terms of trade, and solid population growth.
- However, conditions are expected to vary significantly across sectors.
- Inflation is expected to rise to the top of the RBA's inflation target by the end of 2012.

Table 1: RBA Forecasts
Per cent, over year to quarter shown

| | June 2010 | Dec 2010 | June 2011 | Dec 2011 | June 2012 | Dec 2012 | June 2013 |
|----------------------|-----------|----------|-----------|----------|-----------|----------|-----------|
| GDP growth | 3.3 | 3 ½ | 3 ½ | 3 ¾ | 3 ¾ | 4 | 4 |
| Non-farm GDP growth | 3.3 | 3 ¼ | 3 ¼ | 3 ¾ | 3 ¾ | 4 | 4 |
| CPI inflation | 3.1 | 2 ¾ | 2 ¾ | 2 ¾ | 2 ¾ | 3 | 3 |
| Underlying inflation | 2 ¾ | 2 ½ | 2 ½ | 2 ¾ | 2 ¾ | 3 | 3 |

The construction sector

- Residential building approvals have fallen sharply, which points to a moderation in building activity in coming months (Graph 1). This has largely reflected declines in new house approvals, while there has been a gradual improvement in private apartment approvals. The recent growth in apartment approvals has been concentrated in Victoria, where investor demand has been underpinned by low vacancy rates (Graph 2).

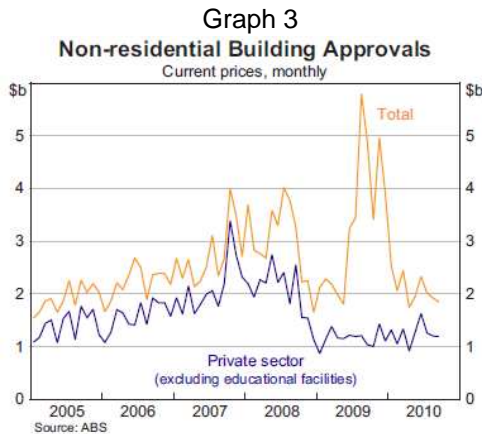


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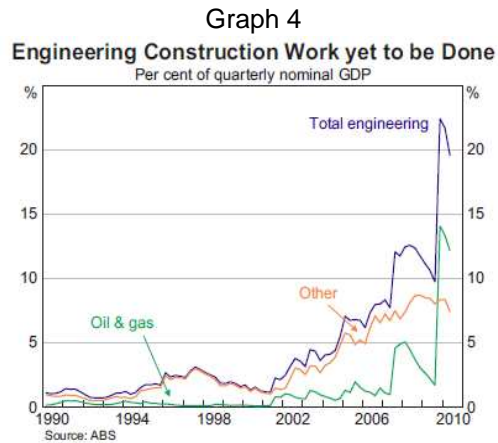
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- Non-residential construction remains particularly weak, with credit remaining an issue for some developers (Graph 3). In contrast, the pipeline of engineering construction work yet to be done has increased dramatically, reflecting the commencement of large oil & gas projects (Graph 4).



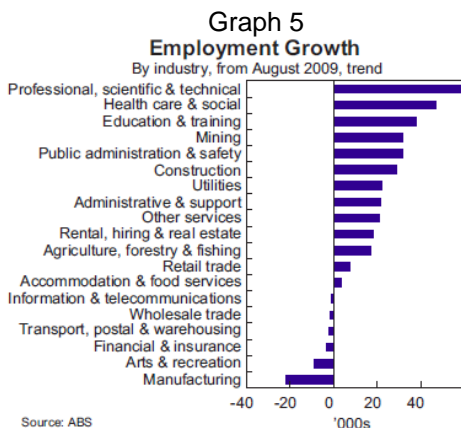
Source: RBA



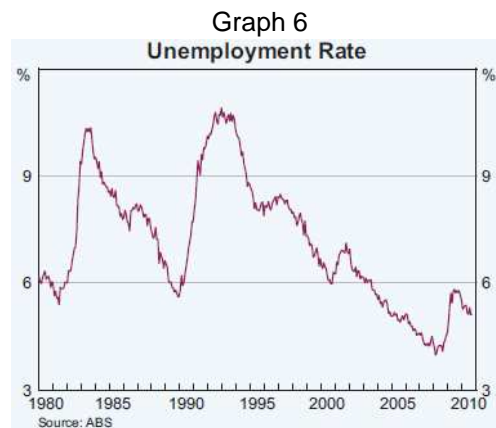
Source: RBA

The labour market

- Employment growth has been strong in recent months, supported by the services and mining sectors (Graph 5). However, employment in the manufacturing sector has been very weak.
- Nonetheless, some indicators suggest that there is more spare capacity in the labour market than the unemployment rate might suggest (Graph 6). For example, the proportion of underemployed workers remains high, and firms are not reporting great difficulties finding workers (Graphs 7 & 8).



Source: RBA



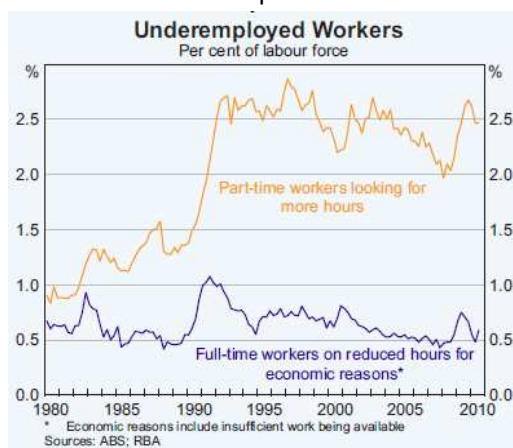
Source: RBA

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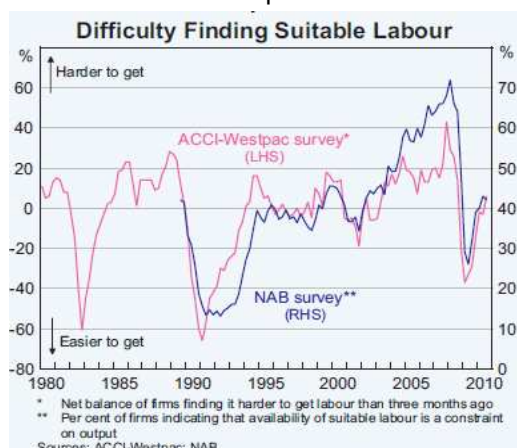
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Graph 7



Source: RBA

Graph 8



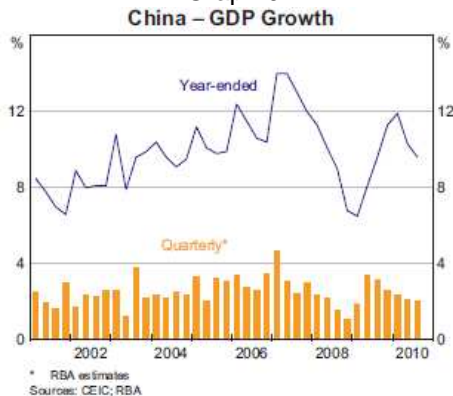
Source: RBA

- The RBA reports that skill shortages have so far been largely confined to the mining sector and some specialist service industries.

International developments

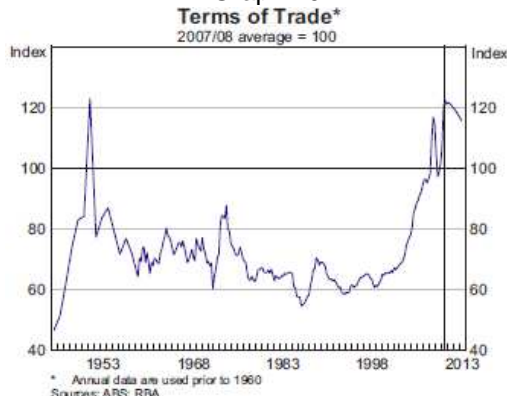
- The international economy is currently growing around trend, supported by the Asian region.
- Global output is expected to slow from 4 ¾ per cent (in year-average terms) in 2010 to around 4 per cent in 2011 and 2012.
- The Chinese and Indian economies continue to grow strongly, though the pace of growth in China has slowed recently (Graph 9).
- Australia's terms of trade is currently at a historically high level and is forecast to remain elevated (Graph 10).

Graph 9



Source: RBA

Graph 10



Source: RBA