

National Accounts – June Quarter 2010

ECONOMIC ALERT**1 SEPTEMBER 2010**

KEY POINTS

Economic Growth by Expenditure

- The Australian economy grew at its fastest pace in three years in the June quarter, as rising commodity prices bolstered the country's exports while domestic demand, primarily led by household consumption, continued its recovery.
- Australia's real GDP increased by a seasonally adjusted 1.2% in the June quarter, up from a revised 0.7% in the March quarter. Growth through the year to the June quarter reached 3.3%, up from 2.6% in the March quarter.
- Reflecting the significant increases in commodity prices, exports of goods and services increased 5.6% in the quarter and contributed 1.1 percentage points to economic growth, making it the most significant driver of the economy.
- Australia's terms of trade rose 12.5% in the March quarter to be up 24.5% over the year.
- The strong demand for Australia's natural resources exports has helped lift company profits, supported business and consumer confidence and drove household spending. Household consumption posted solid growth, rising 1.6%, which is more than triple the growth rate recorded in the March quarter.
- Investment expenditure, on the other hand, was relatively subdued in the quarter. Gross fixed capital formation increased 0.6%. Total private gross fixed capital formation increased 0.8%, reflecting the 5.0% rise in total dwellings investment. Public gross fixed capital formation was flat.
- Consistent with the strengthening of domestic demand, the imports of goods and services increased 3.0% in the June quarter, almost double the 1.6% recorded in the March quarter. With export growth outpacing import growth, net exports became a net positive contributor to economic growth (0.4 percentage points) in the quarter.

Contribution by Industry

- Data indicates that the property sector of the Australian economy performed well in the June quarter.
- The construction industry was the fastest growing industry in the June quarter, expanding 4.9% on a seasonally adjusted basis. This is the highest quarterly growth rate achieved since the December quarter of 2006. The industry contributed 0.3 percentage points to real GDP growth, the highest contribution among all industries.
- The second fastest growing industry was rental, hiring and real estate services, which expanded 3.1%, a significant increase from the 0.7% recorded in the March quarter.
- The manufacturing industry expanded by a moderate 0.5% in the quarter, marking the third consecutive quarter of a slowdown in growth. However, in the year to June the manufacturing industry grew by a healthy 5.6%.
- The other services industry was the weakest performer, contracting 3.0% in the quarter. The other industries that contracted were wholesale trade (-1.4%), transport, postal and warehousing (-0.5%) and public administration and safety (-0.2%).

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Table: Economic Growth by Industry

	Growth rate (%)	
	June quarter	Year to June quarter
Construction	4.9	9.4
Rental, hiring and real estate services	3.1	3.8
Information media and telecommunications	2.8	4.7
Professional, scientific and technical services	2.3	5.7
Health care and social assistance	1.7	4.1
Electricity, gas, water and waste services	1.6	1.6
Mining	1.5	5.2
Retail trade	0.9	1.0
Arts and recreation services	0.6	-1.9
Financial and insurance services	0.6	3.9
Administrative and support services	0.6	2.6
Agriculture, forestry and fishing	0.6	3.0
Education and training	0.5	2.0
Manufacturing	0.5	5.6
Accommodation and food services	0.4	-3.4
Public administration and safety	-0.2	-1.6
Transport, postal and warehousing	-0.5	3.7
Wholesale trade	-1.4	2.5
Other services	-3.0	-5.9

Policy Implications

- The Australian economy grew faster than expected in the June quarter, supported by robust demand for Australia's natural resources exports and stronger household consumption.
- The recovery in domestic demand has gained momentum, and 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. Also, the strong retail trade data for July bodes well for the outlook of household consumption.
- The main downside risks to the Australian economic outlook emanate from the engineered slowdown in the Chinese economy as well as the flattering economic recovery in the United States.
- These risks may cause the Reserve Bank of Australia to hold off raising interest rates even though the economic recovery in Australia has gained momentum and inflationary pressures are emerging.