

# National Accounts – June Quarter 2011

ECONOMIC ALERT

7 September 2011

## Economic Growth by Expenditure

- Australia's real gross domestic product (GDP) expanded by a seasonally adjusted 1.2% in the June quarter of 2011, a significant improvement from the 0.9% contraction recorded in the March quarter (Chart 1). Growth through the year to the June quarter reached 1.4%, up from the 1.0% growth recorded in the March quarter.
- In seasonally adjusted terms, the main contributors to expenditure on GDP were inventories (0.8 percentage points) and final consumption expenditure (0.7 percentage points). Net Exports (-0.5 percentage points) was the largest detractor from GDP growth.
- Domestic demand slowed substantially in the June quarter, reflecting the sharp cutback in fiscal stimulus and weakness in the housing and construction industries. The growth rate of domestic demand halved to 0.7%.
- Reflecting the continued softening of the housing market, investments in new dwellings contracted by 1.9% in the June quarter after having briefly rebounded by 3.0% in the March quarter.
- Meanwhile, investments in new non-dwelling buildings declined by 3.2%, marking the fourth consecutive quarter of contraction. Also, the growth in investments in new non-dwelling engineering construction slowed to 2.1% in the June quarter from 11.2% in the March quarter.
- The growth in private investment in machinery and equipment remained steady at 4.9% in the June quarter, thanks to sustained (albeit slower) growth in investments in new machinery and equipment.
- Private business investment growth slowed to 2.0% in the June quarter, from 4.8% in the March quarter.
- Household consumption expenditure expanded by 1.0% in the June quarter, up from 0.6% in the March quarter, providing some optimism that household expenditure may be starting to pick up after three quarters of weakened growth.
- Exports recovered in the June quarter, increasing by 2.2%, up from a 6.6% contraction in the March quarter. Nevertheless, the strong Australian dollar in the quarter boosted imports, causing them to rise by 4.3%, almost doubling the growth rate in the March quarter.

## Contribution by Industry

- The transport, postal and warehousing industry of the Australian economy performed the best in the June quarter, growing by a seasonally adjusted 4.4%.
- The manufacturing industry was the fourth fastest growing industry in the June quarter, growing by 2.8%, making a sharp rebound from the 1.7% decline witnessed in the March quarter.
- Reflecting a recovery from the Queensland floods, the agricultural, food and forestry industry rebounded by 1.1% in the June quarter after a 5.6% contraction in the March quarter. Output from the mining industry remained flat.

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## Policy Implications

- The June quarter national accounts data indicates that the Australian economy is weighed by weaker growth in domestic demand and higher imports
- The softening in domestic demand largely reflects persistent weakness in the housing and construction markets, while the strong Australian dollar appears to have prompted businesses to rely more on imported materials.
- Domestic demand could pick-up speed in the forthcoming quarters if household consumption continues to improve. However, downside risks emanate from the weak economic recovery in the United States and ongoing concerns over sovereign debt sustainability in some European economies. This week's labour force data will also provide some indication of whether employment is stable and underpinning potential further household consumption.
- Reflecting the slowing of domestic demand and heightened uncertainty over the global economic outlook, the Reserve Bank of Australia is likely to hold off increasing interest rates in the near term.

**Chart 1: Real GDP growth in Australia**

