Economic Research Department

BBVA

Australia

GDP Observatory

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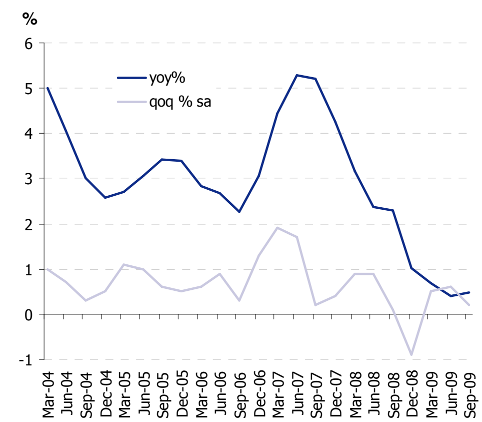
Australia: Q3 GDP advanced 0.2% q/q sa (0.5% y/y) below expectations, supported by aggressive monetary and fiscal policy

Real GDP growth grew 0.2% quarter-on-quarter after seasonally adjustment, slowing its expansion pace from 0.6% in previous quarter. The economy expanded less than our and market's forecasts (BBVA: 0.3% q/q; 0.6% y/y; Bloomberg: 0.4% q/q; 0.7% y/y), The quarterly expansion was driven by private consumption and public investment, which offset the fall in private investment and a strong fall in net exports. Our revised forecasts for Australian GDP are around 0.9% in calendar 2009 and 2.7% in 2010.

The Australian economy has performed solidly in 2009, supported by aggressive monetary and fiscal policy, before the central bank initiated the rate hike cycle in October. Headline real GDP continued its sequential growth trend for the third consecutive quarter registering 0.2% q/q in the July-September period, compared to 0.6% q/q in the last quarter. Over the same period a year ago, the economy grew 0.5% sa (BBVA: 0.6% y/y), slightly accelerating from 0.4% y/y in the previous quarter.

- **On the expenditure side, seasonally adjusted, consumer spending hit 0.7% quarterly gain, unchanged from last quarter and contributing with 0.4 percentage point to quarter-on-quarter GDP growth. Government consumption slowdown to 0.7% from 1% q/q growth in the previous quarter. Investment growth was driven by a rise in public investment of 6.2% q/q, which offset a 0.9% contraction in business investment after the bring forward of equipment spending into the previous quarter, triggered by tax incentives. Net exports were the other component subtracting from growth. After two consecutive months of expansion, exports decreased 2.3% q/q and 0.22% y/y (vs. 0.8% q/q and 0.18% yoy in the June quarter). Meanwhile, imports soared 5.8% q/q, thus yielding a negative contribution of net exports to GDP growth. Most noteworthy is the turnaround in**

Australia: Real GDP Growth Rate



Source: AU BOS

dwelling investment which jumped 5.9% q/q (vs. -5.8% q/q in the June quarter), the first sequential growth in the last three quarters.

- **By sector, seasonally adjusted, rental, hiring and real estate service accelerated to 9.9% q/q (vs. -2.1% q/q in the June quarter), followed by transport which advanced by 2.5% q/q (vs. 0.5% q/q), wholesale trade by 2.3% q/q (vs. -0.1% q/q) and construction by 2.2% q/q (vs. –0.8% q/q in the previous quarter).**

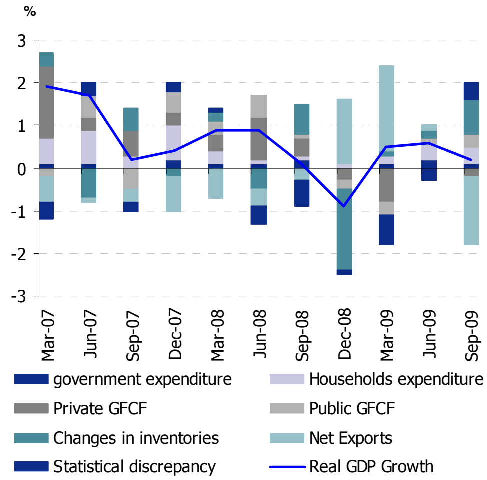
- **Since the end of June, real exports declined by 1.4% while real imports increased 2.1% in total, partly caused by 11.2% appreciation in Australia dollar against US dollar.**

- **The lower-than-expected growth may lead to a pause in the tightening cycle in the next meeting of the Reserve Bank of Australia (RBA) in February, after three consecutive rate hikes to 3.75% from 3%. RBA officials have also signalled a slowdown in monetary tightening as the benchmark interest rate has returned to normal levels.**

- **In addition to the weaker performance of the external sector, household spending slowdown may go forward as the household part of the fiscal stimulus is unwound and mortgage rates go back up. The fiscal stimulus, however, is switching from targeted handouts to investment, and will stay unchanged at AUD28 billion in the FY10 (ending June 2010), then AUD21 billion in FY11 and AUD10 billion in FY12. The aggregate stimulus represents 7% cumulative add to GDP, although as it will gradually recede and thus, sequentially detract from quarterly GDP growth. As much of the stimulus public works are contracted out to the private sector, the projected increase in Australia's public debt is likely to be less than that of other advanced countries besides starting from a much lower debt burden.**

- **Australia's economic outlook is positive. Strong momentum in public spending, in particular, in public construction activity, a more solid recovery in housing construction and an end to the run-down of inventories are likely to be key positives in the next quarters. We recently revised upwards our growth forecast to 0.9% in calendar 2009 and 2.7% in 2010. We caution, however, on the risk of large revisions in the Q3 National Accounts as result of the introduction of new industry standards this time.**

Contribution to QoQ GDP growth



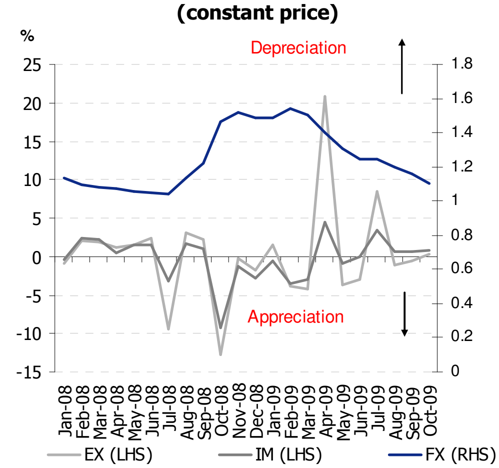
Source: AU BOS

GDP Growth Rate by Industry

GDP Growth Rate by Main Components				
YoY %	**Dec-08**	**Mar-09**	**Jun-09**	**Sep-09**
GDP	1.0	0.7	0.4	0.5
Agriculture, Forestry,Fishing	26.2	4.9	-2.9	-14.1
Manufacturing	-4.0	-10.9	-10.8	-7.8
Electricity,Gas Water Supply	3.6	6.1	6.8	-0.2
Construction	7.0	1.1	-4.5	-1.7
Wholesale trade	0.8	1.0	-0.8	1.5
Transport,postal&warehousing	2.1	-2.1	-4.8	3.6
Financing	-2.4	-3.3	0.9	1.7
Health care &Social Services	3.5	3.1	2.7	3.2
QoQ % sa	**Dec-08**	**Mar-09**	**Jun-09**	**Sep-09**
GDP	-0.9	0.5	0.6	0.2
Agriculture, Forestry,Fishing	2.5	-4.4	-10.6	-1.9
Manufacturing	-5.5	-3.9	0.9	0.6
Electricity,Gas Water Supply	-1.2	3.1	0.1	-2.2
Construction	1.4	-4.4	-0.8	2.2
Wholesale trade	-1.4	0.8	-0.1	2.3
Transport,postal&warehousing	3.6	-3.0	0.5	2.5
Financing	0.5	-0.6	1.1	0.7
Health care &Social Services	0.7	0.7	0.8	0.8

Source: AU BOS

Exports/Imports % m/m change vs AUD/USD (constant price)



Source: Datastream