

Economic

GDP per Capita (2004)

USD 30,540

Nominal GDP (2004)

USD 615.5 bn

Share of Global Economy

(PPP GDP International \$ 2004

1.1%

Population (2004):

20.2 mn

Trade as a share of GDP:

39.6%

Merchandise imports from Canada:

CAD 1.46 bn (2004)

Largest Merchandise Trading Partner:

Japan (14%)

United States (11%)

China (11%)

Main imports:

Passenger Cars

Computer Equipment

Telecom Equipment

Main exports:

Coal

Beef

Wheat

Value added as a % of GDP

Agriculture 3.3

Industry 26.4

Services 70.3

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Market Spotlight: As anticipated Australia's GDP growth has continued to moderate. Growth in the second quarter of 2005 increased by 1.3% qoq and was up 2.6% yoy. Growth for 2005 is expected to be 2.6%, while 2006 growth is anticipated to be slightly stronger at 3.1%. The trade deficit has narrowed since the beginning of 2005. The strong increase in export prices contributed to this narrowing. The unemployment rate has stayed below 6% for 26 consecutive months. In Q305 annual inflation was 3.0%. While the RBA has kept rates on hold since March, in their most recent monetary statement they acknowledge that "policy will need to be responsive to any sign that demand and inflation pressures are stronger than currently expected", therefore a rate increase over the coming months can not be ruled out if inflationary pressures continue to build.

Domestic Economy

During 2005 the unemployment rate has been a bright spot in the Australian economy. In October the unemployment rate increased slightly by 0.1% to 5.2%, this result is still close to the all time low of 5.0% last recorded in August. The unemployment rate has now stayed under 6% for 26 consecutive months; this is the first time this has happened since survey began in 1978. The participation rate has also remained strong, in October it was 64.4%. Wages pressures have increased as a result of the strong employment levels, for Q305 wages are up 4.2% y/y, compared to y/y growth of 3.5% in Q304. Solid employment levels are anticipated to remain into 2006.

Domestic demand has moderated in the first half of 2005 to a more sustainable level. Households are consolidating their balance sheets and obtaining less credit. Growth in consumer spending has also slowed from 2004 levels. Retail sales in September declined by 0.3% m/m; the second fall in three months. Y/Y growth stood at 2.4%, this is down from the y/y growth of 3.4% reported in August. The slowdown in housing prices has also contributed to this deceleration in domestic demand growth. Spending into 2006 is anticipated continue to moderate to a more sustainable pace.

Recent housing data has been mixed, showing that the sector is on track for a soft landing, not the crash some have predicted. Over the second quarter of 2005, established house prices declined slightly, down by 0.1% q/q and 0.1% y/y, the first annual decline since 1996. In September the total number of building approvals increased by 1.8% m/m, however this was a 6.4% y/y decline. The number of private sector houses approved declined by 2.4% m/m and by 4.8% y/y, while private sector multi-dwelling approvals increased by 14.7% m/m and fell by 13% y/y. On the positive side are home loans, in September the number of home loan approvals increased by 4.6% m/m and 17.0% y/y, while the value of home loans increased by 3.2% m/m and 11.8% y/y.

External Sector

The Australian dollar gained strength in the final months of 2004 and into the beginning of this year. The dollar peaked in March at US\$0.79 and has since stabilized around US\$0.74. It is not expected to appreciate much past the current level.

Australia's trade deficit has narrowed significantly since the start of 2005, however it has widened slightly over the past few months. In September Australia's trade deficit widened by 10.8% m/m to A\$1.615 billion. Exports fell by 0.7% m/m to A\$14.7 billion (the second consecutive fall), however exports are up 9.9% y/y. Imports expanded by 0.3% m/m to A\$16.3 billion and are up 5.4% y/y. Australia has not experienced a trade surplus since October 2001.

Economic Policy

In the third quarter of 2005 inflation increased by 0.9% q/q and 3.0% y/y, the top band of RBA's target range of 2-3%. Inflationary trends at the end of 2004 contributed to RBA's decision to increase interest rates by 25bps to 5.5% in March. It was the first increase since December 2003. The RBA is forecasting inflation to increase to approximately 3% in 2005, however if the pressure on raw material prices continues, limitations on capacity remain and wage pressure builds the forecast could be revised, and near term increases in the interest rate could become possible.

Monthly Indicators

	Oct-05	Sep-05	Aug-05	Jul-05	Jun-05	y/y % Change
Inflation (q/q %)	-	0.9	-	-	0.6	3.0
Exports (m/m %)	-	-0.7	-2.4	2.2	-1.5	9.9
Imports (m/m %)	-	0.3	-1.5	2.1	-0.7	5.4
Unemployment Rate (%)	5.2	5.1	5.0	5.0	5.0	5.3
Tourism (m/m %)	0.7	-1.1	1.6	1.2	2.2	5.0
Retail Sales (m/m %)	-	-0.3	0.5	-0.2	1.1	2.4
Housing Construct m/m%)	-	1.0	3.6	-4.5	-0.5	4.3
Stock Index (m/m %)	-3.9	4.4	1.3	2.6	4.2	18.0
Bank Rate	5.5	5.5	5.5	5.5	5.5	5.25
GBP Spot Rate	0.7471	0.7637	0.7533	0.7586	0.7618	9.7



Economic Indicators (% change)

	2003	2004(e)	2005(f)	2006(f)
GDP	3.3	3.2	2.5	3.1
Personal Consumption	4.3	5.1	3.1	2.9
Business Investment	9.6	6.0	3.5	3.0
Exports	8.5	23.3	10.0	6.0
Imports	21.7	22.3	8.0	4.0
Current Account (% of GDP)	-6.0	-6.4	-6.0	-5.5
Consumer Prices (end period)	2.4	2.6	2.8	2.5
Budget Balance (% of GDP)	0.8	0.5	1.0	0.8

Australian Exports (\$AUD mn)

