UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 2012

Australia

Briefing Notes for the Launch in Canberra, 10 May 2012

Economic growth slowed partly due to natural disasters

- Expansion of the Australian economy slowed to 2.0% in 2011 from 2.5% in 2010, partly due to devastating floods in December 2010 and January 2011. GDP in the first quarter of 2011 contracted by 0.3% as compared to the previous quarter. The economy began to recover in the subsequent quarters helped by rehabilitation and reconstruction activities.
- Mining sector, representing about 15% of GDP, has been performing extremely well due to higher prices and growing demand from countries in Asia and the Pacific. More than 72% of mineral exports from Australia go to the Asia-Pacific region.
- Growth in the non-mining sector remained relatively subdued. Over the last five years, average annual growth of the non-mining sector was 2.3%, much lower than the rate of 6.3% growth previously experienced by the mining sector.
- Unemployment rate slightly decelerated to 5.1% in 2011 from 5.2% in 2010, but remained higher than the 4.3% level that prevailed in the pre-global crisis period of 2008-2009.

Inflation increased due to domestic supply disruptions from natural disasters

- Consumer price inflation in Australia increased to 3.4% in 2011 from 2.8% in the previous year, owing to higher food and fuel prices. Food price inflation showed large increases, particularly during the first half of 2011, mainly for fruit and vegetable items, which shot up after supplies were disrupted as a result of the floods and cyclone.
- Inflation is expected to moderate somewhat in 2012 due to softer labor market conditions, which, in turn, would reduce the likelihood of accelerating wage costs outside the booming resource sector.

Strong export performance driven by commodity boom

- Despite the appreciating trend of Australian dollar, exports were relatively strong, supported by high demand for minerals and agricultural products.
- Merchandise exports from Australia rose 27.2% in 2011 despite the severe flood-related disruption to mines and transport networks, while mineral exports grew at a much higher rate due to higher prices and volumes. Merchandise imports jumped 21.2%, partly due to high oil prices.

- The country's main trading partners continued to be China, Japan and the United States. Continued strong economic growth in China supported expansion in trade with Australia; about 24% of Australian exports are shipped to China and about 16% of the country's imports come from China.
- With exports far exceeding imports, Australia recorded its highest trade surplus, equivalent to 2.4% of GDP, in many years. However, due to a large deficit on the services account, reflecting the cost of servicing high levels of foreign debt, the country registered a current account deficit. Notably though, the deficit narrowed to 2.2% of GDP, well below the average of 4.7% of GDP recorded for past five-years.
- Australian dollar appreciated against the United States dollar during the first half of 2011 and subsequently the trend was reversed. However, from 2008 to 2011, the Australian dollar increased in value by more than 50% against the United States dollar.

Fiscal consolidation aimed over the medium-term

- Government of Australia managed to bring down the fiscal deficit to 2.5% of GDP in 2011 from 3.8% of GDP in 2010, reflecting its continued effort to achieve a balanced budget by the fiscal year 2012/13.
- The reduction was partly due to an increase in corporate tax revenue, resulting from higher commodity prices. In order to achieve a balanced budget, the Government has announced its intention to limit spending growth if needed.

Monetary policy eased

- In 2011, Reserve Bank of Australia eased its monetary policy with two policy rate (official cash rate) cuts totaling 0.50 percentage point which brought the official cash rate to 4.25%.
- These official cash rate cuts were made to further stimulate economic growth as inflation pressures began to ease and the Australian dollar appreciated.

Future outlook

- The Australian economy is projected to grow at a higher rate of 3.5% in 2012, partly due to the base-effect resulting from its subdued performance in 2011 as a result of the severe flooding.
- Higher growth in 2012 is also expected to be driven by mining-related activities. Significant expansion in iron ore and coal production capacity is poised to contribute solid growth in resource export volumes during the next few years. In addition to the uncertain global economic prospects, other risks to the country's growth outlook are a slump in global commodity prices and an acceleration in the rate of decline in housing prices, which would adversely impact the net wealth and spending of households.