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Global & Australian Forecasts — March 2013

Global economy still sluggish in late 2012 but equities strengthen on stronger risk appetite and expectations of sustained global recovery. Partial data suggest better start to 2013; we still see marginally better growth in major advanced economies this year, accelerating in 2014. Australian outlook a little stronger reflecting history: GDP growth to be 2.3% in 2013 (was 2.0%) and 3.1% in 2014 (was 3.3%). Expect two rate cuts in 2013 (was 3) possibly June & Nov as labour market weakens and restructures.

- Financial markets have lifted as confidence in the global growth outlook has firmed but late 2012 data for world exports and industrial output remained soft, showing modest expansion in activity at best. GDP fell at the end of last year in Western Europe and Japan, was flat in the USA, while the pace of growth in some of the biggest emerging market economies was sluggish by their standards. Business surveys suggest that conditions are expected to improve in several of the most important advanced and emerging economies (notably the US, Germany, Brazil and India). We expect growth to increase modestly this year, held back by ongoing weakness in the Euro-zone, followed by a more sizeable acceleration in 2014.
- While there are some signs of improvement in the Australian economy, including from the latest national accounts, the outlook is still subdued. A high AUD, declining terms of trade and a large structural adjustment task remain headwinds. The latest NAB survey points to continuing weakness in conditions, confidence and forward orders.
- Given the Q4 GDP outcome and upward revision to Q3, we have marginally strengthened our forecast for 2013, with growth expected to be 2.3% (was 2.0%) and unemployment rising to around 5¾% by late 2013 (unchanged). For 2013/14, that implies GDP growth of 2.6% (was 2.8%) and 3.1% in 2014 (was 3.3%).
- We have revised our cash rate expectations. RBA now expected to cut by 50 bps in 2013 (possibly June & Nov). This reflects RBA's "comfort" with current activity, signs previous cuts have gained traction in housing markets & retailing, and "so far" resilient labour market. But with weak underlying demand continuing, we still see unemployment rising to 5.7% by mid year, with little sign that non-mining investment will ramp up.

Key global GDP forecasts (calendar years)

Country/region	*IMF weight*	2010	2011	2012	2013	2014
				% change		
United States	*19*	2.4	1.8	2.2	**2.2**	**2.9**
Euro-zone	*14*	1.9	1.5	-0.5	**-0.4**	**1.6**
Japan	*6*	4.7	-0.5	1.9	**1.1**	**2.4**
China	*14*	10.4	9.3	7.8	**8.2**	**8.0**
Asian Tigers	*8*	7.8	4.2	3.7	**4.0**	**4.5**
Global total	*100*	5.4	3.9	3.0	**3.3**	**3.9**
Australia	*2*	2.6	2.4	3.6	**2.3**	**3.1**

Key Australian forecasts (fiscal years)

GDP components	11/12	12/13	13/14	Other indicators	11/12	12/13	13/14
		% change				*% through-year*	
Private consumption	3.2	**2.2**	**2.0**	Core CPI (inc. carbon)	2.1	**2.4**	**2.6**
Domestic demand	5.3	**2.5**	**1.6**			*% end of year*	
GDP	3.4	**2.7**	**2.6**	Unemploy. rate	5.0	**5.7**	**5.8**

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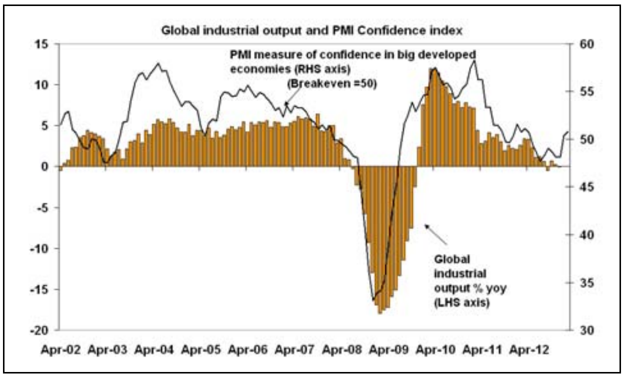
Global outlook

Key Points

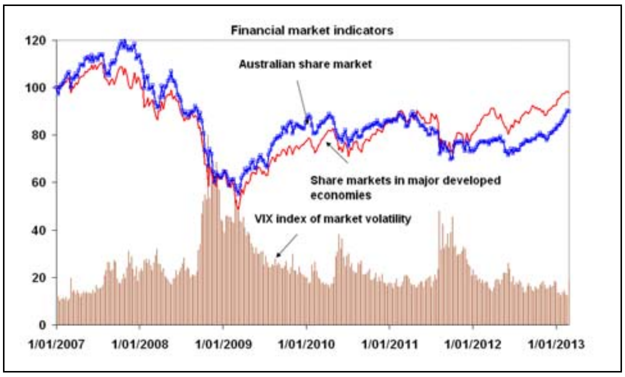
- Although equity markets have risen strongly since last November, growth in economic activity has remained quite soft. The pace of expansion in world trade and industrial output did, however, lift toward the end of last year and the business surveys have become more optimistic.
- The slowdown in global growth through last year was broadly based with falling GDP in the UK, Euro-zone and Japan in December and stagnation in US output.
- The disconnect between the upturn in equity prices and real economic data partly reflects lowered risk aversion, as the tail risks of Euro-zone break-up, Chinese hard landing and renewed US recession have faded. However markets also seem to be looking ahead and pricing-in a global economic upturn that does seem to be on the way – albeit in our view a 2014 story.
- While we are expecting only a modest acceleration in growth in 2013 (to 3.3%), 2014 growth looks likely to get back above trend at nearly 4%.

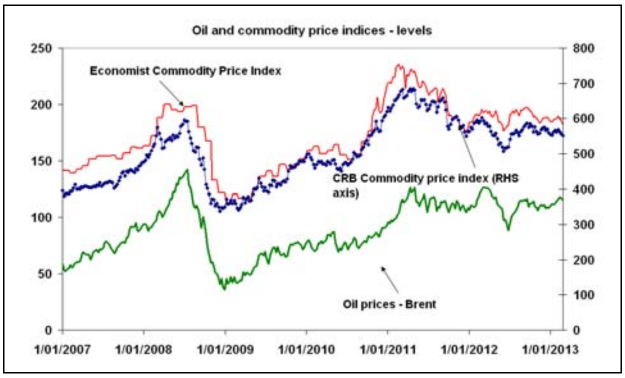


Financial & commodity markets

Share markets have risen strongly since late 2012 and by the end of February they were over 10% above their levels of last November. The amount of financial market volatility has fallen substantially – prior to the up-tick in volatility in late February, it had been back at levels not seen since the first half of 2007. Taken overall, commodity markets have not shown quite the same degree of optimism. Both the Economist and the CRB indices of aggregate commodity prices have been trending down since last September. But iron ore prices, which are of crucial importance for the Australian economy, were initially softer but subsequently regained much of that earlier decline.

The strength in equity prices looks rather out of step with data on the condition of the global economy in late 2012 and with the lack of strength in activity-sensitive commodity markets like base metals. There are probably a number of factors driving this disconnect – market perception that the "tail risk" of really bad outcomes like Euro-zone collapse has been reduced, leading to a relief "risk-on" rally; the injection of liquidity by global central banks which is driving up financial asset prices and lowering spreads across many markets and, finally, the equity market looking forward to an upturn in the global economy that will lift earnings.

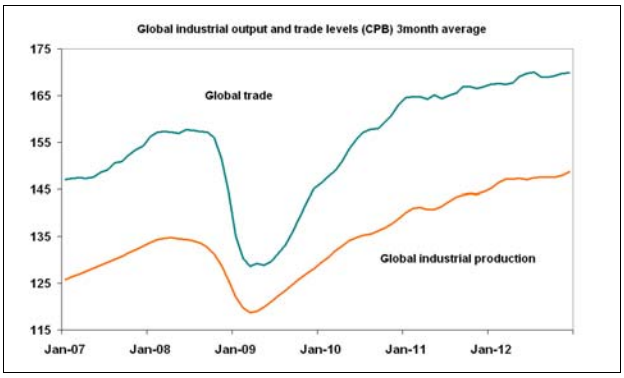




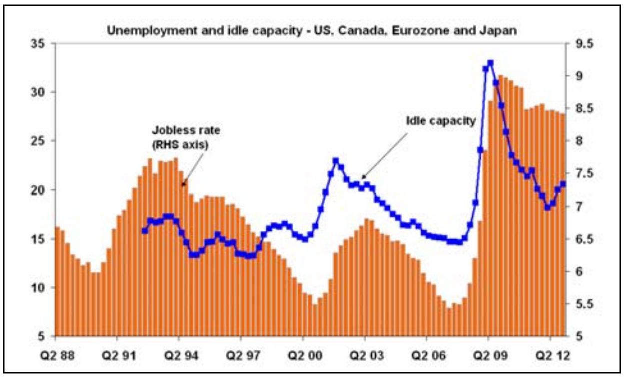
Global trends

Although economic conditions were far from strong through the latter half of 2012, there was a modest acceleration in the pace of global growth toward the end of the year. Industrial production rose by 0.8% in December quarter, up from the 0.3% seen in September quarter. Taken overall, however, the recovery from the 2008/09 recession seen through 2012 was disappointing. Global industrial output rose by only 3.4% in 2012, one-third of the pace seen in 2010, with output being flat for much of the year.

The slowdown in world trade has been even more marked – from growth of 15% in 2010 to just over 2% in 2012. As with industrial output, there was again a pick-up in the pace of growth toward the end of last year with trade rising by 0.1% in September quarter and 0.9% in December quarter.

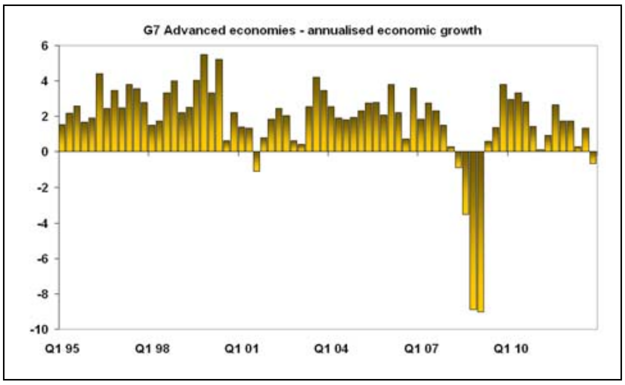


The soft patch seen in global activity through the middle of last year resulted in an increase in the amount of idle capacity in the big advanced economies. By the end of 2012 around 20% of industrial capacity in the G7 was lying unused but unemployment had not risen in step with this softening in the pace of growth. The G7's unemployment rate has been around 8½% since early 2011 with a fall in the US jobless rate offsetting higher unemployment in the Euro-zone.

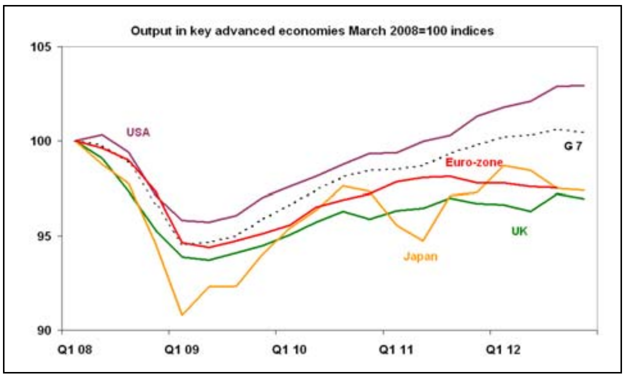


Advanced economies

Growth in the advanced economies was disappointing in late 2012 with GDP in the G7 economies falling by around 0.2% in December quarter. This weakness was broadly based as well with output falling in the Euro-zone, UK, and Japan and being just about flat in the US. By the end of 2012, output in the big advanced economies was less than 1% above its year-earlier level and recessions seemed to be under way across Japan and the Euro-zone.

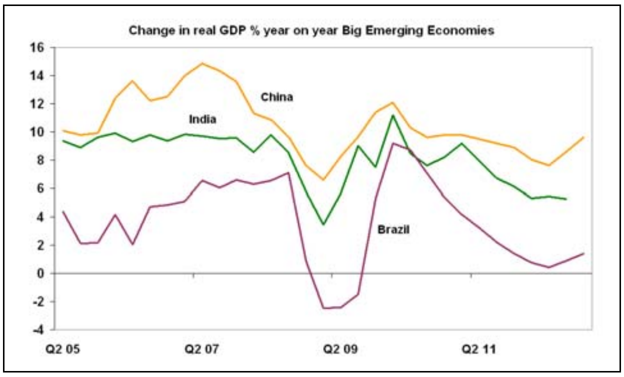


This poor result follows a prolonged period of weak economic performance in the advanced economies. North America is the only region among the big advanced economies where GDP has convincingly climbed above its pre-crisis level. Elsewhere real GDP remains below its early 2008 level with, in late 2012, GDP standing 3% below its pre-GFC level in the UK and Euro-zone and around 2½% below in Japan. This is clearly the longest period in the post-war period for output to fall so far below its long-run trend. There are many explanations for this poor outcome, many focussing on the legacy of previous unsustainable credit-driven booms followed by the onset of "busts" driven by private sector de-leveraging and banking sector problems combined with government austerity in Western Europe.

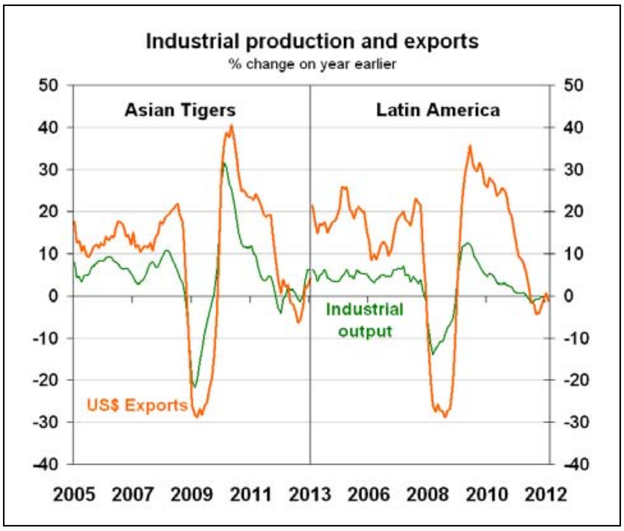


Emerging economies

The slowdown in global growth seen through 2012 was not just caused by weaker conditions in the big advanced economies. There was also a softening through much of last year in the pace of economic expansion across several important emerging economies. Brazilian GDP grew by only 1% in 2012, Indian GDP expanded by just over 5% last year – the slowest for around a decade – and Chinese growth was slowing until it started picking up in late 2012. Business surveys in India and Brazil showed signs of an improvement in conditions toward the end of last year and growth did speed up slightly in Brazil in the December quarter. Chinese industrial output also began growing faster but sentiment has suffered recently as tighter policy on housing is again being announced.

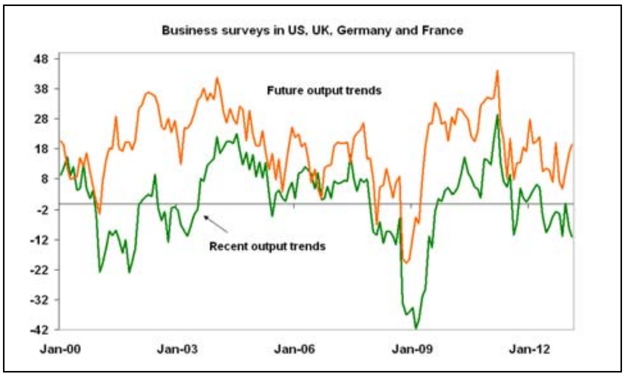


The export oriented economies of East Asia and Latin America outside Brazil also saw a sharp slowdown through much of 2012 but conditions started to stabilise or even improve toward the end of last year and into early 2013. The upturn in industrial output and exports has been most marked in East Asia.



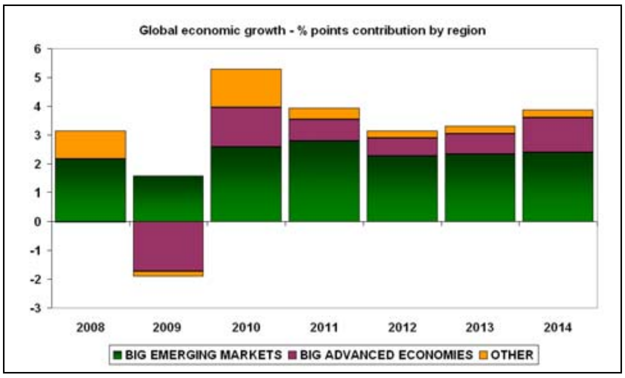
Forecasts

Taken overall, the national business surveys across the big advanced economies are pointing to an upturn in activity. Sentiment about the growth outlook has remained fairly positive in the US, despite concerns over cuts in public spending scheduled to commence in early 2013. Results from around the Euro-zone are mixed with quite a buoyant result from German business in February but French industrial sentiment remains weak. The European Commission's industrial survey still shows negative readings for production expectations but the figures have been becoming steadily less negative since last October. UK industry expectations on future trading conditions are slightly positive according to the long-running CBI monthly survey.



Global growth is forecast to accelerate from the latter half of 2013 as activity finally starts to recover in Western Europe and Japan alongside the quickening in growth in the emerging market economies. Year-average growth is only expected to rise from 3% in 2012 to 3.3% in 2013 before climbing to 3.9% in the following year. The chart below shows the growing contribution of the big advanced economies to global growth over the period 2012 to 2014 – up from 0.6% points to 1.2% points. The bulk of global growth is, however, still expected to come from the emerging market economies. Our detailed global forecasts are attached at the end of this note.

For more detail, see our International Economic Reports.



Australian outlook

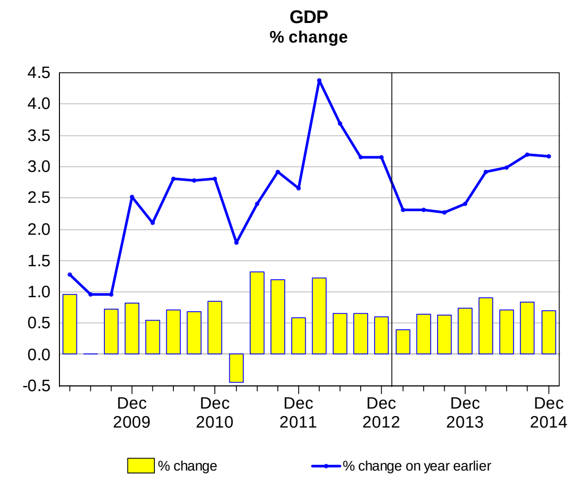
Key Points

- While there are some signs of improved atmospherics in the Australian economy, including from the latest national accounts, the outlook is still subdued. A high AUD, declining terms of trade and a large structural adjustment task are likely to keep job security at the forefront. The latest NAB survey points to continuing weakness in conditions, confidence and forward orders.
- Given the GDP outcome for Q4 and an upward revision to Q3, we have strengthened our forecast for 2013 marginally, with growth expected to be 2.3% (up from 2.0%) and unemployment rising to around 5¾% by late 2013 (unchanged).
- Clearly, the RBA is relatively comfortable at present. It sees signs of rate cuts helping housing prices and equity markets and the labour market remaining reasonable. The big uncertainty is business investment – especially in the non-mining sector. We see few signs of an increase in domestic demand and no appetite for non-mining investment. With unemployment rising and uncertainty regarding the phasing of the mining boom, we still see the need for more cuts – especially given a continuing strong AUD and no help from fiscal policy.
- That said, with the data flow a touch better than we expected, we have removed one of our forecast cuts and delayed the timing. We now expect the RBA to cut rates by 50 points in 2013, with the most likely scenario being a cut in June in response to a deteriorating labour market, and November.
- Our forecasts for inflation are broadly unchanged, remaining within the RBA's 2-3% target band over the next two years at least; underlying annual CPI inflation (inc. carbon tax) is expected to be 2.4% by late 2013 rising to 2.6% in late 2014.

National trends

GDP grew by 0.6% in Q4, down marginally from an upwardly revised 0.7% in Q3, to be 3.1% higher than a year ago. Household consumption growth remained soft at 0.2% in Q4 (the same tepid growth as in Q3). Domestic final demand grew by 0.3%, with the private component up by 0.6% helped by underlying private business investment (1.2%) and the underlying public component down 0.7% reflecting the continuing tightness of fiscal policy.

Net exports contributed 0.6% points, largely reflecting exports of metals & minerals (up 6.4%). However, this was partly offset by movements in stocks (detracting 0.4% points from growth), with the gains in mining exports partly met by a decline in stocks after a heavy build up in Q3.



Source: ABS and NAB forecasts

Private and public sector investment numbers were distorted by a large asset sale the value of which the ABS attempted to suppress, but an analysis of the accounts reveals that it involved $4.65 billion in the Victorian state and local public enterprise sector. It may have involved the transfer of effective ownership of the Wonthaggi desalination project to Melbourne Water.

Households continue to be squeezed by the decline in the terms of trade, which fell 2.6% in Q4 to be 12.9% lower than a year ago: wages are rising as costs to producers but weakening as income to consumers. Average weekly earnings (national accounts basis) grew 1.2% in Q4 but are only 2.8% higher than a year earlier, a much slower pace than during 2011. Reflecting weaker commodity markets, prices faced by producers have been deflating (GDP deflator down 0.1% in Q4 and 1.1% through the year). As a result, real wages faced by producers have been rising strongly (up almost 4% through 2012) and possibly account for some of the recent pick up in labour productivity growth, now at 2.0% p.a. (heads) and 3.5% p.a. (hours). At the same time, consumer prices rose 2.4% through 2012, so that consumer real wages rose only 0.4% last year.

The RBA left rates on hold at its 5 March meeting but with a continuing bias to ease although it regards the recent rate cuts as "substantial."

The NAB survey has shown some improvement in current business conditions, rising from -6 in Q4 to -2 and -3 in the first two months of 2013. For the period ahead, the February NAB survey continues to paint a weak picture, with forward orders at historically low levels across a swathe of industries, capacity utilisation still below 80% and the employment index persistently in negative territory. Based on the past pattern of forward orders, the NAB survey implies 6-monthly annualised domestic demand growth of only 1½% in Q1 2013. Nor is there any sign in our forward indexes, based on wholesale business conditions, of a fundamental improvement in the growth momentum. It is clear that businesses remain concerned about the outlook (the NAB business confidence index fell in February and at +1 remains well below its long-run average of +5).

We have revised up our GDP growth forecasts in light of the strength of the Q4 outcome and an upward revision to Q3 as well as the improvement seen in asset prices, retail trade and job ads. We expect growth to soften to 0.4% in Q1 before returning to rates similar to those in the second half of last year (0.6% or better), yielding 2.3% in 2013 (previously 2.0%). Export volumes should help drive growth as minerals projects transition from construction to production and export.

Growth of that order is unlikely to keep the unemployment rate from drifting up towards 5.8% by the end of 2013 (broadly unchanged). The strength of the AUD, the likelihood of ongoing downward pressure on the terms of trade and the frictional effects of industrial restructuring can be expected to weigh on growth and are likely to precipitate another two (previously three) rate cuts by year-end.

GDP growth is expected to recover towards trend in 2014 at 3.1% (previously 3.3%), with emerging risks from the capacity of the non-mining sector to compensate for the end of the mining investment boom. On this issue, see our recent research paper:

Will mining investment fall off a cliff? (published 7 February 2013)

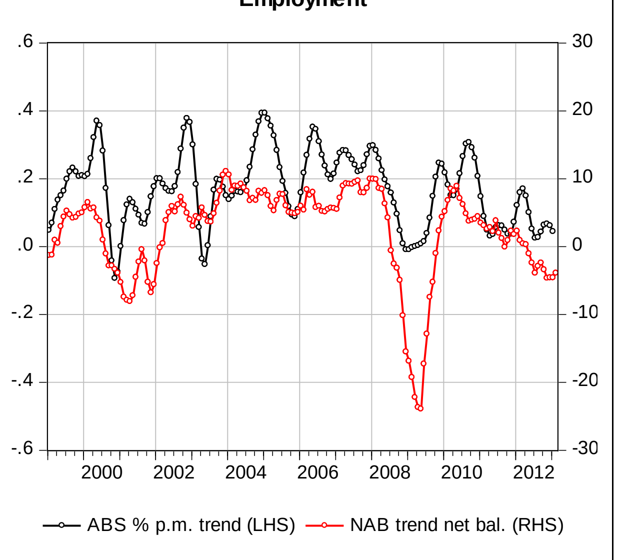
In financial year terms, GDP is expected to be:

- 2.7% in 2012/13 (was 2.3%), and
- 2.6% in 2013/14 (was 2.8%).

Labour market

Official ABS data suggest that labour market conditions remained resilient in January, despite macroeconomic data indicating that the domestic economy slowed into the new year. ABS Labour Force Survey data suggest that around 10,400 jobs were created in January, though the headline number was flattered a little by a rise in part-time employment of 20,200, which more than offset a loss of 9,800 full-time jobs. A slight fall in the number of unemployed persons combined with an overall tick down in the participation rate to 65.0% meant that the unemployment rate was unchanged at 5.4%. In fact, the participation rate has fallen by around ¾ ppt over the past two years; while part of this reflects baby boomers beginning to enter retirement, it is also likely that there is a discouraged worker effect at play, which has masked some of the rise in unemployment. Total employment growth over the year to January was a fairly benign 0.9%, while total hours provided little evidence of increased labour demand, with hours worked easing by 0.2% in January.

Other market measures of labour market conditions remain fairly soft but point to tentative signs of stabilisation in hiring. ANZ job ads rose by 3.0% in February, while the NAB employment index also improved, although it remained weak overall, at -3 index points in February. NAB employment conditions were poorest in construction, manufacturing and retail, while they were strongest in transport & utilities. The DEEWR internet vacancy index suggested that internet job vacancies rose by 2.0% in February, the first monthly rise in four months. However, vacancy levels remained very low compared to levels reported a year earlier (down 22.0% over the year). There is some belief that the rise of business networking sites has reduced the need for businesses to advertise jobs online via more traditional employment sites, suggesting part of the decline in advertised job vacancies may be structural.



Sources: ABS, NAB

Consumer demand & housing market

Consumers appear to have started the year a little more upbeat, with lower borrowing rates, rising property prices and a recovery in equity markets likely to be having an effect. Following three months of consecutive declines, retail turnover grew by 0.9% in January, supported by household goods, cafes, restaurants and take-away food and 'other' retailing.

The pick up in retail trade in January was also evident in the NAB online retail sales report for January, which showed that online sales rose by 27% over the year to January (up from 23% in the year to December). The survey also showed that online retail sales total just 5.8% of 'traditional' sales – hardly sufficient to be responsible for the overall weakness in store-based trade. Retail conditions remained weak in February in the NAB survey although there was an improvement from -11 to -5 index points, and retail prices did not move. The Westpac Melbourne Institute Index of Consumer Sentiment lifted sharply in February, recording its strongest reading since December 2010. Nonetheless, it remains well below the levels recorded during the last RBA easing cycle in 2008/09.

It appears that lower borrowing rates and some additional state government home buyer stimulus may be encouraging home buyers back into the market. The ABS measure of established house prices (average of capital cities) rose by 1.6% in the December quarter, to be 2.1% higher over the year. Strength in the Perth property market led the national rise, while Hobart was the only capital city to report a decline in prices in the month. HIA home sales rose for a fourth consecutive month in January, up 4.2%, while the RP-Data Rismark series showed a 0.3% rise in dwellings prices in February, following a 1.2% rise in January.

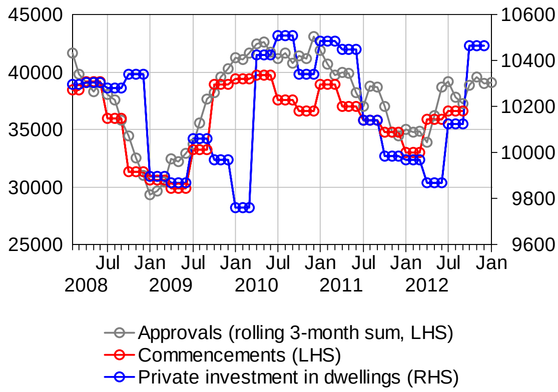
The latest NAB Residential Property Survey reported an increase in the residential property index, with the rate of decline in national house prices slowing and rents continuing to rise. Property professionals expect the value of house prices to rise by around 1½% over 2013 and 3% over the next two years.

With accommodative monetary policy now in place and with expectations for policy settings to loosen further over the year ahead it is possible that we will see a more positive dwellings market over 2013.

Investment

Despite improved conditions in the residential property market, the outlook for dwelling investment remains concerning. While ABS data show that prices for project homes rose by 1.4% over 2012, housing construction materials were shown to have increased by 1.2% over the same period, while hourly rates of pay for the construction industry were 3.5% higher over the year. Given that labour costs are a significant part of the overall cost of housing construction, these outcomes imply that cost pressures may prevent a meaningful lift in housing construction in the near term. The number of approvals for private sector housing fell by 2.3% in January, following a 1.8% decline in December. More recently, the NAB monthly business survey showed a deterioration in construction conditions in February to become the worst performing industry sector. Easier monetary policy should help the construction sector over the year ahead and we expect dwellings investment to post a modest contribution to GDP growth over 2013.

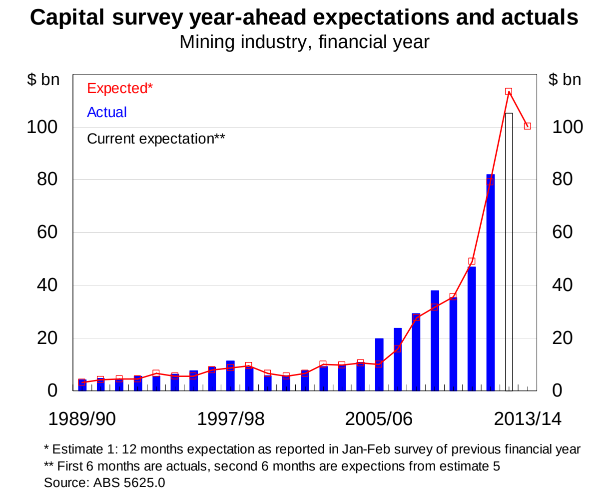
Private dwelling approvals & commencements
Units per quarter (LHS), $bn cvm (RHS)

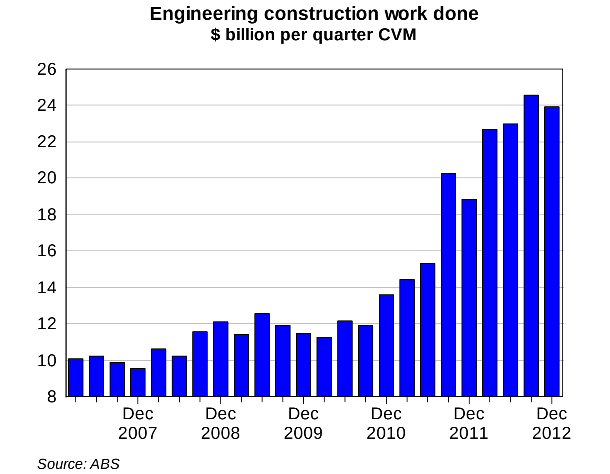


Source: ABS

The latest ABS New Private Capital Expenditure Survey showed a pull back in total capital expenditure of 1.2% in the December quarter, reflecting declines in both buildings & structures (down 0.6%) and equipment, plant & machinery (down 2.3%). By industry, mining capital expenditure rose by 2.9% in the quarter, but this was more than offset by falls in spending in manufacturing and 'others' (down 2% and 7.5% respectively). Of particular interest in this survey was the first estimate of mining capital spending for 2013/14. Using five year average realisation ratios, the December quarter survey implies that mining capex is expected to increase by 12.5% in 2012/13, which is lower than the 17.6% expected in the September quarter survey. Combining December quarter actual data with short-term expectations for the 2013 March and June quarters implies that last year's expectation for mining capex in 2012/13 was overly optimistic (see Graph). Overall, this outcome suggests that mining investment will remain reasonably buoyant in 2013/14, but the numbers look superficially positive and mask considerable downside risk.

Private engineering construction in real, seasonally adjusted terms, declined by 2.5% in the December quarter, but remained high by historical standards (see Graph). The pipeline of engineering work commenced but yet to be done appears to be in decline. While LNG mega projects will probably maintain the level of mining investment into early 2014, there remains a risk that investment could decline sharply in the absence of further major projects being commenced.



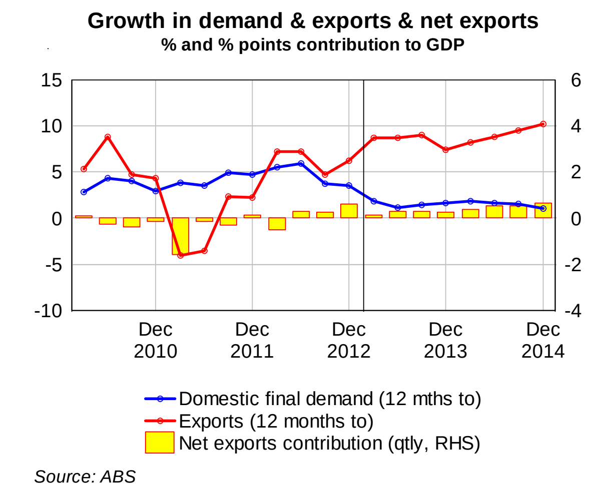


Commodity prices and net exports

In US dollar terms, the NAB non-rural commodity price index fell by almost 17% over 2012. We are expecting another slight decline of around 1¼% in 2013, before falling by a further 8% over 2014. Given our forecast for the AUD/USD over the remainder of the forecast horizon, AUD prices are expected to rise by 3¾% through the year to December 2013, before falling by around 6¼% over 2014. As a result, the terms of trade are expected to decline by around 2% through the course of 2013 and by more than 5% through 2014.

For more detail, see our [Minerals & Energy Commodities Research] and [Rural Commodities Wrap].

Net export volumes are expected to gain momentum over the next two years as major resource projects (particularly LNG) begin to deliver.



Interest rates

The RBA left the cash rate unchanged at 3.0% at its March meeting, though it appears to have maintained its easing bias. The Board's decision to remain on hold reflected a combination of reduced downside risks to the outlook for global growth, as well as signs that monetary policy easing is beginning to yield stronger private consumption spending and dwelling investment growth. The RBA also highlighted the shifting focus of businesses on lifting efficiency under conditions of moderate demand growth, which "should help to keep inflation low".

We see underlying inflation remaining within the RBA's target over the medium to longer term, with soft consumer spending, worsening labour market conditions – as the domestic economy transitions away from the labour intensive mining investment phase – soft public sector demand and a relatively high AUD likely to keep price pressures contained. Core inflation is expected to edge up to 2.4% by late 2013, before lifting a touch to 2.6% by late 2014.

Like us, the RBA seems unperturbed about the outlook for inflation, stating that "the inflation outlook, as assessed at present, would afford scope to ease policy further, should that be necessary to support demand".

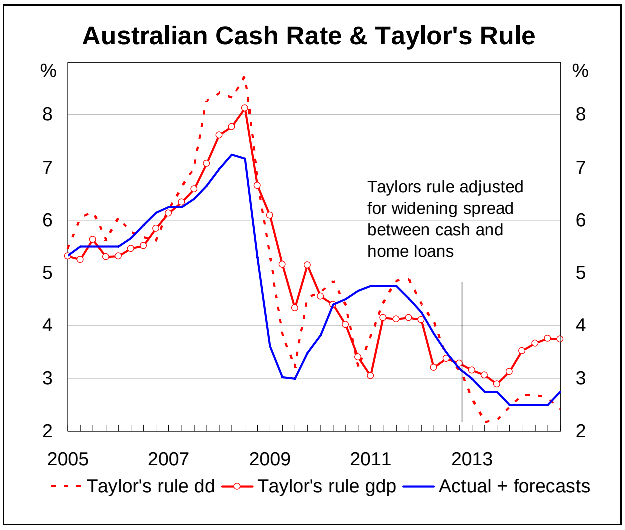
This begs the question, 'what it the tipping point for further policy easing?' No doubt the RBA will remain focused on the performance of the non-mining sector, and in particular, the impact that previous stimuli are providing to this sector. Indeed, the RBA appears more comfortable about the growth outlook now that previous rate cuts are beginning to take hold. However, we remain unconvinced at this point that the non-resource sector will be able to fill the hole caused by the imminent passing of the resource investment peak next financial year, and it is likely that labour market conditions will weaken as a result.

While the RBA is seeing positive straws in the wind, it has acknowledged that "growth (is) likely to be a little below trend over the coming year", which to our way of thinking presents the opportunity for further rate reductions over the year ahead. Our estimates for GDP suggest that growth will slow to a 2.3% annual pace over 2013, with unemployment rising to 5¾% by the end of the year. Combined with a soft inflation outlook, we see the need for a 25 bp rate reduction by the middle of this year, which we have pencilled in for June.

Thereafter, we believe the RBA will wait and see how the non-resource sector performs as mining investment begins to retreat. In our view, an additional 25 bp rate cut will be needed (in November) to help support weakening labour market conditions.

Beyond that, monetary policy is likely to remain very accommodative for sometime as the full impacts of stimulus take effect.

In many ways, the dilemma for policy makers is summarised by the Taylor's rule, and in particular, the differences in the rule calculated using domestic demand versus GDP. In essence, both versions show an accommodative stance of policy until at least the end of 2014.



Key global GDP forecasts (calendar years)

Country/region	*IMF weight*	2006	2007	2008	2009	2010	2011	2012	2013	2014
					% change					
United States	*19*	2.7	1.9	-0.3	-3.1	2.4	1.8	2.2	2.2	2.9
Japan	*6*	1.7	2.2	-1.1	-5.5	4.7	-0.5	1.9	1.1	2.4
Euro-zone	*14*	3.3	2.9	0.2	-4.3	1.9	1.5	-0.5	-0.4	1.6
United Kingdom	*3*	2.6	3.6	-1.0	-4.0	1.8	0.9	0.2	1.1	2.0
Asian Tigers	*8*	5.6	6.0	3.2	0.2	7.8	4.2	3.7	4.0	4.5
Latin American 4	*9*	5.4	5.6	4.1	-1.9	7.2	4.8	2.2	2.3	2.9
China	*14*	12.7	14.2	9.6	9.2	10.4	9.3	7.8	8.2	8.0
Canada	*2*	2.8	2.2	0.7	-2.8	3.2	2.6	2.0	2.0	2.3
India	*6*	9.6	9.7	8.1	6.4	9.8	7.3	5.1	5.7	6.5
Africa	*3*	6.1	6.3	5.5	2.8	5.1	5.3	4.8	5.8	5.7
CIS	*4*	8.2	8.6	5.5	-6.4	4.8	4.9	3.6	3.9	4.0
Eastern Europe	*4*	6.7	5.7	3.0	-3.6	4.6	5.3	1.8	2.4	3.0
Middle East	*5*	5.7	5.9	5.1	2.6	5.0	3.5	5.0	4.0	3.7
Other advanced	*5*	4.5	4.7	1.7	-1.1	5.8	3.3	1.9	3.5	3.7
Global total	*100*	5.7	5.8	3.1	-0.4	5.4	3.9	3.0	3.3	3.9

Australian Economic and Financial Forecasts (a)

	Fiscal Year			**Calendar Year**		
	2011-12	**2012-13 F**	**2013-14 F**	**2012**	**2013-F**	**2014-F**
Private Consumption	3.2	2.2	2.0	3.2	1.6	2.3
Dwelling Investment	-3.6	0.4	2.7	-4.5	3.8	1.4
Underlying Business Fixed Investment	25.7	4.8	-0.9	18.5	-1.5	-2.4
Underlying Public Final Demand	2.1	-2.8	-0.2	1.7	-3.0	1.3
Domestic Demand	**5.3**	**2.5**	**1.6**	**4.6**	**1.5**	**1.5**
Stocks (b)	-0.1	-0.1	-0.2	0.0	-0.4	0.0
GNE	**5.2**	**2.4**	**1.4**	**4.6**	**1.1**	**1.5**
Exports	4.7	7.1	8.3	6.3	8.4	9.2
Imports	11.8	3.1	3.0	6.8	2.9	2.4
GDP	**3.4**	**2.7**	**2.6**	**3.6**	**2.3**	**3.1**
– Non-Farm GDP	3.3	3.0	2.7	3.7	2.4	3.1
– Farm GDP	9.0	-8.0	1.7	-2.6	-2.8	2.0
Federal Budget Deficit: ($b)	44	22	NA	39	NA	NA
Current Account Deficit ($b)	40	53	53	33	54	48
(-%) of GDP	2.7	3.5	3.5	2.3	3.7	3.1
Employment	1.1	0.9	1.1	1.1	0.8	1.3
Terms of Trade	0.6	-9.5	-3.5	-10.2	-3.2	-5.6
Average Earnings (Nat. Accts. basis)	5.3	2.7	4.2	4.1	3.5	4.1
End of Period						
Total CPI	1.2	2.4	2.1	2.2	1.8	2.3
Core CPI (exc. carbon)	2.1	2.4	2.6	2.3	2.4	2.6
– Core CPI (inc. carbon)	2.1	2.4	2.6	2.3	2.4	2.6
Unemployment Rate	5.0	5.7	5.8	5.3	5.8	6.0
RBA Cash Rate	3.50	2.75	2.50	3.00	2.50	3.00
10 Year Govt. Bonds	3.04	3.90	NA	3.27	3.80	5.0
$A/US cents :	1.01	1.00	NA	1.04	0.99	NA
$A - Trade Weighted Index	75.40	75.89	NA	76.80	74.95	NA

(a) Percentage changes represent average annual growth, except for cash and unemployment rates. The latter are end June. Percentage changes for CPI represent through the year inflation.

(b) Contribution to GDP growth

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