



UNDER EMBARGO UNTIL 03.30 GMT, THURSDAY, 18 APRIL 2013

Australia

Briefing Notes for the Launch in Canberra, 18 April 2013

Growth performance improved steadily

- Real output growth accelerated to 3.6% in 2012 from 2.5% in 2011 when the country suffered from severe floods.
- Total fixed investment growth surged to a multi-year high in mid-year on stellar resource investment that benefited from high commodity demand from Asia. The overall picture was however uneven. Investment beyond the mining sector was much more subdued.
- Steady wage growth, stable inflation and low interest rates supported private consumption, although high household debt and higher unemployment towards the end of 2012 held back consumer confidence somewhat.

Moderate inflationary pressures

- Australia's inflation softened to 1.8% in 2012 from 3.3% in 2011, thus comfortably within the official target range of 2-3%.
- The introduction of a carbon tax in July 2012 pushed up electricity prices but the overall inflation impact tended to be moderate.
- The strong domestic currency would help to limit imported inflation but its effect should gradually fade.

Subdued global economic growth and strong currencies weigh down exports

- Despite still strong export volume, an economic slowdown in China, Australia's largest trading partner, has pushed down export prices of key commodities, such as coal and iron ore.
- The currency appreciation, mostly due to high commodity demand as well as higher interest rates relative to most other advanced economies, added more pressures on export earnings.
- In addition to shipments, the strong Australian dollar also affected trade in services, such as receipts from tourism and overseas students.

- In contrast, imports continued to increase solidly on capital goods imports for the mining sector and more generally strong domestic currency.
- Trade deficits widened further in late 2012. Overall, the current account deficit increased to 4.1% of GDP in 2012 from 2.3% of GDP in 2011.

Macroeconomic policies remain supportive of economic growth

- The Australian Government previously announced an effort to regain a small fiscal surplus in the fiscal years ending in June 2013 and June 2014.
- The consolidation plan was later postponed in late 2012 as economic growth moderated and tax revenue was lower than expected. The fiscal surplus would have been a major turnaround from a deficit of 3% of GDP in the fiscal year ending in June 2012.
- Australia's monetary policy stance eased steadily over 2012 to support economic growth. The policy interest rate of 3% at end-2012 was already 175 basis points below the level in October 2011.

Economic outlook is favourable but risks are tilted to the downside

- Australia's output growth is expected at 2.5% in 2013, supported mainly by mining exports to Asia, particularly China.
- Private consumption growth is likely to be sustained on strong mining employment growth and low interest rates.
- The downside risks are mostly external, particularly a recession in the euro zone and a slowdown in China. An uncertain global economy could weigh down consumer confidence.
- ESCAP analysis shows that Australia's annual GDP level during 2008-2012 could have been around 1.6% higher on average had economic uncertainty in the euro zone and the United States been lower than actually observed.
- While the banking sectors remain generally healthy, the financial sector risk is sizeable due to large foreign wholesale funding to finance the current account deficit.
- ESCAP analysis suggests that rebalancing China, where greater emphasis is placed on consumption as opposed to investment, will help boost Australia's total exports by over US\$ 300 million over 2013-2015.
- The significant role played by the mining sector highlights Australia's vulnerability to terms of trade shocks. Strong Australian dollar would continue to add pressures on overall export growth and competitiveness.
- Nonetheless, Australia appears to have ample room for macroeconomic policy responses, if needed.

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