



Highlights

- Gross domestic product (GDP) rose 0.5% (trend) in December quarter 2005, representing an easing from the 0.6% and 0.8% growth recorded in the September and June quarters respectively.
- In annual terms, trend GDP growth remained unchanged at 2.7% in December quarter 2005.
- In seasonally adjusted (sa) terms, GDP rose by 0.5% in the December quarter, below the market consensus of 0.8% growth. Annual sa growth of 2.7% in the December quarter was also below the market expectation of 3.1% growth.
- While the GDP result was lower than the market consensus, the terms of trade continued to rise strongly. The terms of trade rose by 2.0% in trend terms in the December quarter, to be 13.1% higher over the year. This represents the highest rate of annual growth since March quarter 1989.

Analysis (trend terms)

- Business investment was the main contributor to overall economic growth in December quarter 2005, followed closely by a solid contribution to growth from household spending.
- Reflecting efforts to expand production capacity, business investment surged in December quarter 2005. Business investment rose by 4.1% during the quarter, to be 18.6% higher over the year. Both machinery and equipment investment (up 4.5%) as well as other buildings and structures (up 3.5%) contributed to the rise in the quarter.
- Household consumption rose by 0.7% for the fourth consecutive quarter in December quarter 2005. However, this quarterly rate of growth is well below the recent peak of 1.8% in December quarter 2003. This easing reflects a return in household spending growth to more sustainable levels, following the passing of the major impact of the housing boom and attempts by households to consolidate their balance sheets.
- Dwelling investment continued to decline in trend terms in December quarter 2005. Total dwelling investment fell by 0.9% during the quarter, following a 0.2% fall in the September quarter. The fall was entirely driven by a decline in new and used dwelling construction (down 1.6%), with the level of renovation activity remaining largely unchanged during the quarter.
- The trade sector continued to detract from growth during the quarter. This partly reflects a sustained period of sluggish exports growth, despite a strong global economy.

- Net exports detracted 0.3% point from growth for the second consecutive quarter. Exports declined by 0.2% in the December quarter, compared with growth of 1.3% in imports. In annual terms, exports growth eased to 1.5% in December quarter 2005, compared with an easing in imports growth to 6.6% during the quarter.

Table 1
GDP Growth – December Quarter 2005

Chain volume measures	% Change	
	Quarterly	Annual
Seasonally adjusted	0.5	2.7
Trend	0.5	2.7

Chart 1: GDP Growth (Trend)

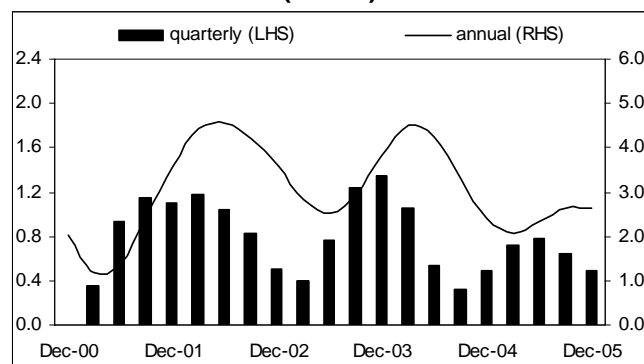


Table 2: Components of GDP (December Quarter 2005, Trend)

Chain Volume Measure*	% Change		% Contribution	
	quarterly	annual	quarterly	annual
Total consumption	0.9	3.1	0.7	2.4
Household consumption	0.7	2.8	0.4	1.7
General govt consumption	1.2	3.7	0.2	0.7
Private dwellings	-0.9	-0.9	-0.1	-0.1
Business Investment	4.1	18.6	0.6	2.3
Machinery and equipment	4.5	17.3	0.4	1.3
Buildings and structures	3.5	20.8	0.2	0.9
Livestock	0.3	0.9	0.0	0.0
Intangible fixed assets	1.0	6.1	0.0	0.1
Ownership transfer costs	-1.9	-1.8	0.0	0.0
Private gross fixed capital	2.3	10.4	0.5	2.3
Public gross fixed capital	-0.2	2.5	0.0	0.1
Changes in inventories			-0.2	-0.1
Private non-farm stocks			-0.3	-0.1
Farm			0.0	-0.1
Public authorities			0.0	0.0
Gross national expenditure	0.9	4.5	1.0	4.7
Net Exports			-0.3	-1.2
Exports of goods & services	-0.2	1.5	0.0	0.3
less Imports of goods & services	1.3	6.6	-0.3	-1.4
Statistical discrepancy			-0.1	-0.8
GDP	0.5	2.7	0.5	2.7
Current Prices				
Compensation of employees	1.8	7.5		
Gross Operating surplus	1.9	10.9		
GDP	1.8	7.8		
Deflators and Prices				
Terms of Trade	2.0	13.1		
Household consumption deflator	0.6	2.2		
GDP deflator	1.3	5.0		

*Reference year for chain volume measure is 2003-04