

### Highlights

- Growth in gross domestic product (GDP) in Australia continued to moderate in December quarter 2007, rising 0.8% (trend), following 0.9% and 1.1% growth in the previous two quarters respectively. This moderation has been mainly driven by a slowdown in growth in private investment and exports.
- Annual growth in GDP also moderated to 3.9% in the December quarter, after peaking at a revised 4.1% in the previous quarter (Chart 1).
- In seasonally adjusted (sa) terms, GDP rose 0.6% in the December quarter, in line with market expectations, while annual growth in sa GDP (3.9%) was slightly above the market expectation of 3.7%.
- The terms of trade declined for the second consecutive quarter in December quarter 2007. Both export and imports prices declined over the quarter, partly due to a stronger A\$ exchange rate.

### Analysis of GDP Components (trend terms)

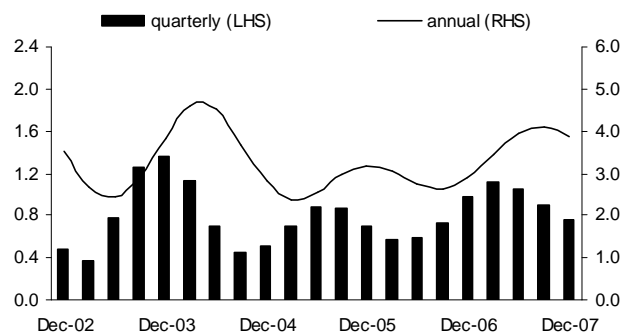
- Revised data show that growth in household consumption has accelerated since March quarter 2007, despite the Reserve Bank raising the cash rate twice in the second half of 2007. Household consumption rose 1.3% in the December quarter, to be 4.3% higher over the year, the highest rate of annual growth in three years. Combined with general government consumption, total consumption contributed 3.2 percentage points to the 3.9% GDP growth over the year to December quarter 2007.
- Growth in total private investment continued to moderate in December quarter 2007, despite a rebound in growth in dwelling investment over the quarter. Trend series on business and public investment remain unavailable, due to a break in the series as a result of the full privatisation of Telstra in late 2006. In sa terms, business investment rose only 0.4% in the December quarter, following a 0.5% decline in the previous quarter. Nevertheless, business investment in sa terms was 11.0% higher than that of a year ago.
- After stalling in the previous two quarters, dwelling investment rose 0.4% in December quarter 2007. However, this growth was supported only by renovation activity, with construction of new dwellings falling for the second consecutive quarter.
- Exports of goods and services continued to be adversely affected by high A\$ exchange rates and

disruptions to mineral exports, rising only 0.4% over the quarter. Imports of goods and services continued to grow strongly, with the domestic economy running close to full capacity. As a result, net exports detracted 0.5 percentage point from overall economic growth of 0.8% in the quarter.

**Table 1: GDP Growth**  
(December Quarter 2007)

Chain volume measures	% Change	
	Quarterly	Annual
Seasonally adjusted	0.6	3.9
Trend	0.8	3.9

**Chart 1: GDP Growth**  
(% change, trend)



**Table 2: Components of GDP**  
(December Quarter 2007, trend)

Chain Volume Measure*	% Change		% point Contribution	
	quarterly	annual	quarterly	annual
Total consumption	1.2	4.3	0.9	3.2
Household consumption	1.3	4.7	0.7	2.7
General gov't consumption	1.0	2.7	0.2	0.5
Private dwellings	0.4	0.9	0.0	0.1
Business investment <sup>#</sup>	n/a	n/a	n/a	n/a
Machinery and equipment <sup>#</sup>	n/a	n/a	n/a	n/a
Buildings and structures <sup>#</sup>	n/a	n/a	n/a	n/a
Livestock	10.4	38.5	0.0	0.1
Intangible fixed assets	2.7	19.4	0.0	0.3
Ownership transfer costs	-1.2	8.4	0.0	0.1
Private gross fixed capital	0.3	7.9	0.1	1.8
Public gross fixed capital <sup>#</sup>	n/a	n/a	n/a	n/a
Changes in inventories			0.0	0.5
Private non-farm stocks			-0.1	0.3
Farm			0.0	0.0
Public authorities			0.0	0.1
Gross national expenditure	1.1	5.7	1.1	5.8
Net exports			-0.5	-1.8
Exports of goods & services	0.4	3.0	0.1	0.6
less Imports of goods & services	2.4	10.3	0.6	2.4
Statistical discrepancy			0.2	-0.2
<b>GDP</b>	<b>0.8</b>	<b>3.9</b>	<b>0.8</b>	<b>3.9</b>
<b>Current prices</b>				
Compensation of employees	1.5	8.2		
Gross operating surplus	1.4	6.2		
GDP	1.7	7.3		
<b>Deflators and prices</b>				
Terms of trade	-0.1	1.1		
Household consumption deflator	0.7	2.7		
GDP deflator	0.9	3.3		

\*Reference year for chain volume measure is 2005-06

<sup>#</sup> Due to trend break related to the privatisation of Telstra, no trend estimate is available for this series