

In today's release, the ABS noted that while flooding in Queensland began in late December 2010, the most significant impacts of the widespread national flooding will be reflected in the March quarter 2011 *National Accounts* estimates.

- The national economy continued to grow in December quarter 2010, although results were uneven by sector, with the transition from a public to private driven recovery still in its early stages. Importantly, businesses and farms accumulated inventories in the quarter, which contributed 0.8 percentage point to quarterly GDP growth, the largest contribution of any component. While public sector spending and the partial recovery in business investment contributed to growth, the interest rate sensitive household sector remained subdued.
- In seasonally adjusted (sa) terms, gross domestic product (GDP) rose 0.7% in December quarter 2010, to be 2.7% higher over the year. These results were largely in line with market expectations of a 0.6% quarterly rise and a 2.7% annual rise.
- Household consumption (sa) rose a modest 0.4% in the December quarter, to be 2.8% higher over the year. Underlining ongoing consumer caution, higher spending on non-discretionary household services such as rent, utilities, transport services, health and education accounted for the bulk of growth in the quarter. The largest fall in consumption in the quarter was on vehicle purchase (down 3.8%).
- Reflecting a 115 basis point rise in the standard variable mortgage rate over 2010, as well as the removal of the *First Home Owners Boost*, dwelling investment (sa) fell 0.4% for the second consecutive quarter in December quarter 2010. A fall in new building (down 1.0%) was only partially offset by a modest 0.4% rise in alterations and additions activity. Looking ahead, very wet weather in January and February is also likely to have hindered activity in March quarter 2011.
- In contrast to the subdued household sector, the buoyant outlook for the resources sector, along with the high A\$ making imported capital goods relatively cheaper, saw the business sector contribute to growth in the December quarter. Business investment (sa) rose 0.4% in the December quarter, with a 3.8% fall in non-dwelling construction more than offset by a 5.1% rise in machinery and equipment investment. Weighed down by subdued consumer demand and high commercial vacancy rates, non-residential construction (offices, shops, etc.) fell 6.5%, while mining-intensive engineering construction also fell 0.8% after rising strongly in the previous two quarters. Looking ahead, recent ABS *Capital Expectations* data suggest strong growth in business investment in 2011-12, driven largely by mining-related construction activity.

- Reflecting the maturation of federal infrastructure initiatives, total public investment (sa) peaked in March quarter 2010, but remained at a high level in the December quarter. General government consumption rose strongly in the quarter, up 1.1%, and contributed a similar amount to GDP growth as household consumption.
- The contribution to growth by net exports was nil in the quarter, with a 3.0% rise in exports offset by a 3.0% rise in imports.

Table 1: Components of GDP*
(December quarter 2010)

Seasonally Adjusted	% Change		% point Contribution	
	quarterly	annual	quarterly	annual
Household consumption	0.4	2.8	0.2	1.5
Private dwelling investment	-0.4	2.2	0.0	0.1
Business investment	0.4	-2.1	0.1	-0.3
Machinery and equipment	5.1	-7.9	0.3	-0.5
Non-dwelling construction	-3.8	4.4	-0.2	0.3
Private gross fixed capital	-0.4	-1.3	-0.1	-0.3
Public gross fixed capital	0.2	11.9	0.0	0.7
Changes in inventories			0.8	0.4
Gross national expenditure	1.1	3.1	1.1	3.1
Net exports			0.0	-0.7
Exports of goods & services	3.0	5.1	0.7	1.2
less Imports of goods & services	3.0	8.4	-0.7	-1.9
Statistical discrepancy			-0.4	0.4
GDP	0.7	2.7	0.7	2.7
Trend	% Change		% point Contribution	
	quarterly	annual	quarterly	annual
Household consumption	0.7	3.2	0.4	1.7
Private dwelling investment	0.5	4.2	0.0	0.2
Business investment	1.2	1.0	0.1	0.1
Machinery and equipment	1.2	-4.7	0.1	-0.3
Non-dwelling construction	1.1	7.1	0.1	0.4
Private gross fixed capital	0.5	1.0	0.1	0.2
Public gross fixed capital	-1.6	8.1	-0.1	0.5
Changes in inventories			0.1	-0.1
Gross national expenditure	0.6	3.1	0.6	3.1
Net exports			-0.2	-1.0
Exports of goods & services	1.1	5.4	0.3	1.3
less Imports of goods & services	1.9	10.1	-0.4	-2.2
Statistical discrepancy			0.1	0.6
GDP	0.5	2.7	0.5	2.7

- In trend terms, GDP rose 0.5% in December quarter 2010, to be 2.7% higher over the year. Annual GDP growth eased slightly from 2.9% in the previous quarter, after strengthening over the past year, as the economy recovered from the effects of the global economic slowdown.

Chart 1: GDP Growth
(% change, trend)

