



Daily Note: 3 December 2008

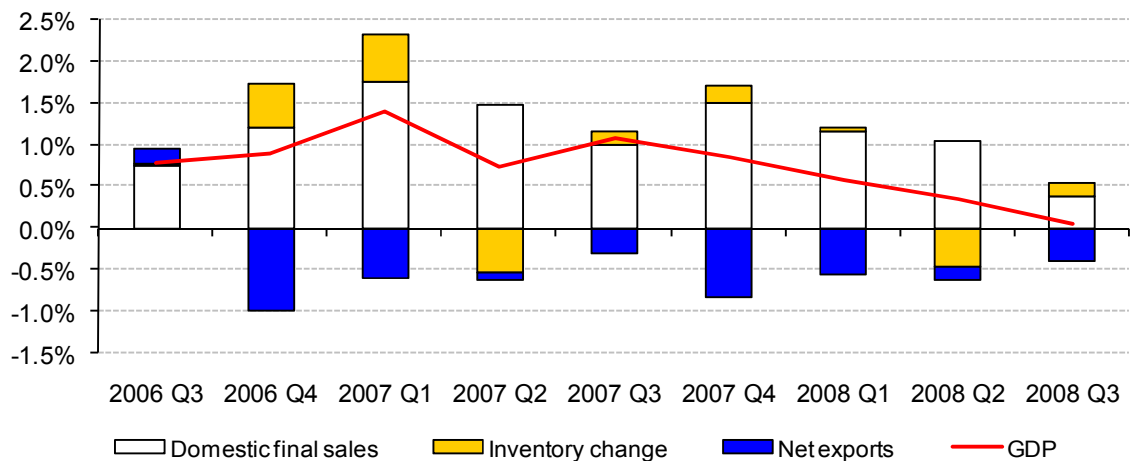
Australia avoids recession - barely

WE SUGGEST: GDP numbers provide no support for Aussie

SUMMARY: The Australian economy continued to grow in Q3, if barely. But the breakdown of the numbers implies that GDP could contract in the current quarter. In turn, this is likely to mean further interest rate cuts. Weak demand and lower interest rates are unlikely to be good for the Aussie dollar.

Australian Q3 GDP data contained a few silver linings. Output continued to grow, making Q3 the 68th quarter in 69 (the exception was a small fall in 2000 Q4) that the economy has expanded. Unlike much of the Northern Hemisphere, Australia is not yet in recession. A second piece of good news is that household spending reversed its 0.1% fall in Q2 and rose by 0.1%. However, some of this may be due to the fact that Q3 was a quarter in which oil prices were still high. But although retail sales rose in October, the rise was minimal (a trend of 0.2%) and it is unclear whether household spending will hold up over the Southern Summer.

Australia: contributions to quarterly GDP growth, %



Moreover, weaker commodity prices are hurting Australian exports (exports did not grow at all in Q3, so that net exports subtracted 0.4% from growth, twice the rate in Q2); and absent a 0.2% contribution from the inventories change – likely to be reversed in the current quarter – overall growth would have been negative.

The RBA's 1% cut in the cash target rate yesterday briefly boosted the Aussie dollar – although it is significant that its impact on the stock market was muted to say the least, with prices moving sideways for two days and well below earlier levels. But today's numbers sent the dollar falling again. It is not going to repeat its precipitate fall from near-parity with the US dollar in the summer to just above US\$60 in November. But the weak GDP numbers, coupled with falling inflation, means that the RBA is more

than likely to continue cutting interest rates into early 2009. With the cash target rate still at 4¼%, it certainly has more scope than many other central banks to ease monetary policy. This is unlikely to provide much support for the Aussie and the currency could breach the US¢60 barrier.

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