

## NewsBank SPECIAL REPORT! Global Economics

### Australia's economy powers ahead on exports

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Australia's economy defied market forecasts with stronger-than-predicted expansion in January-March, driven by net exports and household spending, strengthening expectations interest rates will remain on hold for some months.

Economic growth expanded by 1.1 percent in the first quarter for an annual year-on-year reading of 3.1 percent, the highest in recent years and far above economists' estimates of 0.8 percent and 2.9 percent.

The Australian Bureau of Statistics data makes the Australian economy one of the best-performing among developed nations and comes just a month before national elections, which are expected to be tightly contested.

"(This) confirms the Australian economy is continuing to grow, outstripping the world's most advanced economies, the United Kingdom, the United States, the Eurozone," Treasurer Scott Morrison told reporters in Brisbane.

With the mining-dependent economy shifting away from an unprecedented boom in resources investment and the Reserve Bank of Australia slashing interest rates to a new record-low last month amid weak consumer prices, the ruling conservative government has been campaigning on a platform of jobs and growth.

The Australian dollar, which jumped by half a cent following strong exports data on Tuesday, rose again by another half a cent from 72.38 US cents before the data to 72.90 US cents.

Prime Minister Malcolm Turnbull said there were "strong signs" about growth in the figures but warned the global economic situation remained uncertain.

"There is plenty of risk out there on the horizon. We are in an uncertain economic environment globally. Many opportunities, great opportunities but great challenges," he said.

JP Morgan economist Tom Kennedy told AFP the mix of growth matched analysts' expectations, with "net exports delivering the bulk of the growth, if not all".

<h2>- Interest rates on hold for now -</h2>

The data showed exports contributed 1.0 percentage points to the March quarter growth, driven by strong resources exports, particularly on the back of a ramp-up in liquefied natural gas production from new projects, National Australia Bank senior economist David de Garis said.

"That (exports) story has a lot further to run, but (there's) also evidence that the demand side from tourism has increased, and perhaps signs that Chinese demand for resources may have increased so far

this year," he told AFP.

Household spending added 0.4 percentage points to the GDP data.

The Australian economy has been charting a rocky growth path as it exits the mining investment boom that has helped it avoid a recession for a quarter of a century.

Despite the healthy headline numbers, the figures also showed the income side of the economy stayed weak.

The terms of trade -- a ratio that measures export prices to import prices -- fell 1.9 percent for the quarter. Real net national disposable income, a measure of the nation's earnings which factors in the terms of trade, edged up 0.2 percent for the three months for an annual reading of -1.3 percent.

The Reserve Bank, an inflation-targeting central bank, cut the cash rate to a historic low of 1.75 percent in May in response to soft consumer prices and to boost growth.

The latest figures were likely to keep the RBA on the sidelines at least until the next quarterly consumer prices reading due in late July, analysts said.

"To the extent that growth and labour market influences inflation forecasts, it adds a bit of comfort to the Reserve Bank and a little bit more confidence that they will get back to the 2.0-3.0 inflation target," De Garis said.

Capital Economics' chief economist for Australia Paul Dales said the RBA "won't be in a rush to cut interest rates again", but he tipped a cut, possibly in August, if growth slows for the rest of the year and inflation remains low.

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