Australian GDP Expands at More Than Twice Pace Forecast

By Michael Heath - Jun 5, 2012

Australia’s economy expanded at more than twice the pace economists forecast, sending the local currency, bond yields and stocks higher and prompting traders to pare bets on a half-point interest-rate cut next month.

First-quarter gross domestic product advanced 1.3 percent from the previous three months, when it rose a revised 0.6 percent, a Bureau of Statistics report released in Sydney today showed. The median estimate in a Bloomberg News survey of 24 economists was for a 0.6 percent gain.

The Australian dollar jumped almost 1 percent as concern eased that Europe’s fiscal crisis and slower growth in China will derail an economy Reserve Bank Governor Glenn Stevens says is experiencing “modest growth.” An estimated A$500 billion ($492 billion) pipeline of resource projects by companies such as BHP Billiton Ltd. (BHP) has helped cushion a slump in manufacturing and services hit by a strong currency.

“We’ve got a mining boom boosting investment dramatically,” said Shane Oliver, head of investment strategy at AMP Capital Investors Ltd., which has almost $124 billion under management. “On the other hand, the non-mining economy is really struggling.”

The local currency climbed to 98.37 U.S. cents at 1:07 p.m. Sydney time, compared with 97.76 cents immediately before the data were released. Australia’s 10-year bond yields jumped 10 basis points to 3.04 percent, and the S&P/ASX 200 Index of stocks reversed declines and gained 0.1 percent to 4,045.60 at 1:10 p.m. in Sydney.

Rate Outlook

Traders are pricing in a 25 percent chance of a half percentage point reduction in the benchmark interest rate next month, down from 50 percent prior to the GDP report, according to a Credit Suisse Group AG index based on swaps.

Compared with a year earlier, the economy expanded 4.3 percent in the first quarter, the fastest annual pace since the third quarter of 2007, today’s report showed. Economists forecast a 3.3 percent year-over-year gain.

Australia’s annual growth rate averaged over the past two quarters is the fastest among countries with Group of 10 currencies tracked by Bloomberg.

“These figures send the loudest possible message to the world that Australia is the strongest performing developed economy bar none,” Treasurer Wayne Swan said at a news conference in Canberra after the release. The government is aiming to swing the budget back into the black. It last month forecast a A$1.54 billion surplus for the year starting July 1, ending four years of deficits.

Consumer Spending

Today’s report showed household spending rose 1.6 percent in the first quarter, adding 0.9 percentage point to
GDP growth. Non-dwelling construction soared 12.6 percent, adding 1 point to growth, it showed. Exports dropped 1.3 percent, shaving 0.2 point from the expansion.

The Australian dollar, the world’s fifth-most traded currency, has gained 40 percent against the U.S. dollar since the start of 2009 and reached $1.1081 on July 27, the highest level since it was floated in 1983.

It has since retreated as signs mount that Europe’s debt crisis will sap global growth. The currency dropped 6.7 percent last month after the central bank unexpectedly cut its benchmark rate by half a percentage point and as data from China, Australia’s biggest trading partner, indicated a slowing economy.

Stevens yesterday lowered rates by a quarter-point to a 2 1/2-year low of 3.5 percent, citing global uncertainty and “a degree of precautionary behavior” by consumers and businesses.

**Cautious Households**

Today’s report showed the nation’s household savings ratio was little changed at 9.3 percent in the three months through March from 9.4 percent in the fourth quarter of 2011.

The strength of household demand is reflected in Australian retail sales that rose at more than four times the pace that economists forecast in the three months through March, capping the best quarter since 2009 as consumers spent more at restaurants and clothing stores.

Sales adjusted to remove inflation jumped 1.8 percent in the first quarter from the prior three months, a government report showed May 7.

The job market also remained strong, with Australian payrolls increasing by 71,900 in the first three months this year, the best quarter since 2010, as the mining investment boom spurs hiring in Western Australia and Queensland.

**Low Unemployment**

“Overall labor market conditions firmed a little, notwithstanding job shedding in some industries, and the rate of unemployment remains low,” Stevens said after yesterday’s rate decision.

Driving Australia’s economy is demand from developing nations including China and India for iron ore, coal and natural gas.

Today’s GDP report showed new engineering construction soared 19.7 percent in the first quarter from the final three months of last year, and 53 percent from a year earlier as the mining bonanza intensifies. In contrast, housing construction dropped 2.1 percent from the fourth quarter as the industry struggles.

To contact the reporter on this story: Michael Heath in Sydney at mheath1@bloomberg.net

To contact the editor responsible for this story: Stephanie Phang at sphang@bloomberg.net

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