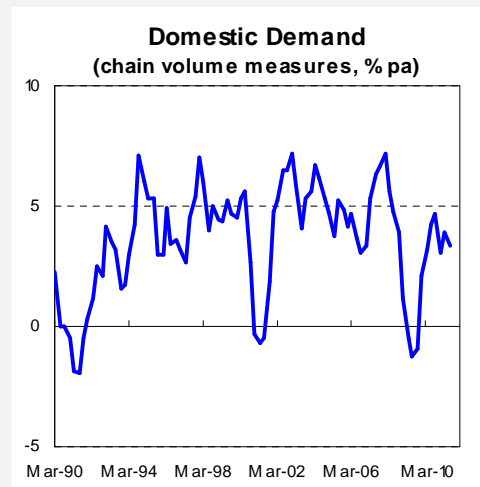
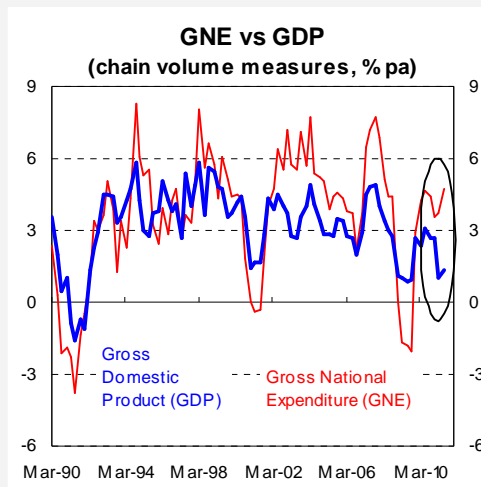


DATA SNAPSHOT

GDP – Economy Bounces Back

Wednesday, 7 September 2011

- The Australian economy bounced back in the June quarter, growing by 1.2%, after major natural disasters caused the economy to contract in the March quarter. The outcome was in line with our forecast and higher than the consensus forecast of 1.0%. It is also the fastest quarterly growth in just over four years.
- Annual growth picked up from 1% to 1.4%, but remains well below trend. We expect economic activity to continue to accelerate as we progress through this year.
- The rise in Q2 GDP came from inventories, household consumption and business investment. Offsetting these rises were net exports and public investment.
- Household consumption made a strong contribution to growth and many discretionary spending areas of household consumption were robust in the quarter. It bucks the trend prevalent in the retail-spending data and suggests household caution isn't as poor as other data might suggest.
- The terms of trade rose to another record high in Q2, giving a large boost to incomes. Compensation of employees and gross operating surplus grew strongly.
- Labour productivity improved; GDP per hour worked rose 1%, the strongest quarterly rise in more than two years. Further increases in productivity, however, are needed and helpful in easing inflationary pressures.
- By State, Queensland was the strongest performer. State final demand soared 3.5% as rebuilding from the flood and cyclone damage boosted the economy. In terms of annual growth, WA was the top performer.



The Australian economy bounced back in the June quarter, growing by 1.2%, after major natural disasters at home caused the economy to contract by 0.9% in the March quarter (a revision upwards from the previously reported contraction of 1.2%).

The outcome was in line with our forecast and higher than the consensus forecast of 1.0%. It is also the fastest quarterly growth in just over four years.

Annual growth picked up from 1% to 1.4%, but remains well below trend. We expect economic activity to continue to accelerate as we progress through this year, as coal exports continue to recover, reconstruction related to the natural disasters boosts activity and the private business

investment upswing deepens.

GDP EXPENDITURE MEASURE:

The natural disasters affected acutely the export numbers in the March quarter. While exports are recovering from the natural disasters, the recovery still has further to run.

- Trade Sector

Export volumes lifted by 2.6% in the quarter after a 6.6% fall in the March quarter, but import volumes grew by 4.3%, causing net exports to wipe 0.5 percentage points from GDP.

- GNE

The gross national expenditure numbers (GNE) give us the picture of the economy excluding the trade sector (i.e. the net exports component). GNE grew by 1.1% in the March quarter and by 1.5% in the June quarter.

The increase in GDP in the quarter came from the change in inventories, household final consumption and private business investment. Offsetting these rises were net exports and public investment.

- Inventories

The biggest contribution to GDP growth in the quarter came from inventories, which added 0.8 percentage points, as rundown stocks were rebuilt. Manufacturing, wholesale trade and retail trade witnessed the largest build up of inventories.

- Household Consumption

Further, household consumption also made a strong contribution to growth of 0.5 percentage points after rising by 1% in the quarter – the fastest quarterly pace of growth in one year. Indeed, only four of the seventeen sub categories in household consumption fell in the quarter, indicating that the growth in household consumption was fairly broad based.

The strongest gain occurred in transport services (up 5.9%) while the biggest fall occurred in car sales, which slumped 5.5%, largely due to supply-chain disruptions in Japan after its own natural disasters.

Interestingly, many discretionary spending areas of household consumption were robust in the quarter. It bucks the trend prevalent in the retail-spending data and suggests household caution has not deepened, although price discounting is likely to have accounted for some of the increase in volumes. In the June quarter, spending on recreation & culture rose by 3.1% (equal to Q2 2010, which was a 6½-year high), spending on hotels, cafes & restaurants rose 3.0% (a 1½-year high), spending on furnishings & household equipment rose by 1.9% (a near 2-year high) and clothing & footwear lifted by 2.4% (a near-two year high).

- Dwelling and Non-Dwelling Investment

Dwelling investment, another soft patch in the economy, was subdued in the quarter. It fell by 0.1% in the quarter and added nil to GDP. Private new residential construction activity weakened but this was almost offset by growth in spending on alterations & additions (i.e. renovation activity). Non-dwelling investment fell 0.4% in Q2 and also made a flat contribution to GDP.

- Private Business Investment

One of the continuing drivers of growth in the June quarter continued to be private business investment, as the business investment upswing deepens and the resources boom continues. However, there was some loss of momentum from the previous quarter. In the quarter, this segment grew by 2% and grew by a near three-year high of 10.5% over the year. The contribution to growth was 0.3 percentage points to GDP.

- Public Spending

Public spending overall added nothing to growth. While the unwinding of stimulus from the Federal Government continued, spending for the natural disasters outweighed some of this.

Public consumption added 0.2 percentage points to growth but public investment fully offset this contribution to leave the overall contribution as flat.

	TREND			SEASONALLY ADJUSTED		
	% change Mar 11 to Jun 11	% change Jun 10 to Jun 11	% points contribution to growth in GDP Mar 11 to Jun 11	% change Mar 11 to Jun 11	% change Jun 10 to Jun 11	% points contribution to growth in GDP Mar 11 to Jun 11
Final consumption expenditure						
General government	0.7	3.4	0.1	0.9	3.4	0.2
Households	0.7	3.2	0.4	1.0	3.2	0.0
Gross fixed capital formation						
Private						
Dwellings	1.1	9.7	0.1	-0.1	0.7	—
Ownership transfer costs	-1.8	-16.2	—	-0.8	-16.6	—
Non-dwelling construction	1.4	9.6	0.1	-0.4	10.0	—
Machinery and equipment	4.9	11.9	0.8	4.9	14.8	0.8
Cultivated biological resources	-2.4	-0.8	—	1.0	2.7	—
Intellectual property products	1.1	3.5	—	1.0	3.2	—
Public	0.8	3.3	0.1	3.8	4.6	0.0
Changes in inventories	na	na	0.3	na	na	0.3
Gross national expenditure	1.8	4.6	1.9	1.5	4.7	1.6
Exports of goods and services	1.1	3.9	0.2	2.6	3.7	0.6
Imports of goods and services	3.2	10.3	0.6	4.3	10.6	1.1
Statistical discrepancy (C)	na	na	—	na	na	0.1
Gross domestic product	0.2	1.1	0.2	1.2	1.4	1.2

GDP EXPENDITURE, INCOME AND PRODUCTION MEASURES:

There are three different measures of GDP – expenditure, income and production. The three measures should equal each other, but often do not. The statistical discrepancy ensures that they do. The statistical discrepancy added 0.1 percentage points to the GDP expenditure measure, nil to the GDP income measure and 0.1 percentage points to GDP production.

GDP INCOME MEASURE:

GDP on the income measure alone rose by 1.4 % in the June quarter and by 1.4% on a year ago.

- National Disposable Income

A broader measure of change in national economic well-being is real net national disposable income. This measure adjusts the volume measure of GDP for the terms of trade effect, real net incomes from overseas and consumption of fixed capital. This measure rose a solid 3.3% in the June quarter taking the annual rate to 3.7%

- Compensation of Employees

Total compensation of employees (includes wages & salaries) rose by 1.7% in Q2 and 7.5% on a year ago. A higher annual rate has not been recorded in almost four years. It underscores the strength in household income growth.

- Gross Operating Surplus

Gross operating surplus in private non-financial corporations surged 10.1% following a 6.7% decline, as profits recovered after the flood impact in Q1.

- Household Savings Ratio

The household savings ratio fell to 10.5% in Q2 from 11.7% in Q1, but remains close to a 24½-year high.

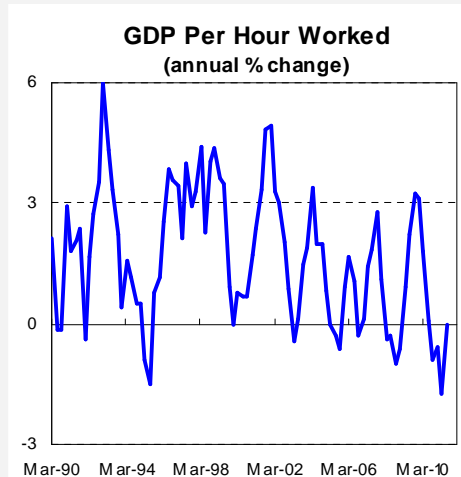
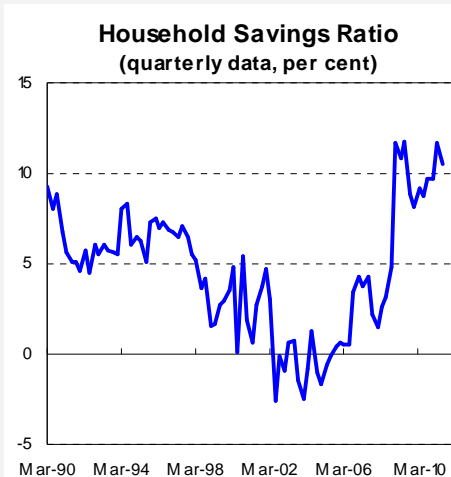
The high savings ratio continues to reflect caution of householders and suggests they have the means, but not so much the appetite for spending at the moment.

- Terms of Trade

The terms of trade (the ratio of export prices to import prices) rose 5.4% to a new record high of 122.6, reflecting strong growth in commodity prices. The terms of trade is helping lift national incomes. Real gross domestic income rose by 6.5% for the 2010-11 financial year, the largest financial-year increase since 1987-88. Real gross domestic income measures the real purchasing power of income generated by domestic production.

- Productivity

GDP per hour worked, a common measure of labour productivity, rose 1.0% in the June quarter, the strongest quarterly outcome in more than two years. On a year ago, GDP per hour worked was flat. The productivity improvement likely reflects the strong growth in Q2 GDP combined with more moderate gains in employment this year. Although one number does not constitute a trend, improvements in productivity would be a welcome development for the standard of living and helpful in easing the pressures on inflation. Further improvements on the productivity front are needed in coming quarters.



GDP PRODUCTION:

GDP using the production measure alone rose by 1.1% in the June quarter and by 1.4% on a year ago. The strongest sectors over the June quarter were transport, postal & warehousing (+4.4%), rental, hiring and real estate services (+3.9%) and accommodation and food services (+3.7%). Meanwhile, the strongest contributions to GDP growth in Q2 came from manufacturing and transport, postal & warehousing (each added 0.2 percentage points).

- Manufacturing

Manufacturing rose a surprisingly solid 2.8% in the June quarter, despite exports being squeezed by the high Australian dollar.

- Agriculture

Agriculture, forestry and fishing are benefiting from higher than average rainfall, rising by 1.1% in the quarter and 12.9% over the year to the June quarter.

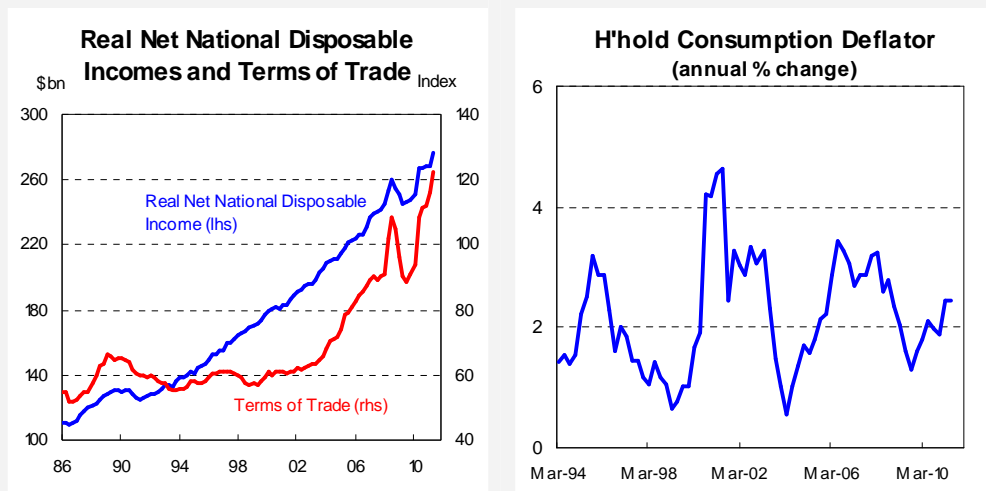
- Mining

There was also evidence that mining has yet to fully recover from the flood disruption. Growth in mining was flat and was down 8.7% over the year to June. This was the weakest annual rate in over 24 years.

GDP DEFLATORS:

- Household Consumption Deflator

On the prices front, the household consumption deflator rose by a modest 0.4% in the June quarter, easing from a 1.2% jump in the March quarter. This likely reflects price discounting by retailers and some easing in prices after the temporary impact of the floods and cyclone earlier this year. The easing in prices is less evident in the CPI measures. Underlying CPI recorded a strong rise of 0.9% in the June quarter. On a year ago, the household deflator has risen 2.5% while the underlying CPI has lifted by 2.7%.



- GNE Deflator and the GDP Implicit Price Deflator

The GNE deflator (which is unaffected by the terms of trade) rose by 0.3% in Q2 and by 1.9% on a year ago. But the overall GDP implicit price deflator, which highlights the terms-of-trade impact, rose 1.6% in Q2 to be up 4.9% on a year ago.

STATE FINAL DEMAND:

By State and Territory, Queensland was the strongest performer for the quarter. State final demand in QLD soared 3.5%, the fastest quarterly growth in four years. Growth in Q1 growth was also revised up sharply to 0.8% (previously reported as -0.6%), which saw the annual rate rise to 5.7%. On a quarterly basis, this was followed by South Australia (2.0%) and Northern Territory (1.1%).

On the weaker side, State final demand in Q1 declined in the ACT (-0.7%) and Tasmania (-0.5%) while NSW managed to eke out growth of 0.2%.

- Queensland

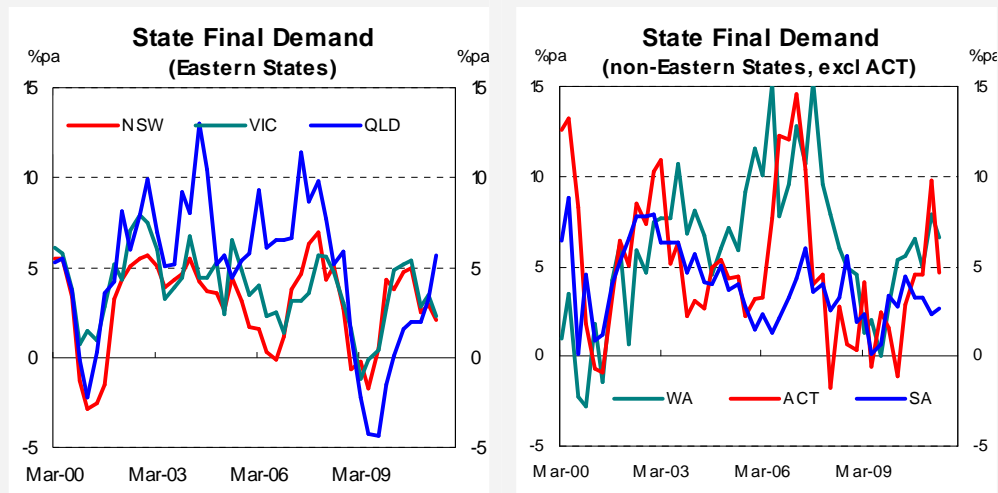
Queensland was the comeback kid in Q2, with a huge 14.4% increase in private investment as rebuilding got well underway, following the flooding and cyclone damage earlier in the year. However, this is not all, it also reflects an upswing in investment in the State as planned mining projects get underway in LNG and coal, amongst others. Government investment dropped for the second consecutive quarter. Household and government consumption was solid, both rising

0.7%. Tourism and education in Queensland have taken a hit from the stronger AUD.

- NSW

NSW saw gains in government and household consumption (1.1% and 0.7%, respectively). Public investment in NSW rebound in Q2, rising 3.9%, which was fortunate, given the 3.4% decline in private investment in the State, the third consecutive quarterly decline.

Australian business investment is concentrated in the mining industry and this appears to be having the effect of drawing investment away from States less rich in resources, such as NSW. Additionally, the high level of the Australian dollar is negatively impacting some sectors, such as manufacturing, while high interest rates and their effect on households is felt acutely in NSW, given high house prices and high levels of household debt. Construction was a weak spot for the NSW economy; non-dwelling construction fell 17% and dwelling construction fell by 2.6% in June quarter.



- Victoria

Victoria's State final demand remained solid rising 0.6% in Q2, following on from a 1.4% gain in Q1, which saw its annual rate at 2.3% just above NSW. Growth in Victoria was driven by households, with an increase of 1.8% in household spending and government spending was slower, but still quite robust. However, investment was soft in Victoria, with declines in investment from both the government and private sector. The investment boom nationally is yet to gain full momentum in Victoria. The strong Australian dollar has weighed on the manufacturing and education sectors over the past year.

- Western Australia

In annual terms Western Australia showed strong growth of 6.6%, with quarterly growth of 1.0% illustrating the power of the resources boom. This was despite the 11% decline in public investment. Government (+2.1%) and household (+1.8%) consumption provided the impetus for the WA economy, with those mining dollars burning holes in their pockets. Much investment is in the pipeline in WA, particularly in iron ore and LNG, and should provide a strong boost to the WA economy in coming years.

- South Australia

South Australia boasted strong growth of 2.0% in the June quarter, led by sharp increases in private and government investment (8.8% and 8.3% respectively). Car and car-part makers suffered in Q1 following the Japanese disaster and with the strong Australian dollar not helping matters, although the situation improved in Q2 as Japanese supply came back on-line. The state

continues to wait in anticipation for the Olympic Dam expansion. Construction spending provided a boost to the SA economy in Q2, both in dwelling and non-dwelling construction. Meanwhile household spending in SA fared less well, falling 0.4% in Q2, after a flat result in Q1.

- Australian Capital Territory

Economic growth in the ACT retreated in Q2, led by a sharp pullback in public investment. However, household spending remained robust. Dwelling investment has provided a big boost to

the ACT economy over the past two years as the State scrambled to make up for an undersupply of dwellings. However, this trend appears to be waning, with dwelling investment falling 1.0% in Q2, led by a fall in new dwelling investment, while alterations and additions continued to climb.

	TRENDS			SEASONALLY ADJUSTED		
	% change Mar 11 to Jun 11	% change Jun 10 to Jun 11	% points contributions to growth in GDP Mar 11 to Jun 11	% change Mar 11 to Jun 11	% change Jun 10 to Jun 11	% points contributions to growth in GDP Mar 11 to Jun 11
New South Wales	0.2	1.8	—	0.2	2.1	0.1
Victoria	0.8	2.8	0.2	0.6	2.3	0.1
Queensland	1.8	4.8	0.3	3.8	5.7	0.7
South Australia	0.6	2.0	—	2.0	2.7	0.1
Western Australia	2.3	7.7	0.3	1.0	6.6	0.1
Tasmania	-0.1	2.1	—	-0.5	1.9	—
Northern Territory	0.5	2.6	—	1.1	3.5	—
Australian Capital Territory	0.7	5.9	—	0.7	4.6	—
Australia (DFD)(a)	0.9	3.5	0.9	0.7	3.4	0.7

IMPLICATIONS FOR THE INTEREST RATE OUTLOOK:

Economic activity is improving. While there is still evidence of a multi-speed economy, some of the concerns about the soft spots in the economy – such as household caution – were less prevalent in today's data. Strong growth, for example, was evident in household consumption and in the discretionary household spending categories.

The uncertain global economic outlook remains a cloud over the Australian economic outlook. But unless global economic deteriorates markedly, we believe the RBA will steer a steady course and keep rates steady.

RBA Governor Stevens remarks from a speech earlier today adds fuel to our view. In this speech, Stevens said that he was optimistic that Australia would weather the global turbulence. Further, Stevens said that "periods of sudden increases in anxiety within international financial markets are moments when, if at all possible, it is good to be in a position to be able to maintain steady settings".

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