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ECONOMY SLOWS, HOUSING ENDURES WEAKER 2005/06

The Australian economy slowed significantly in the June 2006 quarter, vindicating the decision by the Reserve Bank to leave interest rates on hold.

Gross Domestic Product grew by 0.3 percent in the June 2006 quarter, taking annual growth from a downwardly revised 2.9 per cent to a rather lack-lustre looking 1.9 per cent.

Australia's peak building industry body, HIA, said that the annual pace of domestic demand in the economy had also slowed.

HIA's Chief Economist, Mr Harley Dale, said that dwelling investment grew modestly over the quarter, but not to a sufficient extent to prevent a softer year for housing in 2005/06.

"Housing activity increased in the June quarter, the first rise in four quarters. The overall slowing in the sector continues, however, with residential investment falling for the second consecutive year, down by 3 per cent in 2005/06," Mr Dale said.

In the June quarter expenditure on new and established houses increased by 4.5 per cent to just over \$8 billion, but was 3.9 per cent lower than a year earlier.

Expenditure on alterations and additions rose by 2.7 per cent to over \$6.6 billion, a level still 4.1 per cent lower than in the June quarter last year.

"A stronger quarter for housing investment in June provided a respite from what remains a continuing slowdown for the residential sector," Mr Dale said.

"While the sharp slowing in Australia's growth pace may have been narrowly driven, it nevertheless reinforces the on-going need to sit tight and assess what effects higher interest rates already brought down in 2006 will have," Mr Dale said.

"Despite the downcycle in housing having further to run, the industry was still worth 6.3 per cent of GDP, although that share is well down on a year or two ago," Mr Dale added.

FURTHER INFORMATION

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