

Australian economy slows but govt still upbeat

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SYDNEY (AFP) — Australia's economy grew at its slowest pace in almost four years in the three months to June, official data showed Wednesday, but the government insisted the performance was solid amid the global slowdown.

Growth was 0.3 percent against the first quarter, with the annual rate falling to 2.7 percent, the figures showed after the central bank Tuesday cut interest rates for the first time since 2001 to support economic expansion.

"The economy is certainly slowing, that is there for all to see," Treasurer Wayne Swan told parliament, with the data showing consumer spending had shrunk over the June quarter for the first time since 1993.

But high Asian commodity demand, led by China, had left the resource-rich Australian economy better placed to battle the global slowdown compared with many other countries, he said.

"These are solid numbers, especially considering global challenges that we are facing and what is happening elsewhere in the developed world," he said, adding the global credit crunch and oil shock had hit shares and world growth.

The Reserve Bank of Australia Tuesday cut interest rates by 25 basis points to seven percent because of cooling economic growth. The decision ended a long spate of hikes aimed at taming inflation.

The latest growth data were slightly below expectations and compare with a revised 0.7 percent quarterly expansion in the first three months of the year, when the annual growth rate stood at 3.7 percent.

Despite the slowdown, Prime Minister Kevin Rudd said there were grounds for optimism about Australia's performance compared with many other developed economies.

"We believe this represents a reasonable performance against the difficult challenges that now present themselves to the Australian economy internationally," Rudd told lawmakers.

Unlike Australia, the developed economies of Japan, the Eurozone and Britain all face the risk of recession following a global credit crunch sparked by a US financial crisis.

Economists said the economic slowdown justified the central bank's decision to push down rates,

but was not deep enough to spark similar action next month.

"It certainly validates the rate cut yesterday (Tuesday), there is scope there to take the foot off the brake," Commonwealth Bank chief economist Michael Blythe told Dow Jones Newswires.

But he said while the growth figures were weaker, "the economy hasn't stopped and there are still some inflation issues here, which again you can see in the numbers."

Australian inflation is running at annual rate of about 4.5 percent, above the central bank's target of 2.0 to 3.0 percent. But the bank expects inflation will fall back to target by 2010.

Fuel costs had risen, household spending had been subdued and there were indications of a softening in business activity, with overall economic growth set to be slower, central bank governor Glenn Stevens said Tuesday.

The Australian dollar fell to a 12-month low of 82.7 US cents in early afternoon trading Wednesday, with lower interest rates dimming some of its allure. Shares were one percent down after an 18 percent fall over the last year.

Source: AFP