COUNTRY REPORT

Australia

4th quarter 1996

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The Economist Intelligence Unit

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London
The Economist Intelligence Unit
15 Regent Street
London
SW1Y 4LR
United Kingdom
Tel: (44.171) 830 1000
Fax: (44.171) 499 9767

New York
The Economist Intelligence Unit
The Economist Building
111 West 57th Street
New York
NY 10019, USA
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2

Hong Kong
The Economist Intelligence Unit
25/F, Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong
Tel: (852) 2802 7288
Fax: (852) 2802 7638

Electronic delivery

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Contents

List of tables

List of figures

October 3, 1996

Summary

4th quarter 1996

Outlook for 1997-98: The government's economic reforms will remain on track. No private consumption boom is foreseen, but business remains optimistic. No current-account crises are likely in the forecast period, but the currency will weaken slightly.

The political scene: The electorate appears to like the 1996/97 federal budget, and Labor has remained in policy limbo. One Labor senator has become an independent, improving the government's position in the upper house of parliament. Mr Howard has made his first foreign forays.

Economic policy: The underlying federal budget deficit will be cut, with both spending cuts and revenue-raising measures. The proposed superannuation surcharge may be unworkable. The government has tried to woo the Democrats on industrial relations reforms. The Senate report on Telstra has split on party lines. Differing views have been expressed on bank merger policy. Cross-ownership restrictions have been reinstated for airport leases. Victoria has continued with electricity privatisation, and Queensland may sell off some assets.

The economy: Economic growth slowed in the second quarter of 1996, and household savings rose. Business has remained bullish on the prospects for private-sector investment. Growth levels have varied markedly between the states.

Sectoral trends: Herd rebuilding has pulled down agricultural output. Wheat price forecasts have been revised down. Mining output has remained flat, but the value of exports has risen. Negotiations on native title have broken down. Manufacturing output has fallen, and services output has increased only slightly.

Employment, wages and prices: Labour market conditions may be improving, but wages growth continues to be worrying. The discussion on guaranteed minimum wages has continued. Consumer price inflation has peaked.

Money and finance: Official interest rates were cut at the end of July. The merged Metway/Suncorp bank will stay in Queensland. The Reserve Bank has a new governor, and explicit inflation targets.

Foreign trade and payments: Monthly current-account deficits fluctuated around A$1.6bn during the first half of 1996. The improving balance of trade position has highlighted the size of the net income deficit. Net foreign debt rose during the second quarter, but the debt-service ratio fell.

Business news: The de-mutualisation of the National Mutual will be successful. Optus Communications is preparing an A$4bn share flotation. Air New Zealand has bought 50% of Ansett Airlines. The Coles Myer saga has continued.

Editor: Graham Richardson
All queries: Tel: (44.171) 830 1007 Fax: (44.171) 830 1023

Political structure

Official name	Commonwealth of Australia
Form of state	Federal democracy
Legal system	Based on constitution of 1901
National legislature	Bicameral; House of Representatives of 148 members directly elected by a preferential voting system for a three-year term; Senate of 76 members directly elected by proportional representation for a six-year term, one half of the Senate retiring every three years, usually to coincide with elections for the House of Representatives. The Senate may not originate or amend money bills
Electoral system	Compulsory universal direct suffrage over age 18
National elections	March 2, 1996; next election due by end-May 1999
Head of state	Queen Elizabeth II, represented in Australia by a governor-general, currently Sir William Deans, appointed February 1996
State legislatures	In five of the six states there is a bicameral legislature, in the other (Queensland) the legislature is unicameral
National government	Cabinet headed by prime minister appointed by governor-general on the basis of party strength in the House of Representatives. There is currently a Liberal/National Party coalition majority government
Main political parties	Liberal Party; Labor Party; National Party; Australian Democrats Party

The cabinet Installed March 1996

The cabinet	Prime minister	John Howard
	Deputy prime minister & minister for trade	Tim Fischer
Cabinet ministers	Communications & the arts	Richard Alston
	Defence	Ian McLachlan
	Employment, education & training	Amanda Vanstone
	Environment (& leader of the Senate)	Robert Hill
	Finance	John Fahey
	Foreign affairs	Alexander Downer
	Health & family services	Michael Wooldridge
	Industrial relations (& leader of the House)	Peter Reith
	Industry, science & tourism	John Moore
	Primary industries & energy	John Anderson
	Social security	Jocelyn Newman
	Transport & regional development	John Sharp
	Treasury	Peter Costello
Reserve Bank governor	Ian McFarlane	

Economic structure

Latest available figures

Economic Indicators	1991	1992	1993	1994	1995
GDP at market prices[a] A$ bn	383.1	399.3	417.1	443.2	468.6
Real GDP growth %	0.4	2.8	3.0	5.1	2.9
Consumer price inflation %	3.2	1.0	1.8	1.9	4.6
Population m	17.4	17.6	17.7	17.9	18.2
Exports fob US$ bn	42.4	42.8	42.6	47.3	53.1
Imports fob US$ bn	38.8	41.1	42.7	50.6	57.2
Current account[b] US$ bn	–11.4	–11.5	–10.5	–17.4	–19.2
Reserves excl gold US$ bn	16.5	11.2	11.1	11.3	11.8
Total external debt US$ bn	141.9	137.5	143.7	163.4	171.9
Exchange rate (av) A$:US$	1.28	1.36	1.47	1.37	1.35

October 2, 1996 A$1.26:US$1

Origins of gross domestic product 1995[c]	% of total
Primary production & mining	7.6
Manufacturing	18.2
Construction	6.3
Commerce	16.9
Transport & communications	9.1
Finance & business services	12.1
Public administration	3.6
Other services	16.6
Ownership of dwellings	9.6
GDP at factor cost incl bank service charges	100.0

Components of gross domestic product 1995[c]	% of total
Private consumption	60.6
Government consumption	17.0
Fixed investment	21.8
Stockbuilding	0.7
Exports of goods & services	21.8
Imports of goods & services	–21.9
GDP at market prices	100.0

Principal exports fob 1995/96[d]	US$ bn
Metal ores, minerals & metals	12.1
Coal, coke & petroleum	6.0
Machinery	5.4
Gold	4.3
Cereals & preparations	3.7
Total incl others	57.1

Principal imports cif 1995/96[d]	US$ bn
Machinery	16.8
Consumer goods	11.7
Transport equipment	9.1
Fuels & lubricants	3.2
Chemicals	2.1
Total incl others	58.6

Main destinations of exports 1995/96[d]	% of total
Developing countries	45.9
Japan	21.6
ASEAN	15.4
EU	11.1
USA	6.0

Main origins of imports 1995/96[d]	% of total
Developing countries	29.1
USA	25.0
EU	22.6
Japan	13.9
ASEAN	9.4

[a] Expenditure measure. [b] IMF calculation. [c] Income measure. [d] Fiscal years ending June.

Outlook for 1997-98

GDP growth is easing, but will average 3.6% in 1996 (expenditure measure) and remain around this level in 1997-98. The current-account deficit will contract in 1996, but increase slightly in 1997 and 1998. Inflation will fall.

Economic reforms will remain on track—

The Liberal/National government, despite its inexperience, has taken a sophisticated approach to piloting legislation through the federal parliament. Details of the more controversial aspects of the 1996/97 budget were released early, so defusing criticism. The minister for industrial relations, Peter Reith, famous in opposition for his intransigence, has also showed a surprisingly conciliatory approach in negotiations with the Australian Democrats, in attempting to formulate an industrial relations bill acceptable to the Senate. At the apex, the prime minister, John Howard, appears to have preserved his reputation for honesty.

—as the government remains dominant in parliament

The EIU expects that the government will be able to keep pushing through economic reforms over the next two years, although there will be occasional setbacks. It will remain dominant in the lower house of the federal parliament, the House of Representatives; its majority of 40 seats over all other parties combined gives some leeway for disgruntled National MPs to rebel on certain issues, and means that the opposition Labor members must be reconciled to a long hard slog, concentrating on criticising detailed aspects of government policies, rather than hoping to engineer any great change in the parliamentary balance of power. In the upper house, the Senate, the government's position is also starting to look better. The government will never be able to claim an automatic majority in this house, in the current parliament, but even if its relationship with the Australian Democrats turns sour (the Democrats' leader, Cheryl Kernot, will have no compunction about putting party before country), the defection of Mat Colston from the Labor Party in August (he is now an independent) will make it easier to push legislation through the Senate. Mr Colston and his fellow independent, Brian Harradine, have shown themselves broadly supportive of deficit reduction, although less keen on certain measures to achieve this, notably the sale of the state telecommunications monopoly, Telstra.

Forecast summary

	1995[a]	1996[b]	1997[b]	1998[b]
Real GDP growth[c] (%)	2.9	3.6	3.4	3.6
Manufacturing production (%)	1.1	1.5	2.0	2.0
Consumer price inflation (%)	4.6	3.1	2.5	2.5
Current-account balance (US$ bn)	–19.2	–15.7	–16.5	–18.4
Average exchange rate (A$:US$)	1.35	1.28	1.30	1.30

[a] Actual. [b] EIU forecasts. [c] Expenditure measure.

No private consumption boom is likely—

While the government's efforts to cut public spending will have a direct and calculable effect on certain aspects of government consumption, which is likely to grow at annual rates of only 1-2% over the forecast period, the effects of planned reforms on other components of gross domestic product will be more complex. The new labour relations legislation, likely to be presented to parliament soon, will make it much easier for firms to dismiss people: one big question is whether the increased uncertainty this creates will encourage individuals to moderate consumption and increase savings. Anticipation of these reforms may have lain behind the increase in the savings rate in the second quarter of 1996 (see The economy). Private consumption is also unlikely to be encouraged by any precipitate fall in interest rates, with the new governor of the Reserve Bank, Ian McFarlane, seen as tough on inflation, and with the bank now given official inflation targets (see Money and finance).

—but business remains optimistic—

High real interest rates are also likely to discourage any rapid revival in residential investment in 1997, although the slide in private spending on dwellings appears to have halted. The outlook for business investment is rather more difficult to predict: although the corporate sector has protested against some of the measures in the 1996/97 budget (notably the removal of certain implicit subsidies, for example the Development Import Finance Facility), it remains upbeat about prospects for future investment (see The economy), and has much to gain from the government's enthusiasm for deregulation and privatisation.

—and the outlook for export volumes is generally good

The outlook is generally good for the volume, if not the value, of rural exports over the forecast period. The volume of exports of grains and industrial crops seems likely to increase during 1997, due in part to continued recovery from drought, although growth in livestock exports may be constrained by herd rebuilding. Forecasts from the semi-official Australian Bureau of Agricultural and Resource Economics (ABARE) envisage sharp increases in the volume of oil, liquid petroleum gas (LPG), copper and diamond exports in fiscal year 1996/97 (ending June), along with less marked increases in iron ore, silver and tin exports. Previous investments in the mining industry are starting to yield results, despite rather lower forecast prices for many commodities.

No current-account crises are likely—

On the import side, much will depend on future trends in private consumption and investment. More moderate private consumption growth in recent months has helped keep the trade balance in the black, and even if there is an upturn in investment we do not expect the trade balance to give much concern in 1997 or 1998. However, lower commodity prices will stop large trade surpluses being recorded, and the substantial net income deficit (largely the result of servicing outstanding foreign debt) will keep the current-account deficit high, both as a proportion of GDP and in absolute terms. While there are unlikely to be any current-account crises in 1997-98, the balance of payments will remain a potential Achilles' heel until national savings can be increased.

—and inflation will fall

Although the current-account situation will remain bearable, some slight softening of the Australian dollar is expected as commodity prices weaken. As a result, the average annual exchange rate will ease from A$1.28:US$1 in 1996 to A$1.30:US$1 in 1997 and 1998, implying a slightly sharper depreciation against the Japanese yen. The Australian dollar's weakening will have little effect on consumer inflation, which will continue to fall. The headline rate of inflation should continue to drop over coming quarters, thanks in part to the recent interest rate cut, but the underlying inflation rate may remain close to the top of the Reserve Bank's 2-3% target range.

Fiscal tightening will continue in 1998—

The next federal election must be held by May 1999 at the latest. However, it is unlikely that the federal treasurer, Peter Costello, will want to configure the 1997/98 or 1998/99 budgets as pre-election give-aways. The government's majority in the House of Representatives is so large as to make an opposition victory in the lower house of parliament almost impossible, and only half the senators come up for re-election at any one time. So far, the government appears to have gained public support for sticking to its guns, and it will not want to be accused of political opportunism.

—and other policy objectives may become better defined

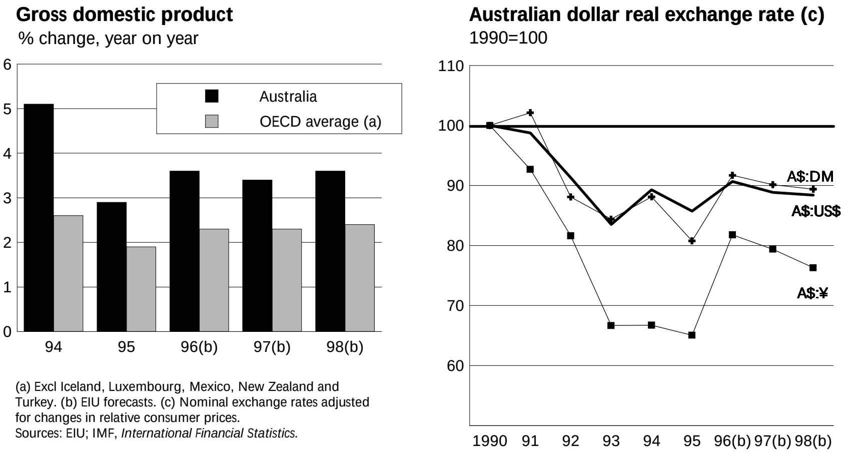
Some attention should be paid to constitutional issues in 1997-98. The agreement of inflation targets for the Reserve Bank (see Money and finance), reached by an exchange of letters between the treasurer and the bank's governor, will encourage consideration of the role of the bank in policy-making. While a formal constitutional arrangement guaranteeing the bank's independence (as in New Zealand) is unlikely, the balance of power in economic policy-making may begin to change, although the government will still be held responsible for the effects of tight monetary policy. Another issue that needs to be resolved is the exact relationship between Canberra and the states over economic issues. The states objected to certain measures in the federal 1996/97 budget which deprived them of revenue, and it is unclear how well the transfer of certain administrative functions over to the states will work. Other coordination issues, for example over the proposed electricity national grid, must be resolved. Dates for Mr Howard's promised constitutional convention on the desirability of Australia becoming a republic have yet to be set.

Economic results and forecasts

(A$ bn at constant 1987 prices; % change year on year in brackets)

	1995[a]	1996[b]	1997[b]	1998[b]
Private consumption	255.43	265.65	273.62	281.01
	(4.3)	(4.0)	(3.0)	(2.7)
Public consumption	71.54	72.97	74.07	75.55
	(3.2)	(2.0)	(1.5)	(2.0)
Gross fixed investment	91.91	95.12	98.93	104.86
	(2.4)	(3.5)	(4.0)	(6.0)
Final domestic demand	418.88	433.75	446.61	461.42
	(3.7)	(3.5)	(3.0)	(3.3)
Increase in stocks	2.74	–0.50	–0.20	–0.30
	(0.3)[c]	(–0.8)[c]	(0.1)[c]	(0.0)[c]
Total domestic demand	421.62	433.25	446.41	461.12
	(4.0)	(2.8)	(3.0)	(3.3)
Foreign balance	–0.08	3.59	5.45	7.08
	(1.0)[c]	(0.8)[c]	(0.4)[c]	(0.4)[c]
GDP[d]	421.54	436.84	451.86	468.20
	(2.9)	(3.6)	(3.4)	(3.6)
Exports of goods & services	92.05	103.56	113.92	125.31
	(4.3)	(12.5)	(10.0)	(10.0)
Imports of goods & services	92.14	99.97	108.47	118.23
	(9.8)	(8.5)	(8.5)	(9.0)

[a] Actual. [b] EIU forecasts. [c] Change as a percentage of GDP in the previous year. [d] Expenditure measure.



(a) Excl Iceland, Luxembourg, Mexico, New Zealand and Turkey. (b) EIU forecasts. (c) Nominal exchange rates adjusted for changes in relative consumer prices.
Sources: EIU; IMF, *International Financial Statistics.*

Review

The political scene

The federal government's pre-budget strategy pays off—

The lead-up to the new Liberal/National coalition government's first budget was characterised by the deliberate leaking of news on several sensitive subjects. Major changes so divulged included proposed cuts to university funding, higher student charges, cuts to business programmes and changes to taxation arrangements for superannuation (pensions). At a more general level, the government had stated many times that substantial spending cuts would be made, and these were therefore widely expected. As a result, most of the real news left for budget night was good news, particularly for families in receipt of the new support package promised during the election campaign.

—with the budget well-received by the electorate

Opinion surveys suggest that the Australian electorate responded positively to the budget. According to the *Bulletin*-Morgan poll, published on August 22, around 77% of those polled regarded the budget as "average" or "better", despite the spending cuts. Thanks in part to the government's constant hammering home of the theme, the population seems to be in favour of budgetary restraint, with almost 60% of those surveyed after the budget believing that funding cuts and increased charges were necessary to cut the deficit. The budget was even well-received by Labor voters, 60% of whom considered it to be "average" or "better".

The general public's willingness to endorse one of the toughest budgets ever proposed by an incoming government places both Labor and the minor parties in a difficult position, by leaving them with little of substance to attack.

Pre-budget disturbances harm Labor—

The Australian Council of Trade Unions (ACTU) organised a pre-budget rally at the federal parliament to protest against the government's proposed industrial relations laws. A small band of protesters, including some union officials, broke away from the main group of around 25,000 and stormed Parliament House, causing considerable damage and injuring a number of police. The actions of this small group have proved to be a public relations disaster for the ACTU and, to a lesser extent, for the Labor Party. Matters were made worse when the secretary of the ACTU, Bill Kelty, described the rally as a success and only later condemned the violence.

Both the violence and the ACTU's subsequent handling of the matter have generated considerable bitterness within the Labor Party towards the ACTU. The protest also undermined Labor's attempts to make political capital from the budget.

—which remains in policy limbo—

Research undertaken by the Labor Party has indicated that its current policy of tightly targeted welfare payments to disadvantaged groups played an important role in its election loss earlier this year. In particular, the lower income earners which form Labor's traditional support base appeared to take the view that social welfare payments were being directed to "less worthy" groups (such as Aborigines and single mothers). There was also widespread disenchantment among Labor supporters over what they viewed as the party's growing "political correctness".

These research results present Labor with a policy dilemma: if the party retains its current position on welfare, multicultural issues and Aboriginal affairs, it stands to continue losing ground with lower income earners; if it steps back from these policies it may well lose its middle-class support, along with that of the "less worthy". One way out would be for Labor to portray "less worthy" groups as victims of an increasingly heartless labour marketplace, and so tap into many Australians' fears about employment insecurity, long working hours and the trend towards casual labour. But Labor policies on reversing such trends will be difficult to formulate, and even more so to implement, when back in power.

—and suffers from a senator's defection

A Queensland senator, Mat Colston, resigned from the Labor Party on August 20 and now sits in the upper house as an independent. His move was sparked by Labor's decision to pass him over as its candidate for deputy president of the Senate (a post traditionally held by the main opposition party). Upon his resignation, Mr Colston was voted into the deputy presidency as an independent. His resignation is expected to make it considerably easier for the federal government to push legislation through the Senate as they will now only need the support of Mr Colston and the other independent senator, Brian Harradine (from Tasmania). The importance of securing Democrat support for legislation will be commensurately reduced.

The two independent senators have given some idea of their voting intentions. Mr Colston has indicated that he has an open mind on the proposed partial privatisation of the telecommunications firm, Telstra. Both Mr Colston and Mr Harradine are believed to have reservations about the federal government's industrial relations bill. However, their support is unlikely to be needed on this issue, as there are strong indications that an amended industrial relations bill will receive Democrat support (see Economic policy).

A federal by-election looms

The federal seat of Lindsay must be re-contested in a by-election, following the High Court decision that the successful Liberal candidate for the seat had breached the constitution, by holding an office of profit under the Crown at the time she was nominated for the election.

Neither the Liberal/National coalition government nor the Labor opposition wants to be put to the test in such a by-election. The Liberals regard their gaining of the seat in the March 1996 election as a fluke, and are dubious that it can be repeated. In their view, the size of the government's lower house majority (it holds 94 out of 148 seats) makes it vulnerable to a protest vote. A substantial swing against the government in the by-election would unnerve some backbenchers and could, at least temporarily, damage the government's resolve to pursue its reform agenda. On the other side of the house, Labor fears that the government is still too popular for a major protest vote to emerge. A poor showing by Labor in the by-election would reinforce the perception (both inside and outside the party) that it faces an immense task, if it is to have any chance of making a respectable showing at the 1999 federal election.

Mr Howard makes his first foreign forays—

John Howard's first overseas trips as prime minister were to the Pacific Forum, in the Marshall Islands, and to Indonesia and Japan. The main aim of the visits to Asia was to emphasise that the new government remained committed to forging strong relationships with its Asian neighbours, and to dispel any impression that it was less open to Asian engagement than its predecessor.

—and risks Chinese ire

Mr Howard met in September with the Dalai Lama, despite warnings from China that to do so could damage Australia's relationship with China. A previous meeting between the Dalai Lama and the minister for foreign affairs, Alexander Downer, had already led to Chinese displeasure, despite the claim that the meeting was in a personal rather than official capacity. In this context, Mr Howard's explanation that he would meet the Dalai Lama in his capacity as a religious leader, rather than as the head of the exiled Tibetan government, is unlikely to placate Beijing.

Economic policy

The underlying budget deficit will be cut—

The 1996/97 federal budget anticipates cutting the underlying budget deficit to A$5.6bn in the current fiscal year, from A$10.3bn during 1995/96. It also sets the scene for an underlying deficit of A$1.6bn in 1997/98 and a return to underlying surplus (A$957m) in 1998/99. The federal government expects the headline deficit figure (which includes the proceeds of asset sales) to be in surplus over the entire period.

—with spending cuts bearing the brunt of reform—

In the absence of policy changes, Treasury had estimated that an underlying deficit of A$9.6bn would have been recorded for 1996/97. Cuts to net spending account for around A$2.9bn of the A$4bn difference between the no-policy-change figure and the budgeted figure of A$5.6bn. Total spending cuts amount to A$4.5bn, partly offset by increased spending of A$1.5bn (mainly on the family tax package and the gun buy-back scheme).

The cuts to spending are numerous, with the largest being in allocations to the states (A$619m), labour market programmes (A$575m), a planned 2% reduction in federal government running costs (A$187m), additional higher education contribution charges (A$133m), cuts in highway funding (A$113m) and the abolition of the development import finance facility (A$94m). The largest single cut in outlays (A$2.5bn) relates mainly to lower interest payments flowing from the reduced deficit.

—but some revenue increases are expected too

The net increase in revenue detailed in the budget amounts to A$1bn, with the largest item being A$515m raised by the gun levy (a one-year impost of 0.2% on taxable income to fund the government purchase of guns declared illegal). Changes to the tariff concession system (which impose a duty of 3% on previously exempt items) will raise a further A$313m.

The 1996/97 budget

	A$ m	% of total
Receipts		
Taxes on individuals	65,940	48.5
Company taxes	19,700	14.5
Sales tax	13,890	10.2
Excise duties	13,360	9.8
Customs duty	3,010	2.2
Fringe benefits tax	3,180	2.3
Superannuation tax	1,800	1.3
Other taxes & fines	4,148	3.1
Snowy Mountain repayment	725	0.5
Interest & dividends	5,132	3.8
Asset sales	5,100	3.8
Total receipts	135,985	100.0
Outlays		
Social security	48,897	36.1
Health	19,408	14.3
State governments	16,797	12.4
Education	11,064	8.2
Defence	10,027	7.4
Labour & employment	3,235	2.4
Law & transport	2,682	2.0
Housing & recreation	2,512	1.9
Agriculture & mining	3,652	2.7
Public service	7,197	5.3
Interest payments	9,781	7.2
Other	260	0.2
Total outlays	135,511	100.0
Headline surplus	474	n/a
Net advances (mainly asset sales)	–6,123	n/a
Underlying balance	–5,649	n/a

Source: Press reports.

Family tax relief measures—

The federal government has delivered on its key promises relating to tax relief for families. The first part of the relief package applies to both single and two-income families and involves lifting the main income earner's tax-free threshold by A$1,000 for each dependent child (subject to an income test).

The second part of the package applies to single income families, and increases the tax-free threshold by A$2,500 for families with at least one child under the age of five and is also income tested. In two-parent families, the breadwinner's partner may earn up to around A$4,500 per year without the family losing its single income status.

—are paid for by higher taxes on the wealthy—

Higher income earners face increased taxes and will not be eligible for the family tax package. In particular, the federal government has imposed a tax surcharge on superannuation payments made by those earning in excess of A$70,000 per year. The tax on superannuation contributions will rise by 1 percentage point for each A$1,000 of income over A$70,000 to a maximum rate of 30%, which will apply to contributions made by those earning A$85,000 or above. Prior to these changes, all superannuation contributions were taxed at 15%. Families earning over A$70,000 will also lose a portion of the rebate available for child care. In addition, higher income earners (singles earning over A$50,000 per year and couples earning over A$100,000 per year) will be required to pay an additional 1% Medicare levy if they fail to take out private health insurance.

—as well as by reduced business funding—

The major budget measures directly affecting industry are a reduction in the 150% tax concession available for research and development to 125%, and the abolition of the computer bounty from 1997/98. This bounty is a rebate paid to computer manufacturers, currently 8% of the factory cost of production; stopping it will save the government around A$115m per year. Bounties were also terminated for the production of books, machine tools and robots as of budget night.

—but the diesel rebate survives

The federal government has announced that it will not scrap the rebate of excise paid on diesel fuel used in off-road applications by the agricultural and mining industries. (The excise was originally levied to help pay for the damage caused to roads by heavy vehicles. The off-road use of diesel by the agricultural, mining and fishing industry was made eligible for a rebate, on the grounds that it did not contribute to road damage.)

Miners had been particularly worried that they would be removed from the rebate scheme, especially after a remark by the prime minister, John Howard, during an industry dinner address that the mining sector would have to bear its share of A$8bn in budget cuts. The agricultural industry, which received around A$600m from the scheme in 1995/96, had already been given assurances that the rebate would remain in place for it (the government probably feeling that its removal might prove the last straw for many farmers, worried about gun control legislation, native title and the continuing financial consequences of the recent drought). However, the scheme is to be adjusted to limit eligibility. Details are not yet available, but it seems likely that a cap will be put on the annual rebate paid to the mining sector, currently A$800m.

The superannuation surcharge may be unworkable—

The proposal for a superannuation surcharge has proved the most controversial. The Association of Superannuation Funds is lobbying the federal government to amend its scheme, on the grounds that the administrative difficulties posed by it are substantial. In order to levy the surcharge on 355,000 people (the government's estimate of the number affected), details relating to around 16 million individual superannuation accounts will have to be reported to the Australian Taxation Office (ATO), which must then inform the superannuation funds which accounts will attract the surcharge. In providing this information, the ATO will almost certainly be breaching existing privacy laws relating to income and taxation.

The Society of Certified Practising Accountants estimates that the administrative cost of the proposed superannuation tax surcharge could come to as much as the government revenue raised (around A$500m per year). This cost would be spread across all fund members. The superannuation funds would prefer to see the surcharge deducted by employers and included with routine tax instalment payments. This would remove the administrative burden for funds (although it would marginally increase it for employers) and would side-step privacy issues. But the government is not keen on this approach, as it would make the surcharge seem too much like a promise-breaking tax rise.

—and higher private health insurance charges cause embarrassment

As noted above, a central feature of the budget was the tax rebate offered to individuals and families with private health insurance. However, within days of the budget's presentation, a number of private health funds said that they would increase insurance premiums by an amount almost equal to the rebate. Although the premium rises had been planned for some time, the news was met with a public outcry and the prime minister intervened by revoking the Department of Health's authority to approve future increases. Approval will now be required from the minister for health, Michael Wooldridge, in conjunction with Mr Howard and the treasurer, Peter Costello.

Tax concessions for infrastructure bonds are frozen—

During early September the federal government closed off the infrastructure bond concession scheme for the remainder of 1996/97, having already received A$26.5bn worth of applications. The bulk of these applications (around A$20bn) will be rejected due to funding caps on the scheme. The infrastructure bond concession system operates by exempting interest earned on the bonds from income tax. This short-term cost to revenue is partly offset by the fact that the issuer of the bonds cannot subsequently claim a tax deduction for the interest paid. Effectively, therefore, the scheme brings forward tax deductions which could otherwise only have been claimed by the developer once the infrastructure project was earning revenue.

If all A$26.5bn of infrastructure bond applications were granted, the short-term cost to government revenue would be around A$530m. The funding cap for 1996/97 is A$150m, suggesting that only around A$7bn of projects will be approved.

—partly because of additional negative gearing costs

However, the infrastructure bond concession scheme carries an additional cost to revenue. Generally, the bonds are marketed by financial institutions, which permit investors to borrow almost the entire purchase cost of the bond. The investors are then able to claim the cost of the interest paid on these loans against their other income, while receiving the interest on the bonds tax-free. This additional cost to revenue is at least partly responsible for the freeze on infrastructure bond applications. It appears likely that the government may act to limit the tax deductibility of interest on loans used to purchase infrastructure bonds.

The federal government woos the Democrats on industrial relations

The Democrats have agreed to support an amended version of the federal government's Workplace Relations Bill. The Democrats support award simplification (provided that workers do not lose minimum conditions), the government's proposed employment advocate (an ombudsman-like figure) and its reforms to unfair dismissal legislation. However, they oppose other areas which they think may be covered by the legislation, including the permitting of non-union individual contracts which are not vetted by the Industrial Relations Commission, the repeal of the "conveniently belong" rule which reduces the number of unions in the workplace and secondary boycott legislation which draws in consumer and environmental boycotts. It is unclear what exactly the Democrats mean by consumer and environmental boycotts, and whether the government ever had any intention of including them in industrial relations legislation. It is probable that the Democrats have raised the issue in an attempt to reinforce their claim to have a "watchdog" role. The Democrats support secondary boycott legislation relating to industrial relations matters.

It is thought likely that differences between the government and the Democrats can be resolved and that the bill will be passed by the Senate in October.

High Court ruling strengthens employers' position

In early September the High Court ruled against provisions of the Industrial Relations Act which allowed workers to gain compensation or reinstatement if the dismissal process itself was harsh or unreasonable, even when the employer had proved that a valid reason existed for the dismissal. Valid reasons for dismissal may be based on the employee's conduct, performance or the operational requirements of the business. The decision is likely considerably to strengthen the position of employers, whatever happens to the government's new Workplace Relations Bill.

The High Court also upheld the federal government's right to make laws dealing with industrial relations under the corporations and external affairs powers of the constitution. So although the High Court finding on unfair dismissals suits the reform agenda of the current government, at a broader level its decision upholds the rationale given by the former Labor government for formulating the industrial relations legislation. Labor also argued that the legislation was necessary to fulfil Australia's international treaty obligations. A future Labor government could therefore try to use the September 1996 ruling as support for any decision to re-regulate the labour market or other aspects of corporate affairs.

The Senate report on Telstra splits along party lines—

The majority (Labor and Democrat) report from the Senate's Telstra privatisation inquiry, released on September 9, recommended sweeping changes to government policy, including substantially upgrading the definition of "standard telephone service" and the separation of certain main consumer safeguards from the Telstra sale bill. The majority report also recommended that the government legislate to ensure that all future cabling is underground and that it took immediate action to ensure that the two carriers negotiate to combine their cable systems into one national network.

A dissenting report was handed down by the committee members from the government benches. It stated that the partial sale of Telstra would contribute around A$345m per year to the federal government's budget position, and argued that partial privatisation would boost economic activity and employment levels in rural and regional Australia through reducing costs.

The minister for communications, Richard Alston, rejected calls for the federal government to support a publicly owned underground cable network. However, the public furore over aerial cabling led him to ask Telstra and Optus whether combining their competing "broadband" networks would be feasible. (The term "broadband" is applied to cabling that can carry a range of services such as telephony, television and interactive computer links.) He also stated that, while the government had no intention of imposing a cable monopoly, the companies were free to combine their networks as part of a commercial arrangement. This move indicates that the government would welcome a joint approach to cabling by the companies.

—and the outcome of the Senate vote is in doubt

The independent senator, Brian Harradine, indicated in early September that he would initially vote against the proposed partial (one-third) privatisation of Telstra. His comments followed a statement by Mr Alston that the full privatisation of the telecommunications firm was inevitable and that the federal government was likely to seek a mandate for it at the next election. Mr Howard subsequently repudiated Mr Alston's comments despite the fact that a few months earlier he had also described the full privatisation of Telstra as "unstoppable". Mr Alston's comments effectively undermined the government's careful cultivation of Mr Harradine and Mr Colston.

Mr Harradine has proposed instead that the federal government issue redeemable preference shares in Telstra, claiming that this approach would enable it to retain legal control over Telstra while still obtaining A$8bn from investors. (These shares would attract dividends, but have no voting rights attached to them, so in some ways would be more like holding debt than equity.) However, it is unlikely that this sum could be raised without investors being given at least some control over Telstra's strategic direction. Mr Harradine also questioned whether Tasmania would receive an adequate share of the A$1bn of environmental funding earmarked from the Telstra sale.

While discussions were proceeding between Mr Alston and Mr Harradine, Mr Costello said in parliament that Mr Harradine's redeemable preference share plan held no attraction for the government. Although the coalition government would not have seriously entertained Mr Harradine's plan, the treasurer's blunt and public repudiation of it is likely to have hardened Mr Harradine's resolve to vote against the sale.

The ACCC will regulate the telecommunications industry

In mid-September the federal government unveiled guidelines designed to foster competition in the telecommunications sector after deregulation occurs in 1997. (Deregulation will take place, whatever happens to Telstra.) The most significant feature is the granting of new powers to the Australian Competition and Consumer Commission (ACCC), which will enable it to move swiftly on predatory pricing. In addition to being able to seek injunctions, the ACCC will also be able to issue what will be called "competition notices" stating that a carrier or service provider has engaged in anti-competitive conduct. The onus of proof for this not being so will fall on the carrier. Claims for damage or loss resulting from anti-competitive behaviour will be heard in the Federal Court.

A public inquiry into media ownership is likely to be abandoned

The federal government claims that it has been unable to secure a chairman for the media ownership inquiry promised during the election campaign. It is likely instead to prepare a green paper (a discussion paper), detailing options for changes to the cross-media rules. While this approach will avoid the controversy of a public inquiry, both the Labor Party and the Democrats have criticised the government for backing away from its election promise. A green paper is also unlikely to result in Senate cooperation for legislative change, with the Democrats claiming that it will give the government too much influence over the options considered.

Australia’s existing cross-media rules prevent a company which holds a television licence from controlling a major daily newspaper in the same city market. Any changes to the rules will have substantial implications for two groups in particular: the Fairfax newspaper group and the Seven Network. Currently, companies associated with Kerry Packer and Rupert Murdoch are blocked from taking control of Fairfax and Seven by these cross-media rules.

Differing views on bank merger policy—

The federal government’s aim in commissioning the Wallis inquiry into the financial system is to establish a new framework for regulation of the sector which can provide the basis for a more internationally competitive financial market. The four major banks, the National Australia Bank, the ANZ, the Commonwealth and Westpac, are all in favour of a more merger-friendly regime. The smaller regional banks, which comprise the main takeover targets, tend to oppose a relaxation of the current stand on mergers. Non-bank financial institutions support the idea of a single regulator for all financial institutions, while the banks oppose it. The ACCC has warned that mergers between the large banks, and takeovers of regional banks, could undo the competitive gains produced by deregulation.

The Reserve Bank submission to the Wallis inquiry

- A single regulator for all financial institutions is undesirable.
- A merger between two of the four major banks would be acceptable, but any further reduction in number should be resisted.
- Restrictions preventing mergers between the banks and the two largest life offices should be reviewed.
- The interpretation of the Trade Practices Act which holds that each state should have a regional bank in addition to the four major banks should be reviewed.
- The merchant bank statutes of many foreign bank subsidiaries in Australia should be scrapped, and the banks brought within the licensed bank regime supervised by the Reserve Bank.
- Consumer protection regulation in the financial sector should be rationalised.

—and the Reserve Bank does not want a single regulator

The Reserve Bank has argued against the establishment of a single regulator for all financial institutions. It sees the financial market as offering capital guaranteed products, such as bank deposits and insurance policies, and non-capital guaranteed investment products. The Reserve Bank's view is that institutions which offer guaranteed products must be regulated, in order to minimise the risk of insolvency. It believes, however, that regulation is unnecessary for firms offering other investment products, which should instead comply with stringent disclosure rules. The Reserve Bank sees no merit in combining the two types of regulation in one institution and believes it risks conveying the erroneous message that all products are equally safe.

Cross-ownership restrictions are reinstated for airport leases—

During early August the federal government bowed to pressure from both the opposition and the states, and reinstated cross-ownership restrictions on Australia's airports. This means that the firm or group which has a controlling interest in Sydney airport or the proposed Sydney West airport after their privatisation will be limited to a 15% stake in the Melbourne, Brisbane and Perth airports. The cross-ownership restrictions may dilute bidding interest in the first tranche of airports offered for sale (Brisbane, Melbourne and Perth), by limiting ownership options for Australia's busiest gateway, Sydney airport.

The government's policy reversal was prompted by Labor's threats to join the Democrats and Greens in voting down the legislation in the Senate if the cross-ownership rules originally proposed by Labor were not reinstated. The Victorian, Queensland and Western Australian governments also lobbied the federal government to prevent their major airports from being absorbed into a network with Sydney and Sydney West airport.

—and a number of airport bidders have emerged—

Expressions of interest have been sought for Brisbane, Perth and Melbourne airports. The leasing of Adelaide airport, which was to be included in the first tranche, has been deferred until the completion of a feasibility study into the proposed integration of the domestic and international terminals. The list of bidders for the first trance of airports includes the Australian Airports Ltd group (backed by broking house J B Were & Son and the National Australia Bank), Amsterdam Airport Schipol (backed by the Commonwealth Bank and Macquarie Bank) and the Australian Pacific Airports Corporation (comprised of BBA, State Super Corp and the AMP Society). There are also several unaligned bidders, including the Hudson Conway group (which operates the Melbourne Casino), Westfield (a property developer and shopping centre owner), the City of Melbourne and National Mutual. Estimates of the bids for all three airports are in the range of A$1.6bn-2.2bn.

The bidding structure will be by tender. Syndicates will lodge preliminary bids, which will then be used to draw up a shortlist of potential buyers for each airport. The list will be finalised in mid-October, with bidders not on the shortlist being knocked out of contention. A preferred bidder will be selected for each airport in March.

—with qualifying foreign bidders being given local status

The federal government is allowing foreign-held institutions to stand in the bidding as local investors, provided that at least 60% of the funds they manage are drawn from Australian investors. The same guideline was adopted for the

CSL and Qantas floats and is expected to clear the way for the involvement of institutions such as National Mutual, Bankers Trust and County NatWest.

Victoria continues with electricity privatisation—

In early August the Victorian government sold the coal-fired Hazelwood Power Station for A$2.4bn to a syndicate headed by the UK's National Power. The high price paid for the station, which is around 30 years old and which operated at little over half its capacity during 1995, is essentially a high-stakes bet that Australia's long-awaited national power grid will be implemented within two to three years. Hazelwood is a base-load station, designed to operate at around 90% of capacity. This level of utilisation will only be possible once the national power grid starts up and Victoria is able to sell its excess power in other states. Once the national grid materialises, Hazelwood's low marginal cost of product will make it well-placed to compete with other generators. Although the official start-up date for the national power grid is October 1997, numerous delays leave the timing open to question.

At current production and earnings levels, the price paid for Hazelwood is around 30 times its earnings before interest and tax (EBIT). Once the station is able to operate at or near 90% of capacity, the multiple will fall to a more acceptable, but still high, ten times EBIT.

Shortly after the sale of Hazelwood, the Victorian government announced that it planned to sell the state's five remaining power generating businesses within two years. These comprise the Loy Yang A power station and brown coal mine; the gas-fired Newport and Jeeralang stations; a group of hydroelectricity plants; the state government's 49% stake in the Loy Yang B power station; and its 29% share in the Snowy Mountains Hydroelectric scheme. However, more recently, the Victorian treasurer, Alan Stockdale, indicated that no other major privatisations were planned for the remainder of 1996.

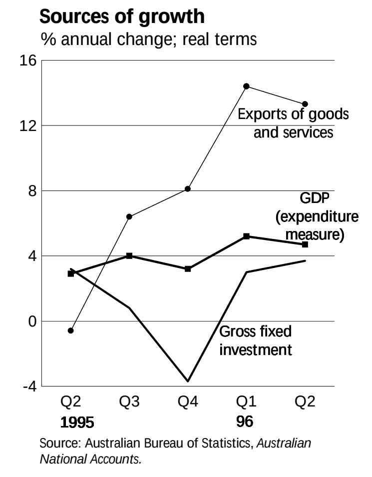
—and Queensland may sell off assets

An audit of Queensland's finances, chaired by Vince FitzGerald, pointed to a rising deficit and recommended sales of a range of state assets and higher state taxes. The government-owned assets listed in the audit report include power generators and distributors, motorway companies, port authorities, gaming operators, tourist agencies, forestry operations and surplus Crown land. The report approved of the government's moves to form a banking and insurance group by merging the Metway Bank with the state-owned Suncorp and Queensland Development Authority, provided that the new entity was then privatised.

The economy

Economic growth eases

As expected, the rapid GDP growth recorded during the first quarter of 1996 (2.2%, real terms, expenditure measure seasonally adjusted) fell away during the second (to just 0.2%). Net exports pulled 0.9 percentage points off real growth during the quarter, as exports fell and imports rose. Private consumption and business investment each added 0.3 percentage points, while the growth in stocks contributed 0.7 percentage points. The stock build-up is believed to have been involuntary and is expected to be unwound. Most of the increase in stocks occurred in the wholesale sector, and essentially reflects



weakness in the retail market. Wholesalers are likely to reduce their orders from manufacturers, who, given their own high levels of inventory, will cut back production.

Real GDP growth (expenditure measure) amounted to 4.3% during fiscal year 1995/96 (July-June), slightly higher than the 3.5% figure recorded in 1994/95. However, the sources of growth varied markedly. During 1994/95 growth was broadly based, with the main contributors being private consumption spending (2.8 percentage points), business investment (1.6 percentage points), government investment and government consumption (0.6 percentage points, and stocks (0.4 percentage points). Net exports pulled 2.6 percentage points off growth for the year. By 1995/96 the main contributors to growth had narrowed to private consumption (2.6 percentage points), business investment and net exports (1 percentage point each). The major factor pulling back growth was spending on dwellings (which cut 0.8 percentage points off growth).

Gross domestic product

(A$ m at average 1989/90 prices, seasonally adjusted; % change quarter on quarter in brackets)

	1995				1996	
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Private consumption	62,658	63,566	64,252	64,958	65,799	66,153
	(0.6)	(1.4)	(1.1)	(1.1)	(1.3)	(0.5)
Public consumption	17,653	18,093	17,518	18,276	18,320	18,126
	(1.0)	(2.5)	(–3.2)	(4.3)	(0.2)	(–1.1)
Private investment	18,124	18,132	18,205	17,692	18,412	18,842
	(–1.8)	(0.0)	(0.4)	(–2.8)	(4.1)	(2.3)
Public investment	5,021	4,894	5,094	4,745	5,347	5,047
	(–0.1)	(–2.5)	(4.1)	(–6.9)	(12.7)	(–5.6)
Change in stocks	374	546	1,554	264	187	1,078
	(–0.5)[a]	(0.2)[a]	(1.0)[a]	(–1.2)[a]	(–0.1)[a]	(0.8)[a]
Exports of goods & services	22,642	22,228	23,258	23,926	25,458	25,176
	(2.2)	(–1.8)	(4.6)	(2.9)	(6.4)	(–1.1)
Imports of goods & services	23,136	23,044	22,871	23,097	24,440	25,116
	(2.9)	(–0.4)	(–0.8)	(1.0)	(5.8)	(2.8)
GDP (expenditure based)	103,336	104,415	107,010	106,764	109,083	109,306
	(–0.5)	(1.0)	(2.5)	(–0.2)	(2.2)	(0.2)
GDP (income based)[b]	104,289	105,549	106,303	107,158	109,028	109,305
	(0.1)	(1.2)	(0.7)	(0.8)	(1.7)	(0.3)
GDP (production based)	102,319	103,060	104,919	105,498	107,570	107,339
	(0.7)	(0.7)	(1.8)	(0.6)	(2.0)	(–0.2)
GDP (average measure)	103,315	104,008	106,077	106,473	108,560	108,650
	(0.1)	(0.7)	(2.0)	(0.4)	(2.0)	(0.1)

[a] Change as a percentage of GDP in the previous period. [b] Includes statistical discrepancy.

Source: Australian Bureau of Statistics, *Australian National Accounts.*

Varying trends in business investment—

Business investment rose by 2.3% during the second quarter, compared with 8.8% during the first quarter (real terms, seasonally adjusted). Growth was spread evenly over non-dwelling construction (up by 2.4%) and spending on equipment (2.3%). During 1995/96 business investment rose by 8.4%, with non-dwelling construction expanding by 20.8% and spending on equipment by 5.8%.

Spending on dwellings rose by 0.6% (real terms, seasonally adjusted) in the second quarter. The increase was the first recorded by this subcomponent since September 1994. There are weak signals that the slump in spending sparked by oversupply and rising interest rates during the second half of 1994 may at last be working its way out of the system. Public investment, however, fell by 5.6% during the second quarter (real terms, seasonally adjusted), partly reversing the 12.7% increase recorded during the previous quarter.

—and consumption spending weakens despite higher incomes—

Private consumption spending rose by 0.5% (real terms, seasonally adjusted) in the second quarter, compared with a rise of 1.3% during the first quarter. This weakening was not caused by slower income growth: household income rose by 1.8% during the second quarter (nominal terms, seasonally adjusted). Wages and salaries, the largest component of household income (at around 62% of the total), rose by 1.3%. Social security payments, which amount to almost 18% of household income, surged by 5% during the quarter. Strong growth was also recorded for income from businesses, rent and investments (up by 2.8%). Household disposable income rose by just under 2%. Household income rose by 7.7% during 1995/96 and household disposable income by 7.1% (nominal terms).

—as household savings rise

The household savings ratio rose to 3.3% (seasonally adjusted) during the second quarter. The figure for the first quarter was also revised from 0.1% to a still low 2.2%. The need for revision arose because some personal income tax paid in December 1995 was not recorded until the first quarter of 1996. This error produced an apparent surge in personal income tax payments and pulled down the savings ratio. The household savings ratio rose marginally to 2.5% for 1995/96 as a whole.

New motor vehicle registrations have fluctuated markedly over recent months, falling by 6.2% in May, rising by 18.5% in June and then falling by 17.7% in July (seasonally adjusted). The large rise in registrations during June reflects the high level of discounting which occurred at this time (even allowing for seasonal factors). Weak sales during the course of the year, together with the firming of the Australian dollar during the last few months of 1995/96, led to larger than normal end of fiscal year discounts. Retail sales (seasonally adjusted) expanded by less than 1% during May and June combined, but then surged by 2.4% during July. Over half of the growth was accounted for by a surge in department store sales, and is more likely to reflect unusually deep discounting at the winter sales than renewed consumer confidence. Department stores are believed to have cut prices sharply in order to run down their high inventory levels. Consumer confidence remained flat during the second quarter and fell by 4% during July (as measured by the Westpac-Melbourne Institute index of consumer confidence).

Government consumption spending fell by 1.1%, wiping out much of the growth of the previous two quarters. Large quarterly swings in government spending are the norm. The growth in private consumption spending for 1995/96 as a whole amounted to a robust 4.3%, and that in government consumption to 2.5%.

New business investment surges—

New private-sector investment leapt by 16% to A$10.4bn during the second quarter (real terms, seasonally adjusted; see 1st quarter 1996 for an explanation of the differences between this series and the national accounts investment data). Spending on construction rose by 37.3%, more than reversing the 24.2% decline recorded in the first quarter. Spending on equipment rose by 8.8%.

The overall growth in new private-sector investment came to 11.7% for 1995/96, with spending on construction rising by 26% and spending on equipment by 6.5%. The level of new private-sector investment for the year was A$37.8bn, in line with earlier business expectations.

New capital spending by the services industries rose by 27.7% during the second quarter. This surge at least partly reflects the roll out of cable for telephony and pay television. Spending by the mining industry also rose strongly during the quarter (by 16.5%), while manufacturing recorded a 6.5% decline.

—and firms expect that growth will continue

Business expects around A$39.5bn of new private-sector investment for 1996/97. This estimate is higher than both the previous one made for 1996/97 (by almost 10%) and the corresponding estimate for 1995/96 (by over 15%), suggesting that business remains bullish on investment. Typically, estimates of new private investment made 12 months in advance understate actual investment by around 8% (although there is substantial year-to-year variation in the degree of accuracy). If this relationship continues to hold good, new private investment of around A$42bn can be anticipated for 1996/97.

The mining sector is particularly optimistic, anticipating growth of over 28% in new capital spending for 1996/97 (compared with the corresponding estimate made for 1995/96, rather than the 1995/96 actual). The services sector also expects its strong investment growth to continue, with a rise of 17.6% being anticipated. In contrast, manufacturing is looking to an increase of only 2.1% for 1996/97. This modest expectation is hardly surprising, in the light of the recent slow growth in manufacturing output.

Company profits fall sharply—

Company profits before income tax fell by 7.8% (seasonally adjusted) during the second quarter. This fall was greater than the revised (downward) 5.2% increase of the previous quarter. For 1995/96 as a whole company profits before tax fell by 3.9%. The fall was largest for transport and storage (down by 70%) and the manufacturing sector (down by 22.6%). In the case of transport and storage, the large quarterly decline followed a similar sized increase for the previous quarter. The industry recorded growth of over 63% in pre-tax profits during 1995/96. The manufacturing decline is more worrying, coming at the end of several quarters of falling or flat profitability. The manufacturing sector's profit before tax fell by 20% during 1995/96.

—but some sectors show growth

Substantial increases in company profits were recorded in some industries. The profit before tax of the property and business services industry rose by just under 139% during the second quarter (seasonally adjusted), and followed a similar increase in the first quarter. For 1995/96 as a whole the industry's profit before tax rose by 615%. Profit before tax for the construction sector increased by almost 54% during the second quarter. However, growth during this quarter and the two preceding ones was not sufficient to offset the large fall in profitability which occurred early in the fiscal year, and the industry recorded an overall fall in profits of almost 32% during 1995/96. To a large extent, this reflects the decline in activity in dwelling construction. Mining profits rose by 13.5% during the quarter and by 28% during 1995/96 as a whole.

States' growth varies markedly

The growth in gross state product (the state equivalent of GDP) during the second quarter ranged from a high of 3.9% for Queensland to a low of minus 3.1% for the Australian Capital Territory (real terms, seasonally adjusted). Western Australia's economy expanded by 1.1%. The two states with the largest economies, New South Wales and Victoria, recorded growth of 0.3% and a contraction of 0.2% respectively.

Sectoral trends

Herd rebuilding pulls down agricultural output

The real value of farm, forestry and fishing production dropped by 3.8% (seasonally adjusted) during the second quarter. The decline occurred as farmers moved to increase their herds; there was a 5% fall in the level of livestock slaughtering during the quarter and an increase in seed and fodder inputs. Rural exports fell by 4.1% (balance-of-payments basis, current prices, seasonally adjusted). Agricultural output rose by 22.1% during 1995/96 as a whole, as drought conditions abated.

Wheat price forecasts are revised down—

In early September the Australian Wheat Board cut its estimate of the benchmark wheat price to A$205 (US$160) per ton. The price downgrade reflects larger harvests in Australia, Argentina and Canada. There is also the possibility that Australia may be caught in the crossfire of a renewed export subsidy battle between the EU and the USA.

The Australian Wheat Board's revised estimate of the size of the wheat harvest is 19m tons, more than 1m tons above the previous estimate. It is also 200,000 tons above the estimate issued by the Australian Bureau of Agricultural and Resource Economics (ABARE). If achieved, it would represent the second biggest crop after the record harvest of 22m tons in 1983/84.

—and a row over wool exports

A rift has developed between Australia's largest wool exporter, Japanese-owned Itochu Australia Ltd and the Australian Wool Exchange (AWEX). AWEX, which is owned by wool producers, was established in 1993 to take over many of the responsibilities previously held by statutory authorities, including the operation of the world auction system and market reporting. Itochu claims that the AWEX board is dominated by seller interests and has disregarded the legitimate concerns of buyers. A number of exporters, including Itochu, have threatened not to renew their membership of AWEX. Technically, this would preclude them from bidding at AWEX auctions, at which around 80% of Australia's A$3bn wool clip is sold.

Second-quarter mining output is flat—

The value of the mining sector's output remained fairly flat (up by 0.6%, real terms, seasonally adjusted) in the second quarter. The real value of mining output rose by 3.8% for 1995/96 as a whole. The output of a number of minerals rose during the second quarter, notably copper, gold, black coal, oil, gas and uranium. The ABARE index of mine output rose by 4.6% during 1995/96. Within that overall figure, the output of metallic minerals surged by 8.7%. Large increases in mine production were recorded for uranium (94%), copper (28%), zinc (13%), gold (9.5%), lead (9.8%), iron ore (7.9%), manganese (8.6%) and nickel (8.2%).

—but the value of mineral resource exports rose

The value of mineral resource export earnings rose by 2.8% to A$8.6bn during the second quarter. The increase followed falls of around 1.5% over each of the preceding two quarters and reflects the fact that higher export volumes more than offset generally lower prices.

For 1995/96 as a whole mineral resource export earnings rose by 12% to A$33.9bn. Particularly large increases were recorded for refined gold (A$917m), black coal (A$883m), alumina (A$480m), aluminium (A$203m), nickel (A$170m) and uranium (A$54m). The growth in export earnings for the year reflected both higher volumes and higher prices; although mineral prices eased during the first half of 1996, the overall level for 1995/96 still exceeded that for the previous year.

Talks on native title collapse

Negotiations between Aboriginal and industry groups over amendments to the Native Title Act collapsed in early September. The two groups will now make separate submissions to Nick Minchin, who has the task of arbitrating the amendments and steering them through the Senate. The breakdown in the talks means that the Senate is unlikely to consider amendments to the Native Title Act until next year. Key areas of disagreement relate to the role of Aboriginal land councils in native title applications and agreements, and the points at which negotiation may occur. For example, the mining industry wants negotiation to occur at either the exploration stage or the mining stage of a project, but not both. The Aborigines want to retain the right to negotiate at both stages.

Manufacturing output falls—

The real value of manufacturing production fell by 1.6% (seasonally adjusted) during the second quarter of 1996, reversing much of the previous quarter's gain. There were substantial falls in output in the food, beverages and tobacco, metal products and machinery sectors. The value of manufacturing output expanded only modestly during 1995/96 as a whole, rising by 0.9%.

—and services output increases only slightly

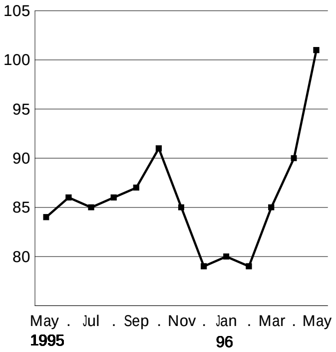
The services sector's real output rose by just 0.2% during the second quarter (seasonally adjusted). The only large gains were made in property and business services (3.3%) and communications (2.4%), while the construction industry and wholesale trade recorded substantial falls (1% and 1.5% respectively). Performance was essentially flat in most other services industries. The services sector expanded strongly during 1995/96 as a whole, with the real value of output rising by 4.3%.

Employment, wages and prices

Labour market conditions may be improving—

The unemployment rate continues to hover at or above 8.5%, but there are some signs that labour market conditions may be improving. Some gains in employment were made during the second quarter of 1996, offsetting the job

Working days lost per '000 employees
(all industries average)



Source: Australian Bureau of Statistics, *Australian Economic Indicators.*

losses which occurred earlier in the year, but virtually all the growth during the quarter was in part-time jobs. By June 1996 full-time employment stood below the level of January.

Since then, the trend appears to have changed. Around 9,000 jobs were created during July and the month saw a marked shift in the full-time/part-time ratio. Around 50,000 full-time jobs were created, while 41,000 part-time jobs were lost. It is extremely unlikely that a shift of this magnitude actually occurred during a single month. Instead, the changes are likely to reflect sampling errors rather than underlying change. Similar uncertainties surround the August labour force statistics, the most recent available. Although seasonally adjusted employment rose by 38,000 during the month, around 10,000 of these are believed to have been temporary positions associated with the census.

The unemployment rate hovered around 8.5% during May, June and July, before rising to 8.8% in August. The increase in August occurred despite substantial labour market growth (even allowing for the temporary nature of some of the positions) and reflects an increase in the labour force participation rate (the proportion of the working-age population in employment or seeking it). The unemployment rate is expected to remain high over the coming months, as any perceived improvement in employment conditions draws previously disillusioned job seekers back into the labour market.

—but strike activity is increasing

The new industrial climate and the end of Labor's wage accord with the union movement has given rise to increased strike activity. The disputes have been concentrated in highly unionised industries such as mining, oil refining, construction, car manufacturing and the ports

Telstra is to shed one-third of its workforce—

The state telecommunications firm, Telstra, is planning to shed 24,000 jobs from its total workforce of 76,000 by mid-1999. A reduction of around 9,000 is planned for 1996/97. The labour shedding will involve both redundancies and a large outsourcing programme. The prospect of large job losses has led to conflict with Telstra's two main unions, which claim that management is caving in to calls from government to cut costs in the lead-up to privatisation. Both the independent senators have also expressed concern over job losses, particularly in rural areas.

—and wages growth remains of concern

The growth in average weekly ordinary time earnings amounted to 1.3% for the three months ending in May, compared with 0.4% for the previous three-month period. Despite this rise, wages growth over the 12 months ending in May fell to 3.9%, from 4.2% over the 12 months ending in February. This suggests that slower economic growth has had an impact on wages, but the concern is that slower wages growth will not be sustained. The annual wage rises agreed in recent enterprise bargains have increased from just over 5% for those concluded in the first quarter to just over 6% for those concluded in the second quarter. More recently, enterprise deals appear moderated somewhat, but it is unclear whether this is a sustainable trend.

Guaranteed minimum wages for apprentices and trainees—

In late July the federal government announced that it would guarantee minimum wage levels for apprentices and trainees as part of its planned new training scheme, the Modern Apprenticeship and Trainee System (MATS), the establishment of which is provided for by the government's Workplace Relations Bill, currently being finalised. Apprentices and trainees employed under MATS, Australian Workplace Agreements or certified agreements and who earn less than the current National Training Wage will receive additional top-up payments from the government. The new minimum wage rates for apprentices and trainees range from A$128 per week for 16 year-olds to A$195 per week for those aged 18 and over.

—but pressure for a revamp of the whole system—

During late July the Australian Council of Trade Unions (ACTU) lodged a claim for pay rises of just over A$100 per week for the lowest paid members of the workforce. The ACTU claims that the move is designed to assist workers whose award wages effectively put them below the poverty line. The relatively small number of workers who would be directly affected by the wage claim are those on minimum award rates in low-skill jobs with few or no over-award payments. However, all other minimum award rates for more highly skilled jobs would also be increased in order to maintain pay relativities. If labour market conditions remain weak, these increases would be likely to be absorbed into existing over-award payments rather than lead to higher overall wage payments.

—produces a muted response from the federal government

The minister for industrial relations, Peter Reith, responded to the claim by stating that he was in favour of looking after the interests of the low paid, provided that the approach taken was compatible with overall policy objectives and particularly with the goal of maintaining low inflation. Mr Reith criticised the former Labor government's wage accords with the union movement for suppressing wages. However, he is unlikely to want to argue against wage rises for the low paid while his Workplace Relations Bill is still under review by the Senate.

Tighter eligibility for unemployment benefits

In mid-July the government announced that in order to continue receiving unemployment benefits the unemployed would be required to keep a diary of their efforts to find work (known as a Jobseeker Diary) and to approach more than two employers per week for work. The Jobseeker Diary must be available for random checks and is to be reviewed by social security officers every 12 weeks.

Inflation has peaked

The consumer price index rose by 0.7% during the second quarter of 1996, bringing the annual rate of inflation down to 3.1%. Underlying inflation, the Treasury measure which tries to remove the effects of interest rate rises and other policy changes and erratic items from the calculation, rose by 0.8% during the quarter, to an annual rate of 3.2%. At this level, underlying inflation is just above the Reserve Bank's target range of 2-3%. The GDP deflator rose by 0.8% during the second quarter, bringing the average increase for 1995/96 to 2.7%.

Upstream price indicators relating to manufacturing and construction were flat during the second quarter; for example, the prices of inputs of materials used by manufacturing and construction were generally below year-earlier levels. This, together will sluggish economic activity, suggests that inflation will remain low.

Prices and wages
(% change quarter on quarter unless otherwise indicated)

	1995				1996	
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Consumer prices	1.7	1.3	1.2	0.8	0.4	0.7
Food	2.1	0.4	1.5	0.3	0.2	1.0
Non-food	0.6	1.5	1.1	0.8	0.5	0.6
Consumer prices (annual rate)	3.9	4.5	5.1	5.1	3.7	3.1
GDP implicit price deflator[a] (annual rate)	2.1	3.1	3.4	3.0	2.6	2.3
Average weekly earnings[b] (annual rate)	4.4	4.8	5.1	4.9	4.2	3.9

[a] GDP by expenditure. [b] Mid-period ordinary time earnings.

Source: Australian Bureau of Statistics, *Australian Economic Indicators*.

Money and finance

Official interest rates are cut—

The Reserve Bank cut official interest rates by 0.5 percentage points to 7% at the end of July. The then governor of the Reserve Bank, Bernie Fraser, ascribed the easing of official rates to a fall in underlying inflation and sluggish growth. He also warned that the Reserve Bank stood ready to reverse the cut if wage movements became excessive. Banks responded to the cut by reducing their home-loan interest rates.

—but are unlikely to be reduced further this year

Speculation that further interest rate cuts are in prospect has been dashed by Ted Evans, the secretary to the Treasury and the second most important member of the Reserve Bank board. Mr Evans reiterated Reserve Bank concerns about the level of wages growth. His comments suggest that further cuts are likely to be delayed until there is clear evidence of an easing in the level of wage settlements.

The merged Metway/Suncorp bank will stay in Queensland

The Queensland state legislation relating to the bank formed by the merger of the Metway Bank, the Queensland government owned Suncorp insurance group and building society and the Queensland Industry Development Corporation (3rd quarter 1996, page 18) requires that the bank remains headquartered in Queensland. In addition, a majority of the bank's board of directors must be residents of Queensland. The tight restrictions are widely expected to reduce the attractiveness of the bank when the Queensland government sells its holding (in around five years' time).

In early September Queensland's minority coalition government failed to block an amendment to the legislation establishing the merged bank. The amendment effectively excludes the state government's 45% stake in the Bank of Queensland from the merger.

In mid-September the chairman of Suncorp and two other directors resigned in protest against the plan, which they believe is not in the best interests of Suncorp or Queensland. The chairman and one of the directors also sit on the board of the Bank of Queensland.

The Reserve Bank has a new governor—

Ian McFarlane replaced Mr Fraser as Reserve Bank governor on September 18, when the latter's seven-year term expired. Mr McFarlane had been deputy governor of the Reserve Bank since 1992. Prior to that, he held other positions at the bank and had also worked for the OECD. Mr McFarlane is known for his strong commitment to low inflation.

—and an explicit inflation target

The appointment of Mr McFarlane to the governor's position coincided with the release of a Statement on the Conduct of Monetary Policy. The statement, which was agreed between the federal treasurer and the governor, emphasises that the Reserve Bank alone determines short-term interest rate movements. It also commits the government and the Reserve Bank to holding underlying inflation to an average of 2-3% over the economic cycle.

The emphasis on the independence of the Reserve Bank was primarily to reassure international investors, who had been rather sceptical of the bank's independence, particularly since the former prime minister Paul Keating claimed that he had it in his pocket.

Foreign trade and payments

The current account shows some improvement

Australia's monthly current-account deficits fluctuated around A$1.6bn (US$1.3bn) during the first half of 1996. Although this was an improvement on the monthly average of A$2.3bn for the corresponding period of 1995, the deficit still remains uncomfortably high. The current-account deficit amounted to A$20.3bn during 1995/96.

Particularly high current-account deficits were recorded during April and May, as an import surge was accompanied by an easing of exports. Imports fell during June and July, resulting in much smaller current-account deficits. The merchandise trade account was in the black in June and July, but such surpluses were tiny in comparison with the continuing massive deficits on income payments (principally due to servicing payments on existing foreign debt).

Current account, 1996
(A$ m; seasonally adjusted)

	Mar	Apr	May	Jun	Jul
Exports of goods	6,406	6,484	6,208	6,462	6,217
Imports of goods	–6,304	–6,682	–6,621	–6,321	–6,146
Merchandise trade balance	102	–198	–413	141	71
Net services	21	–40	–62	62	135
Net income	–1,509	–1,784	–1,719	–1,559	–1,744
Net unrequited transfers	76	88	70	133	256
Current-account balance	–1,310	–1,934	–2,124	–1,223	–1,282

Source: Australian Bureau of Statistics, *Balance of Payments*.

The Australian dollar remains firm

The Australian dollar dipped in response to a cut in official interest rates at the end of July, but recovered the ground lost, to hover around A$1.27-1.28:US$1, during August. During early September the exchange rate firmed to over A$1.25:US$1 for the first time in three months. This reflected increased offshore confidence in Australia after the federal government budget and a growing belief that Australian interest rates will not be cut again soon. Enthusiasm for the currency has moderated slightly in recent weeks.

Net foreign debt rises

Australia's net foreign debt rose by A$2.7bn during the second quarter of 1996 to stand at A$187.8bn. Net capital transactions for the quarter amounted to A$3.6bn, while higher security and share prices led to a further increase of A$573m. A stronger Australian dollar pulled A$1.6bn off the overall increase in foreign indebtedness. Net foreign debt amounted to 38.6% of GDP at the end of the second quarter, marginally below its first-quarter share and 1.3 percentage points below the level prevailing one year earlier.

The private sector's gross foreign borrowing rose by A$3.5bn during the second quarter. This was only partly offset by an increase of A$1.1bn in its lending abroad. The sector's net foreign debt increased by A$2.3bn. The increase in the public sector's gross foreign borrowing amounted to A$1.5bn during the second quarter. Most of this was offset by a rise in net lending abroad of A$1.1bn, and the sector's net foreign debt rose by A$326m.

Thanks largely to export growth, Australia's debt-service ratio (the interest payable on its net foreign debt as a percentage of its exports of goods and services) eased to 11.3% during the second quarter, from 11.9% in the first quarter.

Business news

National Mutual's policy holders accept its shares—

The planned A$2.2bn (US$1.7bn) float of the National Mutual life company is virtually guaranteed success, with almost half the firm's policy-holders opting for scrip in National Mutual rather than a cash payout. Policy-holders will absorb at least 46% of the company's shares and a further one-third of the stock has been allocated for institutional buyers. At most, 20% of the stock will be available for sale to the general public.

—and Optus is also preparing to float

Optus Communications is planning to float during October 1996. The decision was made in mid-1996, after the largest local shareholder, Mayne Nickless, bowed to pressure from other shareholders to abandon plans to sell its 25% holding to a trade buyer. The A$4bn float is being co-managed by County NatWest and SBC Warburg.

Air New Zealand takes 50% of Ansett Airlines

In early September Air New Zealand announced that it had acquired TNT's 50% stake in Ansett Airlines for A$325m. In addition, Air New Zealand has agreed to inject A$150m into the airline as part of the purchase agreement. The executive chairmanship of Ansett is to remain with News Corp, which owns the other 50% stake in the airline, for at least another five years.

The Coles Myer saga continues

The retail group Coles Myer has recovered A$12m of the A$18m it lost in a controversial deal involving a company owned by Solomon Lew, then chairman of the company (1st quarter 1996, page 23). The Australian Securities Commission (ASC) was not a party to the commercial settlement deed, but played a role in the negotiations and saw the settlement document before its execution. The ASC is continuing its investigation of the original deal and is believed to be considering disciplinary action against the people involved in the transaction, which would prevent them from holding company positions. The ASC has also prepared a report for the Director of Public Prosecutions, which is determining whether criminal action should be taken.

CRA pulls back from its Century zinc mine—

In mid-July RTZ-CRA withdrew its requests to the federal and Queensland governments for legislation to ensure security of title for the development and put the project on hold. The mining company stated that its decision was based on the view that the legislation could lead to the project being tied up in legal challenges for the foreseeable future. In addition, federal enabling legislation was likely to be blocked in the Senate. The project is now effectively mothballed, while CRA continues negotiations with Aboriginal leaders in an attempt to reach an agreement regarding the project's development. All engineering development at the site has been halted.

The former Labor leader and governor-general, Bill Hayden, has been appointed by the Queensland government to act as its lead negotiator in the matter. Effectively, he will be attempting to strike an agreement between CRA and Aboriginal groups. If no deal is agreed by mid-February 1997 (the negotiating period provided for by native title legislation), the matter will go before the National Native Title Tribunal for arbitration. The tribunal has six months to reach a decision, but the federal government has an overriding say on whether the project will be allowed to proceed.

—but Western Mining is set to expand Olympic Dam

In early July Western Mining Corporation announced that it was proceeding with an A$1.3bn expansion of its Olympic Dam copper, gold, silver and uranium mine and processing facilities. The expansion will lift copper output from its current level of around 85,000 tons/year (t/y) to 200,000 t/y by 2001. Gold production will rise from 30,000 to 75,000 troy oz/year, silver from 400,000 to 950,000 troy oz and uranium from 1,000 to 3,700 t/y. The expansion will occur in two phases. The first is planned to take copper output to 150,000 t/y by 1999. Expansion beyond that level is subject to regulatory and environmental approval.

Quarterly indicators and trade data

Quarterly indicators of economic activity

		1993/94	1994/95				1995/96				1996/97
		4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
		Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep
	Qtrly totals										
GDP[a]	A$ m	101,832	102,976	103,841	103,336	104,415	107,010	106,764	109,083	109,306	n/a
Production: agriculture	Qtrly totals										
Wool[b]	’000 tons	120.1	241.3	202.6	140.4	94.8	187.7	192.9	148.7	111.9	n/a
Meat	“	704.8	708.9	715.3	636.9	670.3	653.6	654.4	650.2	632.5	n/a
Production: industry	Monthly av										
Manufacturing[c]	1989/90=100	113.1	115.0	115.5	114.7	113.5	114.6	114.9	118.2	n/a	n/a
Production: mining											
Coal	’000 tons	18,997	20,731	19,511	20,081	19,898	21,526	19,426	n/a	n/a	n/a
Construction											
Building approvals	A$ m	2,458	2,493	2,259	2,051	2,383	2,190	2,056	1,955	2,173	n/a
Employment											
Civilian employees[d]	’000	7,859	7,972	8,033	8,129	8,238	8,266	8,304	8,313	8,317	8,343[e]
Unemployed	“	857.4	810.9	775.0	851.9	740.5	731.6	741.4	833.1	760.6	731.6[e]
Reg unfilled vacancies[f]	”	49.4	68.7	66.0	57.2	53.7	62.0	56.1	63.9	53.6	n/a
Retail trade											
Value[g]	A$ m	8,813	9,161	9,246	9,392	9,628	9,884	9,979	10,160	10,161	n/a
Wages & prices	Weekly av										
Average weekly earnings:											
persons	A$	531.8	537.2	541.5	548.2	548.1	547.8	554.3	562.6	564.4	n/a
	Monthly av										
Consumer prices:	1990=100	107.8	108.5	109.3	111.2	112.6	114.0	114.9	115.3	116.1	n/a
change year on year	%	1.8	2.0	2.5	3.9	4.5	5.1	5.1	3.7	3.1	n/a
Share prices: ordinary	31.12.1979=500	2,060	2,050	1,947	1,875	2,013	2,119	2,140	2,260	2,255	2,168[e]
Money	End-Qtr										
M1, seasonally adj:	A$ bn	73.97	74.77	76.44	75.92	75.88	77.12	81.25	84.29	86.34[h]	n/a
change year on year	%	14.9	15.9	11.1	5.0	2.6	3.1	6.3	11.0	n/a	n/a
Short-term money											
Market rate[i]	% per year	4.69	5.44	6.95	7.44	7.44	7.44	7.43	7.42	7.17	n/a
Foreign trade & payments	Qtrly totals										
Exports fob: merchandise	A$ m	16,381	16,074	17,082	16,292	17,603	18,670	19,077	18,918	19,286	n/a
Imports fob: merchandise	“	16,008	18,447	18,529	18,424	19,219	19,987	19,839	19,014	18,994	n/a
	Monthly av										
Terms of trade	1990=100	81	82	82	86	85	85	85	86	86[j]	n/a
Current-account balance	A$ m	–1,949	–2,722	–2,144	–2,213	–2,117	–2,170	–1,848	–1,146	–1,680	n/a
Exchange holdings	End-Qtr										
Reserve Bank:											
gold[k]	$ m	2,261	2,287	2,280	2,245	2,298	2,278	2,284	2,372	2,311	2,273[l]
foreign exchange	“	11,361	11,285	10,706	11,753	10,643	10,485	11,340	10,303	11,489	15,485[l]
Exchange rate											
Market rate	A$:$	1.37	1.35	1.29	1.37	1.41	1.32	1.34	1.28	1.27	1,29[l]

Note. Annual figures of most of the series above will be found in the Country Profile.

[a] Seasonally adjusted. Expenditure-based, constant 1989/90 prices. [b] Taxable wool received by brokers and dealers from wool producers. [c] Seasonally adjusted. [d] Seasonally adjusted, including rural and domestic. [e] July only. [f] Figures for mid-month of quarter based on ABS register of businesses. [g] Seasonally adjusted, excluding motor vehicles, parts, petrol etc. [h] End-May. [i] Weighted average of four or five weeks to last Wednesday of quarter. [j] Average for April-May. [k] End-quarter holdings at quarter’s average of London daily price less 25%. [l] End-July.

Foreign trade
(A$ m)

Imports fob	Total Jan-Jun 1995	Total Jan-Jun 1996	EU Jan-Jun 1995	EU Jan-Jun 1996	USA Jan-Jun 1995	USA Jan-Jun 1996	Japan Jan-Jun 1995	Japan Jan-Jun 1996	China Jan-Jun 1995	China Jan-Jun 1996
Fish & products	291	293	15	15	20	18	7	8	4	6
Fruit, vegetables & products	267	289	44	38	48	52	0	0	19	19
Coffee, cocoa, tea & spices	234	239	68	59	4	4	2	2	4	3
Beverages	141	142	94	93	24	22	1	0	0	0
Tobacco & manufactures	86	89	16	19	21	25	13	12	1	2
Rubber & manufactures	577	608	125	137	76	84	184	200	11	13
Wood & pulp	388	277	8	12	71	52	0	0	0	0
Textile fibres & waste	89	86	23	20	8	14	2	3	0	0
Crude minerals & fertilisers	68	64	8	8	24	17	8	8	3	6
Metalliferous ores & scrap	65	85	4	8	4	6	3	2	2	1
Petroleum & products	1,715	2,337	20	8	65	103	2	2	19	28
Chemicals	2,297	4,545	1,491	1,629	1,047	1,190	233	212	64	78
Wood manufactures	161	159	46	52	10	9	0	0	10	11
Paper & manufactures	808	927	402	308	145	151	46	35	17	14
Textile yarn, cloth & mnfrs	1,149	1,164	200	193	128	106	74	51	124	125
Non-metallic mineral mnfrs	577	580	242	234	54	54	63	48	43	42
Iron & steel	578	706	197	159	43	55	205	180	22	10
Non-ferrous metals	292	317	104	74	53	35	16	11	10	8
Metal manufactures	867	923	302	253	171	181	90	65	68	75
Machinery & transport eqpt	15,900	17,978	4,505	4,495	4,536	5,265	4,760	3,767	303	364
of which:										
road vehicles	3,827	4,027	1,027	801	476	599	2,347	1,913	14	20
other transport equipment	993	983	97	193	572	942	367	25	0	0
Clothing & footwear	1,083	1,152	114	130	25	33	4	2	614	640
Scientific instruments etc	1,389	1,515	399	408	561	694	239	222	26	31
Total incl others	37,662	38,008	9,376	9,323	8,235	9,070	6,229	5,079	1,708	1,856

Exports fob	Total Jan-Jun 1995	Total Jan-Jun 1996	Japan Jan-Jun 1995	Japan Jan-Jun 1996	EU Jan-Jun 1995	EU Jan-Jun 1996	South Korea Jan-Jun 1995	South Korea Jan-Jun 1996	New Zealand Jan-Jun 1995	New Zealand Jan-Jun 1996
Meat & products	1,800	1,462	833	659	89	105	91	63	9	8
Dairy products	709	875	121	166	16	16	18	14	12	12
Fish & products	600	579	202	209	14	10	3	4	2	2
Cereals & products	1,455	3,335	47	126	2	12	6	2	19	26
Fruit, vegetables & products	409	499	56	47	61	68	1	3	27	30
Sugar & products	521	402	8	22	4	7	0	1	17	28
Hides & skins, undressed	208	234	22	8	69	53	6	3	10	9
Textile fibres & waste	2,266	1,963	328	245	590	506	225	144	2	3
Crude minerals & fertilisers	190	190	13	18	29	23	2	6	7	10
Metalliferous ores & scrap	3,707	4,400	925	942	395	403	384	349	6	7
Coal, coke & briquettes	3,309	3,909	1,596	1,762	490	474	472	535	0	0
Petroleum & products	1,438	1,671	257	188	15	16	26	57	105	184
Gas	671	785	694	87	23	0	11	0	0	0
Chemicals	1,250	1,473	79	94	181	196	58	45	292	322
Non-metallic mineral mnfrs	309	333	50	56	19	26	6	8	41	43
Iron & steel	784	825	65	54	4	21	97	69	55	64
Non-ferrous metals	2,298	2,398	508	522	127	130	276	250	102	73
Metal manufactures	308	350	11	14	19	22	3	6	74	79
Machinery & transport eqpt	4,033	4,684	242	238	601	748	186	185	838	895
of which:										
road vehicles	480	588	39	45	36	38	12	15	220	246
other transport equipment	554	646	32	17	156	309	0	0	67	73
Scientific instruments etc	453	569	20	24	72	73	37	39	66	85
Total incl others	33,840	38,204	8,044	7,890	3,824	4,274	2,857	3,399	2,354	2,640

Direction of foreign trade

(A$ m)

	Jan-Dec 1992	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1995	Jan-Jun 1995	Jan-Jun 1996
Imports fob						
EU	11,158[a]	12,142[a]	16,026	19,440	9,376	9,323
UK	3,284	3,556	4,058	4,657	2,178	2,404
Germany	3,214	3,603	4,077	5,166	2,607	2,302
Italy	1,305	1,428	1,835	2,165	1,033	1,100
France	1,474	1,467	1,638	1,893	888	862
Sweden	964[b]	994[b]	1,226	1,583	737	771
ASEAN	4,492	4,834	5,720[c]	6,964[c]	3,093[c]	3,632[c]
Singapore	1,329	1,603	2,065	2,503	1,132	1,240
Other countries	39,858	45,426	46,353	51,087	25,194	25,053
USA	12,379	13,186	14,839	16,747	8,235	9,070
Japan	10,037	11,885	12,100	11,971	6,229	5,079
China	2,317	2,924	3,373	3,862	1,708	1,856
New Zealand	2,555	3,035	3,382	3,606	1,749	1,735
Taiwan	2,091	2,291	2,455	2,581	1,224	1,228
South Korea	1,519	1,866	1,766	2,257	1,035	1,072
Total	55,508	62,402	68,099	77,491	37,662	38,008
Exports fob						
ASEAN	8,293	8,616	9,592[c]	11,409[c]	5,191[c]	5,589[c]
Singapore	3,769	3,277	3,407	3,828	1,914	1,642
Indonesia	1,723	1,813	1,977	2,373	1,044	1,437
Malaysia	1,139	1,573	1,948	2,217	930	986
Thailand	1,077	1,252	1,368	1,736	803	843
EU	7,391[a]	7,217[a]	7,247	7,987	3,824	4,274
UK	2,277	2,853	2,366	2,496	1,155	1,483
Other countries	42,725	46,939	47,937	52,152	24,825	28,341
Japan	14,749	15,611	15,992	16,550	8,044	7,890
South Korea	3,660	4,361	4,708	6,051	2,857	3,399
New Zealand	3,107	3,691	4,389	5,269	2,354	2,640
USA	5,134	5,067	4,645	4,617	2,275	2,245
China	1,875	2,297	2,815	3,120	1,499	2,147
Taiwan	2,562	2,773	2,848	3,291	1,620	1,766
Hong Kong	2,354	2,717	2,655	2,871	1,342	1,532
Total	58,409	62,772	64,776	71,548	33,840	38,204

[a] EU 12. [b] Included in EU from 1994. [c] Including Vietnam from 1994.