

SUMMARY

It's clear that the Australian economy has emerged from the global recession in a better position than almost any other developed nation. GDP is growing slightly above trend, while much of the developed world struggles with anaemic growth. Our unemployment rate is at 5.1%, barely more than half the rate in the US (9.6%), and substantially lower than the UK (7.8%) and the OECD average (8.5%).

Over the next 12 months, the economy is expected to face problems of growth, rather than scarcity. The resources industry is booming again. As commodities prices surge, investment capital gets attracted to Australia. While this helps the overall economy, it also places upward pressure on inflation. In order to curb inflation, the Reserve Bank is expected to increase interest rates several times by the end of 2011. The mining boom also pushes up the Australian dollar, which hurts export industries like manufacturing, tourism, and higher education.

While the resources boom helps some industries and regions, it puts financial pressure on working people through higher interest rates and reduced activity in non-mining export sectors. Wages (as measured by the Wage Price Index) have been growing at a slightly lower rate than their long-term trend, though union members continue to earn substantially more than non-members. Although inflation as measured by the headline CPI has been relatively modest, the cost of living for workers is rising faster (up 4.5% in the past year).

Business is doing well from the resurgent economy. Corporate profits are up strongly, helped by a big increase in the price of Australian exports relative to imports (the terms of trade). The profit share of national income is now near the record highs it reached in 2008, while the wages share of income is the lowest since 1964.

SUMMARY OF ECONOMIC INDICATORS

Category	Economic indicator	Level	Change from previous quarter	Change from same quarter of previous year
Economic growth	Real GDP	\$310 432bn (June quarter)	1.2%	3.3%
Productivity	GDP per hour worked	102.5 (index)	0.1%	0.9%
Employment	Unemployment rate	5.1%	-0.2 percentage points	-0.7 percentage points
	Employed persons (Quarterly change is from May results)	11 272 000	0.85% (95 000 people)	3.2% (349 700 people)
Wages	Average weekly ordinary time earnings (AWOTE)	\$1253.10	0.8%	5.2%
	Wage Price Index	104.3 (index)	0.77%	2.96%
Prices	Headline CPI	172.1 (index)	0.6%	3.1%
	Employee households' living costs	145.4 (index)	1.3%	4.5%
Profits	Gross Operating Profits	\$68.46bn	18.9%	27.5%
	Gross Operating Surplus	\$85.88bn	8.7%	17.4%

*All figures seasonally adjusted, bar CPI and Analytical Living Cost Index figures which are original. The most recent figures are used, which is the June quarter for all indicators bar AWOTE (May quarter), and employment and unemployment (August).

HEALTH OF THE ECONOMY

ECONOMIC GROWTH

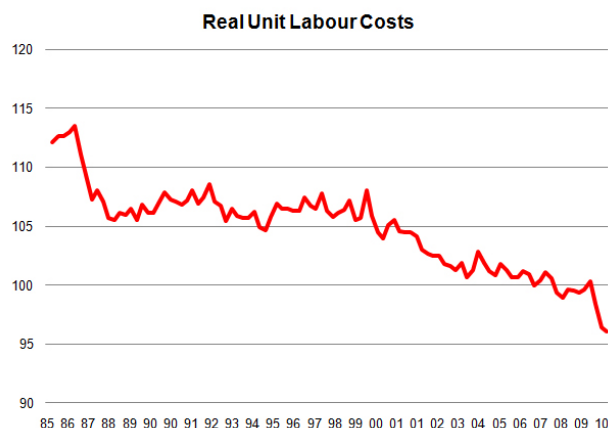
The Australian economy grew 1.2% in the June quarter of 2010, taking the total growth from June 2009 to June 2010 to 3.3%. This is slightly above the Australian economy's long term trend growth rate of around 3%. GDP per capita increased 1.5% over the year.

This result shows that the fiscal stimulus has worked as planned. It has begun to be withdrawn from the economy and is now detracting from growth, and the private sector is increasingly a driver of growth.

PRODUCTIVITY

GDP per hour worked (a common measure of productivity) increased 0.9% in the year to June 2010 (seasonally adjusted) and 1.2% on a trend basis.

However, real unit labour costs have continued to fall. This measures the average cost of labour per unit of output, adjusted for inflation. Falling real unit labour costs means that productivity is rising faster than real wages.

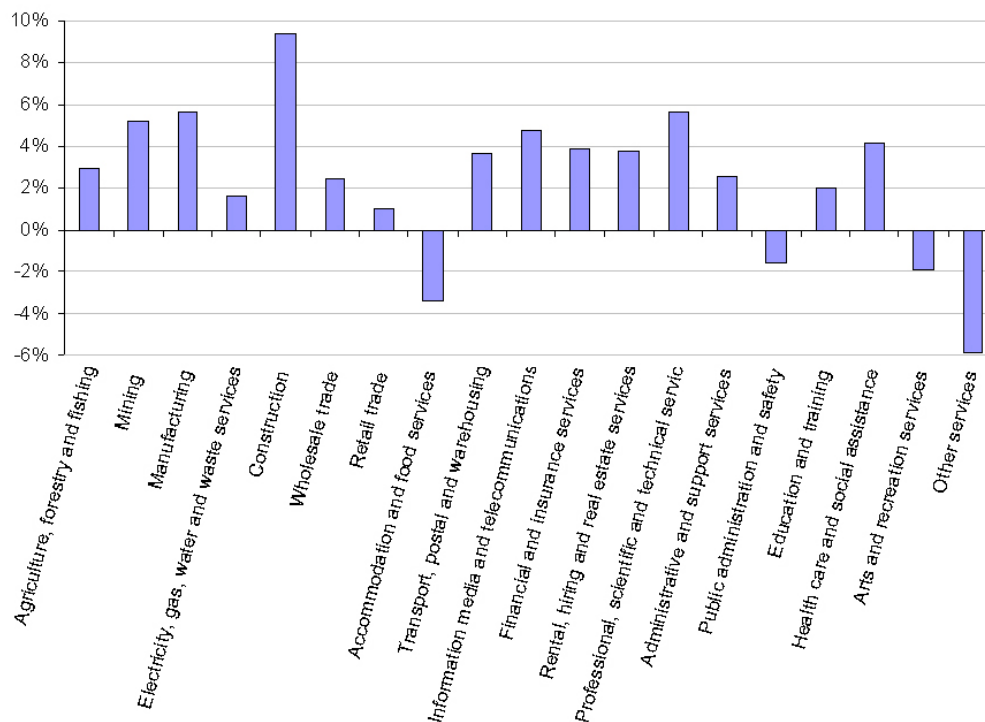


Real unit labour costs are now at their lowest on record.

GROWTH BY INDUSTRY

Economic growth in the past year has been broadly-based, with almost all sectors of the economy recording growth in 2009-10.

The following chart shows growth in gross value added by industry in the year to June 2010:



The construction industry recorded the largest growth, assisted by the Government's infrastructure investment. The mining industry also recorded significant growth, demonstrating that the expectation of a resource rent tax has not harmed activity in that sector.

TERMS OF TRADE

The terms of trade, the price of our exports relative to imports, increased by 12.5% in the June quarter, and 24.5% in the year to June 2010 (seasonally adjusted). This is a very significant increase. The increasing terms of trade is driven by rising global prices for commodities including iron ore and wheat.

The terms of trade result shows that the mining boom is back in full swing. The Reserve Bank's commodity price index is now at its highest level on record, surpassing the previous record reached in the pre-financial crisis period.



RESOURCE RENT TAX

The surge in commodity prices shows that the Government is right to seek to implement a profits-based resource rent tax, the Mineral Resource Rent Tax. Under the existing system of resource royalties, the community doesn't receive a fair share of the windfall gains that are made as a result of the commodities boom. Although mining companies can sell each unit of iron ore (or other commodities) at a higher price, simply due to increasing global demand, they don't have to pay a higher price per unit to the ultimate owners of the resource, the Australian people. A profits-based tax means that the returns to the community rise and fall in line with the price and quantity of resources that is extracted.

PRICES

The headline consumer price index (CPI) increased by 3.0% in the year to June 2010, while the RBA's preferred measure of underlying inflation rose by 2.7%. However, the cost of living for employee households increased by 4.5% over the same period. The ABS derives this figure using a basket of goods that is more representative of employee households' purchasing patterns than the headline CPI. The employee household cost of living (from ABS 6463.0) may be an appropriate measure to include in enterprise bargaining.

The table below summarises changes in three measures of inflation.

	Headline CPI	Underlying CPI (weighted median)	Employee household cost of living
Change in June quarter	0.6%	0.5%	1.3%
Change over year to June	3.0%	2.7%	4.5%

The biggest price rises in the year to June were in alcohol and tobacco (8.7%), housing (5.8%), education (5.7%), and health (5%). The biggest price rises in the year to June were recorded in Perth, followed by Brisbane and Melbourne.

LABOUR FORCE

EMPLOYMENT AND UNEMPLOYMENT

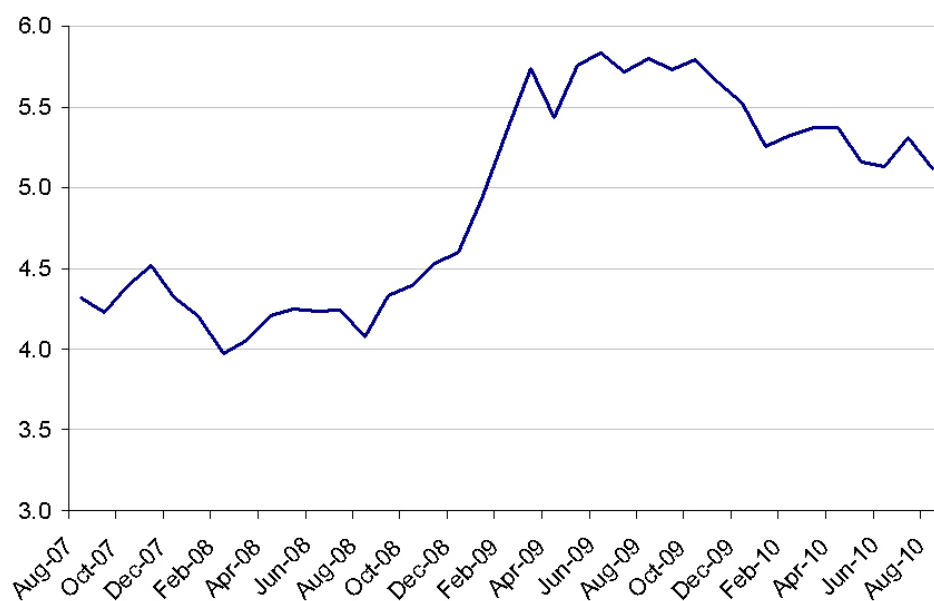
The number of employed Australians increased by 349 700 in the year to August 2010. This included 267 100 full time jobs. Jobs growth by gender and employment type over the year to July is summarised in the table below:

	Full time	Part time	Total
Males	166 000	43 900	209 800
Females	101 100	38 800	139 900
Persons	267 100	82 600	349 700

Jobs growth was uneven across the country. The chart below shows jobs growth in the year and month to August 2010 by State/Territory:

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT
Month to August 2010	23679	19204	-12402	1066	-326	2251	943	-216
Year to August 2010	94964	117732	44234	25785	47256	7600	3937	6190

The unemployment rate fell over the year, from 5.7% in July 2009 to 5.1% in August 2010. The following chart shows the unemployment rate (for all persons) over the five years to August 2010:



However, the total labour underutilisation rate is still at 12.5%. This is the sum of the unemployment rate and the underemployment rate, the proportion of workers who would like to work more hours. The underutilisation rate was at 9.9% before the economic downturn. The underutilisation rate peaked at 13.7% in August 2009.

The total number of hours worked in the economy increased by 2.4% over the year, with hours worked in the market sector increasing 3.0% (seasonally adjusted). Average hours worked per employee is still slightly below the long term trend.

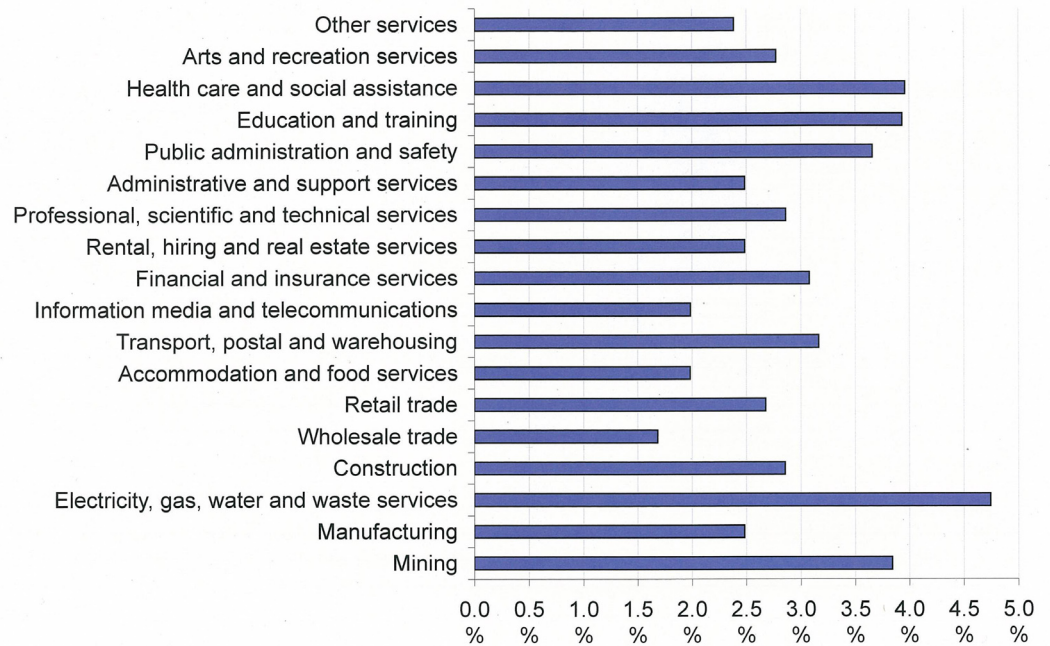
WAGES

The Wage Price Index (WPI) increased by 3% in the year to June 2010, slightly below its long term trend rate (3.5% in year-ended terms from 1998-2010). The WPI is the most representative measure of the change in Australian employees' wages, as it's not distorted by compositional change (like an increase in employment in high-paid sectors).

The table below shows the change in the WPI over the year to June 2010:

	WPI - Change in year to June 2010
Public Sector	4.0%
Private Sector	2.7%
Total	3.0%

The largest wage increases were in Electricity, Gas, Water and Waste Services (4.7%), Health Care and Social Assistance (4.0%), Education and Training (3.9%) and Mining (3.8%).



Average earnings grew strongly over the year to May 2010. Total earnings for all employees grew by 6.6%, while average weekly full time earnings (AWOTE) for full time adults grew by 5.6%.

	Full time adult AWOTE (May 2010)	Full time adult total earnings (May 2010)	Total earnings (all employees) (May 2010)	Median earnings (all employees) (August 2009)	National Minimum Wage (from July 2010)
Rate	\$1253.10	\$1302.40	\$982.40	\$850	\$569.90
Change over the year (\$)	\$62.50	\$65.30	\$58.90	\$45	\$26
Change over the year (%)	5.2%	5.3%	6.4%	5.6%	4.8%

The gender pay gap fell from 17.9% in February to 17.3% in May. It should be noted, however, that the gender pay gap tends to fluctuate in the short run. This fall, while promising, does not necessarily imply a positive longer term trend.

The Average Annualised Wage Increase (AAWI) per employee covered by a collective agreement increased slightly in the March quarter, from 3.9% to 4.1%. This was driven by an increase in wage increases in public sector agreements, from 4.2% to 4.6%, while private sector wage increases fell by 0.1% to 3.8%.

There was no change in the average annualised wage increase for all current wage agreements. The AAWI data are summarised below:

	December Q 2009 (%)	March Q 2010 (%)	Change in percentage points
Collective agreements approved in the quarter			
All sectors	3.9	4.1	0.2
Private sector	3.9	3.8	-0.1
Public sector	4.2	4.6	0.4
All current wage agreements			
All sectors	4.1	4.1	0
Private sector	4	4	0
Public sector	4.2	4.2	0

PROFIT

Profits increased significantly in the past year. The National Accounts measure of gross operating surplus showed that profits increased by 17.4% in the year to June, while the ABS Business Indicators measure of gross operating profits showed a 27.5% increase over the same period.

Increases in gross operating profit over the year and the quarter to June 2010 by industry are shown in the table below. Note that this shows the increase in nominal profit, in other words it is not adjusted for inflation. The profit figures are accompanied by employment growth and wages growth figures for each industry.

Industry	Change in quarter			Change in year to current quarter		
	Gross operating profit	Jobs	Wages	Gross operating profit	Jobs	Wages
Mining	62.7%	9.0%	1.4%	60.6%	20.0%	3.8%
Manufacturing	-2.4%	1.8%	0.9%	38.2%	-2.8%	2.5%
Electricity, gas, water and waste services	2.3%	8.7%	0.5%	-2.2%	18.2%	4.7%
Construction	30.5%	-1.3%	1.1%	55.5%	1.8%	2.9%
Wholesale trade	-10.9%	1.5%	0.6%	-5.2%	1.2%	1.7%
Retail trade	6.9%	1.6%	0.5%	-4.8%	3.0%	2.7%
Accomm. and food services	2.7%	-4.8%	0.4%	7.0%	-1.9%	2.0%
Transport, postal and warehousing	-2.8%	-4.6%	0.2%	-4.0%	-1.4%	3.2%
Information media and telecomm.s	8.7%	-1.0%	0.5%	10.0%	0.2%	2.0%
Financial and insurance services	29.0%	1.8%	0.6%	-47.7%	0.5%	3.1%
Rental, hiring and real estate services	-0.7%	2.9%	0.4%	0.2%	6.9%	2.5%
Professional, scientific and technical services	20.8%	1.3%	0.9%	186.8%	8.4%	2.9%
Admin. and support services	-21.3%	3.4%	0.6%	101.9%	8.2%	2.5%
Arts and recreation services	10.7%	-5.4%	0.3%	7.3%	-5.0%	2.8%
Other services	-29.9%	-2.2%	0.2%	-8.9%	3.4%	2.4%

*Gross operating profit figure are from ABS 5676.0 for the June quarter, employment figures are from ABS 6291.0.55.003 for the August quarter, earnings figures are from ABS 6345.0 for the June quarter. Industries for which gross operating profits are not reported in ABS 5676.0 were not included in this table.

Wages and profit shares of income

The wages share of national income fell from 54.5% in June 2009 to 52.7% in June 2010. The profit share of national income showed a corresponding increase, from 26.6% in June 2009 to 28.5% in June 2010.

The wages and profit shares of national income measure the proportion of all income that is paid to labour and capital, respectively.

The wages share of national income is now at its lowest point since December 1964.

Industrial disputes

The number of days lost to industrial disputes remains near record lows. There were 24 000 working days lost in the June 2010 quarter, down from 28 800 in the March quarter and 47 300 in the June 2009 quarter.

126,500 working days were lost to disputes in the year to June 2010, an average 3.3 days per 1,000 employees.

LEADING INDICATORS

Job vacancies

The DEEWR Monthly Leading Indicator of Employment rose for the fifth consecutive month in September 2010. This shows that the labour market is expected to tighten as employment grows more quickly than its trend rate.

The DEEWR indicator is calculated using a composite of job market indicators, summarised below:

Series	Percentage Change over the Year	Percentage Change over the Quarter	Percentage Change over the Month
ANZ Newspaper Job Ads (September 2010 release)	11.8%	1.3%	1.5%
Dun and Bradstreet Employment Expectations (% pt change) Year to December Quarter 2009- September 2010 release	21.0%pts	31.0 %pts	0.0 %pts
Westpac-Melbourne Institute Leading Index of Economic Activity (August 2010 release)	7.8%	0.3%	0.0%
Westpac-Melbourne Institute Consumer Sentiment Index (August 2010 release)	5.1%	5.1%	5.4%

Consumer and business confidence

The Westpac-Melbourne Institute Index of Consumer Sentiment fell by 5% in September, reverting back to its July levels. Consumer sentiment remains quite high.

The CBA-ACCI Business Expectations Survey saw a slight decline in expected economic performance in the June quarter, declining from 60.7 to 56.4. The AIG-PricewaterhouseCoopers Performance of Manufacturing Index fell by 2.7 points, to 51.7. In these indices, a score of 50 reflects a balance between survey respondents who expect growth and those who expect a contraction. Any score above 50 therefore indicates that a majority of survey respondents expect growth.

It's likely that much of the softening of confidence indices in mid-2010 was due to uncertainty regarding the global economic recovery, particularly in Europe and North America. However, it has become clear that Australia's economic performance has fared better than expected, and these measures may be expected to rise in the coming months.

Monetary policy

The Reserve Bank is expected to lift the overnight cash rate by at least 25 basis points in the coming months, and by 50 basis points or more by mid-2011. Market economists predict four or five increases in the cash rate by the end of 2011.

The Bank has made it clear that it regards the economy as being close to full employment, with the surge in commodities prices having the potential to put upward pressure on inflation.