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Analysing economics is often about looking beneath the so-called headline numbers. Recent Australian Bureau of Statistics releases on Australia's economic growth rate are classic examples of how the first number to hit a Reuters screen can mislead.

That's why, for instance, the Reserve Bank raised the cash rate in March even though the latest headline growth numbers said the economy had nearly stalled. The opposite is true now. Rates are on hold even though the headline growth number has risen.

The release of the National Accounts in early June showed Australia's output - more formerly known as gross domestic product (GDP) and informally referred to in this report as the headline number - expanded 0.7% over the March quarter. At first glance, this appeared a solid rebound from the meagre 0.2% and 0.3% gains recorded in the September and December quarters last year.

But the numbers that produce the GDP result showed something else. (GDP is consumption, government spending, housing investment, business investment, plus the change in business inventories, minus imports plus exports.)

Late last year, domestic private final demand (consumption, housing and business investment) was strong, growing a little over 1% in the June, September and December 2004 quarters. The reason why the GDP result was low was because business inventories were run down to meet this demand and imports exceeded exports.

The Reserve Bank looked beneath the low GDP number and saw the strong domestic economy. The central bank was concerned the economy was running close to capacity - a warning signal on inflation.

The picture for the March 2005 quarter was almost the inverse. While GDP showed a reasonable increase, domestic private final demand was flat. The rise in GDP was driven by a large build up in business inventories, most of which appeared to be unplanned. Businesses had more stock at the end of the quarter because sales were sluggish. Weak retail sales numbers confirm the economy had lost some of last year's vigour.

The easing of fiscal policy in the May budget will underpin domestic demand but not so much that the Reserve Bank will need to raise the cash rate again this year. Nor does Perennial see the need for an interest rate cut, as some have predicted. Business investment and government spending on infrastructure, along with the easier fiscal policy, are expected to support demand. Enough anyway for the headline GDP figure for the June 2005 quarter to look reasonable on and below the surface.

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