Wednesday, 1 March 2017

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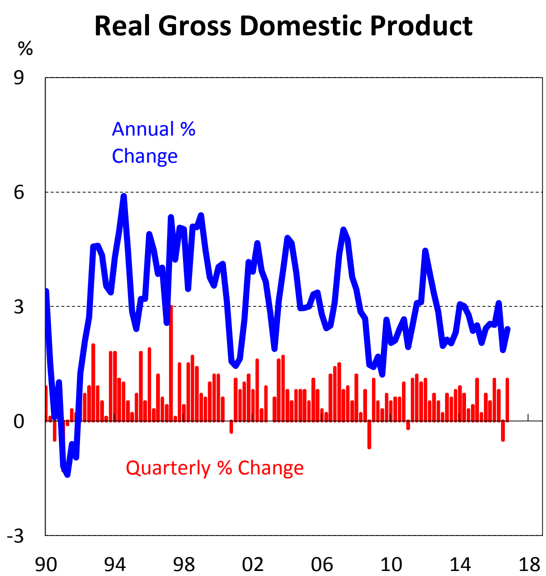
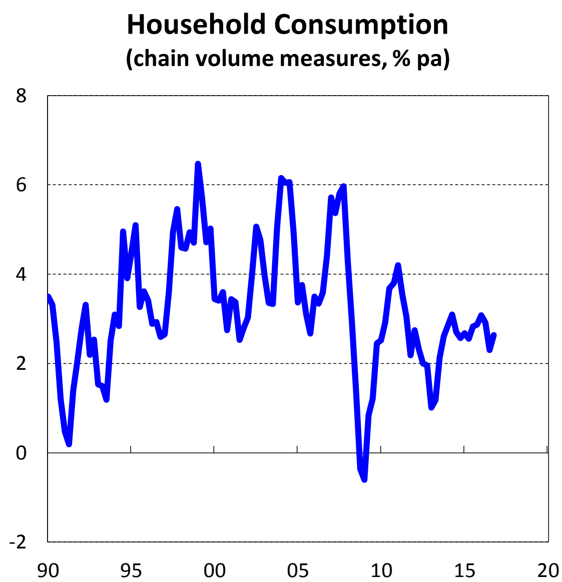
National Accounts - GDP

The Comeback Kid

- **Gross domestic product (GDP) rose by 1.1% in the December quarter of 2016. It was a sharp bounce back after GDP shrunk by 0.5% in the September quarter. Annual growth lifted to 2.4% in the December quarter, but is still below the potential or long-run average for growth.**
- **The Australian economy has now notched 102 consecutive quarters of growth (or 25½ years) without a recession and this run is set to continue through 2017.**
- **Consumers leapt to the economy's rescue. A big lift of 0.9% in household consumption in the December quarter added considerably to growth, despite wages growth remaining weak. Another welcome development was the turnaround in private business investment. It rose by 1.6% in the December quarter, after falling for nine consecutive quarters.**
- **State final demand increased in all the States and territories in the December quarter for the first time in six years. Victoria was the stand-out State in the December quarter. It grew at the fastest quarterly rate among the States of 1.7%.**
- **The terms of trade (ratio of export to import prices) soared 9.1% in the December quarter, reflecting a further increase in commodity prices in the quarter. It was the largest jump in the terms of trade since the June quarter 2010, boosting the incomes component of the national accounts.**

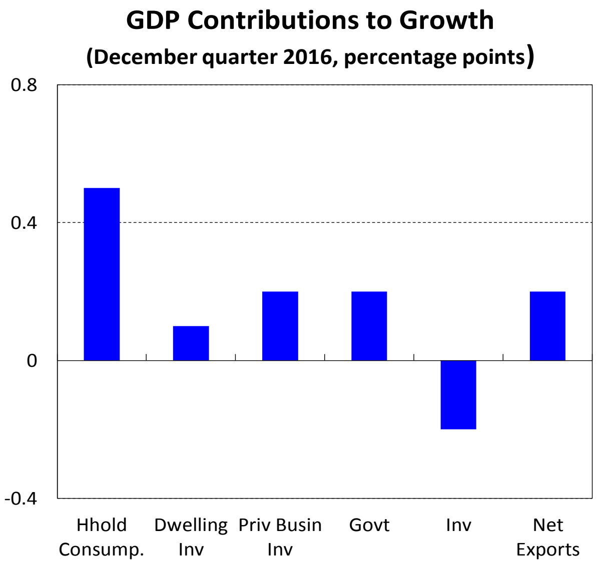


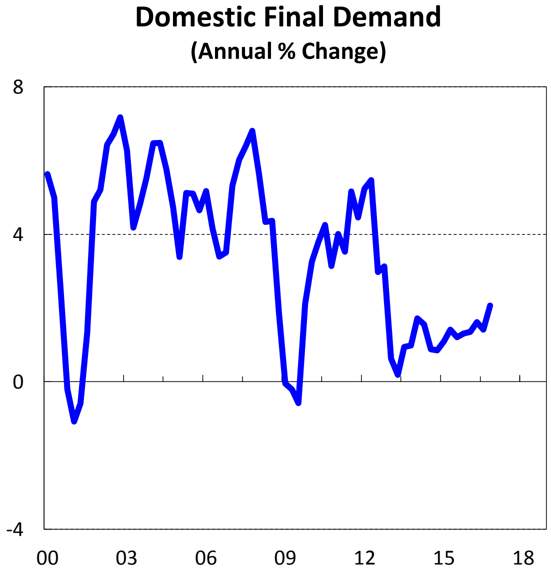


GDP Expenditure Measure:

Gross domestic product (GDP) rose by 1.1% in the December quarter of 2016. It was a sharp bounce back after GDP shrunk by 0.5% in the September quarter. The Australian economy has now gone 102 consecutive quarters (or 25½ years) without a recession and this run is set to continue through 2017.

In the year to the December quarter, GDP expanded by 2.4%. This pace is a step up from the annual growth rate of 1.9% in the September quarter. However, it is a pace that remains under the long-run average of 2.7%.





Consumers leapt to the rescue of the economy in the December quarter. Household consumption lifted by 0.9% in the quarter, which is a solid rise and follows more modest growth in the previous two quarters. Household consumption contributed 0.5 percentage points to growth in the quarter. It was the single biggest driver of growth. Wages growth remained weak but consumers dipped into their savings to support consumption, reflected in the decline in the household savings ratio. It means household consumption at this sort of pace might not be maintained in coming quarters if households become reluctant to dip further into savings.

Fourteen of the seventeen household consumption sub-categories recorded growth in the quarter. The strongest category was furnishings & household equipment (up 2.6%), which is likely benefitting from the buoyancy in the residential housing market. The largest decline was cigarettes & tobacco (down 0.8%).

Turning to the government sector, it added 0.2 percentage points to growth in the quarter, driven by a lift in government investment.

Dwelling investment has helped underpin economic growth over the last few years. In the December quarter, dwelling investment rose by 1.2%, recovering from a 1.3% fall in the previous quarter. Dwelling investment added 0.1 percentage points to growth. The pipeline for dwelling investment (i.e. residential construction) suggests it will continue to be a growth driver over this year. However, its contribution to growth will start to fade as we near 2018.

Another welcome development in the data was the growth recorded in private business investment. Private business investment grew by 1.6% in the December quarter, after nine consecutive quarters of contraction. Excluding second-hand assets, private investment rose 1.9%.

A recovery in the December quarter in new construction for non-dwellings and engineering drove the improvement in overall private business investment. The most recent private capital expenditure survey suggests that this recovery may not yet be entrenched.

Reflecting the strength in the domestic sectors of the economy, domestic final demand jumped 1.2% in the December quarter, which is the fastest quarterly rate in nearly five years. The improvement in the quarter led the annual growth rate of domestic final demand to lift from 1.4% in the September quarter to 2.1% in the December quarter. It is the fastest pace in four years.

Net exports added to GDP growth by 0.2 percentage points in the December quarter. Exports rose by 2.2% in the December quarter while imports grew by 1.4%. An increase in LNG exports will help drive economic growth over 2017. We are also nearing the end of the downturn in mining investment.

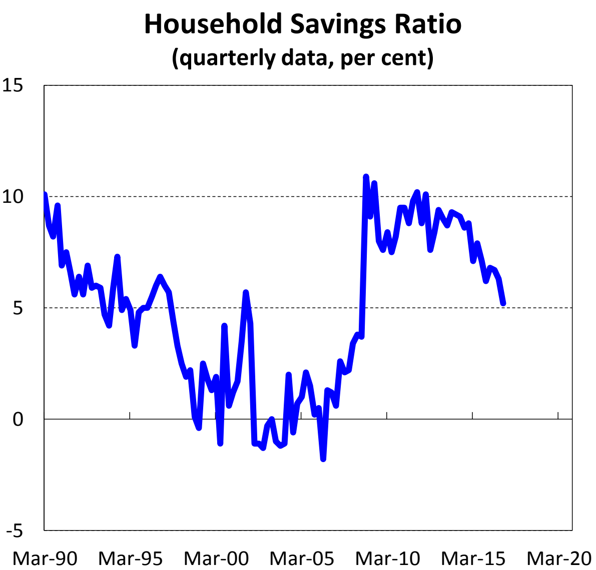
Inventories were the only key category that dragged on growth in the quarter; inventories detracted 0.2 percentage points from growth.

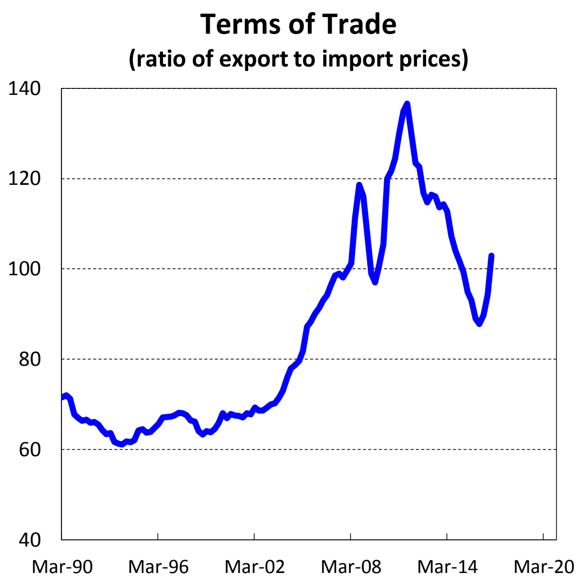
GDP Income Measure:

GDP growth based on incomes was very robust, reflecting strong growth in commodity prices in the December quarter which delivered a large rise in the terms of trade. Nominal incomes jumped 3.0% in the December quarter, the largest increase since the June quarter 2010. This saw the annual rate jump up to 6.1% in the year to December, from 3.1% in the year to September.

This measure largely comprises wages and profits and the strength in the December quarter were due commodity price gains driving corporate profitability.

In the GDP income measure, among the key measures are the household saving ratio and the terms of trade (ratio of export prices to import prices).





The household saving ratio fell to 5.2% in the December quarter, from 6.3% in the September quarter. This was the lowest reading since September 2008. This indicates households were more willing to dip into savings to boost spending in the December quarter. However, it may constrain growth in household consumption in coming quarters.

The terms of trade (ratio of export to import prices) soared 9.1% in the December quarter, reflecting a further increase in commodity prices in the quarter. It was the largest jump in the terms of trade since the June quarter 2010. This was the third consecutive quarterly increase in the terms of trade, following a string of nine quarterly declines prior to that. For the year to the December quarter the terms of trade shot up by 15.6%, the second consecutive quarter of annual gains and the quickest rate since the March quarter of 2011. Despite the improvement, the terms of trade are still 24.6% below the peak reached in the September quarter 2011. However, at 102.9, it is above the 20 year average of 91.1. We do not foresee the lows being revisited.

Industry Break Down:

Fifteen of the nineteen industries recorded growth in the December quarter. The strongest performing industry was agriculture, forestry & fishing. This industry posted growth of 8.3% in the quarter and of 23.7% in the year to the December quarter.

Industry Gross Value Added, Chain Volume Measures

By Industry Sector	Quarterly % Change	Annual % Change
Agriculture, forestry & Fishing	8.3	23.7
Other services	5.4	1.1
Mining	3.4	4.6
Wholesale Trade	3.0	7.5
Professional, scientific & technical services	2.4	7.2
Rental, hiring & real estate services	2.2	1.4
Information media & telecommunications	1.7	2.9
Public Admin & safety	1.2	3.9
Healthcare	1.0	4.5
Arts & recreation services	1.0	0.7
Financial & insurance services	0.7	4.3
Retail Trade	0.6	1.2
Transport,postal & warehousing	0.4	1.1
Education & training	0.4	2.1
Electricity gas, water & waste services	-0.2	-1.0
Manufacturing	-1.2	-1.9
Construction	-1.2	-5.7
Accommodation & food services	-2.0	1.3
Administrative & support services	-2.5	-2.0

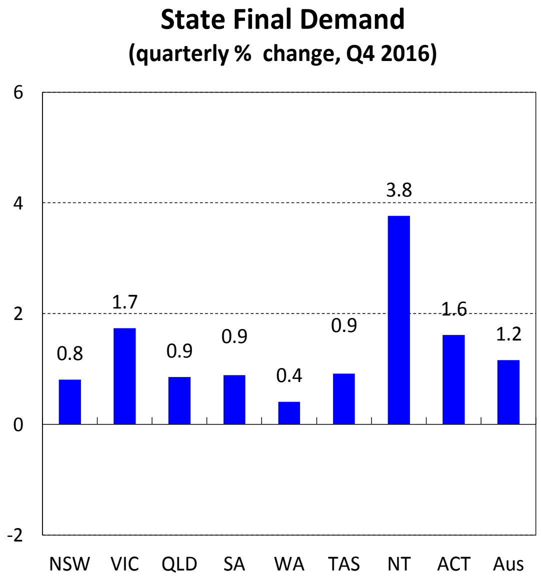
State Final Demand:

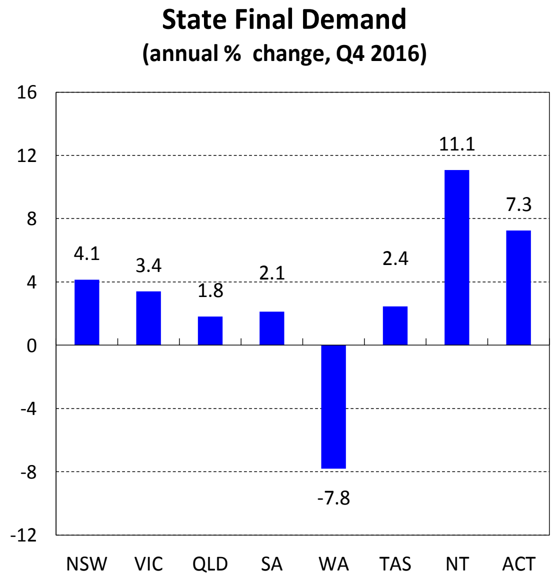
State final demand increased in all the States and territories in the December quarter, for the first time since the December quarter 2010.

Victoria bounced back after a decline in the September quarter, to be the fastest growing State in the December quarter. Strong household spending and government investment boosted growth in Victoria with state final demand jumping 1.7% in the quarter. Annual growth returned to be above the long-run average – standing at 3.4% in the December quarter.

If we include the territories, the Northern Territory is the stand-out region. Final demand in the Northern Territory climbed 3.8% in the December quarter, following on the heels of a 4.3% jump in the September quarter, with private business investment remaining strong. The Northern Territory also fared well in annual terms, jumping 11.1%, up from a small increase of 0.7% in the year to the September quarter.

The greatest turnaround occurred in Western Australia; growth in this State rose by 0.4% in the December quarter, up from a decline of 4.3% in the previous quarter. A rebound in government investment provided support to the WA economy.





Outlook

The economic expansion is set to continue in Australia over 2017. The economy should benefit further from the lift in the terms of trade and a decreasing drag from mining investment. Resources exports and infrastructure spending should also assist economic activity. Low interest rates, a weaker Australian dollar helping the services sectors and still firm population growth will also provide underlying support.

However, over the coming year there will be a few factors which could pose a risk to the growth outlook. Dwelling investment is approaching a peak, non-mining business investment remains fragile and household consumption may struggle to sustain this quarter's gains with wages growth weak.

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