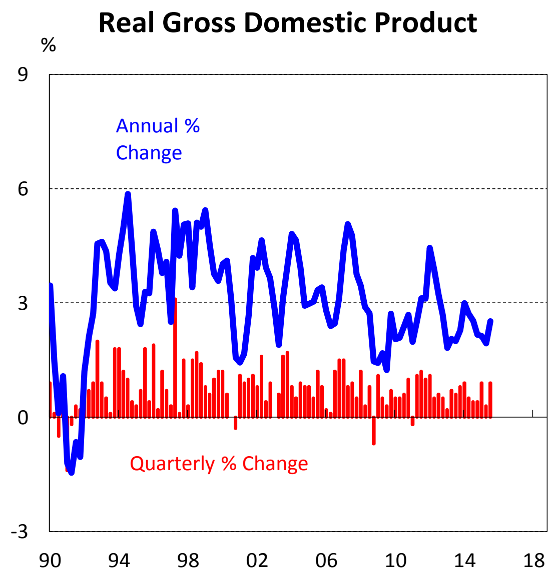
Data Snapshot

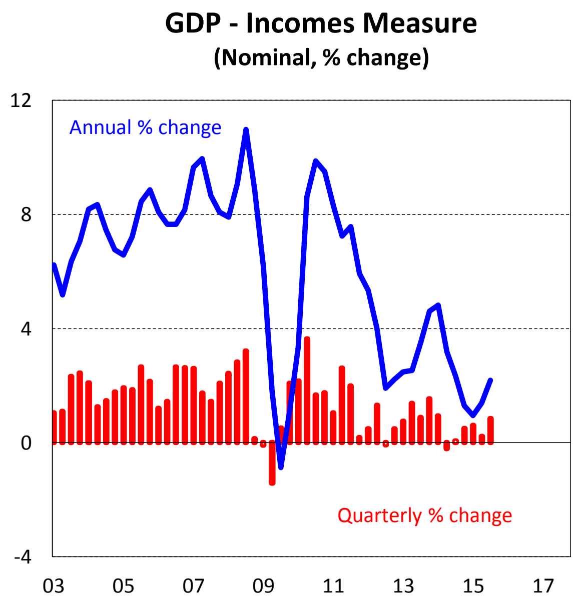
Wednesday, 2 December 2015

National Accounts - GDP

Tectonic Plates Shift Slowly

- **GDP grew 0.9% in the September quarter, in line with our forecasts. The annual pace of growth picked up to 2.5% in the September quarter, the strongest in a year.**
- **While a solid outcome for the quarter, the headline result masks some underlying concerns regarding the economy. Growth was entirely driven by net exports, while domestic demand contracted in the quarter.**
- **Business investment was the major drag on growth, owing to the decline in mining investment. Public spending also detracted from growth, but there has been an encouraging, but gradual pick up in household consumption over recent quarters.**
- **Incomes, which include profits and wages, were stronger in the September quarter. Wages growth was stronger in the quarter, although the pace of wages growth remains subdued.**
- **Final demand across the States and territories was generally weak in the September quarter. It rose marginally in South Australia and Tasmania, was flat in Victoria and fell in NSW, Queensland, Western Australia, the Northern Territory and in the ACT.**
- **While today's data will continue to underpin concerns about the transition occurring in the economy, there were few surprises. The next six months will likely continue to be challenging, but prospects are improving that economic growth will pick up mid-2016. As such, the RBA is unlikely to change its stance and we continue to expect rates will be on hold for all of 2016.**





GDP grew 0.9% in the September quarter, in line with our forecasts and slightly above consensus estimates (0.8%).

The annual pace of growth picked up from a revised 1.9% in the June quarter to 2.5% in the September quarter, the strongest in a year.

While a solid outcome for the quarter, the headline result masks some underlying concerns regarding the economy. Firstly, growth was entirely driven by net exports, while domestic demand contracted in the quarter. This is largely reflective of the large drop in mining investment currently underway, while other areas, including consumer spending, public spending, and non-mining business investment are not growing sufficiently to make up for its decline.

Secondly, the pickup in growth is largely payback for weak economic growth in the June quarter. Over 2015, GDP grew at quarterly rates of 0.9% in the March quarter, and 0.3% in the June quarter. Looking through the quarter-to-quarter volatility, quarterly economic growth has averaged 0.7% per quarter (provided there are no significant revisions), suggesting that the economy is growing at close to its potential rate of growth.

GDP Expenditure Measure:

Exports have been the main driver behind the recent volatility in quarterly growth. Exports grew 4.6% in the September quarter, following a 3.3% decline in the June quarter. Exports alone contributed 1 percentage point to growth in the September quarter. Taken with a 2.4% decline in imports, net exports contributed a solid 1.5 percentage points to growth.

Outside of net exports, there was little to cheer about. Domestic demand contracted 0.5% in the September quarter, the largest quarterly contraction since the March quarter 2009. Annual growth remained subdued at 0.8% in the year to the September quarter.

The contraction was largely driven by business investment, which declined 4.2% in the quarter. It was the largest decline in private business investment in nearly three years, as mining investment winds down.

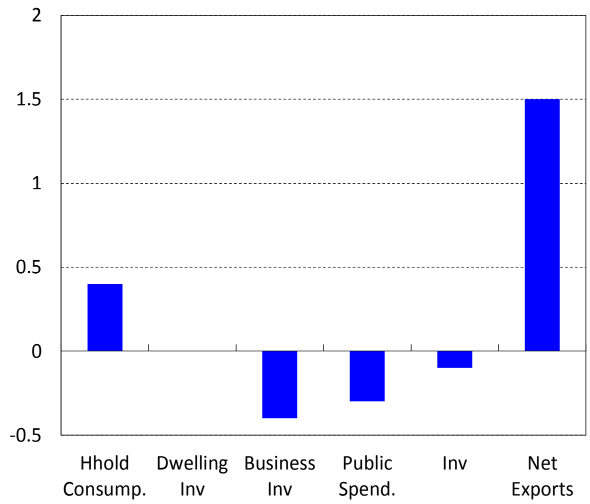
Public investment was also a major drag on growth, which declined 9.2% in the quarter, and took 0.4 percentage points off growth.

However, it wasn't all bad news. Household consumption expenditure grew 0.7% in the September quarter, and has gradually picked up in recent quarters. On an annual basis, household consumer spending grew 2.7%, the strongest annual pace in over a year. Low interest rates and improving conditions in the labour market are providing support for further growth.

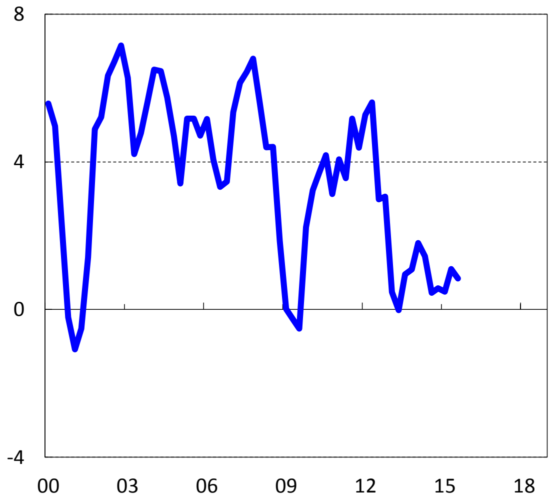
Dwelling investment, which has been another key growth driver of the economy, grew 0.9% in the quarter. While this was up from the 0.4% growth in the June quarter, the pace of growth is well down on the quarterly growth in excess of 4% in late 2014 and early 2015. Recent building approvals data suggests that residential construction will remain at an elevated level. However, a softer pace of growth suggests that dwelling investment may not provide as strong a contribution to economic growth as in the past.

Selected Expenditure Items on GDP, Chain Volume Measures	
	Quarterly % Change
Household Consumption	0.7
Public Consumption	0.7
Dwelling Investment	0.9
Business Investment	-4.2
Public Investment	-9.2
	Contribution to GDP ppt
Inventories	-0.1
Net Exports	1.5

GDP Contributions to Growth
(Sept quarter 2015, percentage points)



Domestic Final Demand
(Annual % Change)



GDP Income Measure:

GDP growth based on incomes was stronger in the September quarter. GDP in nominal terms (i.e. not adjusted for inflation) is the income measure of economic activity and it rose 0.8% in the quarter, after rising 0.2% in the June quarter.

The income measure largely comprises wages and profits. For the quarter, wages were stronger, while growth in corporate profits picked up to a modest pace, after falling in the June quarter.

- **Gross Operating Surplus**

Profits (gross operating surplus) for all corporations rose by a small 0.1% in the September quarter. This followed a decline of 1.6% in the June quarter. For the year to the September quarter, profits for all corporations fell 1.8%, an improvement on a decline of 3.8% in the year to the June quarter. The weakness in annual corporate profits was driven by declining mining profits over the year. In the September quarter, mining profits strengthened with increased production capacity and the weaker Australian dollar providing relief for mining profits.

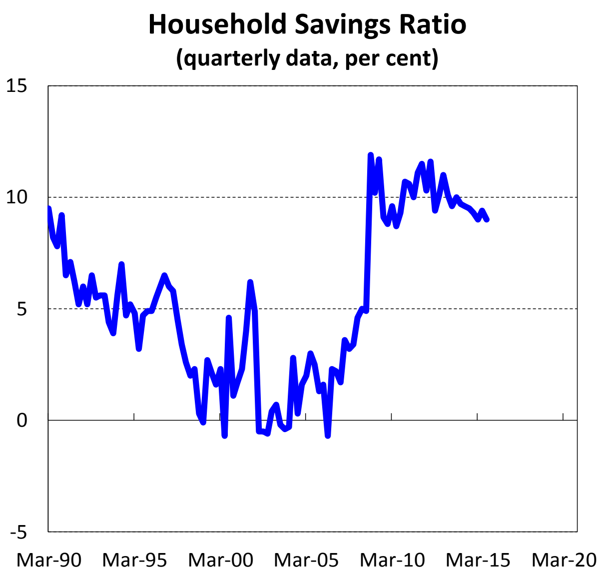
Profits over all sectors (including government and dwellings owned by persons) rose 0.4% in the September quarter. For the year to September, profits in all sectors edged up 0.2%, the first increase in the annual rate in four quarters.

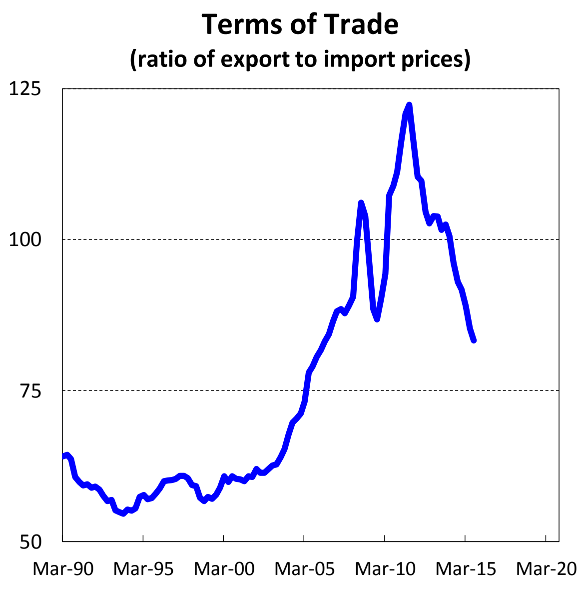
- **Wages**

Total wages (including employer's social contributions) rose 1.1% in the September quarter. For the year to the September quarter, total wages growth rose 2.6%, up from growth of 2.1% in the year to the June quarter. This was the strongest annual result in a year, although wages growth subdued.

The slow pace of wages growth (in annual terms) could be a potential negative for consumer spending, at face value. However, low wages growth has likely allowed employment to grow at a healthier pace than suggested by the current pace of economic growth. Increased job security for those employed and improved job prospects for job seekers is likely to be supportive of consumer spending.

Household disposable income, which includes non-wage income, rose at a slower pace of 0.5% in the September quarter. For the year to the September quarter, household disposable income rose 3.9%, down from growth of 4.0% in the year to the June quarter.





- **Terms of Trade**

The terms of trade (ratio of export to import prices) fell a further 2.3% in the September quarter, the seventh consecutive quarterly decline. Over the year to the September quarter, the terms of trade has dropped 10.4% and is now down 31.9% from its peak in the September quarter 2011. It remains just 4.0% above its long-run (20-year) average.

- **Household Saving Ratio**

Increased job security and improved prospects for job seekers has given consumers the confidence to dip into their savings to fund household consumption. The household saving ratio fell back to 9.0% in the September quarter, from 9.4% in the June quarter.

This is down from a recent high of 11.6% in the June quarter 2012, although the household savings ratio remains elevated. It is above the 10-year average of 7.8% and well above the level of household savings in the early 2000s, when the household savings ratio regularly skated into negative territory. There is further scope among households to draw on their savings if they feel confident in the outlook for employment.

Industry Break Down:

Industry Gross Value Added, Chain Volume Measures

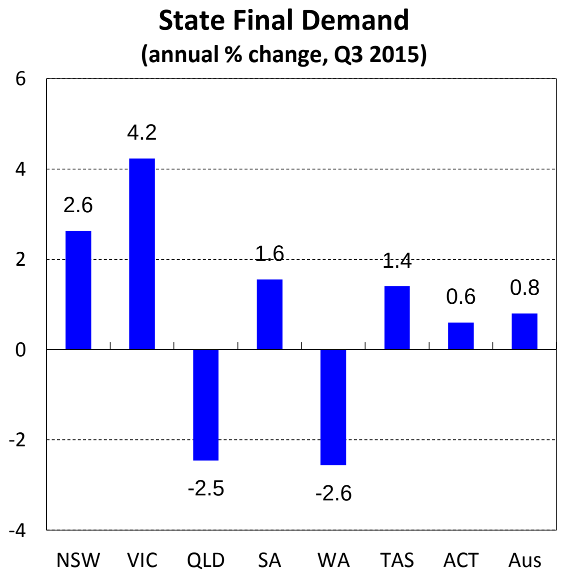
By Industry Sector	Quarterly % Change	Annual % Change
Mining	5.2	4.1
Rental, hiring & real estate services	2.8	8.0
Financial & insurance services	1.3	5.3
Arts & recreation services	1.3	2.0
Construction	1.2	2.0
Public Admin & safety	1.0	5.1
Information media & telecommunications	1.0	8.3
Healthcare	0.9	4.6
Education & training	0.7	2.6
Retail Trade	0.6	3.7
Accomodation & food services	0.4	3.2
Transport,postal & warehousing	0.2	2.4
Manufacturing	0.0	-0.9
Wholesale Trade	-0.1	2.3
Electricity gas, water & waste services	-0.2	1.1
Other services	-0.6	0.2
Professional, scientific & technical services	-1.2	-0.4
Administrative & support services	-1.3	0.4
Agriculture, forestry & Fishing	-2.3	-0.6

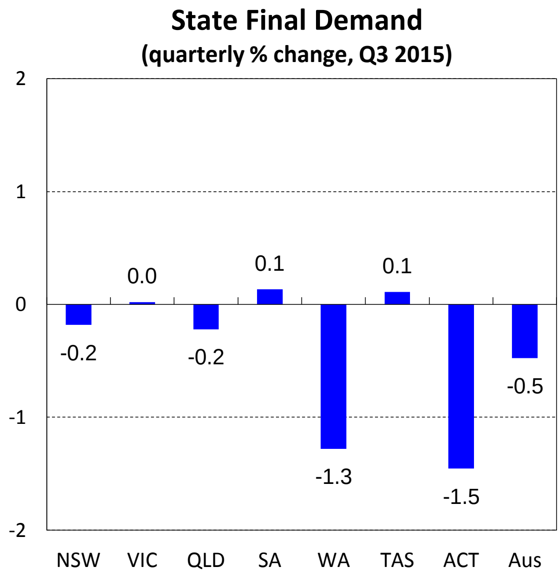
State Final Demand:

Despite the good headline result for GDP, the State final demand outcomes were weak. State final demand excludes exports and imports which were major factors behind the headline result. Only South Australia (0.1%) and Tasmania (0.1%) saw demand increase. State final demand was flat in Victoria and fell in NSW (-0.2%), Queensland (-0.2%), Western Australia (-1.3%) the ACT (-1.5%) and by 7.1% in the Northern Territory.

Over the year to the September quarter, the strongest growth by State was in Victoria (4.2%) followed by NSW (2.6%), South Australia (1.6%), Tasmania (1.4%) and the ACT (0.6%). Over the year, State final demand contracted in Western Australia (-2.6%), Queensland (-2.5%) and in the Northern Territory (-10.9%). Annual growth in State final demand in Victoria is at its strongest since March 2010 whilst the contraction in the Northern Territory is the largest since December 1999. The States and territories in which the contraction in domestic demand was most pronounced were those most closely linked to the resources construction boom. With that work now largely complete, domestic demand is coming down from its previously high levels.

Growth in resource exports in these States, however, is likely to remain very strong and will contribute towards their Gross State Product (GSP). This data is only available annually with data for 2015-16 not available until late next year. The GSP for the major resource exporting States in 2015-16 seems likely to be firm.





Outlook

Despite the strong headline result, there continue to be some worrying aspects from today's release. These concerns mostly revolve around the ability of the economy to transition from growth driven by mining investment to other sectors of the economy. The sizeable contraction in domestic demand will keep those concerns alive.

Nonetheless, there are many positive takeaways for the outlook. The large drag from mining investment is unlikely to worsen, and should begin to ease by the middle of next year. Consumer spending is gradually improving thanks to low interest rates and a solid labour market, and the low

Australian dollar is providing support to income. Exports should also continue to grow strongly and be a key support for growth.

While the next six months will likely continue to be challenging, prospects are improving that economic growth will pick up mid-2016.

There were few surprises in today's release. The RBA will see little reason to change its stance after this release, as it confirms that prospects of a pickup in the economy remain. We continue to expect the RBA will leave the cash rate on hold for all of 2016.

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