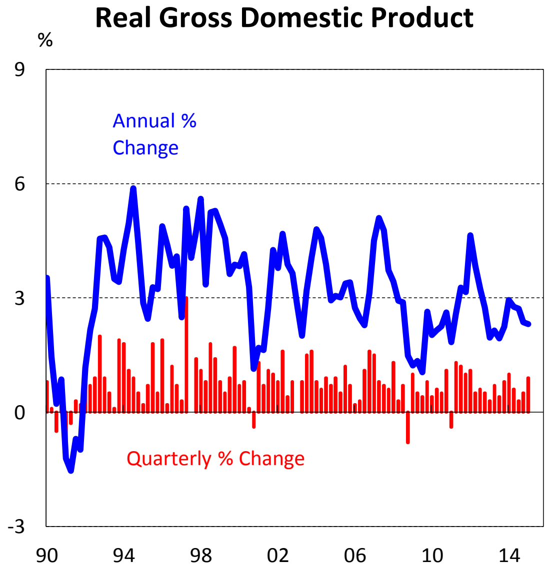
Data Snapshot

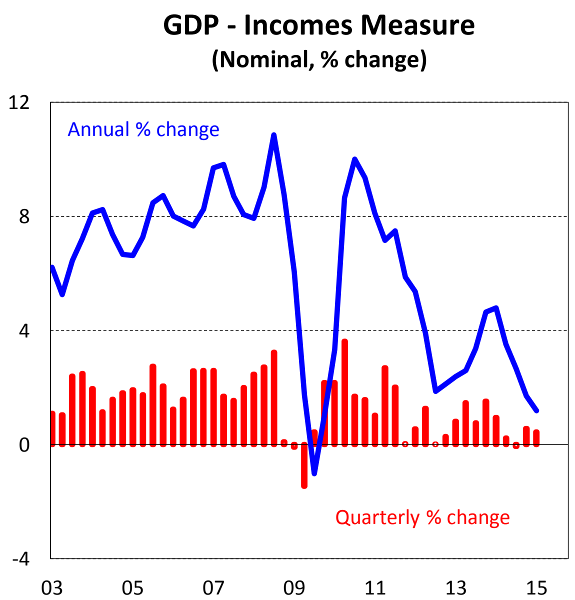
Wednesday, 3rd June 2015

National Accounts - GDP

Beauty is Only Skin Deep

- **GDP expanded by 0.9% in the March quarter, above consensus expectations. While this outcome appears solid, the detail suggests a less positive picture of health in the economy.**
- **The strength in the March quarter is unlikely to be sustained over the remainder of the year, especially with mining investment set to decline more significantly. The outlook continues to be for below trend growth for 2015.**
- **Growth was partially inflated by a build-up of inventories, and boosted by net exports. Domestic demand, which better represents total spending within the domestic economy, reported no growth in the March quarter. Weak domestic demand continues to suggest that the labour market is unlikely to strengthen significantly. Indeed, household and business spending were disappointing.**
- **Encouragingly, strong exports and dwelling investment are underpinning economic growth and should continue to do so over the medium term.**
- **Incomes, which include profits and wages, were weak in the March quarter. This reflects the declining terms of trade and a subdued labour market.**
- **Final demand was mixed across the States and territories, rising in the ACT, Victoria, South Australia, NSW, Tasmania and Queensland, while final demand fell in WA for the sixth consecutive quarter.**





GDP expanded by 0.9% in the March quarter, beyond consensus expectations for 0.7% growth. It was the strongest quarterly growth in a year. While this outcome appears solid, the detail suggests a less positive picture of health in the economy. Incomes were extremely weak, thanks to Australia's declining terms of trade and weakness in the labour market. In addition, growth remained uneven and skewed to a few areas. Further, today's data doesn't change the outlook for below trend growth for the remainder of the year.

Despite the strong quarterly outcome, annual growth slipped from 2.4% to 2.3% in the year to March, which remains below the long-run trend rate of growth.

GDP Expenditure Measure:

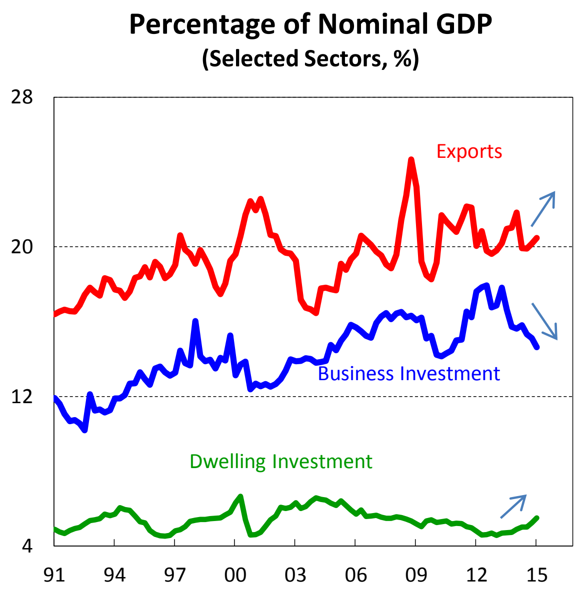
On the expenditure measure of GDP, growth was partially inflated by build-up of inventories, and boosted by net exports. Domestic demand, which better represents total spending with the domestic economy, reported no growth in the March quarter. Weak domestic demand continues to suggest that the labour market is unlikely to strengthen significantly. Indeed, household and business spending were disappointing. Household consumption grew by a modest 0.5% in the quarter, following 0.8% growth in the previous quarter. Business investment was weak, falling 3.2%, but unsurprising given the downturn in mining investment and limited activity within non-mining investment.

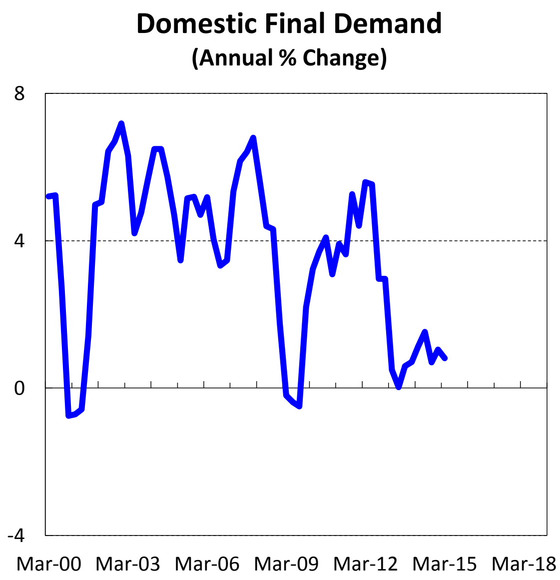
The main bright spot was dwelling investment, spurred on by rising house prices. Dwelling investment grew 4.7% in the March quarter, the strongest quarterly gain in 5½ years. Moreover, it followed 3.9% growth in the previous quarter. Dwelling investment contributed 0.2 percentage points to growth.

The other positive aspect was the strength of exports. Net exports again provided a healthy contribution to growth in the quarter of 0.5 percentage points. Exports grew 5.0% in the quarter, the strongest quarterly gain since September 2000, reflecting the increased production capacity within the resources sector. The strength of exports also provides evidence that the lower Australian dollar is providing some support to growth.

Selected Expenditure Items on GDP
Chain Volume Measures

	Contribution to GDP, ppt
Household Consumption	0.3
Dwelling Investment	0.2
Business Investment	-0.5
Public	0
Inventories	0.3
Net Exports	0.5





GDP Income Measure:

GDP based on incomes was weak in the March quarter. GDP in nominal terms (i.e. not adjusted for inflation) is the income measure of economic activity and it rose 0.4% in the quarter, after rising 0.6% in the December quarter.

The income measure largely comprises wages and profits. For the quarter, wages were weak, while profits rose for the second consecutive quarter.

- **Gross Operating Surplus**

Profits (gross operating surplus) for all corporations rose 0.6% in the March quarter, after rising 0.7% in the December quarter. However, given weakness in previous quarters, annual growth in corporate profits fell further into negative territory, down 1.8% in the year to the March quarter.

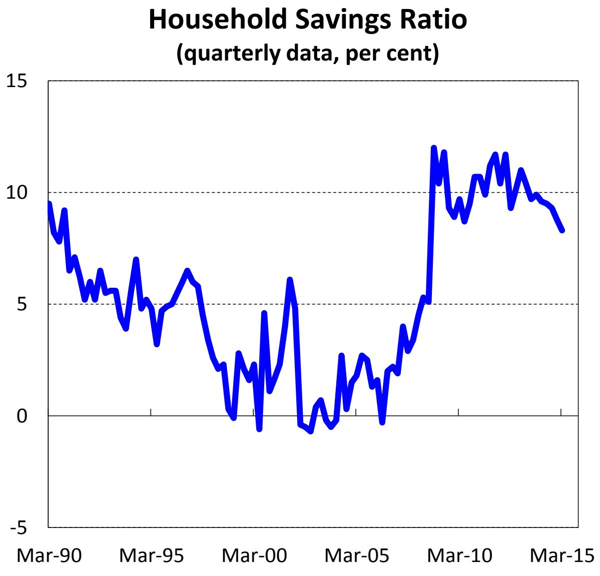
Profits over all sectors (including government and dwellings owned by persons) rose 0.7% in the March quarter but are up only 0.3% in the year to the March quarter.

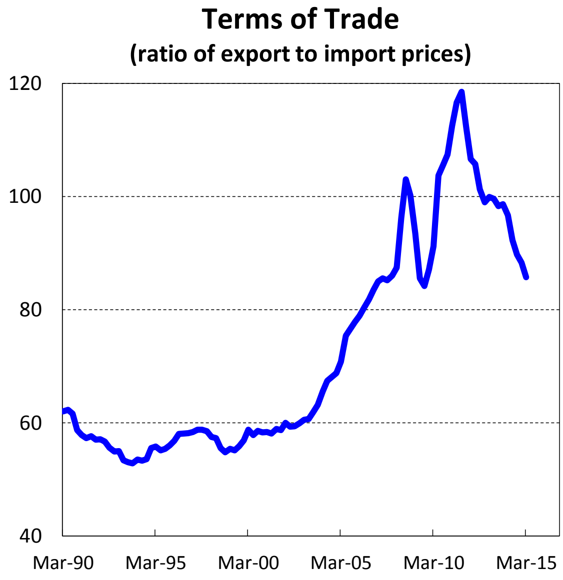
- **Wages**

Total wages (including employer's social contributions) rose 0.1% in the March quarter. For the year to the March quarter, the annual pace of wages growth slowed to 1.7%, down from 2.2% in the year to the December quarter. This was the slowest annual growth in wages since June 2013 and represents a significant deterioration from the recent peak four years earlier, when annual wages growth was running at 9.1%.

The slow pace of wage growth is a concerning sign for household consumption, however, record low interest rates and increasing house prices in some of the major capital cities appear to have increased households' willingness to dip into their savings.

Household disposable income, which includes non-wage income, was also soft, rising 0.4% in the March quarter and an increase of 2.6% in the year to the March quarter.





- **Terms of Trade**

The terms of trade (ratio of export to import prices) fell 2.9% in the March quarter, the fifth consecutive quarterly decline. Over the year to the March quarter, the terms of trade has slumped 11.4% and is down 27.7% from its peak in the September quarter 2011. It remains above its long-run average.

- **Household Saving Ratio**

With wages growth barely keeping up with inflation, households appear to have reduced their rate of saving to continue spending.

The household savings ratio fell from 8.8% to 8.3% in the March quarter, the lowest in six and a half years. The low interest rate environment is supporting household spending, despite soft growth in incomes.

The household savings ratio remains above the 10-year average, and suggests that there is further scope among households to draw on their savings, particularly while interest rates remain low and household wealth levels are rising.

Industry Break Down:

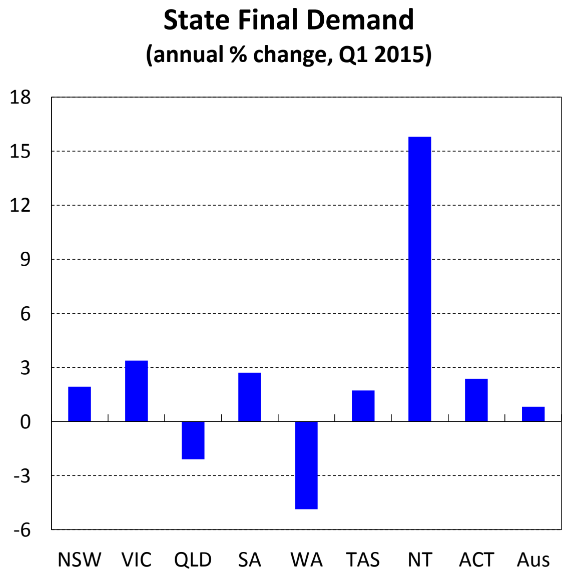
Industry Gross Value Added, Chain Volume Measures

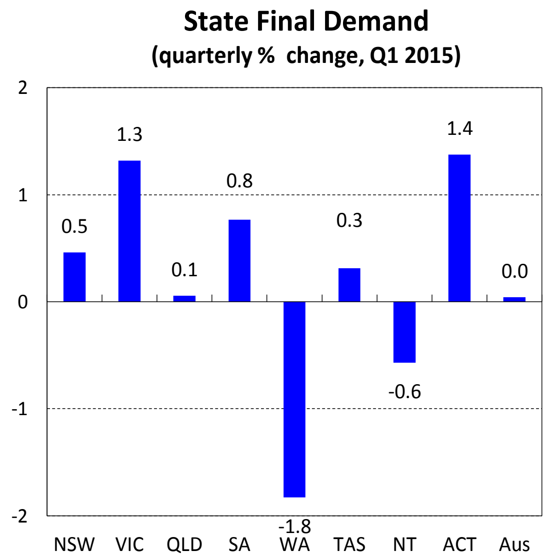
By Industry Sector	Quarterly % Change	Annual % Change
Mining	3.5	4.2
Information media & telecommunications	3.4	11.1
Agriculture, forestry & Fishing	1.6	-0.6
Financial & insurance services	1.9	5.9
Accomodation & food services	2.1	7.8
Wholesale Trade	1.8	4.6
Rental, hiring & real estate services	1.4	1.1
Professional, scientific & technical services	1.1	-3.9
Other services	2.2	5.3
Retail Trade	0.9	2.4
Transport,postal & warehousing	0.5	-0.4
Public Admin & safety	0.5	0.4
Education & training	0.6	2.6
Healthcare	0.6	3.9
Manufacturing	0.3	1.5
Electricity gas, water & waste services	0.2	1.3
Construction	-0.8	-2.9
Arts & recreation services	-0.9	3.5
Administrative & support services	-1.2	-2.2

State Final Demand:

For the March quarter, State final demand rose in the ACT (1.4%), Victoria (1.3%), South Australia (0.8%), NSW (0.5%), Tasmania (0.3%) and Queensland (0.1%). State final demand declined in WA (-1.8%) for the sixth consecutive quarter, and was also weak in the Northern Territory (-0.6%) in the March quarter.

Over the year to the March quarter, the strongest growth by State was in Victoria (3.4%), with solid growth also seen in South Australia (2.7%), ACT (2.4%) and to a lesser extent in NSW (1.9%) and Tasmania (1.7%). The strongest performer of all the States and territories in the year to the March quarter was the Northern Territory (15.8%). Growth declined in Queensland (-2.1%) and Western Australia (-4.9%) in the year to the March quarter.





Outlook

Encouragingly, strong exports and dwelling investment are underpinning economic growth and should continue to do so over the medium term. However, the strong growth outcome in the quarter is unlikely to be sustained over the remainder of the year, especially with mining investment set to decline more significantly. Soft income growth is likely to limit any pickup in consumer spending and the non-mining sector has provided little indication that its investment spending will recover substantially over the medium term. We continue to rely on a pickup in confidence to drive stronger growth in household and business spending. Nonetheless, the outlook continues to be for below trend growth for the remainder of the year.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Jo Horton, Senior Economist
Ph: 02-8253-6696

Contact Listing

Chief Economist	Senior Economist	Senior Economist
Hans Kunnen	Josephine Horton	Janu Chan
kunnenh@stgeorge.com.au	hortonj@stgeorge.com.au	chanj@stgeorge.com.au
(02) 8254 8322	(02) 8253 6696	(02) 8253 0898