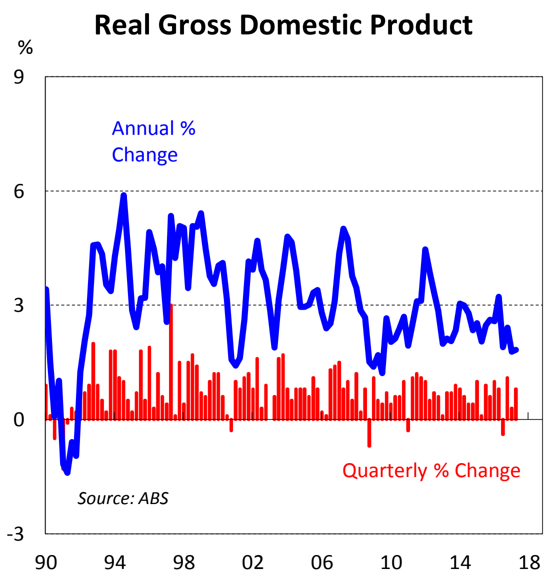
Data Snapshot

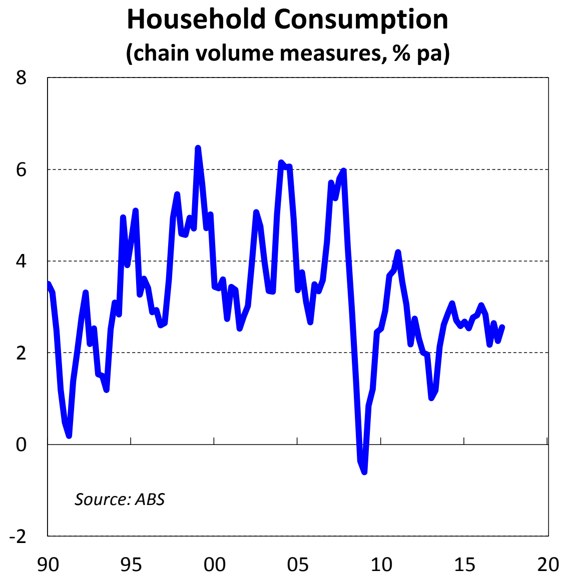
Wednesday, 6 September 2017

National Accounts - GDP

Government Spurs Growth

- **Gross domestic product (GDP) rose by 0.8% in the June quarter. This was below our own and consensus expectations and followed subdued growth of 0.3% in the March quarter. The Australian economy has now gone 104 consecutive quarters (or 26 years) without a recession.**
- **In the year to the June quarter, GDP expanded by 1.8%, an unchanged pace of annual growth from the March quarter. This pace of growth remains below the long-term average and the potential rate of growth of the economy.**
- **In the June quarter, the government sector was the major driver of growth, with increases in government investment and government consumption. Household spending lifted and net exports were also positive for growth. A drawdown from inventories detracted heavily from economic growth in the June quarter.**
- **Despite moderate growth in the June quarter, the outlook for household spending is subdued, given high levels of household indebtedness and low wages growth. Building approvals suggest dwelling investment has likely peaked. While there are risks to the growth outlook, there are encouraging signs.**
- **Business investment disappointed, falling in the June quarter and detracting from economic growth. The latest capex data, however, has showed an improvement in non-mining spending plans, suggesting a recovery in business investment may be underway.**
- **Today's data leaves us comfortable with our view that the RBA is unlikely to cut interest rates, but that a rate hike is still some way off. We expect the cash rate to remain on hold into 2018.**





GDP Expenditure Measure:

Gross domestic product (GDP) rose by 0.8% in the June quarter, following subdued growth of 0.3% in the March quarter. The Australian economy has now gone 104 consecutive quarters (or 26 years) without a recession.

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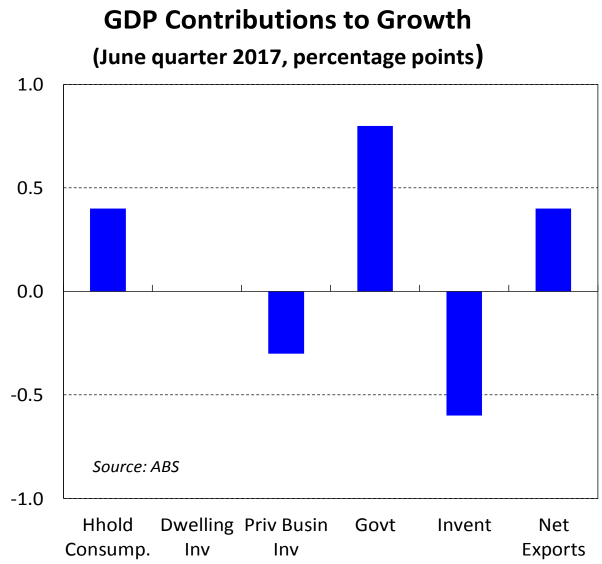
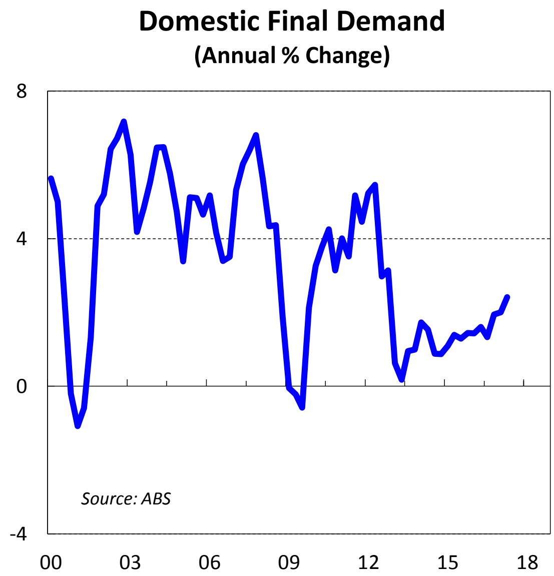




On the expenditure side of GDP, growth was supported by government investment, which jumped 11.9% in the June quarter. Government consumption was also supportive of growth, rising by 1.2% in the quarter. Government investment contributed 0.6 percentage points to growth in the June quarter, while government consumption added 0.2 percentage points.

Household consumption lifted by 0.7% in the June quarter, which was somewhat weaker than expected given retail spending was the strongest in over four years in the June quarter. In annual terms, household spending rose by 2.6% in the June quarter. Household consumption contributed 0.4 percentage points to GDP growth in the June quarter. Slow wages growth and high levels of household indebtedness are weighing on growth in household spending. Households dipped into their savings again in the June quarter to support spending, as reflected in a further decline in the household savings ratio.

Dwelling investment has helped underpin economic growth over the last few years. In the June quarter, however, dwelling investment made no contribution to GDP growth. Dwelling investment rose just 0.2% for the quarter, following a decline of 3.7% in the March quarter. Building approvals suggest dwelling investment has likely peaked and the impact of dwelling investment on economic growth will continue to be less favourable than in recent years.

A disappointing aspect of today's data was a decline in private business investment. Private business investment fell by 2.1% in the June quarter, after rising by 2.6% in the March quarter, following on from ten consecutive quarters of declines. The partial indicators ahead of today's GDP release, including construction work and capital expenditure, had provided hope that private business investment would rise again in the June quarter and contribute to economic growth. Private business investment in the national accounts is a more comprehensive measure of investment activity. The renewed weakness in the June quarter is discouraging, although surveys point to better prospects for business investments, especially in non-mining.

Domestic final demand rose by 1.0% in the June quarter and by 2.4% in the year to the June quarter.

Net exports strengthened in the June quarter, contributing 0.4 percentage points to GDP growth, after detracting 1.0 percentage points in the previous quarter. Export volumes rebounded, rising by 2.7% in the June quarter. This was in contrast to export values, which fell in the quarter, reflecting softer commodity prices. Import volumes rose by 1.2% in the June quarter.

Inventories weighed on growth in the June quarter, detracting 0.6 percentage points from growth.

Selected Expenditure Items on GDP, Chain Volume Measures

	Quarterly % Change
Household Consumption	0.7
Public Consumption	1.2
Dwelling Investment	0.2
Business Investment	-2.1
Public Investment	11.9
	Contribution to GDP ppt
Inventories	-0.6
Net Exports	0.4

GDP Income Measure:

Weakness in commodity prices in the June quarter weighed on national incomes. GDP growth based on incomes fell 0.1% in the June quarter, after rising by 2.3% in the March quarter.

This measure of GDP mostly comprises of profits and wages. Corporate profit growth was weak in the quarter, falling 1.6%, driven by lower commodity prices. However, wages had a solid increase for the second consecutive quarter, rising by 0.7%.

On an annual basis, wages (total compensation of employees) remains weak (2.1%), while profits (all sectors) rose 12.7% in the year. It suggests that the bulk of income boost from the recent rebound in commodity prices is flowing through to corporate profits rather than to employees.

- **Terms of Trade**

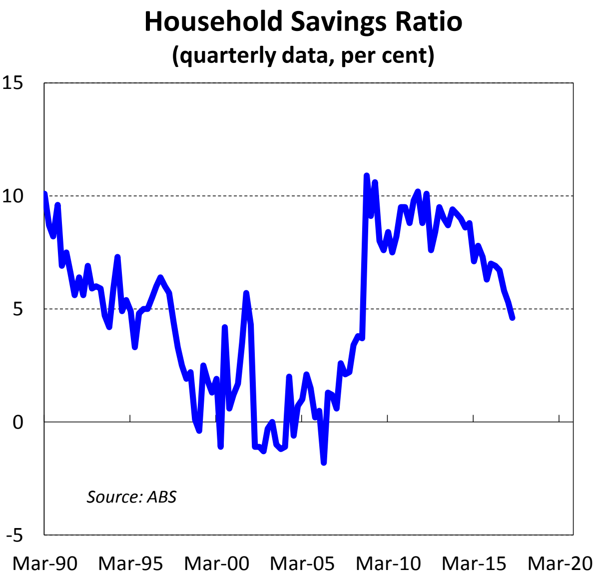
The fall in commodity prices in the quarter was reflected in the terms of trade (ratio of export to import prices). The higher the terms of trade, the more our exports are worth in comparison to imports.

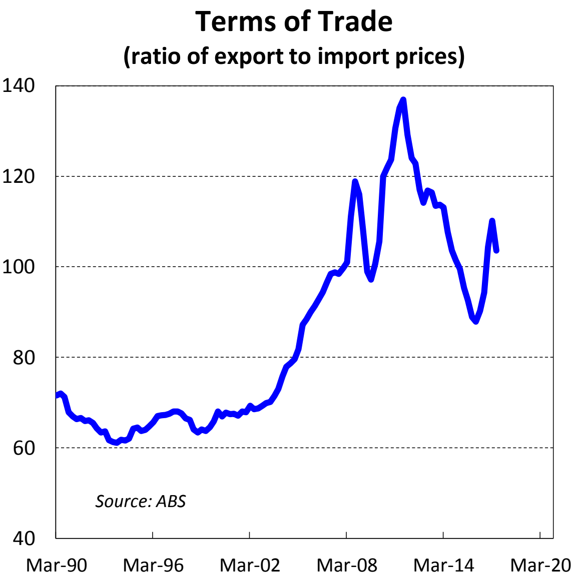
The terms of trade fell by 6.0% in the June quarter, following four consecutive quarterly increases. On an annual basis the terms of trade is 14.9% higher in the year to the June quarter, reflecting gains in commodity prices over the past year.

Commodity prices have strengthened again in recent months, which, if maintained, will provide support to the terms of trade in the current (September) quarter.

- **Household Savings Ratio**

The household savings ratio fell to 4.6% in the June quarter, down from 5.3% in the March quarter. It was the fifth consecutively quarterly decline in the household savings ratio, which is now at its lowest since the September quarter 2008. The falling household savings ratio indicates that households are dipping into their savings to fund household spending. However, given wage growth is very weak and household indebtedness is high, there is becoming less and less scope for consumers to run down savings for consumer spending. It suggests that growth in household consumption will be limited in coming quarters.





Industry Break Down:

Out of the 19 industries, 12 recorded growth in the June quarter. The strongest performing industry in the quarter was professional, scientific & technical services, which grew 2.5%. Annual growth however, was strongest in agriculture, forestry & fishing at 22.6% in the year to the June quarter.

Industry Gross Value Added, Chain Volume Measures

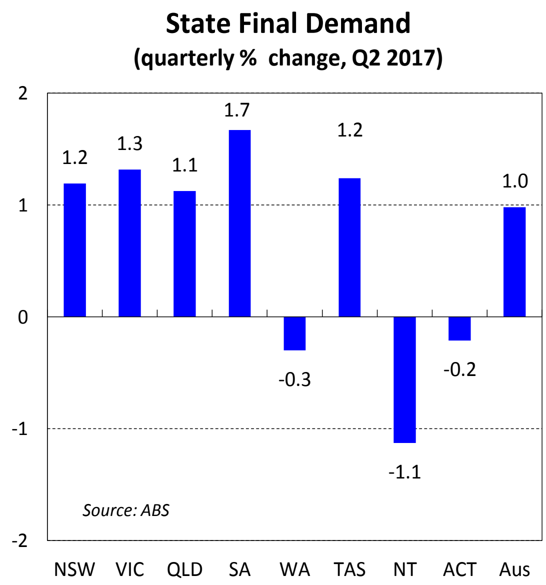
By Industry Sector	Quarterly % Change	Annual % Change
Professional, scientific & technical services	2.5	7.7
Accommodation & food services	2.1	2.9
Information media & telecommunications	2.1	4.3
Manufacturing	1.8	-0.4
Retail Trade	1.6	2.3
Financial & insurance services	1.4	4.5
Construction	1.4	-2.0
Administrative & support services	1.3	0.6
Mining	0.6	1.8
Healthcare	0.5	3.9
Agriculture, forestry & fishing	0.4	22.6
Education & training	0.3	1.7
Rental, hiring & real estate services	-0.1	0.7
Public Admin & safety	-0.3	2.6
Other services	-0.3	-4.9
Arts & recreation services	-0.6	-2.1
Electricity gas, water & waste services	-1.4	0.1
Transport,postal & warehousing	-1.5	1.7
Wholesale Trade	-1.9	3.7

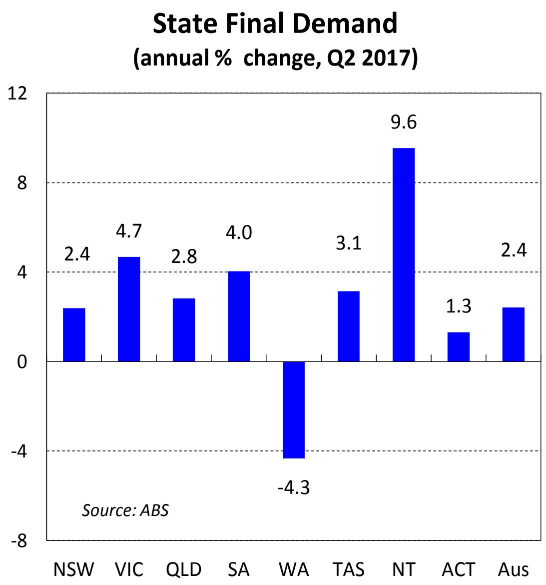
State Final Demand:

State final demand was mixed across States and territories.

South Australia had the strongest growth in the June quarter, rising 1.7%. This was followed by Victoria (1.3%), NSW and Tasmania (both 1.2%) and Queensland (1.1%). State final demand fell in the ACT (-0.2%), Western Australia (-0.3%) and the Northern Territory (-1.1%).

On an annual basis, there was strong growth in final demand in the Northern Territory (9.6%), Victoria (4.7%) and SA (4.0%). Growth was more subdued in Tasmania (3.1%), Queensland (2.8%), NSW (2.4%) and the ACT (1.3%). State final demand fell in WA (-4.3%) in the year to the June quarter.





Outlook

GDP growth in the June quarter was solid, but still missed our own and consensus forecasts for a larger increase. Government spending was a key driver of growth in the quarter, as were net exports and household spending.

The increase in household spending in the June quarter came at the expense of savings, as consumers dug into their savings buffer to fund spending. However, this trend cannot continue indefinitely. The outlook for household spending is subdued given high levels of household indebtedness and low wages growth. Growth in dwelling investment has been a key driver of economic growth in recent years, however, it fell in the March quarter and barely rose in the June quarter. Building approvals suggest dwelling investment has likely peaked and the impact of residential construction on economic growth will continue to be less favourable than in recent years.

Although business investment disappointed in the June quarter, the latest capex data has showed an improvement in non-mining spending plans. Lending to businesses has also improved, suggesting a recovery in business investment may be underway.

While the RBA continues to have concerns about the high level of household indebtedness, it has recently appeared slightly more optimistic regarding the outlook for business investment and jobs growth. Today's data leaves us comfortable with our view that the RBA is unlikely to cut interest rates, but that a rate hike is still some way off.

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