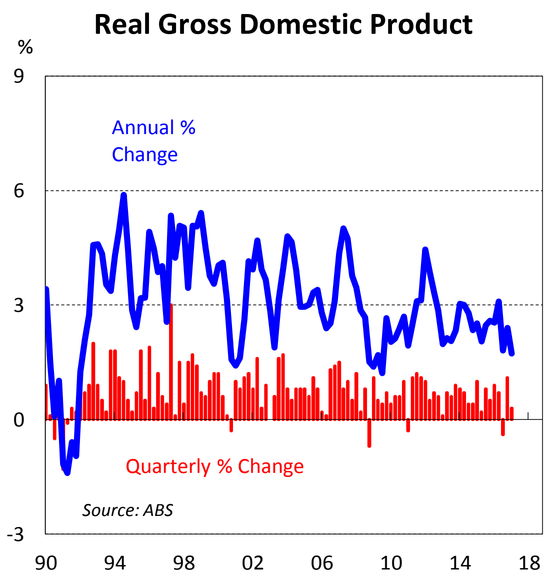
Data Snapshot

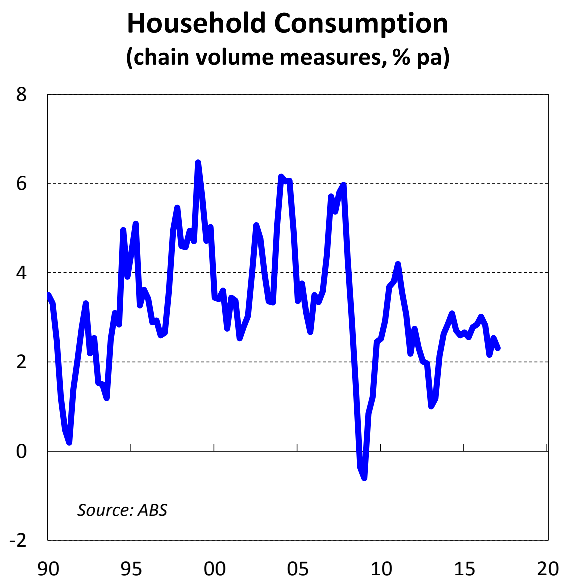
Wednesday, 7 June 2017

National Accounts - GDP

Crawl To The Finish Line

- **The Australian economy has now gone 103 consecutive quarters (or over 25½ years) without a recession. This means Australia will surpass the record stretch of economic growth set by the Netherlands. However, the detail in today's release reveals little cause for celebration as we crawl to the finish line.**
- **Gross domestic product (GDP) rose by 0.3% in the March quarter, following growth of 1.1% in the December quarter of 2016. In the year to the March quarter, GDP expanded by 1.7%. This was the lowest annual pace of growth since the September quarter 2009.**
- **Some of the main growth drivers of the economy in recent years, including residential dwelling investment and exports, reversed in the March quarter. Dwelling investment, which has supported the transition from mining investment-led growth, is close to a peak and its role of support for economic growth is likely to fade later this year.**
- **The household savings ratio fell to its lowest since the September quarter 2008, as households dip into their savings to fund household spending. Given wage growth is very weak 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.**
- **Today's data highlights vulnerabilities in the domestic economy. Over the coming year there will be factors which could pose a risk to the growth outlook.**

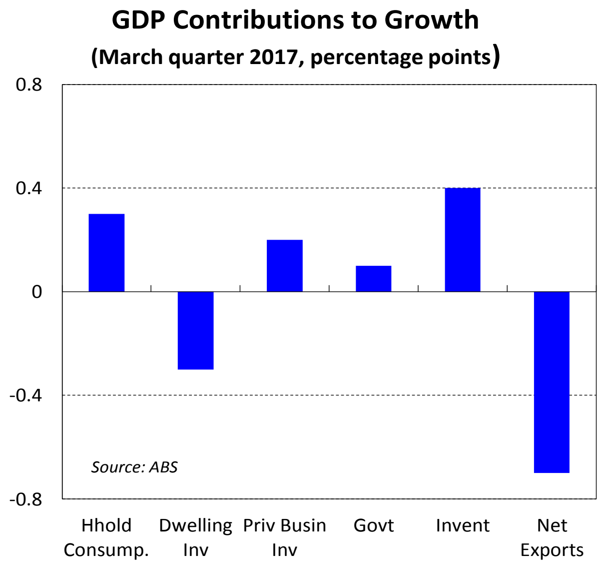


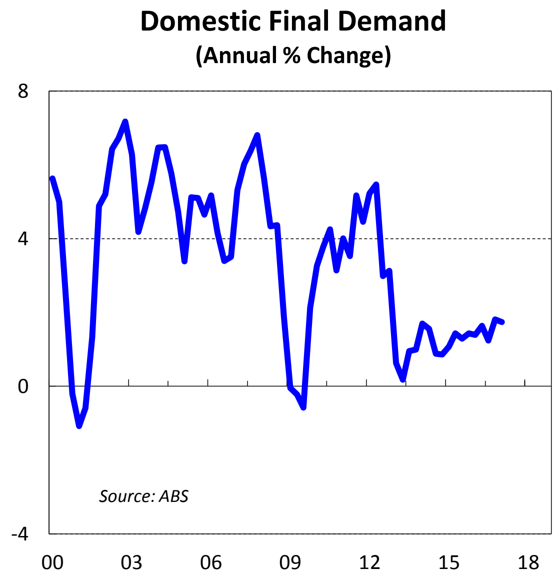


GDP Expenditure Measure:

Gross domestic product (GDP) rose by 0.3% in the March quarter, following growth of 1.1% in the December quarter of 2016. The Australian economy has now gone 103 consecutive quarters (or over 25½ years) without a recession.

In the year to the March quarter, GDP expanded by 1.7%, a step down from growth of 2.4% in the year to the December quarter. This is further below the long-term average and potential rate of growth of the economy.





On the expenditure side of GDP, growth was partially supported by a build-up in inventories, while household consumption eked out a modest gain in the quarter. Some of the main growth drivers of the economy in recent years reversed in the March quarter. These included residential dwelling investment and exports, which both dragged on economic growth.

Household consumption lifted by 0.5% in the quarter, which is a more modest increase than the previous quarter and below the long-term average. On an annual basis, household spending grew by 2.3%. Consumers are not spending up big, with very slow wages growth limiting the willingness of households to spend. Household consumption contributed 0.3 percentage points to growth in the quarter. The increase in household consumption in the March quarter was achieved by dipping into savings, as reflected in the decline in the household saving ratio.

Despite the lacklustre pace of growth in household spending in the quarter, spending was relatively broad based, with thirteen of the seventeen household consumption sub-categories recording growth in the quarter. The strongest category was electricity, gas and other fuel (up 2.9%), followed by transport services (1.8%). The largest decline was in alcoholic beverages (-0.9%).

Overall, the government sector made a slight positive contribution to GDP growth in the March quarter, with government consumption strengthening, while government investment slowed.

Government consumption rebounded in the quarter, rising by 1.0%, following a decline of 0.3% in the December quarter. Government consumption added 0.2 percentage points to growth in the quarter.

Government investment, however, weakened, falling by 2.7% in the quarter. This followed a large increase of 14.1% in the previous quarter. Government investment detracted 0.1 percentage point from GDP growth in the March quarter.

Dwelling investment has helped underpin economic growth over the last few years. In the March quarter, however, dwelling investment fell by 4.4%, which was the largest decline since the June quarter 2009. Dwelling investment detracted 0.3 percentage points from GDP growth in the quarter. The pipeline for residential construction suggests dwelling investment is close to a peak and its contribution to growth will fade as we near 2018.

An encouraging development in today's data was the growth recorded in private business investment. Private business investment grew by 1.3% in the March quarter, after ten consecutive quarters of contraction. Growth in new engineering construction drove the improvement in overall private business investment. The most recent private capital expenditure survey from the ABS suggests that this recovery may not yet be entrenched, although there are areas of business investment not included in this ABS survey.

Domestic final demand rose by 0.3% in the March quarter and by 1.7% in the year to the March quarter.

Net exports was the key category that weighed on economic growth in the quarter. Net exports detracted 0.7 percentage points from GDP growth in the March quarter. Export volumes fell by 1.6% in the March quarter. It was the first decline in seven quarters, as greater production capacity from the mining investment boom has increased export volumes in recent years. The decline in export volumes in the quarter was in contrast to export values, which have been boosted by strong commodity prices. Import volumes rose by 1.6% in the March quarter.

Inventories provided support to growth in the March quarter, contributing 0.4 percentage points to growth.

Selected Expenditure Items on GDP, Chain Volume Measures

	Quarterly % Change
Household Consumption	0.5
Public Consumption	1.0
Dwelling Investment	-4.4
Business Investment	1.3
Public Investment	-2.7
	Contribution to GDP ppt
Inventories	0.4
Net Exports	-0.7

GDP Income Measure:

The rebound in commodity prices since early 2016 has had a positive impact on national incomes. GDP growth based on incomes grew 2.3% in the March quarter, and came off the back of a solid 3.2% increase in the December quarter. On an annual basis, nominal incomes grew 7.7% in the year to the March quarter, which was the strongest in six years.

This measure of GDP mostly comprises of profits and wages. Corporate profit growth was strong in the quarter, driven by higher commodity prices. However, wages had a surprisingly solid increase in the quarter, although this followed a contraction in the December quarter.

On an annual basis, wages (total compensation of employees) remains weak (1.5%), while profits (all sectors) rose 16.5% 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**

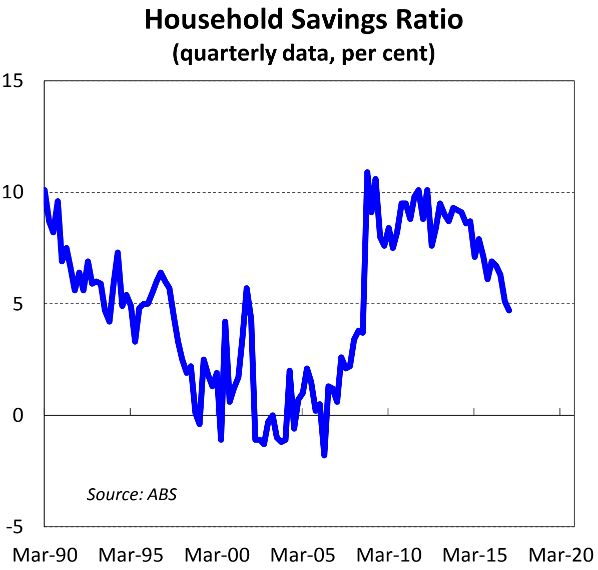
The income gain from higher commodity prices is reflected in the terms of trade (ratio of export to import prices). The higher the terms of trade, the more our exports are worth in comparison to imports.

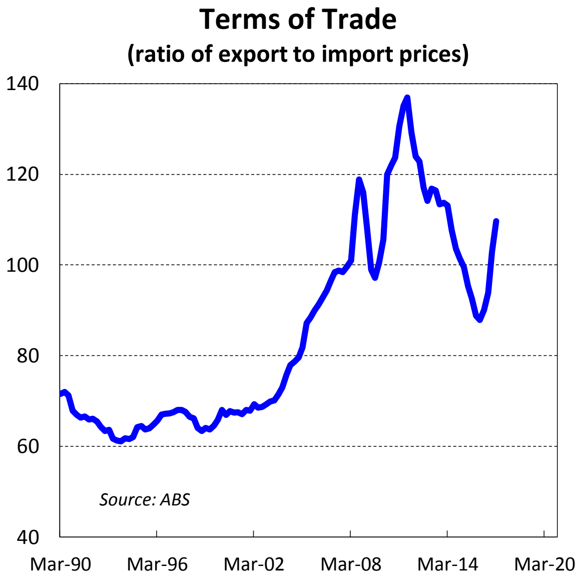
The terms of trade jumped 6.6% in the March quarter, the fourth consecutive quarterly increase. On an annual basis, the terms of trade is 24.8% higher in the year to the March quarter, and was the biggest annual percentage increase in 6½ years.

Commodity prices have fallen in recent months, indicating that lift in the terms of trade has likely run its course. The income boost from the rising terms of trade over the past year will ease. Nonetheless, we do not believe commodity prices will revisit their lows in 2016.

- **Household Savings Ratio**

The household savings ratio fell to 4.7% in the March quarter, down from 5.1% previously. It was the 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 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, 16 recorded growth in the March quarter. The strongest performing industry in the quarter was electricity gas, water & waste services, which grew 3.1%. Annual growth however, was strongest in agriculture, forestry & fishing at 14.7% in the year to the March quarter.

Industry Gross Value Added, Chain Volume Measures

By Industry Sector	Quarterly % Change	Annual % Change
Electricity gas, water & waste services	3.1	2.7
Transport,postal & warehousing	2.0	3.6
Wholesale Trade	1.9	9.1
Administrative & support services	1.9	0.4
Healthcare	1.3	5.2
Financial & insurance services	1.3	4.0
Professional, scientific & technical services	1.2	7.7
Construction	1.1	-4.4
Accomodation & food services	1.0	1.2
Rental, hiring & real estate services	0.7	3.8
Retail Trade	0.6	0.9
Mining	0.5	-0.7
Education & training	0.4	1.7
Arts & recreation services	0.4	0.1
Public Admin & safety	0.3	2.8
Information media & telecommunications	0.1	2.7
Manufacturing	-1.0	-2.4
Other services	-3.6	-1.1
Agriculture, forestry & Fishing	-5.6	14.7

State Final Demand:

State final demand was mixed across States and territories.

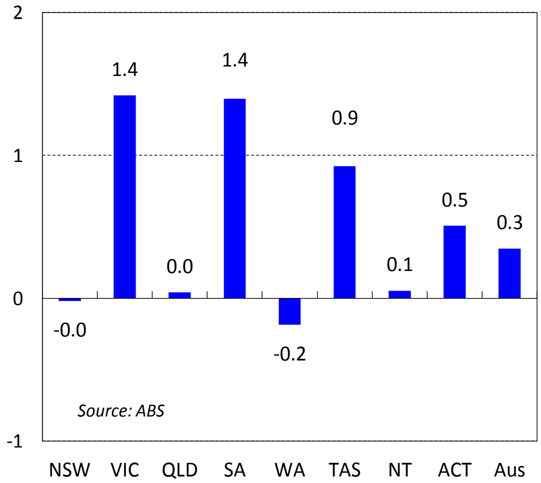
Victoria was one of the stand outs, posting solid growth of 1.4% in the March quarter. On an annual basis, growth picked up to 4.5%, up from 3.2% previously. It was the fastest growing of all States, and corresponds with the recent strength in Victoria's labour market.

South Australia also posted solid growth in the quarter of 1.4%. It saw annual growth pick up from 2.0% to 3.3%, and now sits above its 10-year average.

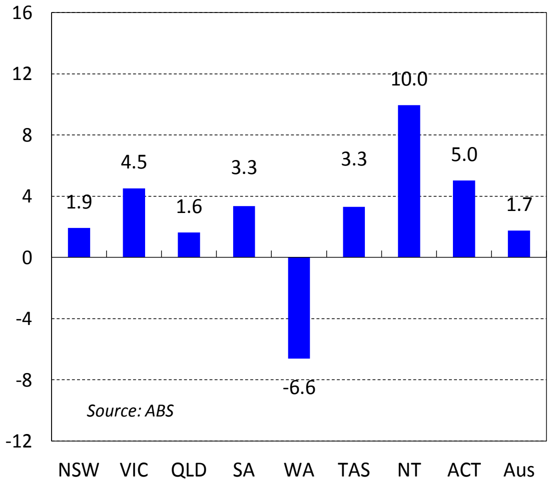
Over the quarter, there was healthy growth in State final demand for Tasmania (0.9%), and more subdued growth for the ACT (0.5%) and the Northern Territory (0.1%). Final demand was flat in NSW and Queensland, and contracted in Western Australia (-0.2%). The weakness in NSW is mostly due to some large swings in public investment, which contracted sharply in the March quarter.

On an annual basis, there was strong growth in final demand in the Northern Territory (10.0%) and the ACT (5.0%). Tasmania (3.3%), Queensland (1.6%) and NSW (1.9%) had more modest growth in the year to the March quarter. Final demand in Western Australia fell 6.6% in the year to the March quarter.

State Final Demand
(quarterly % change, Q1 2017)



State Final Demand
(annual % change, Q1 2017)



Outlook

GDP growth in the March quarter was hard-won. It was a soft outcome, and in part reflects volatility in recent quarters. The decreasing drag from mining investment should benefit the economy in coming quarters. Low interest rates, a weaker Australian dollar helping the services sectors and still firm population growth will also provide underlying support.

That said, today's data highlights vulnerabilities in the domestic economy. Over the coming year there will be factors which could pose a risk to the growth outlook. Consumer spending is likely to remain subdued while wages growth is very low. Dwelling investment, which has supported the transition from mining investment-led growth, is close to a peak and its role of support for economic growth is likely to fade later this year. The most recent capex survey also indicated investment plans in the non-mining sector remain lacklustre.

Despite the modest state of domestic economic growth, the RBA is unlikely to cut official interest rates in the near-term. While the RBA continues to have concerns about the high level of household indebtedness and housing market activity, it is expected to leave official interest rates on hold.

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