Data snapshot

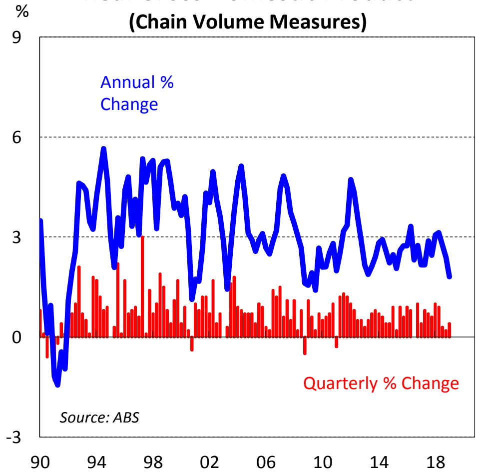
Wednesday, 5 June 2019

National Accounts - GDP

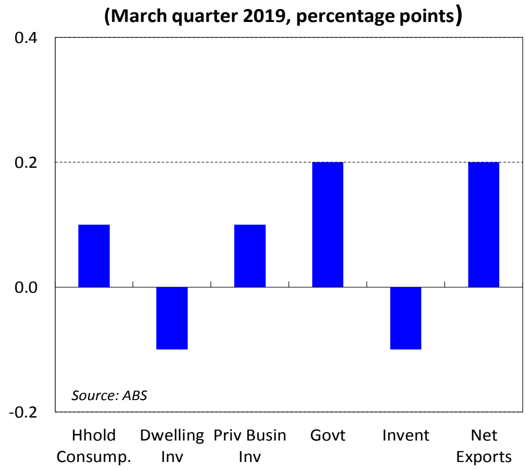
Low Fuel Warning

- **The Australian economy grew at a slow rate in the early part of this year, after a particularly weak second half of 2018. The weakness in the consumer sector and the impact of the housing downturn are major factors behind the subdued result.**
- **In the March quarter, gross domestic product (GDP) grew just 0.4%. Annual growth stepped down from 2.4% to 1.8%, the weakest annual rate in 9½ years.**
- **Domestic final demand also only eked out a 0.1% gain, which is the weakest quarterly gain since the September quarter of 2016. Prior to yesterday, the last time the RBA cut rates was in this quarter.**
- **Public spending, business investment and the traded sector provided some modest support to economic growth. Household spending provided a small contribution, but dwelling investment and inventories detracted from growth.**
- **In the quarter, Tasmania and QLD recorded the strongest growth rates, but NT shrunk sharply. In the year to Q1, NSW, Victoria and QLD each posted slower growth rates of 2.1%, 3.0% and 1.4%, respectively. NSW's annual rate was the weakest in 5¼ years, Victoria's the weakest in 4½ years and QLD's in nearly three years. These three economies account for 75% of Australia's economy.**
- **The strongest performing industry in the quarter was arts & recreation services for the second straight quarter (+2.1%). The weakest sectors were related to residential housing and included construction and rental, hiring & real estate services.**
- **Today's data adds to our expectation the RBA will need to cut further, especially because some parts of the economy are likely to stay weak through this year. Moreover, we expect GDP growth in 2019 to be below trend and undershoot the RBA's forecasts.**

Real Gross Domestic Product
(Chain Volume Measures)



GDP Contributions to Growth
(March quarter 2019, percentage points)



GDP Expenditure Measure:

The Australian economy grew at a slow rate in the early part of this year, after a particularly weak second half of 2018. The weakness in the consumer sector and the impact of the housing downturn are major factors behind the subdued result. Public spending and business investment and the traded sector provided some modest support to economic growth.

In the March quarter, GDP grew just 0.4%. Annual growth stepped down from 2.4% to 1.8%, the weakest annual rate in 9½ years (i.e. since the GFC). It was also well below the 10-year average growth rate of 2.6% and estimates of the trend pace of growth.

Domestic final demand, a key measure of expenditure within the domestic economy, grew by only 0.1% in the March quarter. The last time domestic demand was so weak in the quarter was in the September quarter of 2016. Prior to yesterday, the last time the RBA cut rates was in this quarter.

Consumer spending remained especially weak. In the quarter, it grew just 0.3% and contributed just 0.1 percentage points to growth. The annual growth rate eased from 2.0% in the December quarter of 2018 to 1.8% in the March quarter 2019, the weakest since the June quarter of 2013. The downturn in the housing market is likely having a negative impact on spending. High household debt levels are also restraining spending. While strong employment gains are supporting incomes, a soft pace of wage growth is another factor keeping a lid on overall spending. The low household savings ratio leaves little room for households to increase spending faster than growth in incomes.

The downturn in the housing sector is also weighing on dwelling investment. Dwelling investment contracted 2.5% in the March quarter, the second consecutive quarterly decline. Both new dwellings (1.8%) and alterations & additions (-3.8%) declined in the quarter. Moreover, the decline in real estate turnover led to ownership transfer costs detracting 0.2 percentage points from growth. While there has recently been encouraging signs of improvement in dwelling prices, including an easing in price declines and a lift in auction clearance rates, residential construction is expected to remain lacklustre for some time. Weak building approvals suggest that the downtrend in dwelling investment has further to run.

Selected Expenditure Items on GDP, Chain Volume Measures

	Quarterly % Change
Household Consumption	0.3
Public Consumption	0.8
Dwelling Investment	-2.5
Business Investment	0.1
Public Investment	0.0
	Contribution to GDP ppt
Inventories	-0.1
Net Exports	0.2

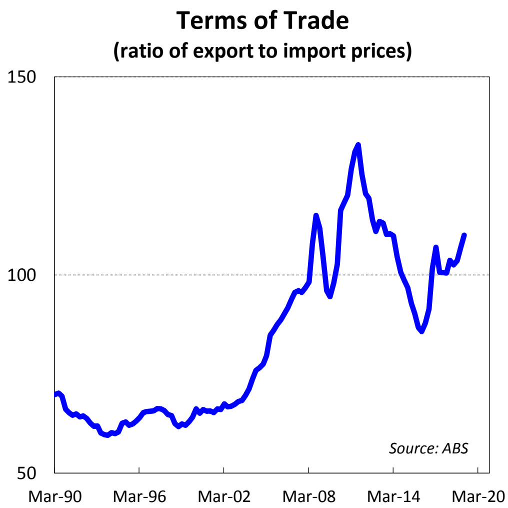
Private business investment was encouraging, rising by 1.2% in the March quarter, the first increase in a year. Although business surveys have indicated a weakening in confidence and conditions, the latest capex release revealed plans for stronger spending this year and next remain intact. The outlook for non-mining investment, in particular, remains encouraging. Weakness in business investment in Western Australia and the Northern Territory suggests that the completion of major resource projects are still weighing on growth, however, the outlook for mining investment has also improved given the lift in commodity prices.

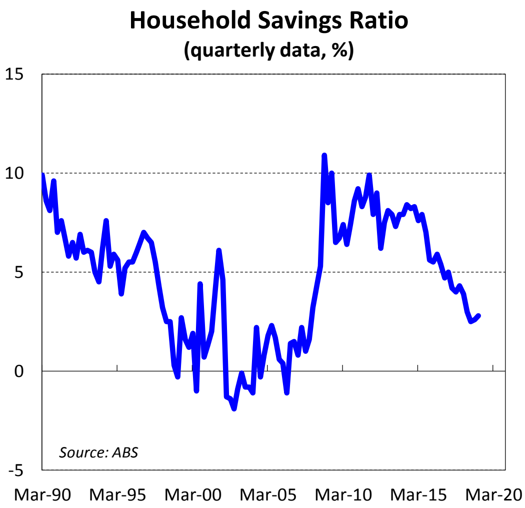
The **government sector** contributed a modest 0.2 percentage points to GDP growth in the March quarter. Government consumption rose by 0.8% and government investment rose 0.4% for the quarter.

Higher commodity prices and strong employment growth are boosting taxation receipts, allowing greater scope for government spending. The infrastructure spending pipeline remains strong, although the pace of growth has slowed in recent quarters.

Inventories detracted 0.1 percentage points to GDP growth in the March quarter.

Net exports were the other key driver of growth in the quarter, contributing 0.2 percentage points to growth. Exports grew 1.0% in the March quarter, the first rise in three quarters. The bounce reflects some recovery from drought conditions and supply disruptions, which have weighed on export volumes of late. Imports were weak, declining 0.1%, and reflect weak domestic demand.





GDP Income Measure:

Nominal GDP rose 1.4% in the March quarter, which was the fastest pace of growth in one year. The annual pace of nominal GDP (incomes) rose by 4.9% in the quarter. It was the weakest annual pace in a year, but remains relatively firm and above the long-run average. Stronger commodity prices, which drove a lift in the terms of trade, were supportive of incomes.

Wage incomes (total compensation of employees or COE) rose 1.2% in the quarter. There was a big difference in the quarterly outcomes for the private and public sector – 1.4% and 0.7% increases, respectively. The COE annual pace of growth lifted modestly from 4.1% in the December quarter to 4.3% in the March quarter.

Company profits grew by a solid 2.5% in the March quarter, the fastest quarterly gain in a year. Higher commodity prices and increased production volumes were supportive of profits in the mining sector, underpinning growth in total company profits. The annual pace of company profits growth remained robust, but edged 0.5 percentage points lower to 7.5% in the March quarter.

When excluding the impact of prices, GDP based on incomes rose by 0.5% in the March quarter, after rising by only 0.1% and 0.2% in the previous two quarters, respectively. The March quarter's gain was the firmest in three quarters, but still not as strong as the quarterly average rate of 0.7% recorded from 2015 to the June quarter of 2018.

- **Household Savings Ratio**

The household savings ratio edged up to 2.8% in the March quarter. It is the second consecutive quarterly improvement in this ratio, after striking a decade low of 2.3% in the September quarter of 2018. Despite the recent improvement, the household savings ratio remains low. The low level of savings means there is limited scope for households to dig deep into their savings to fund retail purchases. The modest trend growth in consumer spending has been restraining economic activity in recent quarters. This trend might not disappear or change any time soon.

- **Terms of Trade**

The terms of trade (ratio of export to import prices) rose 3.1% in the March quarter and expanded 6.1% compared to the same time ago. Higher commodity prices were supportive of export prices and lent support to income growth.

State Final Demand:

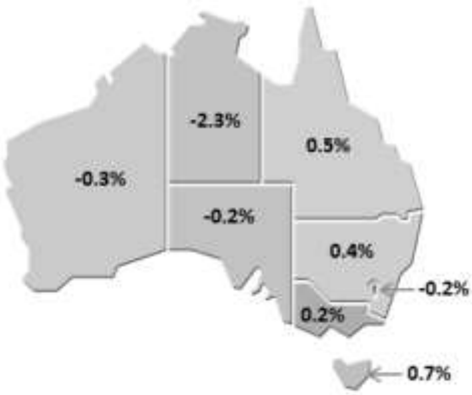
Economic activity by State and territory is provided by Gross State Product (GSP). GSP is the closest measure to GDP. However, GSP is only published annually. State final demand is published more frequently (i.e. quarterly), but it excludes the trade sector.

In the March quarter, State final demand was mixed across the States. The strongest quarterly growth was recorded in Tasmania (+0.7%) and the Sunshine State (+0.5%) and NSW also recorded a reasonable rate of growth of 0.4%. But Victoria grew only modestly (+0.2%) and NT, WA, SA and ACT recorded contractions. NT's economy is contracting sharply, as the LNG investment boom continues to unwind, biting on the economy hard. NT State final demand shrunk 2.3% in the quarter, representing the sixth consecutive quarterly contraction. WA recorded a fall of 0.3% while SA and the ACT recorded milder falls of 0.2% each.

On an annual basis, economic activity slowed across most States and territories. NT and WA shrunk by 14.8% and 1.4%, respectively. NSW, Victoria and Queensland each posted slower annual growth rates of 2.1%, 3.0% and 1.4%, respectively. NSW's annual rate was the weakest in 5¼ years, Victoria's the weakest in 4½ years and Queensland's in nearly 3 years. These three economies collectively account for around 75% of Australia's economy.

South Australia's annual rate eased to 1.8%, the weakest in almost three years. Meanwhile, annual growth in ACT and Tasmania was 4.2% and 5.0%, respectively, in the March quarter.

State Final Demand
(quarterly % change, March quarter 2019)



Source: ABS

Industry Break Down:

Out of the 19 industries, 14 industries recorded growth in the March quarter, up from 12 industries in the previous quarter. The best performing industry in the quarter was arts & recreation services for the second straight quarter (+2.1%), followed by other services (+1.8%) and professional, scientific & technical services (+1.8%).

The weakest sectors were related to residential housing. Construction was the weakest category (-0.9% in the quarter) and rental, hiring & real estate services was the next weakest (-0.4%).

Annual growth was strongest in healthcare & social assistance, at 6.9%, followed by arts & recreation services (+6.0%).

Industry Gross Value Added, Chain Volume Measures

By Industry Sector	Quarterly % Change	Annual % Change
Arts & recreation services	2.1	6.0
Other services	1.8	5.1
Professional, scientific & technical services	1.8	3.6
Administrative & support services	1.7	4.6
Healthcare & social assistance	1.2	6.9
Financial & insurance services	1.2	2.8
Electricity, gas, water & waste services	1.2	1.3
Wholesale trade	0.9	2.0
Info, media & telco	0.7	3.0
Manufacturing	0.7	-1.6
Public admin & safety	0.6	5.0
Education & training	0.5	2.1
Transport, postal & warehousing	0.2	0.7
Mining	0.1	3.1
Retail Trade	0.0	1.0
Accommodation & food services	-0.2	0.9
Agriculture, forestry & fishing	-0.2	-6.7
Rental, hiring & real estate services	-0.4	2.2
Construction	-0.9	-4.3

Outlook

Economic growth in the Australian economy lost momentum over the second half of last year and a weak pace of growth has persisted through to 2019.

Much of this weakness is expected to continue. The consumer sector is still facing headwinds given ongoing high household debt levels, slow wages growth and falling house prices. While the housing sector has seen some positive signals, dwelling investment is still likely to drag on economic growth.

While the strong pipeline of public infrastructure spending, a positive outlook for business investment should provide some support, it is unlikely to be enough to boost economic growth sufficiently given the weakness in housing and the consumer sector.

The RBA would likely be required to lower its growth forecasts once again. Our GDP growth forecasts for this year are below that of the RBA's and below trend.

Today's data supports the view that the Reserve Bank will cut official interest rates further. We are expecting two more rate cuts before the end of this year.

Besa Deda, Chief Economist
Ph: 02-8254-3251

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

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Senior Economist

Janu Chan
chanj@bankofmelbourne.com.au
(02) 8253 0898