Data Snapshot

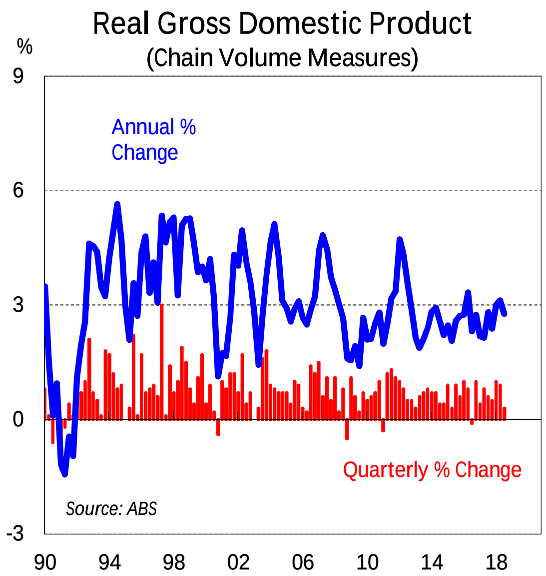
Wednesday, 5 December 2018

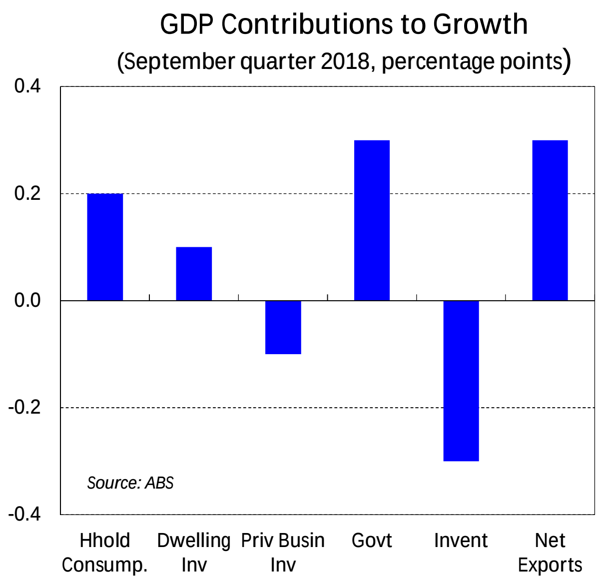
Bank of Melbourne

National Accounts - GDP

Not So Strong After All

- Gross domestic product (GDP) rose by a smaller-than-expected 0.3% in the September quarter. It was the smallest increase in GDP since the September quarter 2016.
- Annual growth slowed to 2.8% in the September quarter, from 3.1% in the June quarter. This is now below the 20-year average of 3.1% and close to estimates of the trend pace of growth.
- GDP growth in the quarter was led by the household and government sectors. Alterations and additions to dwellings also provided a small contribution to growth, while business investment detracted from growth.
- The household savings ratio fell to its lowest in nearly 11 years. While consumer spending growth was modest, it is continuing to outpace growth in gross disposable income. The household savings ratio has declined for three consecutive quarters, and provides a downside risk to consumer spending. Given high household debt levels, the pace of consumer spending will be increasingly limited by the pace of income growth.
- Downward revisions to past data indicate that the pace of growth in the economy was not as robust as previously thought. Prior to this release, it appeared that the economy would grow at a pace in excess of 3% in 2018. It now appears growth will sit closer to 3.0%. While this is still a firm pace of growth today's data highlights key downside risks for the outlook, particularly with regards to consumer spending.





GDP Expenditure Measure:

Gross domestic product (GDP) rose by a smaller-than-expected 0.3% in the September quarter. This followed an increase of 0.9% in the June quarter and was the smallest increase in GDP since the September quarter 2016.

Annual growth slowed to 2.8% in the September quarter, from 3.1% in the June quarter. This is now below the 20-year average of 3.1% and close to estimates of the trend pace of growth.

GDP growth in the quarter was led by the household and government sectors together accounting for 0.5 percentage points contribution to GDP growth. Alterations and additions also provided a small contribution to growth. Business investment detracted from growth.

Household consumption added 0.2 percentage points to GDP growth in the quarter. Although it was one of the largest contributors to economic growth in the September quarter, household consumption rose just 0.3%. By sector, the largest spending increases were for transport services (1.8%), insurance & other financial services (1.6%), food (0.8%) and rent & other dwelling services (0.6%). Spending growth was weakest for the purchase of vehicles (-1.3%) and cigarettes & tobacco (-1.2%).

The softer growth in household consumption comes amid high levels of household debt and slow wages growth. A further decline in the household savings ratio indicated consumers continued to dip into their savings buffer to fund spending. Growth in household spending is likely to remain under pressure (in the absence of more significant income growth) given these headwinds and the shrinking savings buffer.

The downturn in housing, as reflected in activity and prices, is expected to weigh on dwelling investment over the next 18 months. In the September quarter, however, this was not evident, with a small decline in new dwelling investments (-0.8%) eclipsed by an increase in alterations and additions (4.5%). Overall dwelling investment rose 1.0% in the September quarter, the fourth consecutive quarterly increase. Dwelling investment added 0.1 percentage points to growth in the quarter. Dwelling investment has increased 7.1% over the past year with strength in alterations and additions surpassing the gain in new dwelling investment.

Selected Expenditure Items on GDP
Chain Volume Measures

	Contribution to GDP, ppt
Household Consumption	0.2
Dwelling Investment	0.1
Business Investment	-0.1
Public	0.3
Inventories	-0.3
Net Exports	0.3

Private business investment was disappointing, falling 1.2% in the September quarter, the second consecutive quarter of decline. Weakness in the quarter was driven by a fall in new engineering construction, while investment in machinery and equipment lifted. The latest capex data renewed hopes that there is further to run in the upswing in non-mining investment, with businesses upgrading spending plans this year. Private business investment fell to -1.2% in the year to the

September quarter. This was down from growth of 9.1% in the year to June quarter.

The government sector was one of the largest contributors to GDP growth, overall contributing 0.3 percentage points in the September quarter. Government consumption rose by 0.5% and government investment increased 3.4% for the quarter.

Inventories were little changed for the September quarter. After an increase in the June quarter inventories detracted 0.3 percentage points from GDP growth in the September quarter.

Exports were little changed in the September quarter, with a 0.1% increase. Imports fell 1.5% in the quarter, the largest decline since March 2016. Net exports, therefore, contributed 0.3 percentage points to growth in the September quarter.

GDP Income Measure:

Nominal GDP rose 1.0% in the September quarter, for an annual increase of 5.2%. It was the strongest annual pace in a year. Stronger commodity prices, which drove a 0.8% lift in the terms of trade, were supportive of incomes.

Wage incomes (total compensation of employees) rose 1.0% in the quarter. The annual pace of growth stepped down from 4.7% in the June quarter to 4.3% in the September quarter. Slow wage growth is continuing to keep a lid on income growth, although the recent strength in job creation should be supportive of aggregate incomes.

Company profits grew a relatively firm 1.4% in the September quarter, the fifth consecutive quarterly gain. The annual pace edged up from 5.5% to 6.0% which was the strongest in a year, and consistent with reports of above-average business conditions in surveys.

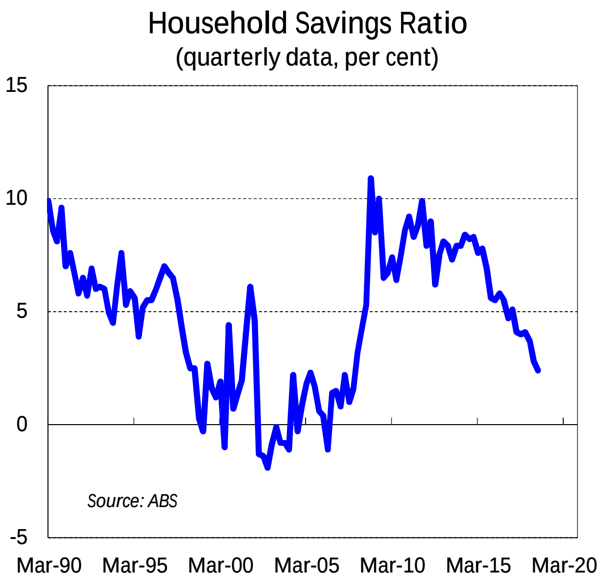
When excluding the impact of prices, GDP based on incomes rose just 0.1% in the September quarter.

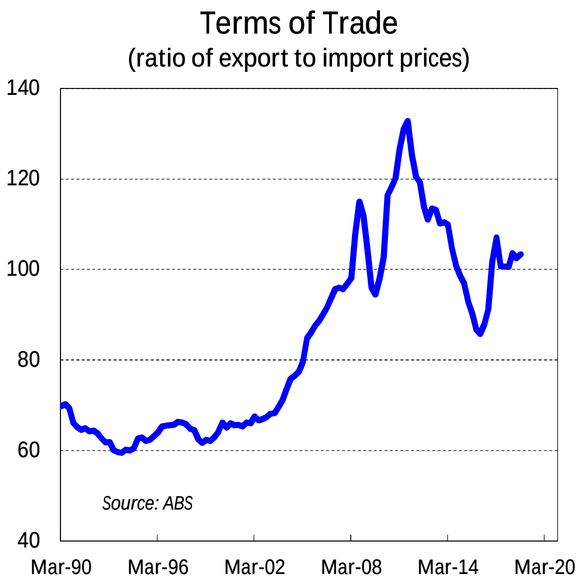
- Household Savings Ratio

The household savings ratio fell to 2.4% in the September quarter, which was the lowest in nearly 11 years. While consumer spending was modest, it is continuing to outpace growth in gross disposable income. The household savings ratio has declined for three consecutive quarters, and provides a downside risk to consumer spending. Given high household debt levels, the pace of consumer spending will be increasingly limited by the pace of income growth. The strength of the labour market should continue to provide support to incomes. Wage growth has picked up recently, but remains slow.

- Terms of Trade

The terms of trade (ratio of export to import prices) rose 0.8% in the September quarter, to be 2.7% higher in the year. Higher commodity prices were supportive of export prices, providing a boost to incomes.





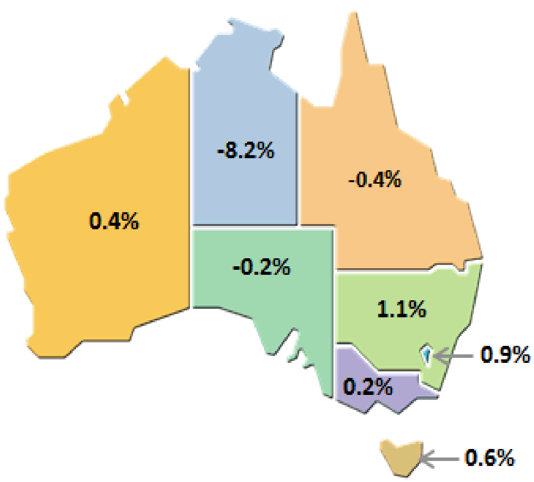
State Final Demand:

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 September quarter, State final demand was mixed across the States. There was strong growth in NSW (1.1%), followed by the ACT (0.9%), Tasmania (0.6%), Western Australia (0.4%) and Victoria (0.2%). SFD fell in Queensland (-0.4%) and South Australia (-0.2%), with weakness in private investment a driving factor for both States. The largest decline in GDP in the September quarter was in the Northern Territory (-8.2%).

On an annual basis, growth was strongest in Victoria (4.3%), followed by Tasmania (4.1%), the ACT (3.9%), NSW (3.7%), South Australia (2.7%) and Queensland (2.2%). Annual growth fell in Western Australia (-0.6%) after four consecutive quarters of annual growth and in the Northern Territory (-17.5%).

State Final Demand
(Quarterly % Change, September Quarter 2018)



Source: ABS

Industry Break Down:

Out of the 19 industries, 11 industries recorded growth in the September quarter.

The strongest performing industry in the quarter was administrative & support services (2.8%), followed by healthcare & social assistance (2.6%) and rental, hiring & real estate services (2.5%).

The weakest sector was construction (-2.2%). This was followed by agriculture, forestry & fishing (-1.6%), with the drought in parts of Australia impacting growth in the sector.

Annual growth was strongest in healthcare & social assistance, which grew 6.9%.

Industry Gross Value Added, Chain Volume Measures

By Industry Sector	Quarterly % Change	Annual % Change
Administrative & support services	2.8	6.2
Healthcare & social assistance	2.6	6.9
Rental, hiring & real estate services	2.5	5.5
Public admin & safety	1.0	3.8
Professional, scientific & technical services	0.9	4.6
Financial & insurance services	0.8	2.9
Other services	0.7	6.0
Arts & recreation services	0.5	4.6
Education & training	0.5	2.1
Wholesale Trade	0.2	1.1
Retail Trade	0.1	1.7
Accommodation & food services	0.0	1.2
Electricity, gas, water & waste services	-0.5	0.1
Manufacturing	-0.7	-0.4
Mining	-0.9	6.6
Transport, postal & warehousing	-1.0	-0.7
Info, media & telco	-1.1	1.8
Agriculture, Forestry & Fishing	-1.6	-7.9
Construction	-2.2	1.0

Outlook

The Australian economy grew at a much softer pace over the September quarter, after growing at a solid pace over the first half of 2018. Moreover, downward revisions to past data indicate that the pace of growth in the economy was not as robust as previously thought.

Prior to this release, it appeared that the economy would grow at a pace in excess of 3% in 2018. It now looks as though growth will sit closer to 3.0%.

This is still a firm pace of growth, and just above most estimates of potential growth.

Nonetheless, today's data highlights key downside risks for the outlook. Consumer spending will be increasingly restrained by the pace of income growth, which continues to face an uncertain outlook with slow wage growth. The downturn in the housing market poses another downside risk to consumer spending. Additionally, dwelling investment should undergo a more pronounced downturn next year.

A loss of momentum in the global economy and ongoing trade tensions also pose downside risks for the domestic economy.

Nonetheless, the strong pipeline of public infrastructure spending and positive conditions in the business sector should continue to support investment spending and job growth.

Contact Listing

Chief Economist

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

Senior Economist

Josephine Horton
hortonj@bankofmelbourne.com.au
(02) 8253 6696

Senior Economist

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