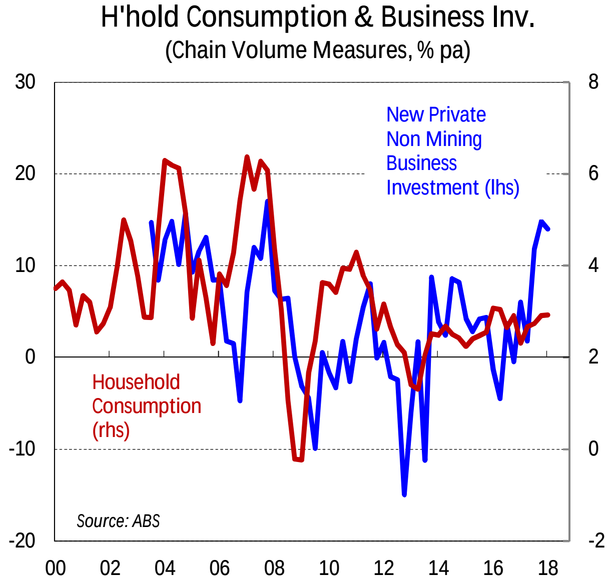
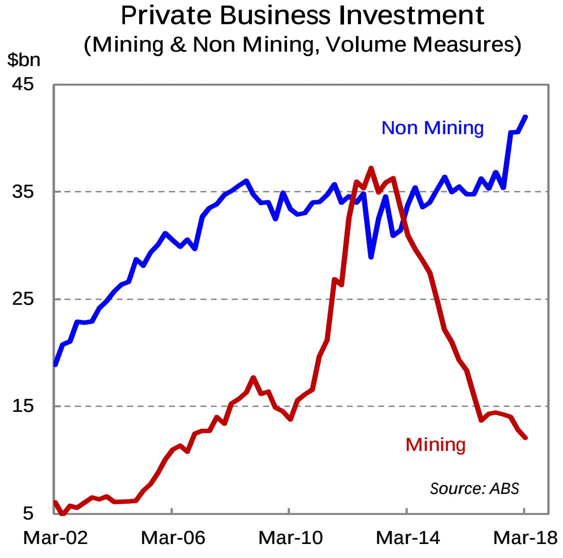
National Accounts - GDP

Non-Mining Business Investment Razzle Dazzles

- Gross domestic product (GDP) rose by 1.0% in the March quarter, a solid pace of growth. Annual growth stepped up from 2.4% to 3.1%. It is the fastest annual rate of growth in nearly two years and matches the 20-year average for GDP growth.
- GDP growth in the quarter was driven by net exports and inventories. Business investment, household consumption and the government sector also contributed to growth.
- The razzle dazzle in today's national accounts came from non-mining business investment. It rose by 3.6% in the March quarter and by 14.0% in the year to the March quarter. It is the third consecutive quarter of double-digit annual growth. Business conditions are at a record high and business confidence is at lofty levels, suggesting non-mining business investment can continue to improve. This improvement comes at a critical junction in the economy.
- Household consumption growth remains under pressure. Household consumption growth was only modest in the March quarter, growing by 0.3% and adding just 0.2 percentage points to growth in the quarter. Household consumption grew at its weakest rate since the March quarter of 2017 when it also grew at a 0.3% rate.
- State final demand growth in the quarter was mostly confined to the east coast of Australia and primarily driven by economic activity in Victoria. State final demand expanded by 1.9% in Victoria. Tasmania grew at a faster pace of 2.0%, but is a smaller share of the Australian economy.





GDP Expenditure Measure:

Gross domestic product (GDP) rose by 1.0% in the March quarter, a solid pace of growth. Annual growth stepped up from 2.4% to 3.1%. It is the fastest annual rate of growth in nearly two years and matches the 20-year average for GDP growth.

GDP growth in the quarter was driven by net exports and inventories. Together, these categories contributed 0.6 percentage points. Domestic final demand excludes these categories and grew by 0.6% in the March quarter and by 3.2% in the year to the March quarter. Business investment, household consumption and the government sector also contributed to growth.

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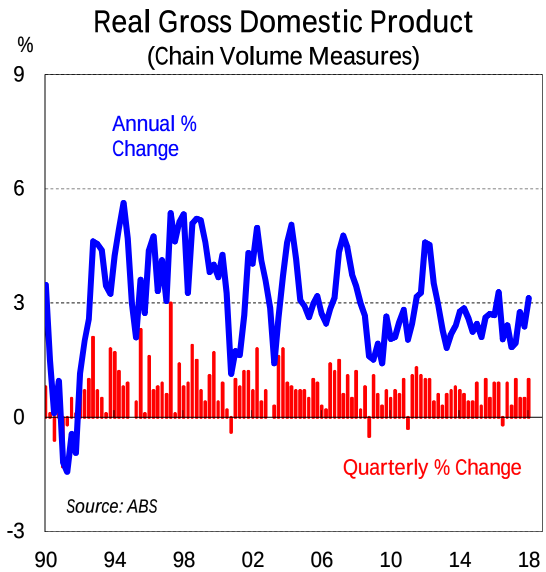
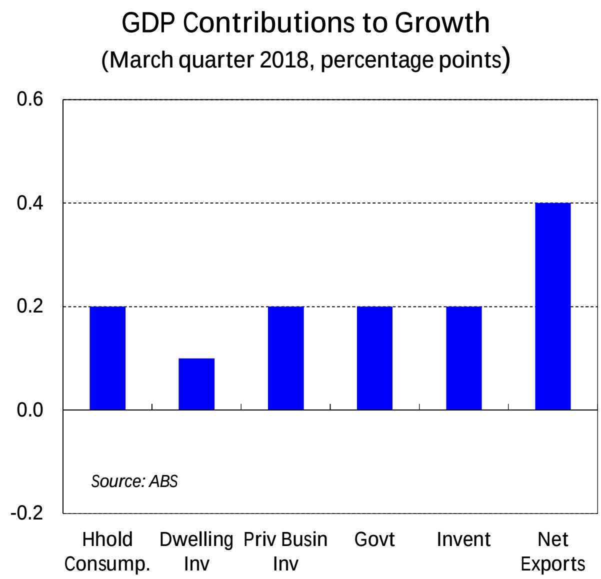




Further, private business investment in today's set of national accounts is far stronger than those contained in the separate private new capital expenditure (capex) release. The national accounts measure of business spending is more comprehensive, including industries such as healthcare, education and agriculture. Health was the strongest performing industry in annual terms in the March quarter and is one of the biggest industries in Australia. Therefore, this uptick in business spending is encouraging for the economic outlook and jobs growth at a time when the growth drivers are shifting.

Mining investment fell by 6.0% in the March quarter and by 16.4% in the year to the March quarter, offsetting some of the growth in non-mining business investment. We can expect this drag from mining investment to finish soon, as the Reserve Bank recently indicated this downturn in mining investment is nearly over.

Total business investment lifted 1.3% in the quarter and contributed 0.2 percentage points to GDP growth in the quarter. Business conditions are at a record high and businesses are showing high levels of confidence, suggesting business spending should continue to expand. With the unwinding of mining investment nearly over, we should see private business investment make deeper contributions to economic growth in coming quarters.

The business-investment story is a very important one for the Australian economy because the improvement in business investment is coming at an important junction. Household consumption growth is under pressure. High household debt and subdued wages growth means an alternate source of growth is needed to step in and support economic growth. Infrastructure spending will help but is unlikely to be enough alone. The recovery in business investment, therefore, is essential and gives us comfort about the economic outlook over the coming year.

Selected Expenditure Items on GDP, Chain Volume Measures	
	Quarterly % Change
Household Consumption	0.3
Public Consumption	1.6
Dwelling Investment	0.9
Business Investment	1.3
Public Investment	-2.0
	Contribution to GDP ppt
Inventories	0.2
Net Exports	0.4

Household consumption growth was only modest in the March quarter, growing at a 0.3% and adding just 0.2 percentage points to growth in the quarter. Household consumption grew at its weakest rate since the March quarter of 2017 when it also grew at a 0.3% rate. Annual growth held at 2.9%. Spending on alcoholic beverages and hotels, cafes & restaurants were the weakest categories, falling by 2.0% and 1.8%, respectively, in the quarter. This latter discretionary-spending category had been very strong in recent quarters. A pullback in discretionary spending suggests that consumers are becoming more concerned about their household budgets, which does not bode well for a recovery in consumer spending in the near term. In addition, the household savings ratio fell in the quarter to 2.1%, suggesting a bounce back in consumer spending might not be on the cards soon.

The housing cycle is turning down, as evidenced by auction rates, loan volumes and dwelling approvals. Consistent with the slowing in the housing cycle, new dwelling investment fell for the second consecutive quarter, down 0.6% in the March quarter. Alterations & additions (i.e. renovation activity), however, rose in the quarter, leaving total dwelling investment to add 0.1 percentage points to growth.

The government sector overall contributed 0.2 percentage points to GDP growth in the March quarter. Government consumption rose by 1.6% in the March quarter. Government investment decreased by 2.0% in the quarter.

Inventories rose strongly to add 0.2 percentage points in the quarter, driven by a build-up in wholesale inventories. Wholesale inventories exhibited the largest rise in more than five years.

Exports are trending higher, as new capacity in the resources sector comes on stream and as firmer global growth leads to greater demand for Australian exports. Export volumes lifted 2.4% and import volumes by 0.5%, so net exports added 0.4 percentage points to growth.

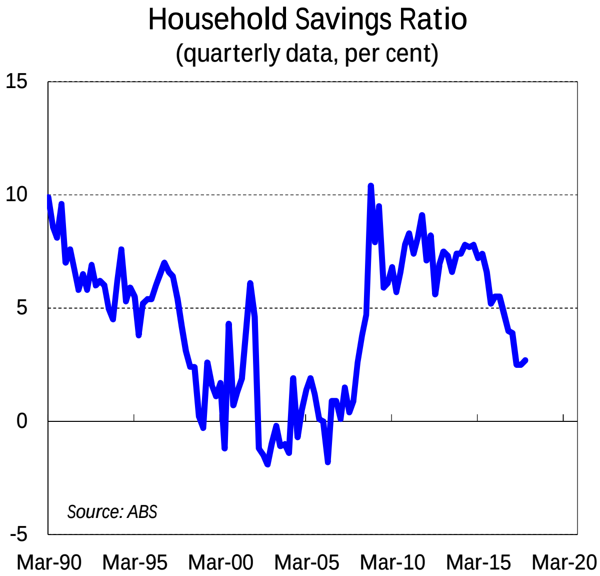
GDP Income Measure:

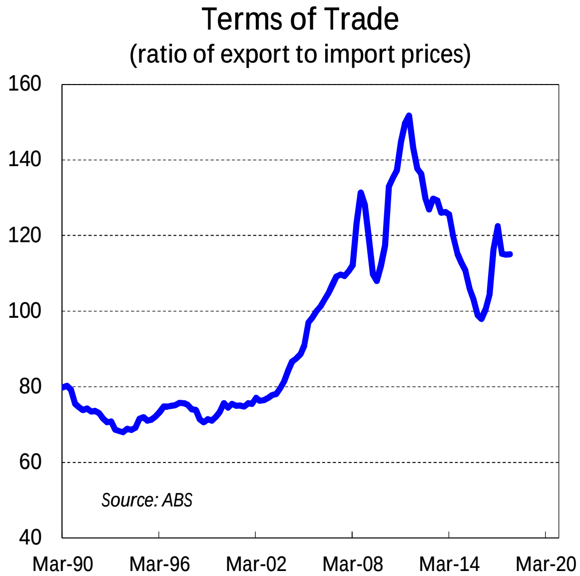
Income growth was strong in the March quarter, helped by a considerable lift in commodity prices. Nominal GDP grew 2.2% in the March quarter, which was the strongest quarterly increase in over a year.

Company profits mostly drove the strength in incomes. Corporate profits (gross operating surplus) lifted a solid 5.2% in the quarter and correspond with elevated conditions reported in business surveys.

Wage incomes (total compensation of employees) were also firm, lifting 1.2% in the March quarter. The strength of the labour market is having a positive impact on incomes overall, as more Australians enter paid-employment. The industries which had large contributions to the growth in wage incomes were healthcare & social assistance and construction. Employment in these industries has been performing strongly. On an annual basis, total wages grew 5.1%, the strongest in just under six years.

When excluding the impact of prices, GDP based on incomes rose a solid 1.2% in the March quarter.





- Terms of Trade

The terms of trade (ratio of export to import prices) rose a solid 3.3% in the March quarter, as prices of most commodities lifted. Iron ore prices and coking coal prices have edged lower since March, although oil prices have increased. The boost to incomes from the terms of trade is therefore unlikely to be sustained in the June quarter. On a year ago, the terms of trade fell 2.6%.

Industry Break Down:

Out of the 19 industries, 13 recorded growth in the March quarter.

The strongest performing industry in the quarter was administrative & support services & safety, which grew 3.0% in the quarter.

Annual growth was strongest in healthcare, which grew 6.6% in the year to the March quarter.

Industry Gross Value Added, Chain Volume Measures

By Industry Sector	Quarterly % Change	Annual % Change
Administrative & support services	3.0	5.3
Mining	2.9	4.2
Mfg	2.4	6.4
Healthcare	2.1	6.6
Arts & recreation services	1.8	4.6
Other services	1.5	5.7
Public admin & safety	1.4	2.6
Wholesale Trade	1.2	0.5
Professional, scientific & technical services	0.8	3.3
Retail Trade	0.6	2.5
Financial & insur services	0.6	3.3
Education & training	0.5	2.2
Transport, Postal & warehousing	0.2	-0.9
Elec, gas, water & waste services	-0.1	0.0
Rental, hiring & real estate services	-0.4	0.2
Info, media & telco	-0.4	3.4
Construction	-0.7	3.3
Accomm & Food Services	-1.3	3.3
Agri, Forestry & Fishing	-1.7	-13.1

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 excludes the trade sector, but is published more frequently (i.e. quarterly).

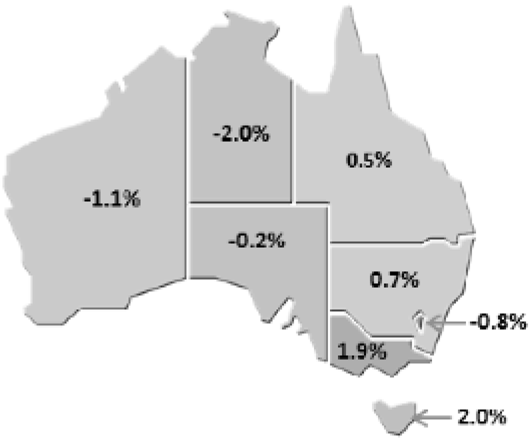
In the March quarter we received data on State final demand, which showed growth was driven by the eastern States.

The standouts among the States and territories were Victoria (1.9%) and Tasmania (2.0%) in the March quarter. Private business investment was a strong driver of growth in both States. Among other States, growth in State final demand was modest in NSW (0.7%) and Queensland (0.5%). Final demand contracted in South Australia (-0.2%), the ACT (-0.8%), Western Australia (-1.1%) and the Northern Territory (-2.0%). The weakness in Western Australia and the Northern Territory was also driven private business investment. The divergence between these States and the Eastern States likely reflects the strength in non-mining investment relative to mining investment.

On an annual basis, the strength was also in Victoria (4.9%) and Tasmania (3.9%), but growth was also strong in NSW (3.7%). Queensland (3.1%) grew solidly, while the pace of growth weakened in South Australia (2.1%), the ACT (1.6%) and Western Australia (0.8%). The Northern Territory

(-7.9%) was the only State or territory with an annual decline in the March quarter, which is still being impacted by the completion of the Ichthys LNG project.

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



Source: ABS

Outlook

Today's GDP data was a strong outcome; however it should be taken into the context of relatively soft growth in the prior quarter. The rebound in exports after detracting in the previous quarter played a key role in the improvement over the March quarter. It is unlikely that the Australian economy can sustain GDP growth of close to 1.0%. That said, GDP growth could potentially stand at 3.0% in 2018 (year average), a relatively firm outcome.

There were however, some pockets of weakness which remain concerning. Household consumption was weak, which is occurring at a time when the housing downturn has further to run. High household debt levels and a falling household savings ratio suggests limited scope for a strong pickup in household spending.

Encouragingly, businesses are providing an important pillar of support, particularly within the non-mining sector. This was clearly evident given strong growth in non-mining investment. This can hopefully translate into solid employment growth and a further reduction in unemployment.

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