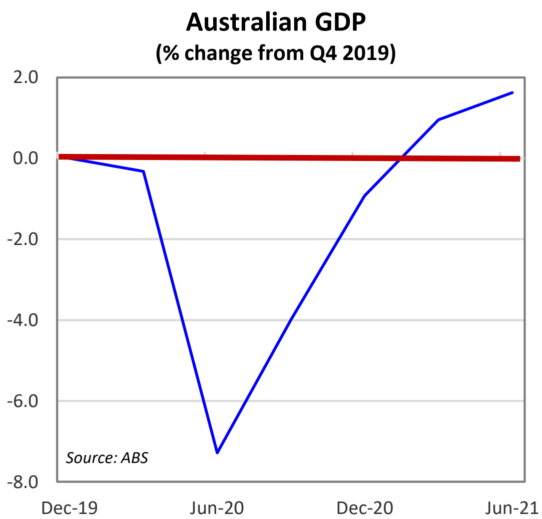
Data Snapshot

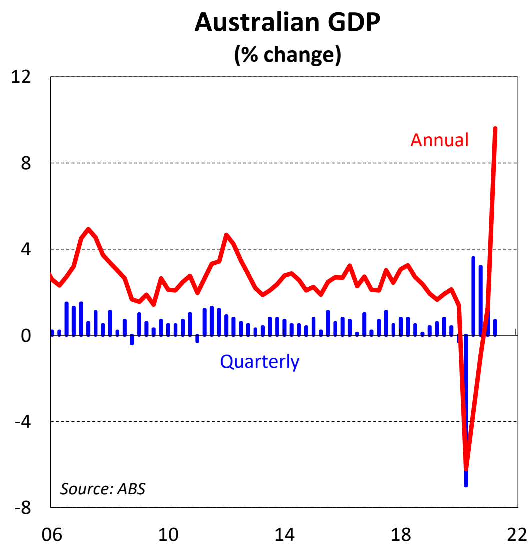
Wednesday, 1 September 2021

National Accounts

Economy Solid Ahead of Delta Disruption

- **Economic activity marched ahead at a strong clip in the June quarter. The Australian economy grew at 0.7% in the June quarter, beating consensus expectations of a 0.4% rise. This means economic activity was 1.6% above the pre-pandemic level in the quarter.**
- **Growth moderated after the strong rebound over recent quarters, partly reflecting that the economy was shifting from recovery to expansion. In annual terms, the economy grew 9.6% in the year to June, the strongest on record. However, this mostly reflects base effects.**
- **Household consumption rose 1.1% in the quarter, driven by a further pick up in spending on services as restrictions eased. Business investment picked up 2.3%, largely reflecting an ongoing increase in spending on machinery and equipment, in response to government tax incentives.**
- **Government spending also provided a sizeable boost while the trade sector and inventories dragged on growth. Indeed, net exports and inventories detracted a sizeable 1.2 percentage points from growth in the quarter.**
- **Most industries recorded growth in the June quarter. Administration, transport and hospitality were notable outperformers. All states and territories grew at solid rates in the June quarter, despite snap lockdowns in several states.**
- **While the June quarter seems like old news, these data are an encouraging sign that the economy was in good shape ahead of the delta outbreak. Of course, the focus now is how deep the contraction will be in the September quarter, and how quickly the economy bounces back.**
- **We are anticipating the economy to return to growth in the December quarter but there is some risk of a U-shape recovery rather than a V-shape, as was the case following past lockdowns.**





Economic activity marched ahead at a strong clip in the June quarter, ahead of the disruption from recent lockdowns. The Australian economy grew at 0.7%, beating consensus expectations of a 0.4% rise. Consensus expectations ranged from 0.1% to 1.2%.

In annual terms, the economy grew 9.6% in the year to June. This annual rate is the strongest on record. However, much of this strength reflects base effects from the drastic 7.0% fall in activity in the June quarter last year when lockdowns first swept the country.

Growth moderated in the June quarter after the strong rebound over the previous three quarters. The moderation partly reflected that the economy shifted from a recovery phase to an expansion phase.

Consumer spending, business and dwelling investment bolstered economic activity in the quarter. Government spending also provided a sizeable boost, as fiscal policy helped to consolidate the economic recovery. Indeed, domestic demand jumped 1.7% in the June quarter.

But the trade sector and inventories dragged on growth. Indeed, these two components subtracted a very large 1.2 percentage points from growth in the June quarter.

While now, of course, the June quarter seems like old news, these data are an encouraging sign that the economy was in good shape heading into the delta outbreaks which have swept the country.

We are anticipating the economy to return to growth in the December quarter but there is some risk of a U-shape recovery rather than a V-shape, as was the case following past lockdowns.

GDP Expenditure Measure:

The headline GDP measure is an average of three measures – expenditure, income and production.

Consumption, investment and government spending all contributed strongly to growth. The external sector detracted from growth as commodity exports were impacted by COVID-19, weather and maintenance-related disruptions.

Mini lockdowns of various lengths impacted the economy during the quarter, including a two-week lockdown in Melbourne and the beginning of the current lockdown in NSW. However, there were fewer lockdown days than in previous quarters.

Selected Expenditure Items on GDP, Chain Volume Measures

	Quarterly % Change
Household Consumption	1.1
Public Consumption	1.3
Dwelling Investment	1.7
Business Investment	2.3
Public Investment	7.4
	Contribution to GDP, ppt
Inventories	-0.2
Net Exports	-1.0

Household consumption rose by 1.1% in the quarter and contributed 0.6 percentage points to growth. Consumer spending was strong, as the economy continued to reopen and restrictions eased. Low interest rates, elevated consumer confidence and jobs growth spurred consumers to spend.

Household consumption has now recovered most of the fall experienced due to the pandemic last year. In fact, it is only 0.3% below its pre-pandemic level as at December 2019.

Growth was driven by a recovery in spending on services. The recovery in spending on hotels, cafes and restaurants continued, up 2.2% in the quarter. This sector was hard hit by lockdowns and at its peak was down 60% in the June quarter 2020 relative to pre-pandemic levels. The sector has recovered strongly. However, it remains around 18% below its pre-pandemic level.

Transport services recorded the strongest growth in the quarter, up 25.5%. This category was battered during the pandemic as international borders closed and flights ground to a standstill. At the peak of the pandemic, the category was down by 88% relative to pre-pandemic levels. During the June quarter, domestic flights increased as the government supported the local industry with discounted flights. The travel bubble with New Zealand also opened for a period before being shut down recently following the latest round of outbreaks. These factors likely have driven the strong growth in this sector. However, the sector remains almost 68% down on pre-pandemic levels.

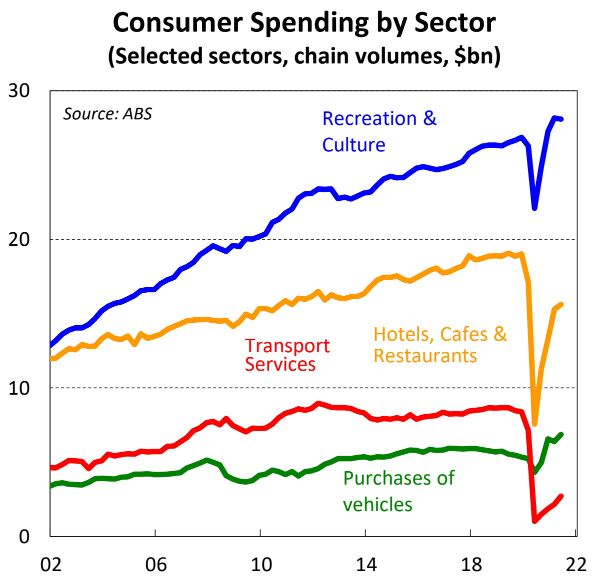
Vehicle purchases have grown strongly since the onset of the pandemic. This continued in the June quarter, with purchases up 7.5%. The category is now almost 29% above its pre-pandemic levels.

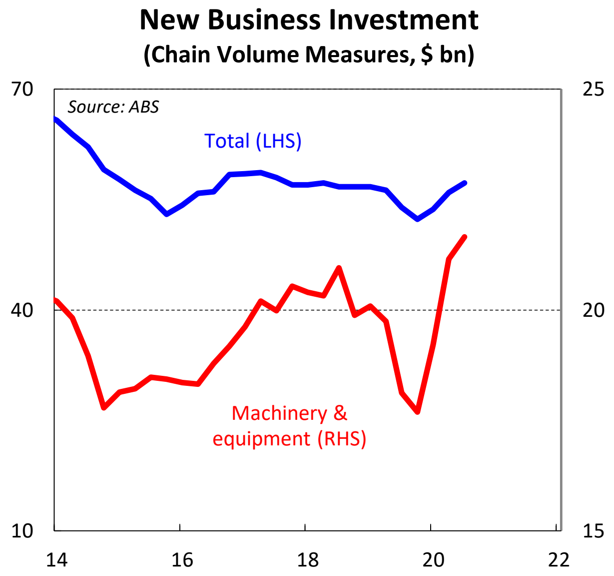
The consumption of electricity, gas and other fuel also grew strongly. It rose by 10.0% in the quarter and was the strongest contributor to growth in household consumption.

The categories with the weakest growth were alcoholic beverages (-0.9%), food (-0.6%), and cigarettes and tobacco (-0.4%).

Business investment grew by 2.3% and contributed 0.3 percentage points to growth. This follows strong growth of 2.6% and 4.3% in the December and March quarters, respectively. Business investment has now grown by 9.4% since the lows during the pandemic in September 2020.

Strength was driven by spending on new machinery and equipment, which was up 2.4% over the quarter, to be 19.5% higher over the year. Spending on machinery and equipment is now at its highest level since March 2013. Businesses continue to increase their investment spending in this category, taking advantage of generous government tax incentives and improving domestic demand as the economy recovers.





Dwelling investment continued to increase and was up 1.7% to be 15.7% higher over the year, the highest annual growth in 18½ years. Dwelling investment contributed 0.1 percentage points to growth. Strength in this category has been supported by strong dwelling construction, driven by record low interest rates, fiscal policy support programs, such as HomeBuilder, and strong demand.

Ownership transfer costs grew by 10.0% in the quarter and contributed 0.2 percentage points to growth. This category represents the expenses associated with transactions related to new and existing properties, for example, legal fees. This category has grown strongly for the past year, consistent with the lift in house prices and housing sales.

The **government** sector grew strongly in the quarter, up 2.5%, contributing 0.7 percentage points to growth. This strength was a combination of both public consumption (up 1.3%) and public investment (up 7.4%). Strong public investment reflects increased infrastructure spending by governments to support the economic recovery. Continued health spending in response to the pandemic also contributed to growth.

Domestic demand grew by a robust 1.7% in the quarter, to be 12.2% higher over the year.

Net exports hurt growth significantly in the quarter; net exports detracted 1.0 percentage points off GDP growth in the quarter. This reflected falls in exports of 3.2% and increases in imports of 1.5%. Commodity exports were negatively impacted by COVID-19, weather and maintenance-related disruptions. The imports of goods and services increased as domestic demand was strong as the economy continued to expand.

GDP Income Measure:

GDP based on income lifted 0.6% in the quarter, when excluding the impact of prices. In nominal terms, GDP rose 3.2% in the June quarter to be 16.4% higher over the year.

The jump was driven by a 6.4% increase in the **gross operating surplus** (I.e. profits) of private non-financial corporations. The rise was led by mining companies, which benefitted from the run up in commodity prices, supported by Chinese demand and supply constraints. The increase in profits was partly offset by an unwinding of government subsidies alongside the end of JobKeeper.

Gross household disposable income edged down 0.3% in the quarter.

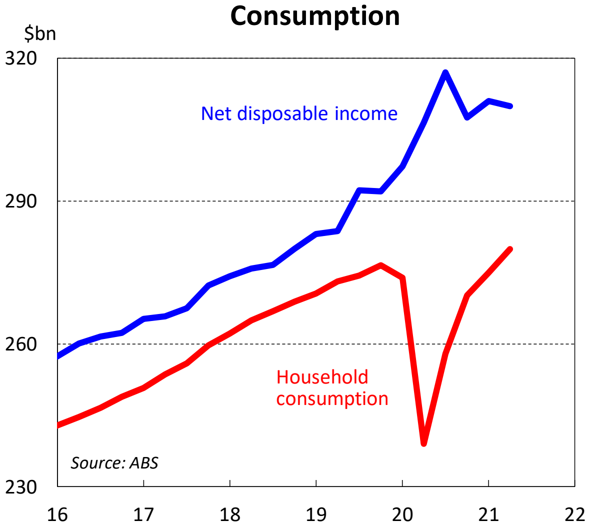
A 1.3% increase in **employee wages** (compensation of employees) was more than offset by a decline in **social assistance payments**. This reflects a reduction in the number of benefit recipients, as labour market conditions continued to improve, and the winding back of some support measures.

The household **saving ratio** edged down to 9.7% from 11.6%, the fourth straight quarter it has declined since peaking at 22.0% in the September quarter of 2020. However, the saving ratio remains elevated relative to pre-COVID levels (around 5%). Savings fell because of the rise in household consumption and the decline in gross household disposable income.

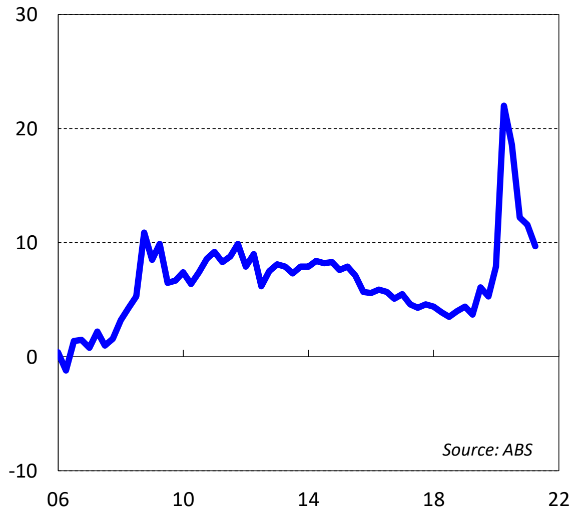
The continued decline in the saving ratio is an encouraging sign that consumers were upbeat and willing to spend heading into the recent Delta outbreaks. The household saving ratio may tick up again in the coming quarters, alongside lockdowns which limit spending opportunities, and increased risk aversion. Households may opt to strengthen their balance sheets, including by paying down debt, which would provide less support for near-term economic growth than if households spent this money on goods or services.

Beyond the near-term disruptions, we expect the household saving ratio will continue to trend down. Encouragingly, households have accumulated large savings buffers over the past year or so, and these buffers will support spending as the economy reopens.

Household Disposable Income and Consumption

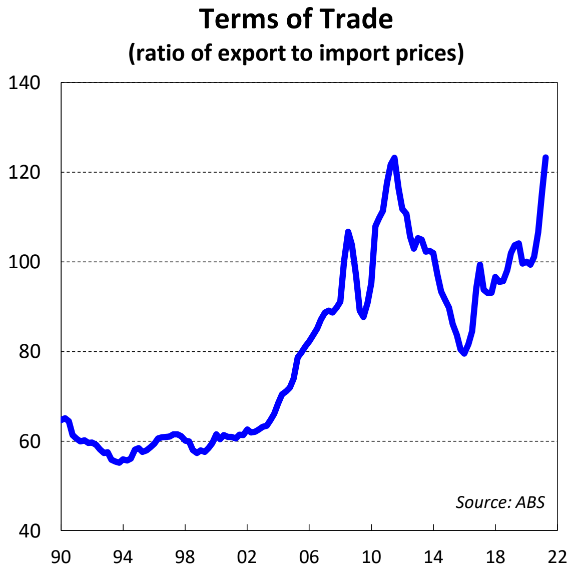


Household Savings Ratio
(quarterly data, %)



The terms of trade (the ratio of export prices to import prices) rose 7.0% in the quarter and is at its highest level on record, just eclipsing the previous record in the September quarter 2011. This has given a significant boost to business profits and government revenues. The run up in the terms of trade reflects an increase in export prices, alongside the sharp rise in commodity prices.

Commodity prices have been bolstered by strong demand for goods from advanced economies. At the same time, disruptions associated with recent COVID-19 outbreaks, particularly in Asia, have put further pressure on supply chains that were already squeezed.



State Final Demand:

The economies in every state and territory grew at very solid rates in the June quarter – highlighting the momentum in the domestic economy before Delta struck.

Economic activity was fastest in the Northern Territory in the June quarter. State final demand in the NT lifted by 5.3% in the quarter. The fastest growth across the states (i.e. excluding the territories) was NSW with 2.2% growth.

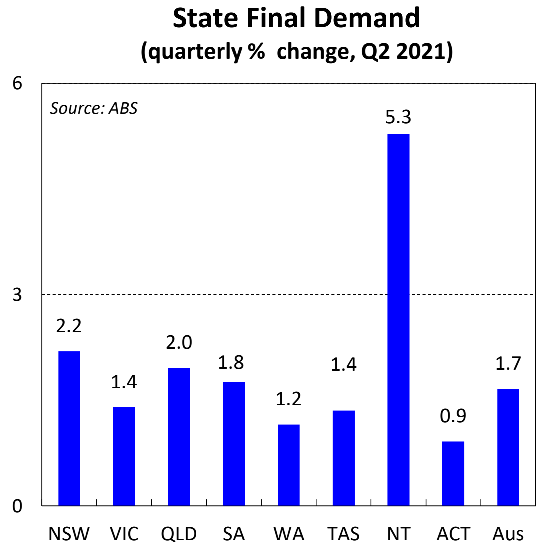
The slowest growth across the states and territories in the June quarter was ACT at 0.9%, which is still a very fast pace and above the 10-year average quarterly growth for ACT.

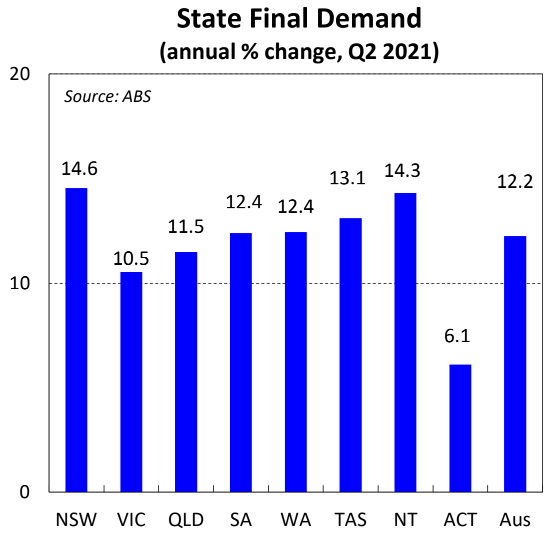
There were mini lockdowns in some jurisdictions through the June quarter – most notably the two week lockdown in Victoria from late May to early June. Despite the lockdowns, Victoria's growth rate in the June quarter was 1.4%.

Across Australia, the NSW economy had the most momentum heading into the outbreak that started on 16 June. In the year to the June quarter, state final demand in NSW jumped 14.6% - the fastest annual rate across the country and the fastest on record for NSW. The annual rates have been bolstered by base effects because the comparison is between this June quarter and last year's June quarter. During the June quarter of last year, the national economy was in lockdown, uncertainty was very high, and vaccines were not yet being distributed.

The weakest annual rate for state final demand in the June quarter occurred in the ACT with an outcome of 6.1%, but again that remains a strong rate.

The September quarter data, released later this year, will show economic activity has slumped in the economies of NSW and Victoria, as these states grapple with the Delta outbreak. Other states and territories should show more resilience, although the ACT also runs the risk of economic activity contracting in the current quarter given its lockdown. Collectively, NSW and Victoria account for more than half of Australia's output, which means these states have a large influence on economic outcomes for the nation.





Industry Breakdown:

Growth was broad-based across industries in the June quarter.

The strongest growth was in administrative & support services, which rose 6.2%, on demand for labour to support the mining and construction industries, alongside demand for cleaning and maintenance services.

The transport, postal & warehousing industry grew by 3.7%, reflecting increasing road and air travel as restrictions eased. Notably, air transport rose 59.8% on increased domestic travel and tourism packages.

Accommodation & food services rose 2.8%, boosted by increased spending on accommodation. This was partly offset by weakness in food and beverage services as bars and clubs operated at reduced capacity.

Only two of the 19 industry categories recorded negative growth.

Mining contracted 1.3% reflecting a decline in oil and gas extraction driven by maintenance at some large LNG plants. Weather disruptions were also factors, and similarly weighed on coal mining. This was partly offset by a pick up in iron ore mining, alongside increased production and an uptick in global demand.

Professional, scientific & technical services contracted 0.5% alongside a decline in engineering and consulting services.

In annual terms, growth figures have been distorted by base effects. Notably, the 66.2% annual growth in accommodation and food services reflects the sharp contraction in the industry alongside the nation-wide lockdown last year.

Seven of the 19 industries are still operating below their pre-COVID level of activity, as at the December quarter in 2019. This largely captures sectors which remain impacted by ongoing restrictions, like transport, accommodation & food services, and arts & recreation.

Industry Gross Value Added, Chain Volume Measures

Ranked by Quarterly % Change, June Quarter 2021

By Industry	Quarterly % Change	Annual % Change
Administrative & Supportive Services	6.2	17.9
Transport, Postal & Warehousing	3.7	20.1
Accommodation & Food Services	2.8	66.2
Other Services	2.0	24.4
Healthcare	2.0	15.4
Rental, Hiring & Real Estate Services	1.8	23.1
Electricity, Gas, Water & Waste Services	1.8	1.9
Agriculture, Forestry & Fishing	1.3	41.9
Wholesale Trade	1.1	14.7
Construction	1.0	8.8
Manufacturing	0.9	9.6
Retail Trade	0.8	9.3
Financial & Insurance services	0.8	2.3
Information, Media & Telecommunications	0.8	10.4
Arts & Recreation services	0.4	30.4
Education & Training	0.3	1.1
Public Administration & Safety	0.2	1.5
Professional, Scientific & Technical Services	-0.5	7.5
Mining	-1.3	-3.8

Source: ABS

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