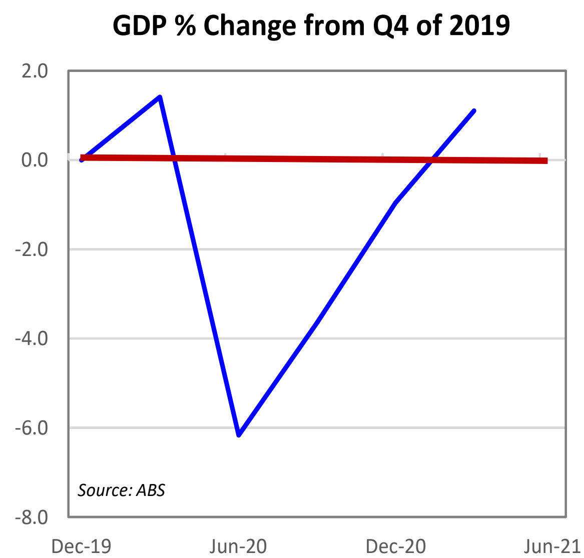
Data Snapshot

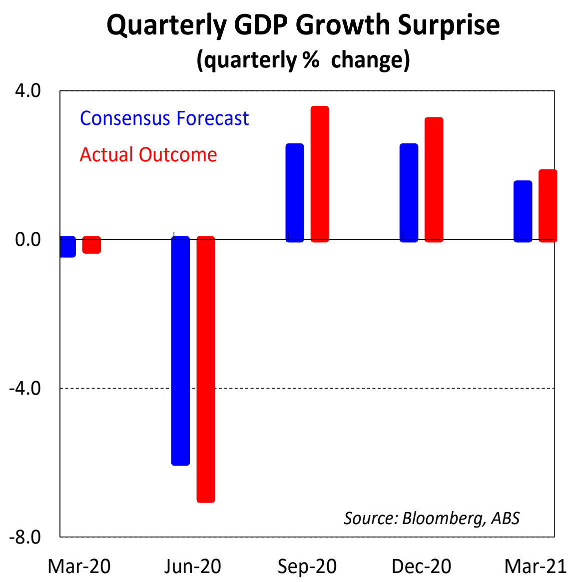
Wednesday, 2 June 2021

National Accounts

The Remarkable Rebound Runs On

- **The remarkable recovery continued in the March quarter of 2021. The Australian economy grew by a stronger-than-expected 1.8% in the quarter, beating consensus expectations for a rise of 1.5%. Economic activity has now recovered to its pre-pandemic level.**
- **Household consumption rose 1.2% in the quarter as the economy continued to reopen and consumer confidence improved.**
- **The household saving ratio edged down to 11.6%, from 12.2% in the quarter, although remains elevated relative to pre-pandemic levels. The evolution of saving behaviour is a key uncertainty for the outlook. We expect the saving ratio will continue to fall, which in turn will support consumer spending.**
- **Business investment surged 3.6% in the quarter, building on the recovery that started in the December quarter last year. Generous tax incentives have helped revive the appetite to spend.**
- **Most industries recorded growth in the March quarter. The overarching theme is that industries benefitting from the reopening of the economy had the strongest growth in the quarter.**
- **The states all recorded growth in the March quarter although activity contracted in the Northern Territory. This is despite snap lockdowns in Victoria, Queensland and Western Australia, and flooding in New South Wales and Queensland.**





The remarkable recovery has continued in the March quarter of 2021. The Australian economy grew by a stronger-than-expected 1.8% in the quarter, beating consensus expectations for a rise of 1.5% and landing on the high side of the range of expectations. Expectations leading into the release ranged between growth of 0.5% and 2.1%.

The strong result means that the economic activity has now recovered to its pre-pandemic level. Indeed, compared to the final quarter of 2019, the Australian economy is 0.8% bigger. The economy has recovered faster and more furiously than economists and policymakers expected. Indeed, the Australian economy has beat consensus expectations on growth in four out of the past five quarters dating back to the start of 2020. And this has occurred during an incredibly uncertain and volatile period. The Australian economy only underperformed expectations in the June quarter of 2020.

Australia also stands out from the pack of economies in the developed world. It is supressed the virus incredibly well with minimal economic cost relative to these other economies. Last year, the Australian economy shrank just 1.0% (revised from a decline of 1.1%). Few major economies can claim to have had less fatalities than Australia, or as small a fall in economic activity.

Consumer spending, business investment and public investment added to growth, whilst net exports was a drag.

GDP Expenditure Measure:

An easing of restrictions, low interest rates, generous tax incentives for businesses, an upturn in dwelling prices and falling unemployment continued to support a continuing recovery in the Australian economy. The March quarter was marked by snap lockdowns in Victoria, Queensland and Western Australia, as well as floods in New South Wales and Queensland. The GDP result would have no doubt been firmer without these events.

Selected Expenditure Items on GDP, Chain Volume Measures

	Quarterly % Change
Household Consumption	0.7
Public Consumption	-0.5
Dwelling Investment	6.4
Business Investment	3.6
Public Investment	2.9
	Contribution to GDP, ppt
Inventories	0.7
Net Exports	0.6

Household consumption rose 1.2% in the quarter as the economy continued to reopen and consumer confidence improved. It follows very solid gains of 4.5% in the December quarter and 7.8% in the September quarter. In terms of contribution to growth in the quarter, household consumption had the biggest impact along with inventories, adding 0.7 percentage points each.

Consumer spending on services lifted, as looser social-distancing restrictions and the vaccine rollout helped consumers return to pre-COVID-19 habits and preferences. In particular, spending at hotels, cafes and restaurants has roared back. It was the consumption category that grew the most in the quarter – jumping 14.8%. Indeed, spending on this category has risen a staggering 102.6% since the middle of last year, after slumping around 60% in the first half of 2020 when the shock from the pandemic was greatest. Unsurprisingly, Australians have spent less time at home cooking; food retailing fell for a second straight quarter.

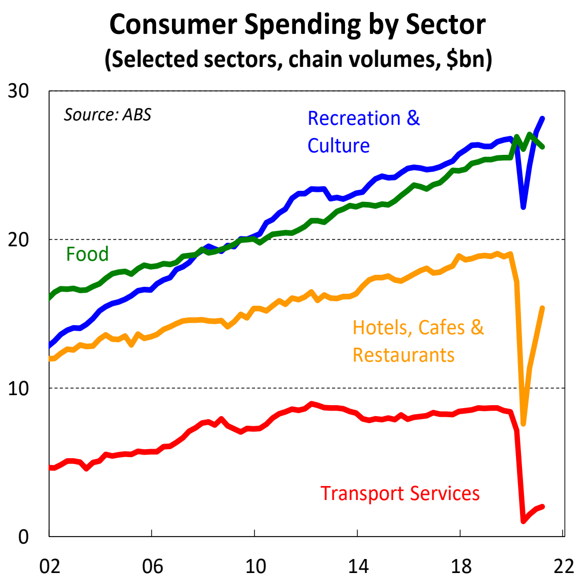
Another category that has recovered significant ground is transport services. It shrank almost 88% in the first half of last year and has since jumped up 98.2%. Similarly, recreation and culture were hard hit during the first half of last year (down 17.2%) but has lifted nearly 27% since the end of the June quarter last year.

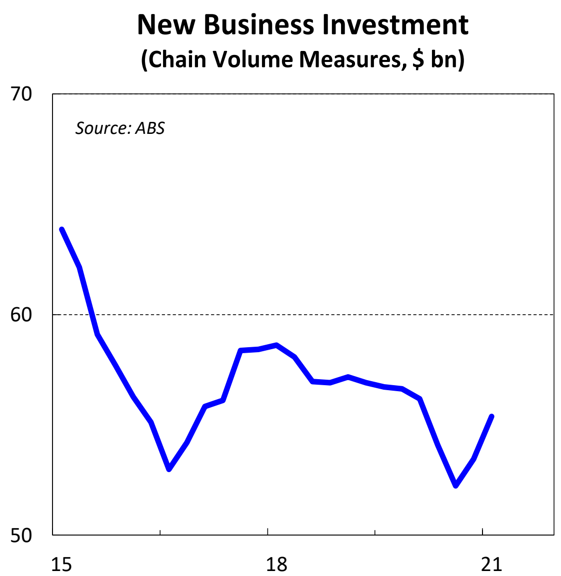
By contrast, the weakest categories were spending on alcoholic beverages (down 3.9% in Q1) and spending on electricity, gas and other fuels (-3.8%).

Business investment surged 3.6% in the March quarter, building on the recovery that started in the December quarter of last year. The recovery from the pandemic has been led by the consumer. Encouragingly, business spending is now also contributing to the rebound. Business investment has risen 6.0% in the past two quarters, after recording six consecutive declines between the June quarter of 2019 and the September quarter of 2020, amounting to a contraction of 8.6% over the period.

Generous tax incentives from the Federal government have helped revive the appetite to spend. In fact, spending on machinery & equipment climbed 11.6% in the March quarter – the sharpest rate in 11 years, as businesses take advantage of temporary immediate expensing. The loss carry back provisions are also available to businesses temporarily until the end of 2022-23. The program helps give eligible businesses a cash flow boost that they can use to expand and spend.

Business conditions, business confidence and capacity utilisation are at elevated levels and will support on ongoing recovery in business investment. The uplift in business investment also helps jobs growth, which will provide further support to consumer spending.





Dwelling investment posted a very solid 6.4% increase in the quarter and added 0.3 percentage points to quarterly growth, reflecting the improving housing market. The annual rate climbed to a near 5-year high of 7.9%. Record low interest rates, falling unemployment and HomeBuilder have put a fire under the housing market and spurred a lift in dwelling construction.

The **government** added a small contribution to growth in the quarter of 0.1 of a percentage point, reflecting the mixed outcomes between public consumption and public investment. Public consumption fell 0.5% in the March quarter, marking the first quarterly decline in almost 3 years. But public investment grew 2.9% and picked up the slack from the decline in public consumption.

Overall, domestic demand increased by a very robust rate of 1.6% in the March quarter. It follows solid increases of 3.4% in the December quarter and 4.6% in the September quarter (a record gain!). In year-on-year terms, domestic demand lifted 1.9%, the first time growth has been recorded in a year.

Net exports continued to weigh on growth in the March quarter, as growth in imports (1.0%) compared with a sharp drop in exports (-6.2%). The increase in imports is consistent with the recovery in domestic spending.

GDP Income Measure:

GDP based on income measures rose 1.9% in the March quarter, when excluding the impact of prices, to be 0.9% higher over the year. Importantly, GDP is also higher than pre-pandemic levels according to this measure.

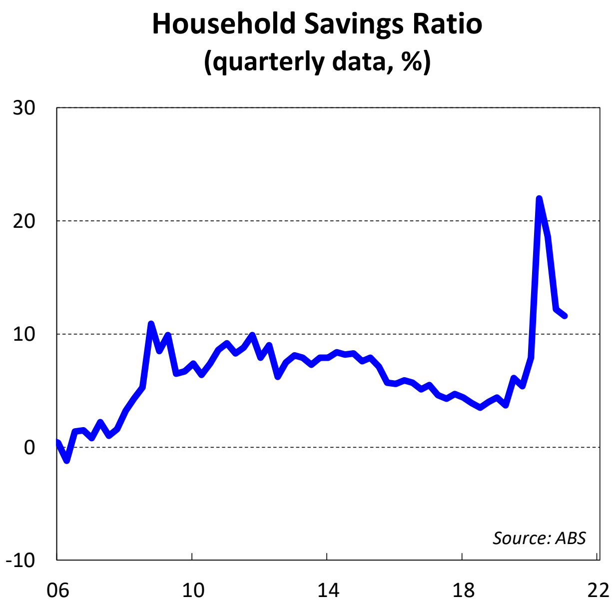
Gross household disposable income rose 1.0% in the March quarter.

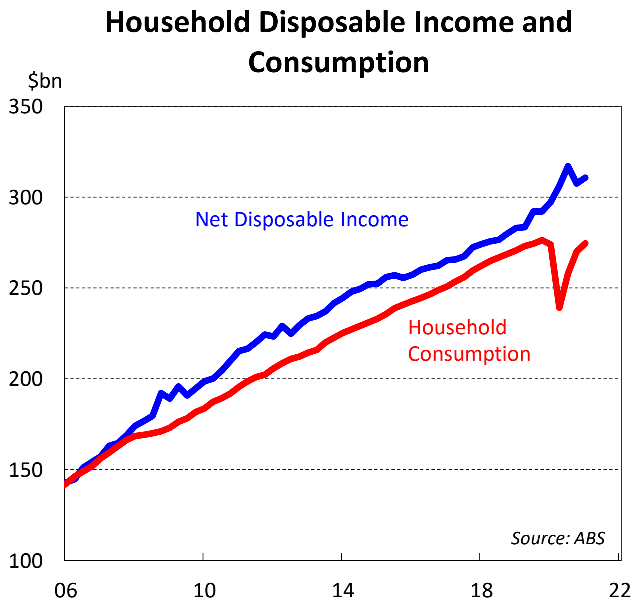
The increase was underpinned by a 1.5% in **employee wages** (compensation of employees), which is 3.0% higher over the year. The rebound in employee wages over the past few quarters has more than made up for the dip in the June quarter of last year. The increase in wages paid reflects rises in employment and hours worked, both of which are now above pre-pandemic levels. Private wages paid rose 2.4% in the quarter, partly offset by a 1.6% fall in public sector wages paid.

The rise in wages paid was partly offset by a decline in **social assistance payments,** as the payment rates of JobKeeper and other temporary support programs were reduced. The number of people relying on support payments has also likely declined as the labour market has continued to recover.

The household **saving ratio** edged down to 11.6%, from 12.2% in the quarter, although remains elevated relative to pre-pandemic levels (around 5%). Savings fell because the growth in household consumption outpaced the growth in disposable income. Elevated levels of household savings mean there is the opportunity for consumers to draw down on these savings and spend more in the economy, especially if they feel confident to do so. Recent measures of consumer confidence reveal consumers are upbeat about the economic outlook. We expect, therefore, this household savings ratio will continue to come down and support consumer spending.

However, the outlook for household saving behaviour is a key uncertainty and could have material implications for economic growth. Households accumulated large saving buffers in the past year, and the extent to which households draw down on these savings will significantly impact consumption. Households may instead opt to continue strengthening 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. This may happen if there is a major outbreak of the virus. Currently, Victoria is in a snap lockdown that has been extended by another week as the state battles to contain the outbreak. Elsewhere in Australia, the virus is contained, although the prospect of further lockdowns remains a risk.





The **terms of trade** (the ratio of export prices to import prices) rose 7.4% in the quarter and is at its highest level since the December quarter 2011. The increase in the terms of trade was underpinned by stronger export prices, especially for iron ore and LNG. The terms of trade is 15.0% higher than in the December quarter 2019.

Strong demand from China on the back of aggressive, infrastructure-focused stimulus has pushed up commodity prices, alongside the general improvement in the global economic outlook. In some cases, supply disruptions have also contributed to higher prices. For example, iron ore averaged around US$150 per tonne in the March quarter and earlier this month pierced US$200 per tonne.

State Final Demand:

The states all recorded growth in the March quarter although activity contracted in the Northern territory. This is despite snap lockdowns in Victoria, Queensland and Western Australia and flooding in New South Wales and Queensland.

Growth was strongest in Western Australia, with state final demand expanding 3.0% in the quarter. Notably, there was a sharp 21.5% lift in business investment in machinery and equipment in the quarter driven by small businesses and the mining industry. There was also a 6.8% lift in non-dwelling construction underpinned by new engineering construction from mining businesses. Consumption lifted by a more modest 0.4%.

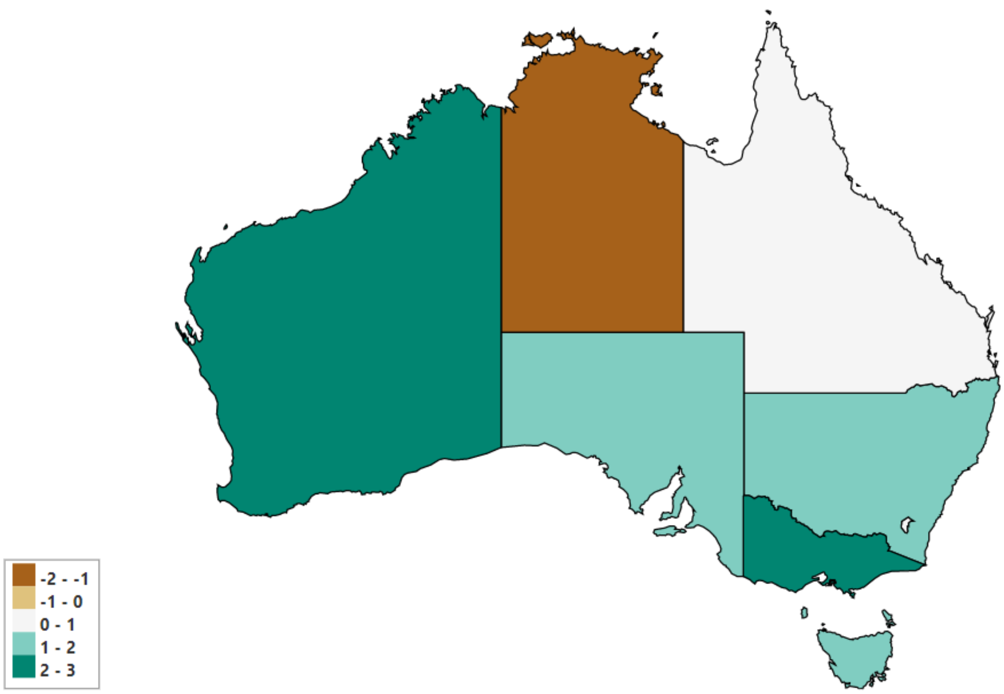
Victoria came in second, with 2.3% growth in the quarter, as the state continued to recover from its extended second lockdown in 2020. Household consumption increased 3.2%, as the further relaxation of restrictions led to more spending on recreation and culture, and hotels, cafes & restaurants. Public investment also rose 5.8% alongside a pick up in state and local government spending on road and rail infrastructure and health-related projects.

State final demand increased 1.6% in Tasmania, 1.5% in NSW and 1.4% in South Australia in the March quarter. All three states saw an increase consumption and private investment. The latter was associated with a pick up in dwelling construction due to government initiatives. Spending on machinery & equipment jumped 15.2% in NSW. Public investment rose 8.5% in South Australia alongside an increase in spending from state and local governments, with continued robust investment in education and the commencement of major road projects.

There was a more modest lift in activity in the Australian Capital Territory, with state demand up 0.5% in the quarter, and Queensland, which expanded 0.4%. There was a rise in dwelling investment in both regions associated with HomeBuilder. Other factors weighed on state final demand. In Queensland, consumption declined slightly as spending on food, clothing & footwear and the purchase of vehicles slipped, while in the Australian Capital Territory, public investment decreased.

State final demand contracted 1.9% in the Northern Territory. This reflects a 30.2% drop in machinery & equipment investment after a large amount of spending in the previous quarter and a sharp fall in non-dwelling construction. Public investment also fell alongside a reduction in work on road projects.

State Final Demand
(quarterly % change, December quarter 2020)



Industry Breakdown:

Most industries recorded growth in the March quarter. The clear overarching theme is that industries benefitting from the reopening of the economy had the strongest growth in the quarter.

The arts and recreation, accommodation & food services and other services (includes personal care and automotive repairs) were standouts. Transport, postal and warehousing was boosted by increased demand for freight and delivery services as well as a pick up in road and air transport as restrictions eased. Separately, the rental, hiring and real estate sector has been bolstered by the housing boom. Only four of the 19 industry categories recorded a contraction in the quarter.

The results are more mixed in annual growth terms, with eight industries in the red, highlighting that the recovery remains uneven.

Administrative & support services, which captured travel agents, and transport, postal & warehousing, which captures air travel, experienced the largest declines over the year to March.

Both industries are linked to tourism, where the closure of international borders continues to weigh on activity. The $1.2 billion support package for the tourism industry announced a few months ago will provide some support. However, the rollout of vaccines and the subsequent return of international travel will be key to drive a more significant recovery in tourism-exposed industries.

Industry Gross Value Added, Chain Volume Measures

Ranked by Quarterly % Change, March Quarter 2021

By Industry	Quarterly % Change	Annual % Change
Other Services	5.8	1.7
Arts and Recreation Services	5.7	-0.8
Rental, Hiring and Real Estate Services	5.3	2.2
Accommodation and Food Services	5.2	-0.1
Transport, Postal and Warehousing	5.0	-7.8
Construction	4.4	-0.8
Manufacturing	3.0	-0.4
Wholesale Trade	2.9	6.3
Agriculture, Forestry and Fishing	2.9	34.2
Administrative and Support Services	1.9	-10.0
Professional, Scientific and Technical Services	1.2	1.7
Health Care and Social Assistance	1.2	4.0
Mining	0.7	-2.3
Education and Training	0.3	1.0
Financial and Insurance Services	0.2	2.6
Public Administration and Safety	-0.7	2.0
Electricity, Gas, Water and Waste Services	-0.9	-1.4
Retail Trade	-1.0	3.6
Information Media and Telecommunications	-1.9	0.6

Source: ABS

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