bankSA

Data Snapshot

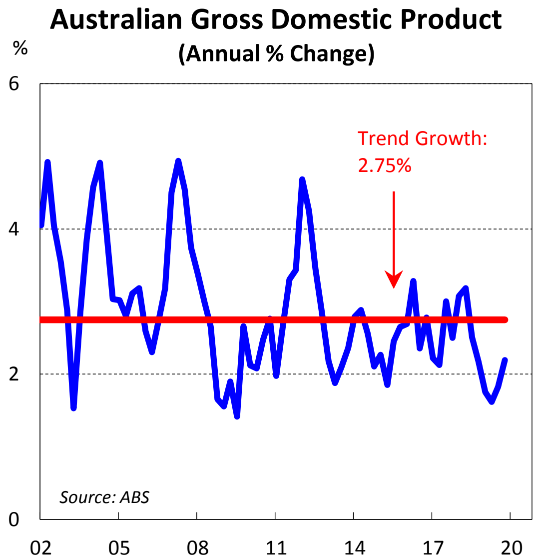
Wednesday, 4 March 2020

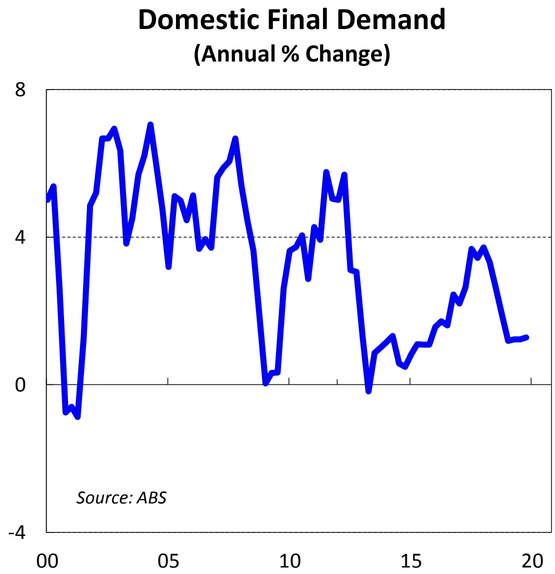
National Accounts - GDP

Still stuck in a lower gear

- **GDP grew at a pace of 0.5% in the December quarter of last year, beating consensus forecasts for a rise of 0.4%. The Australian economy has now notched up 28½ years without a recession.**
- **Annual growth improved from an upwardly revised outcome of 1.8% in the September quarter to 2.2% in the December quarter. Despite the improvement, growth was sluggish before heading into 2020 where the economy has had to battle bushfires and the impact of the coronavirus.**
- **Household consumption, the government sector, net exports and inventories contributed to growth in the December quarter. Investment was a drag.**
- **Household consumption grew by 0.4% in the December quarter, which is the firmest quarterly rate in a year. Consumption was fastest in furnishings & household equipment, as the recovery in house prices spilled over into white and brown goods retailing.**
- **The trade sector modestly propped up the GDP figures, but its fortunes are changing with the outbreak of the coronavirus dampening world growth prospects and pressing commodity prices lower. Net exports added 0.1 percentage points to GDP growth in the December quarter.**
- **Domestic final demand is a key expenditure measure of the domestic economy, as it excludes the trade sector. It grew by only 0.1% in the December quarter, the softest result in one year.**
- **The household savings ratio fell to 3.6% in the December quarter, after households saved more to try and repair balance sheets in the September quarter.**
- **The terms of trade (or the ratio of export prices to import prices) plunged 5.3%, reversing five consecutive quarterly increases. The terms of trade is now 0.6% lower than a year ago, the first annual decline since the March quarter of 2018.**
- **Economic fortunes by State were mixed in the December quarter. On an annual basis, State final demand across most States and territories continued to sit below their long-run averages.**
- **Fifteen of the 19 main industries counted in the production measure recorded growth in the December quarter, up from 13 in the previous quarter. The best performing industry was real estate services, which surged 2.7% over the quarter, underpinned by the rebound in housing.**
- **We are anticipating economic growth to remain below trend (or potential) this year and next year. The RBA's growth forecasts will be a challenge to meet. We also expect the RBA to deploy further stimulus next month, as the impact of the coronavirus continues to evolve.**

GDP Expenditure Measure:



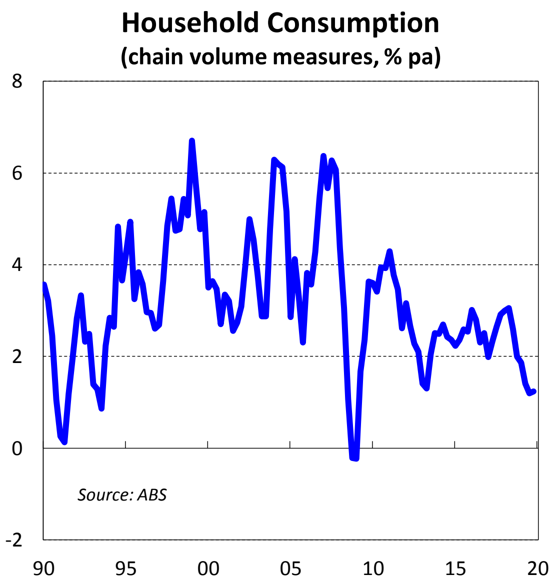


GDP grew at a pace of 0.5% in the December quarter of last year, beating our forecast for a rise of 0.3% and consensus forecasts for a rise of 0.4%. The Australian economy has now notched up 28½ years without recession.

Annual growth improved from an upwardly revised outcome of 1.8% in the September quarter to 2.2% in the December quarter. Despite the improvement, growth was sluggish before heading into 2020 where the economy has had to deal with bushfires and now the impact of the coronavirus.

The economy lost considerable momentum in the second half of 2018 and then recovered very modestly through 2019.

Potential growth for the economy (i.e. the "sweet spot") sits at 2.75%. Economic growth remains a long stretch from potential, which means ongoing slack in the labour market is likely to continue and significant upward inflationary pressures are unlikely to build.



Selected Expenditure Items on GDP, Chain Volume Measures

	Quarterly % Change
Household Consumption	0.4
Public Consumption	0.7
Dwelling Investment	-3.4
New Business Investment	-0.8
Public Investment	-0.4
	Contribution to GDP ppt
Inventories	0.2
Net Exports	0.1

Household consumption, the government sector, net exports and inventories added to growth in the quarter. Investment was a drag.

Household consumption grew by 0.4% in the December quarter, which is the firmest quarterly rate in a year, underpinned by a recovery in housing, rate cuts and the tax rebates from the government. Annual growth remained at a soggy 1.2% pace, however. In contribution terms, household consumption added only 0.2 percentage points to growth in the quarter.

Consumption was fastest in furnishings, household & equipment; this sector recorded spending growth of 1.4% in the December quarter, as the recovery in house prices spills over into white and brown goods retailing.

However, one of the hardest hit sectors in the December quarter was in the purchase of new motor vehicle sales, which is a key category of discretionary spending. This sector was down 2.7% in the December quarter. High household debt, weak wages growth and uncertainty about the economic outlook are still headwinds for consumer spending growth.

New business investment remained the ICU ward in the December quarter, falling by 0.8% in the quarter. Spending on machinery & equipment rose 0.1%, while spending on new engineering and construction fell by 3.6% and 3.0%, respectively.

Business investment is likely to remain in the ICU ward in the March quarter with the coronavirus hurting business confidence and impacting global-supply channels.

On a year ago, new business investment contracted by 1.2%, which is the sixth consecutively quarter without growth.

Government consumption rose by 0.7% in the December quarter, building further on strong growth in recent quarters. Government consumption growth largely reflects spending on healthcare and the rollout of the NDIS. Further, commodity prices remained elevated near the end of last year and strong employment growth helped boost taxation receipts. These factors allowed the government greater scope for consumption, adding 0.1 percentage points to growth in the quarter. Whilst the infrastructure-spending pipeline remains strong, **government investment** can be volatile. It fell 0.4% in the December quarter.

Net exports continued to underpin growth, albeit less so than in the past two quarters. It added 0.1 percentage points to GDP growth in the December quarter, reflecting the ramp up in LNG capacity during the quarter. The net exports contribution also reflected the weakening trend in domestic demand, which spilled over to another quarterly decline (the sixth) in imports.

Domestic final demand is a key expenditure measure of the domestic economy, as it excludes the trade sector. Domestic final demand grew by only 0.1% in the December quarter, the softest result in one year. The annual rate of growth for domestic final demand improved to 1.3%, which is still very soft.

The trade sector modestly propped up the GDP figures, but its fortunes are changing with the outbreak of the coronavirus dampening world growth prospects and pressing commodity prices lower.

Private demand, which excludes government, rose 0.5% in the quarter but is only up 0.1% on a year ago, after its weakest annual outcome in the September quarter in more than 10 years.

The **housing construction** downturn is weighing on **dwelling investment** and consequently dragging on growth. Dwelling investment fell by 3.4% in the December quarter, racking up the string of quarterly declines to five, and deducting 0.2 percentage points from growth.

Dwelling prices are recovering and this recovery is strengthening. However, building approvals are not yet recovering for high-density dwellings, suggesting dwelling investment is set to continue to detract from growth in coming quarters.

Finally, **inventories** added to growth by 0.2 percentage points in the December quarter.

GDP Income Measure:

Nominal GDP growth measured by the income approach slipped 0.3% in the December quarter. On an annual basis, the pace of growth slowed from 5.6% in the September quarter to 4.1% in the December quarter.

Income growth was constrained by slower growth of company profits, which fell 1.1% in the December quarter. It was the largest fall in 2½ years. Non-mining profits are struggling in line with falling commodity prices.

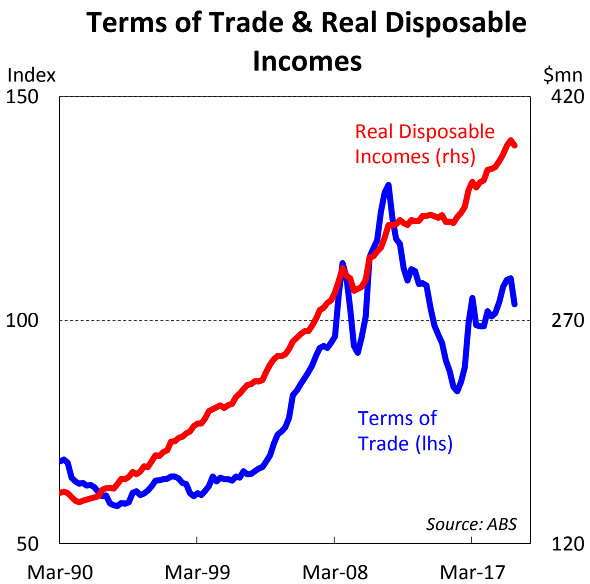
Quarterly growth in labour incomes also eased to its weakest pace since the final quarter of 2018. Wages incomes (total compensation of employees or COE) rose 1.0% over the quarter. The rate of annual growth edged up to 5.1%, which was the strongest result in nearly 2 years.

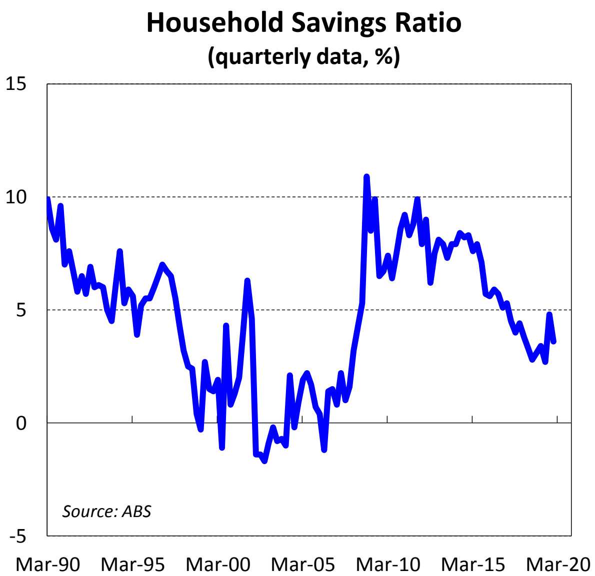
After a spike in gross disposable incomes in the September quarter, gross disposable incomes unwound some of the bounce to fall by 0.4% in the December quarter.

When excluding the impact of prices, GDP based on the incomes measure rose by 0.6% in the December quarter

The **household savings ratio** fell from 4.8% in the September quarter to 3.6% in the December quarter. The household savings ratio had been falling in recent years, as consumers grappled with low incomes growth. There was a temporary improvement it seems in the September quarter, as households try to repair their balance sheets.

The **terms of trade** (or the ratio of export prices to import prices) plunged 5.3%, reversing five consecutive quarterly increases. The terms of trade is now 0.6% lower than a year ago, the first annual decline since the March quarter of 2018. Surging commodity prices, particularly for iron ore, led to a drastic increase in the terms of trade over the first three quarters of 2019. Prices have since fallen, which has tempered the terms of trade. Weakening global growth prospects amid coronavirus-related uncertainty has also weighed on prices of most commodities in 2020 so far.





State Final Demand:

Economic fortunes by State were mixed in the December quarter. State final demand remained sluggish overall, led by cautious consumer spending in the eastern States.

Australia's largest State by population and economic output, New South Wales, recorded a 0.5% increase in State final demand in the December quarter. It was the second consecutive quarterly increase of 0.5%. Household consumption in the State was lacklustre at just 0.2%, offset by a 10.6% increase in ownership transfer costs related to the housing market rebound. Increased government spending, including a 1.4% increase in government consumption came on the back of new transport infrastructure and education spending over the quarter.

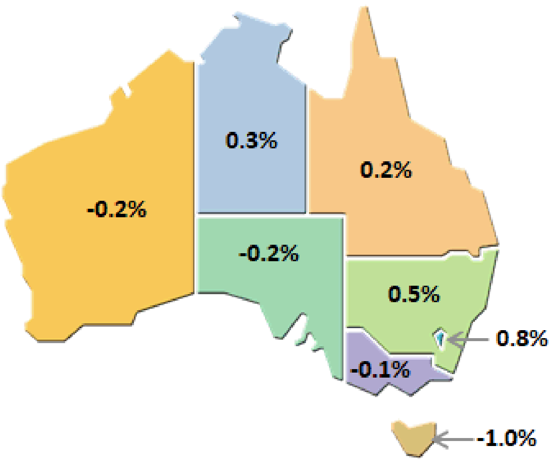
Victoria saw a 0.1% fall in State final demand in the December quarter. It was the first quarterly decline since June 2013. A fall in investment, both by the private and public sector, led the decline. Slowed work on large-scale road projects led to a 3.9% fall in public investment while a 9.3% fall in machinery and equipment investment left private investment 1.3% lower. Some of the decline in investment was partly offset by a rebound in consumption; household consumption was up 0.5% over the quarter.

Other States on the eastern seaboard recorded growth. Queensland State final demand increased 0.2%, lifted by a 0.8% increase in final consumption and a 1.6% increase in public investment. A 2.9% fall in private investment limited growth. The residential construction downturn was a particular drag on growth. Dwelling investment fell 10.1% over the quarter.

The ACT recorded another strong outturn in the December quarter of 0.8%. South Australia recorded its second consecutive decline, falling 0.2%. The Northern territory registered 0.3% growth over the quarter, its first positive reading since the September quarter of 2017. Western Australia recorded a 0.2% fall in growth. Tasmanian State final demand plunged 1.0%, tempering some of the recent gains in the State.

On an annual basis, State final demand across most States and territories continued to sit below their long-run averages. Annual growth slowed in NSW (1.9%), Victoria (3.0%), South Australia (1.4%), Queensland (1.4%), the ACT (3.0%), the NT (-1.5%) and Western Australia (1.0%). Tasmania was the only State where growth slowed; however, at 3.6% it retains the fastest pace of growth.

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



Source: ABS

Industry Break Down:

Fifteen of the 19 main industries counted in the production measure recorded growth in the December quarter, up from 13 in the previous quarter.

The best performing industry was real estate services, which surged 2.7% over the quarter. The housing price rebound was in full swing during the December quarter. On an annual basis, healthcare remains the fastest growing sector. Healthcare & social assistance rose 8.3% over 2019. The next best-performing annual growth rate was in mining which saw a 7.3% increase.

The worse-performing industry was construction. This industry contracted by 2.3% in the December quarter. It was also the weakest in annual percentage terms (down 3.6%). The residential construction downturn has had a particular impact, while non-dwelling construction also slowed in the December quarter.

Outlook:

Economic activity continued to languish below trend in the December quarter. There were some positive signs of a gradual turnaround in household consumption, however, it remained subdued. The housing price rebound was in full swing in the December quarter, and revealed itself in a large increase in rental & real estate services. Dwelling prices are yet to meaningfully translate to construction investment, which continues to drag on growth. The bushfire emergency and coronavirus are likely to have a significant impact on GDP growth in the first quarter.

We are anticipating economic growth to remain below trend (or potential) this year and next year. The RBA's growth forecasts will be a challenge to meet. We also expect the RBA to deploy further stimulus next month, as the impact of the coronavirus continues to evolve.

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