BULLETIN

7 September 2022

Australian national accounts, Q2
Consumer spending leads the way, on reopening effect.
Hospitality and travel spending up strongly.
Q2 domestic demand: 1.1%qtr, 4.7% yr
Q2 real GDP: 0.9%qtr, 3.6% yr

The Australian economy expanded by 0.9% in the June quarter following an increase of 0.7% in the March quarter, meeting market expectations. Annual growth in the year to the June quarter was 3.6%.

The key driver of domestic demand was household consumption which lifted by 2.2% driven by spending on services which increased by 3.6%; in contrast, spending on goods decreased by 0.1% (including a 1.2% fall in purchases of food from supermarkets and specialty stores). The reopening effect was clearly the dominant factor with hotels, cafes, and restaurants (+8.8%); transport services (+37.3%); and recreation and culture (+3.6%) all booming.

Nominal growth in compensation of employees lifted by 2.4% with private sector compensation up by 3.1%, while nominal gross disposable income increased by 1.0% - the same pace as in the March quarter.

The surge in household spending was not only supported by that strong growth in compensation but there was also a significant fall in the household savings ratio which freed up additional funds for spending.

The household saving ratio fell from 11.1% to 8.7%, having now fallen from 19.8% in September 2021 in the wake of the delta lockdowns. This fall brings the household savings ratio close to the equilibrium ratio of around 6%. A major issue for the growth outlook is whether the ratio falls significantly below that equilibrium 6% as households draw on those "excess" savings (around $275 billion) that have been accumulated during the two and a half years of the pandemic.

Of note, the transport and accommodation sectors contributed 0.5ppts of the overall 0.9ppt growth in the production measure of GDP.

Home building contracted by 2.9% and non-residential construction contracted by 5.0%, reflecting unfavourable weather and labour and material shortages.

On the other hand, machinery and equipment investment lifted by a very solid 3.9% as business confidence remained buoyant in the June quarter.

Following the unprecedented build-up of $7.8bn in total inventories in March, there was a modest $1.6bn build-up in the June quarter, subtracting 1.2ppts from GDP growth.

Export volumes surged by 5.5% in the quarter boosting the trade surplus to 7.1% of GDP – the largest trade surplus in the history of the national accounts.

Consumer prices (as measured by the CPI) increased by 1.8%, for an annual increase of 6.1% - the fastest annual increase since June 2001.

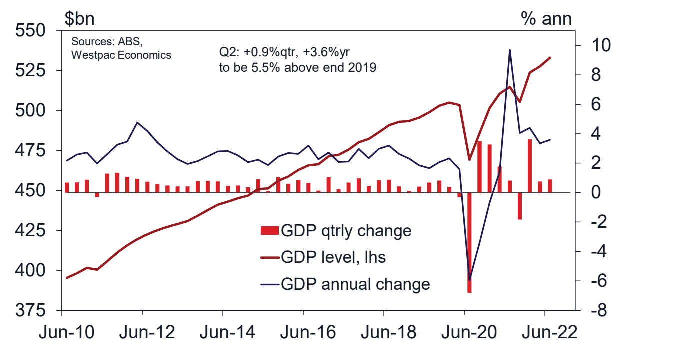
There is no real evidence in these accounts of the impact of the RBA's rate increases which began in the first week of May (0.25%) and June (0.5%), since it takes time for the banks to pass on those increases. Indeed, business and household spending were strong in the June quarter while household spending growth for the March quarter was revised up from 1.5% to 2.2%.

GDP: Jun qtr 2022

	% qtr		% yr	
	Mar	Jun	Mar	Jun
Private consumption	2.2	2.2	4.8	6.0
Dwelling investment	-0.5	-2.9	-0.9	-4.6
Business investment*	1.0	0.6	3.4	1.4
Private final demand*	1.7	1.4	4.2	4.2
Public spending*	2.5	0.0	8.3	6.0
Domestic demand	1.9	1.0	5.3	4.7
Stocks – private non-farm #	0.7	-1.1	0.4	0.1
– other #	0.3	-0.1	0.3	-0.4
GNE	2.9	-0.2	6.0	4.4
Exports	-0.8	5.5	-4.9	4.9
Imports	11.3	0.7	10.7	10.0
Net exports #	-2.3	1.0	-3.1	-0.9
Statistical discrepancy #	0.1	0.1	0.5	0.2
Non-farm GDP	0.7	0.9	3.1	3.5
GDP, real	**0.7**	**0.9**	**3.3**	**3.6**
GDP, nominal	3.7	3.2	10.2	10.2
GDP deflator	3.4	0.0	7.0	8.3
Household deflator	1.5	0.0	3.1	4.1
Earnings per worker (non-farm)	-0.3	1.4	1.9	3.4
Real household disp income	-0.5	-0.5	1.5	2.1

*adjusted for asset sales. # ppt contribution to growth
Sources: ABS, Westpac Economics

Australian economy: advances 0.9% in Q2



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The Reserve Bank's objective is to slow demand growth to a point where inflationary expectations, which are currently rising quickly, are wrung out of the system. The channels for flattening growth in demand will include a very large negative wealth effect as house prices tumble; restricted growth in household disposable income as interest rates increase; record low Consumer Confidence; and increased borrowing costs for business.

We think that objective will be achieved by steadily increasing the cash rate to 3.35% by early 2023 with GDP growth eventually slowing to around 1% in 2023, including growth in household spending of just 1.2% compared to 6% in the year just passed.

As we see in the June accounts, one area of uncertainty is to what degree households use their accumulated savings to offset the rate increases by driving the savings rate well below equilibrium; how quickly the reopening boost to discretionary services fades; the longevity of the saturation effect on household goods consumption; whether business confidence remains resilient to the rate increases; the performance of a construction sector that has been disrupted by weather and supply shortages.

Unfortunately, if household spending in particular does prove resilient it is likely that the RBA will extend its tightening cycle further into 2023.

Bill Evans, Chief Economist

Domestic demand (Andrew Hanlan)

Domestic demand (+1.0%qtr, +4.7%yr): A solid 1% increase in domestic demand in the June quarter, centred on a 2% plus increase in spending by consumers.

Public demand (flat qtr, 6.0%yr): Government spending, in the form of public demand, has been a key growth driver. Over the past year, public demand expanded by 6%, directly adding 1.6ppts to activity - including the additional spending on the response to covid.

The March quarter was a particularly strong one, up by 2.5%, including a spike in covid vaccine supplies and the response to the east coast floods. In the June quarter, spending consolidated, with a flat result, including a 0.8% decline in consumption and a 3.3% increase in investment.

Private demand (+1.4%qtr, 4.2%yr): Demand across the private sector grew by 1.4% in the quarter led by consumers and including a modest rise in overall business investment.

Consumer spending (+2.2%qtr, +6.0%yr): Consumers spending posted a 2.2% increase in the June quarter led by services - a reopening effect, with fewer covid disruptions and the reopening of the national border permitting overseas travel.

For more detail, see below for a discussion of the household sector.

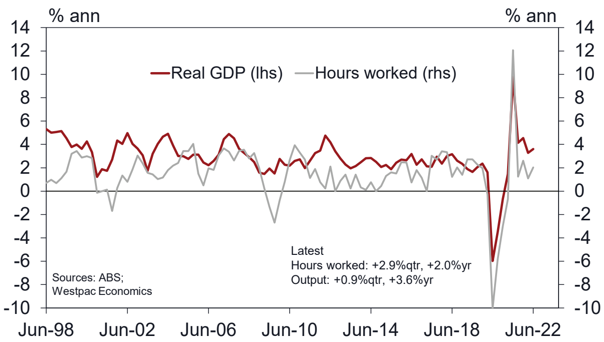
Home building (-2.9%qtr, -4.6%yr): Home building activity weakened over the past year, down by 4.6% - covid disruptions over the second half of 2021 and into early 2022 being a constraint.

In the June quarter, activity declined by 2.9%, impacted by unfavourable weather on the east coast. Trade and material shortages, and workforce illnesses also contributed. A sizeable work pipeline remains.

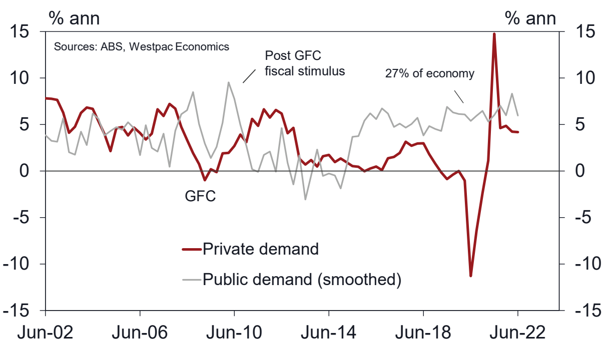
Renovations activity declined by a more modest 1.6% in the June quarter to be broadly flat over the year and a sharp 18.7% higher than levels pre-covid, at the end of 2019. New home building fell by 3.8% in the June quarter, is 7.6% lower over the year and 7.1% below the levels at the end of 2019.

New business investment (0.6%qtr, 1.4%yr): Business investment rose modestly in the quarter, up by 0.6%, to be 1.4% above the level

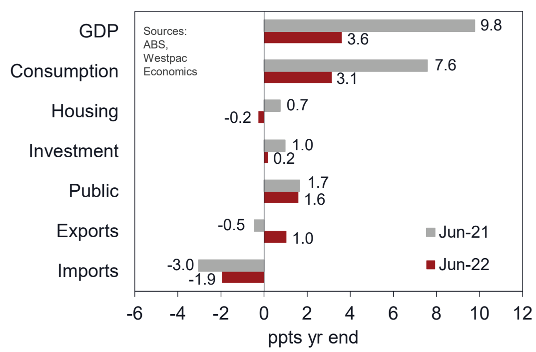
Hours worked & output



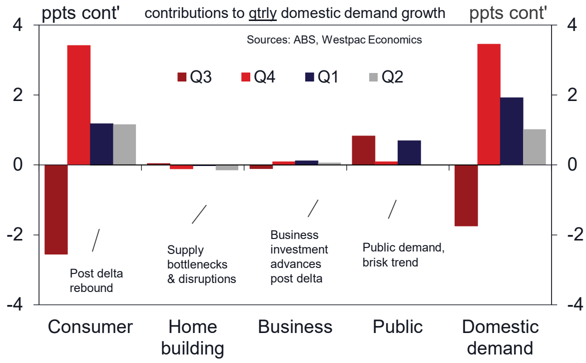
Domestic demand: private / public split



GDP growth: year-end contributions



Australia: domestic demand



of a year ago. Investment was mixed over the past year, in part due to the impacts of the delta lockdowns over the second half of 2021.

In the June quarter, weakness was evident across the construction segments, infrastructure down by 3.4% and non-residential building edging 0.3% lower.

Equipment spending posted a strong 3.9% increase in the June quarter, building upon the 3.1% rise the quarter prior - more than reversing a 2.5% dip over the second half of 2021. Firms are responding to limited spare capacity and generous tax incentives. Currently, capex plans for the 2022/23 financial year are positive.

GDP: the expenditure estimate

The Expenditure estimate of GDP printed 0.8%qtr, 3.4%yr for the June quarter - not greatly different from the GDP average estimate of 0.9%qtr, 3.6%yr.

Net exports made a sizeable positive contribution to growth in the June quarter, adding 1.0ppt. This represents only a partial offset to the recent weakness, for a full year impact of -0.9ppts.

Exports, which have disappointed during the pandemic, had a strong showing in the June quarter, up by 5.5%. Goods exports rose 4.2%, with the main contributors being mineral ores, other mineral fuels and rural goods. Services exports rose 13.7%, driven by travel and transportation services, as international borders were open for the full quarter.

Imports rose by 0.7%, led by services on the border reopening. This builds upon an 11.3% surge in the March quarter.

Inventories in total subtracted 1.2ppts from activity in the quarter. Private non-farm inventories were the main driver, subtracting 1.1ppts - while inventory levels for this segment rose further in the quarter, up by 0.4%, that was a tepid pace relative to the record 4.1% rebuild the quarter prior.

Household sector (Matthew Hassan)

Consumers had another mostly positive quarter, reopening dynamics again driving a strong gain in spending, and incomes relatively well-supported. While spending was not quite as ebullient as we had expected, the detail suggests the reopening process still has some way to run with 'COVID-exposed' components of spending and the aggregate household savings rate still not back to pre-pandemic 'norms'. Against this, the rate rise squeeze on disposable incomes is set to intensify dramatically over the second half of the year.

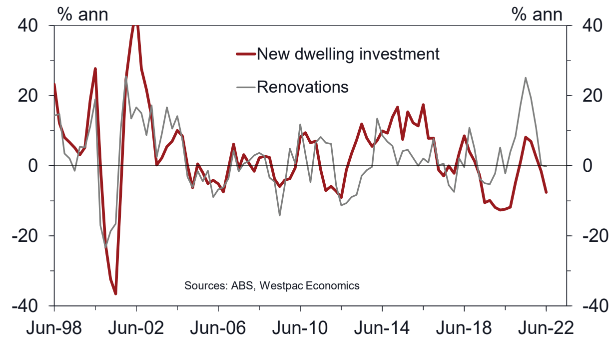
Consumption posted a 2.2% gain in Q2 to be up 6%yr. The quarterly result came in below our expectation of a 2.8% rise but may be revised over time. The previous quarter's 1.5% rise was marked up to a 2.2% gain, and Q4's 6.4% rise marked up to 6.6%. Most of the adjustment appears to be around spending on services (including overseas travel) where a lack of timely measures means revisions are often an issue. With strong reopening effects in many of these segments, we could see similar upward revisions in coming quarters.

The Q2 expenditure detail showed a similar pattern to Q1 with gains driven by a continued 'normalisation' in COVID-affected services sectors – cafes & restaurants, transport services and recreation accounting for 1.5ppts of the total gain on a combined basis. Spending eased slightly across segments that had benefitted during restrictions – falls in basic food, cigarettes & tobacco, and household goods combined taking 0.2ppts off growth in total spending.

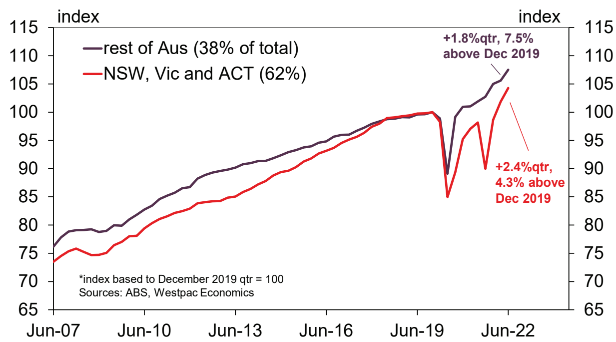
Other segments saw more consistent gains than in Q1, which had significant disruptions from the omicron outbreak and weather events. The main exception was purchases of vehicles which fell 4.3%qtr, but this weakness looks to be mainly due to supply chain issues, monthly sales posting a strong rebound in July-August.

Total spending was a solid 5.5% above pre-COVID levels. However, spending on discretionary services remains well below (–9.3%) with

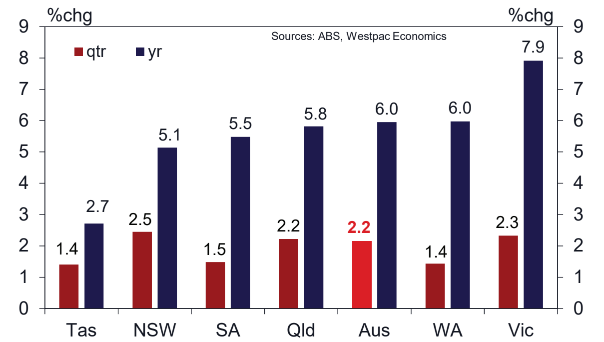
Housing hit by bottlenecks & disruptions



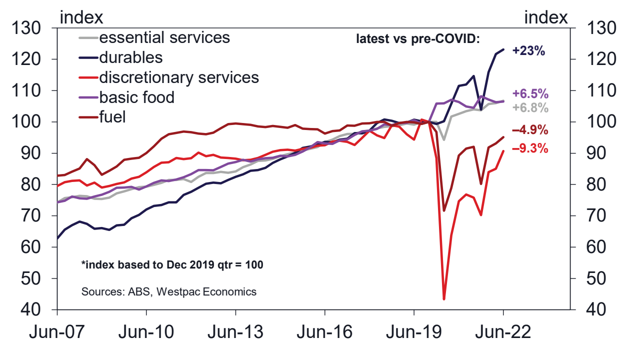
Consumer spending: 'delta states' vs rest



Consumer spending: Q2 2022



Consumer spending: broad categories



transport services and accommodation spend still a long way from normalising (–35% and –16% below pre-COVID levels respectively). Fuel consumption is also still down on pre-COVID levels (–4.9%) although this more likely reflects 'working from home' arrangements that may be slower to reverse. On the flip-side, spending on durables remains very elevated, 23% above pre-COVID levels.

By state, the cumulative gains continue to be much stronger for states that were unaffected by 'delta' lockdowns in 2021 – +7.5% vs Q4 2019 on a combined basis compared to +4.3% for NSW, Vic and the ACT combined. Again this suggests more reopening upside.

Around incomes, disposable incomes rose 1%qtr, in line with expectations, supported by a solid rise in wage incomes and a better quarter for non wage incomes (small business profits and property income) but with some drag from 'one-offs', rate hikes and higher tax payments.

Total wage income rose 2.3%qtr, lifting annual growth to 6.8%yr, a ten-year high. The detail here continues to be complicated by COVID-related disruptions. At an aggregate level, Q2 saw employment rise 0.9%, slower than Q1's 2% gain. However, total hours worked posted a much stronger 2.9%qtr rise, reflecting the high concentration of 'full time' work in recent job gains and fewer days lost due to sickness, quarantine and holidays than in Q1 (bearing in mind that those with leave benefits still got paid for this time). Average non-farm earnings per employee rose 1.4%qtr to be up 3.4%yr but is also affected by these complex shifts.

Non wage incomes were more varied. Gross mixed income (mainly the profits of farm sector and unincorporated businesses) recorded another strong gain, +4.3%qtr to be up 13.5%yr. Property income (dividends and deposits) also saw a decent rise, up 3.2%qtr, 10.1%yr – reflecting a mix of both a return to dividend payouts and higher deposit rates. However, Q2 also saw a sharp unwind from weather-related insurance payouts in Q1 (a drag worth about $4.5bn on quarterly income).

Disposable income, after interest and tax, also saw a material drag from higher interest rates and increased tax paid – the latter reflecting strong employment gains and rising average incomes. The combined effect took an extra $2.4bn out of disposable incomes in the quarter. The hit from rapid rate rises is likely to be more than double that in Q3.

The net effect saw nominal household disposable post a 1%qtr gain to be up 6.3%yr – solid overall but less impressive than the growth in total wages. The result meant disposable incomes declined in real, inflation-adjusted terms, down 0.5% for a second quarter in a row (albeit still up 2.1%yr). The consumption deflator measure of inflation in the national accounts rose 1.5%qtr in Q2 to be up 4.1%yr.

The combination of a decline in real disposable income and a solid rise in real consumer spending produced another fall in 'new' household savings (the portion of income unspent).

The savings ratio dropped to 8.7% in Q2 from 11.1% in Q1 and 13.5% in Q4. That is still above the 6% rate we would expect under more normal circumstances.

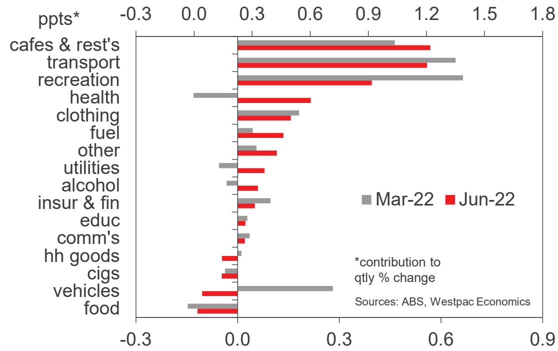
In nominal terms, this reduced savings effort effectively 'freed up' $7.6bn for spending, accounting for most of the $10.8bn increase in spending in the quarter. Based on a '6% norm' for savings, the accumulated reserve from "excess" savings over the last two and a half years now stands at around $275bn.

The States (Elliot Clarke)

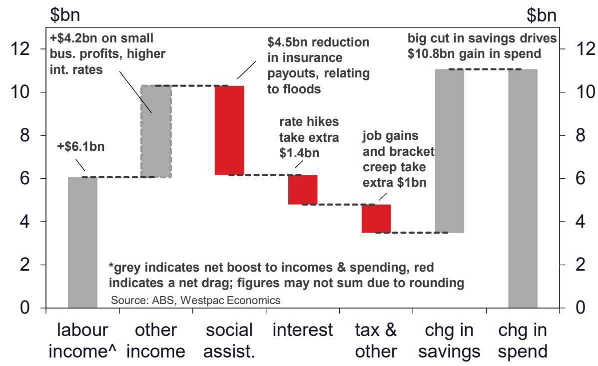
NSW posted an above-average gain in Q2, while state demand growth in Vic slowed to be in line with national domestic demand.

New South Wales state demand gained another 1.9% in Q2, keeping annual growth above 4.0%yr for a third consecutive quarter despite Q3 2021's 6.3% lockdown contraction. Compared to WA and SA,

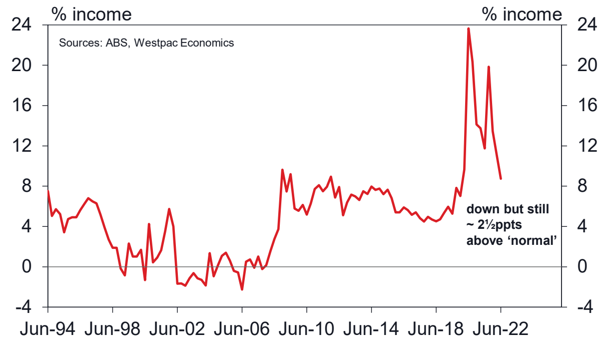
Consumer spending by category



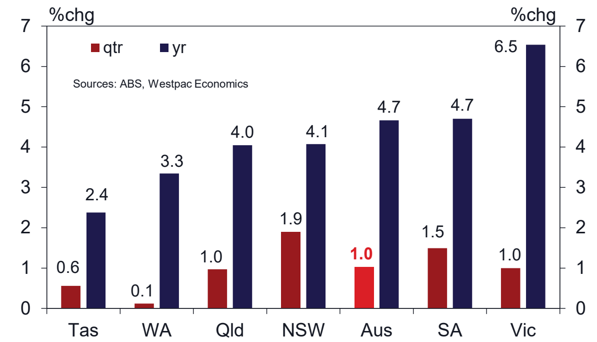
Household income flows: change, Q1 to Q2 2022



Household savings ratio



State demand: Q2 2022



where COVID-19 restrictions were light and brief, NSW arguably has a little more catch-up ahead, with NSW state demand up 7.8% since Q4 2019 against a circa 9.2% gain for SA/WA. Consumption continues to show strength, gaining 2.5% in Q2, 5.1%yr. Public and business investment also experienced rapid growth in Q2 of 8.5% and 4.4%; however, the stop/start nature of activity over the past year means business investment is broadly unchanged since mid-2021 -- public investment has proven more resilient, up 6.0%yr.

Both the private investment strength of Q2 and the volatility of the past year looks to have been driven by equipment spending and non-residential construction, with labour and part supply likely to blame. Engineering construction has meanwhile been relatively steady over the 9 months to June. Housing construction also looks to have been held up by supply of late (-0.2%; -2.6%yr), with new construction the source of the weakness (-3.3%; -8.8%yr). Ahead, supply issues should improve; but housing in NSW and across the nation faces a severe, lasting headwind from higher interest rates.

Victoria's economy slowed materially in Q2, though at 1.0%, growth was still in line with the national average. Over the year, Vic is well ahead with a gain of 6.5%yr versus 4.7%yr for the nation overall. During the past 12 months, consumption growth has been particularly strong (7.9%yr), and Q2 was no exception, at 2.3%. While renovation work has also been highly supportive over the year (12%yr), work declined 1.0% in Q2 as new construction jolted 5.2% lower to be down 4.1%yr. Household discretionary purchasing power will be a challenge hence.

To a greater extent than in NSW, Vic public investment has shown strength over the past year (2.2%; 8.7%yr). Business investment has also proven more robust and broad based in Vic, with strength seen across equipment spending (7.9%; 8.5%yr) and non-residential construction over the past year (-0.5%; 5.0%yr). Engineering construction is unchanged over the period.

Queensland continued to experience robust momentum in Q2 (1.0%; 4.0%yr). Over the year, public investment has been supportive, albeit less so than in Vic and NSW (1.1%; 2.1%yr). However, this has been made up for by public consumption, with total public demand up 5.9%yr.

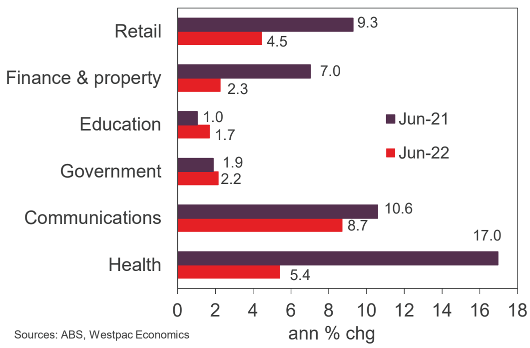
A similar situation is apparent in the private sector, with business investment a marginal contributor over the year (1.3%yr) as gains for equipment and non-residential investment were offset by a decline in engineering construction (respectively 4.9%yr; 3.3%yr; and -4.4%yr). Meanwhile, household consumption gained 5.8%yr, in part as a result of a 2.2% gain in Q2. An offset to all of the above is persistent weakness in dwelling construction (-6.0%; -14%yr) as a result of a 16%yr decline in new construction and a 12%yr fall for renovations.

Western Australia's economy essentially stalled in Q2 2022, as state demand rose by just 0.1%. Annual growth is weaker than national domestic demand too (3.3%yr versus 4.7%yr). However, the context is that WA's economy never experienced the pandemic losses of the south-east, and therefore has less capacity/need to rebound. Versus end-2019, state demand is 9.2% higher for WA compared to 8.2% for national domestic demand.

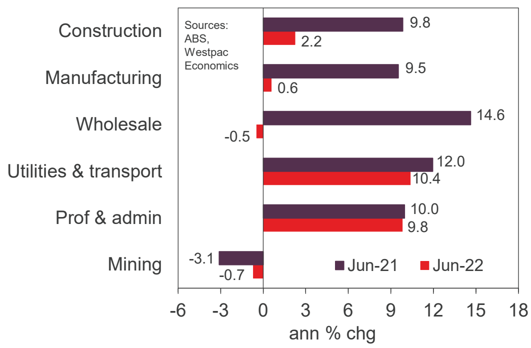
Of the sectors, household consumption continues to show robust momentum (1.4%; 6.0%yr). This is also the case for public demand (6.9%yr) despite only a modest gain for public investment (1.5%yr). However, residential construction has fallen 11% over the year to June, principally as a result of a 19% decline in renovation work with new construction 'just' 4.9% lower. Business investment has also weakened over the year, -5.4%yr. As for the other states, the supply of labour and inputs is likely an issue here. Though, given the outperformance of the WA economy through the pandemic, the maturing of the investment cycle arguably is also contributing.

South Australia registered another strong quarter of growth in Q2 (1.5%; 4.7%yr). Household consumption continues to provide strong support to state demand (1.5%; 5.5%yr), so too dwelling construction

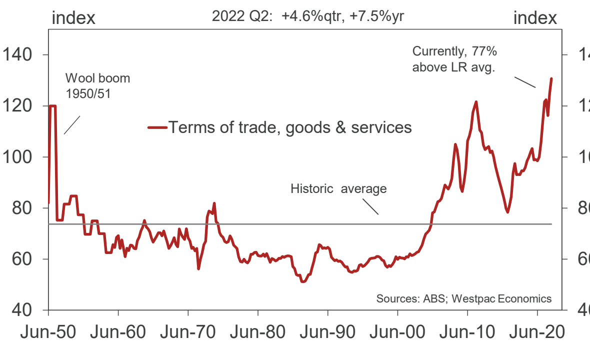
GDP by industry



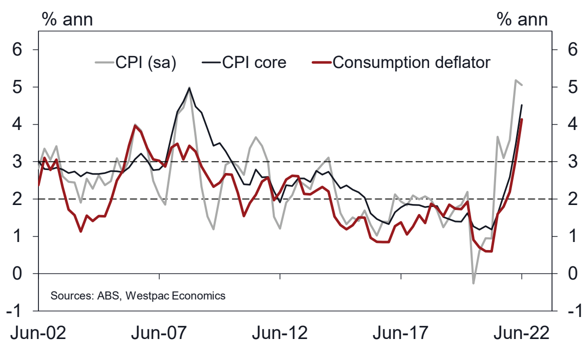
GDP by industry



Terms of trade, record high



Consumer inflation surge



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

(3.2%; 6.1%yr) thanks to new construction (11%yr). Business investment also has significant momentum (1.0%; 7.0%yr) thanks to considerable gains for construction work (15%yr). Public demand growth remains modest however (2.3%yr), with a substantial decline in public investment a heavy burden (-16%yr).

Tasmania in contrast eked out only a small gain of 0.6% in Q2 following a decline of 2.1% over the 6 months prior. Still, versus end-2019, Tas state demand is up 7.9%, just shy of national domestic demand's 8.2% increase. Household consumption gained 1.4% in Q2 and 2.7% since June 2021. Business investment has shown similar momentum (2.6%; 4.2%yr). However, offsetting has been a sharp decline in dwelling investment (-7.7%; -14.9%yr) and the stalling of public demand in Q2 (-0.2%; 4.9%yr).

Production: an industry perspective (Andrew Hanlan)

The Production estimate of GDP printed 1.1%qtr, 3.8%yr for the June quarter, a little stronger than the GDP average estimate of 0.9%qtr, 3.6%yr.

Goods production and the public sector underperformed in the June quarter, at +0.3% and -0.5%, respectively.

Household services was, understandably, the stand-out, at +2.8% for the quarter as consumer spending - with a focus on services - led the way. Hospitality surged by 10.7% in the quarter, on the back of increased domestic tourism, to now be above pre-pandemic levels for the first time, up by 0.7%.

Arts & recreation services posted a 3.6% increase in the June quarter, to be 6.5% above pre pandemic levels. For health care & social assistance, a 2.5% increase in the quarter (as elective surgeries resumed) lifted the level of activity to 12.3% above that at the end of 2019.

The goods distribution sector also had a positive quarter, with activity up by 2.0% to be 5.8% higher over the year and 6.4% above that at the end of 2019. The June result was largely driven by transport, postal & warehousing, up by 7.5% - on a surge in demand for air transport services.

Business services continues to expand at a robust pace, up by 1.4% in the quarter and 6.3% higher over the year to be 7.8% above pre-pandemic levels. For the June quarter, strength was broadly based across the segments. Professional business services are up by 12.6% on pre-pandemic levels, close to the stand-out 13.3% increase for IT.

Goods production was subdued in the June quarter, up by only 0.3%. There were disappointing results in the June quarter for: mining, +0.2%; construction, -0.4%; and manufacturing, -1.1%. This was offset by utilities, up by 4.1%, and agriculture, +1.6%, which is benefiting from improved seasonal conditions.

Income (Justin Smirk)

Rising export commodity prices continue to have a significant impact on the Australian economy.

In the June quarter, real GDP (I) lifted a further 0.8%qtr following on from a 0.9% lift in March. This is sound growth momentum following the 3.9% surge (revised from 3.7%) in December. This saw the annual rate lift to 3.6%yr from 3.4%yr (revised from 3.6%yr), holding the annual pace below the recent peak of 4.8%yr in December.

Nominal income grew a further 4.2% in June, building on the 3.5% lift in March and the 3.4% gain in December. This saw the annual pace lift to 9.3%yr from 7.8% in December which is still well down on the recent peak of 16.1%yr in June 2021.

The terms of trade (ToT) lifted 4.6% in June building on a 7.5% surge in March which reversed the 5.1% decline in December. The ToT is now 7.5% higher over the year and a staggering 77% above the long-run average. Growth in Australian exports prices continue to outpace that for import prices with the former 8.8% in June compared to a 3.9% gain in the latter. Commodity prices have since started to ease though; we are currently on track to see a fall of around 16% in the September quarter.

The following analysis is based on seasonally adjusted nominal data.

Total factor income (TFI), which is GDP (I) minus taxes less subsidies, gained 4.9% in June to be up 12.6% in the year. These numbers have been pushed and pulled around a lot in the last few years due to significant short term government support packages introduced to offset the impact of the lockdowns implemented to manage the Covid pandemic. Annual growth in TFI had a recent low of 2.6%yr at September 2021.

Company profits (private non-financial) surged 11.2% in the June quarter to be up 28.5% in the year. The ongoing surge in commodity prices has boosted miners' earnings which added to a more general boost from the reopening of the NSW and Vic economies.

Profits in the private financial sector continue to benefit from the strength of borrowing for the Australian housing sector, with a 3.6% gain in the June quarter boosting the annual rate to 7.7% from 5.6% in March. However, housing has started to cool, particularly in Sydney and Melbourne, and this should act as a bit of a headwind for growth in mortgages going forward.

Inflation

The 4.6% lift in the ToT in June flowed through to broader inflationary pressure with the GDP deflator surging 3.3% lifting the annual pace 8.3%yr from 7.0%yr - the annual pace had been around a 6%yr since June 2021.

The GNE deflator, which is not impacted by changes in the ToT, gained 1.6% in the June quarter to be up 5.2% in the year. The June increase was only slightly stronger than the 1.5% print in March but nevertheless was still the strongest quarterly increase since the 1.7%qtr print back in March 2001.

The consumer deflator (household consumption deflator) increased by a solid 1.5% in the June quarter (same print in March) to be up 4.1% in the year (3.1%yr in March). The 1.5% print was the strongest quarterly increase since the 2.5% print in September 2000. As was the case in the December and March quarters, the June quarter gain in the household consumption deflator was again less than the 1.7% rise in the seasonally adjusted CPI which reported an annual pace of 6.1%yr. The household consumption deflator has a floating basket of goods and services with consumers, so it will capture the impact of consumers moving away from more expensive goods (where they can), and towards cheaper goods. As such, in a period of stronger than usual inflationary pressure, National Accounts consumption deflators can run at a more modest pace than the CPI.

Total compensation of employees lifted 2.4% in June to be up 7.0% in the year. The most recent peak in the annual pace of total compensation was 6.2%yr in June 2021 while the recent low was 0.8% in June 2020.

Labour costs, as measured by average non-farm compensation per employee, lifted 1.4% in the June quarter more than reversing the 0.3% fall in March; lifting the annual pace to 3.4%yr from 1.9%yr. A large part of this gain appears to be due to the lift in hours worked in the June quarter (see more below) – with many workers paid on an hourly basis, a lift in hours will generate more pay per person.

Total hours worked lifted 2.9% in June following a 0.5% in decline in March boosting the annual pace to 2.0%yr from 1.1%yr in March; it was 2.6%yr in December. Hours worked in the marker sector lifted 4.0% in the quarter to be up 3.3% in the year.

Of late, hours worked have been more volatile than usual as the economy was shut down, then re-opened, a number of times creating volatility in activity. Hours worked fell 4.8% in September 2021 to then lift 4.3% in December 2021. The annual pace had a recent low of -10.1%yr at June 2020 before peaking at 12.1%yr at June 2021 following the significant nationwide lockdowns in 2020.

GDP per hour worked fell 2.0% in the June quarter following a 1.2% lift in the March quarter. This is not surprising given the lift in hours worked was significantly larger in June than the gain in GDP. In the year, GDP per hour worked is up 1.5%yr as the surge in hours worked mutes the recent gain in GDP; the recent peak in the annual pace was 2.9%yr in September 2021. GDP per hour worked in the market sector fell 2.6% in the June quarter to up 1.1% in the year.

Unit labour costs lifted 1.7% in June to be up 3.0% in the year. Due to significant base effects from a 2020/2021 surge, the annual pace is down from 5.0% in December and the recent peak of 14.2%yr in September 2021. In real terms, unit labour costs fell 1.6% in June to be down 4.9% in the year. Wages are starting to pick up but at this stage they continuing to underperform relative to wider price increases; we are watching to see if there is a more meaningful lift in labour costs through the second half of 2022.

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