BULLETIN

5 June 2024

Australian national accounts, March quarter. Economy continues to limp along. Demand subdued, consumer a touch better but savings depleted.

Q1 domestic demand: 0.2%qtr, 2.3%yr
Q1 real GDP: 0.1%qtr, 1.1% yr

The Australian economy continued to limp along in the March quarter, with GDP rising just 0.1%qtr and 1.1%yr. The quarterly result and the mix were both broadly in line with expectations, albeit with some modest surprises and significant revisions around the consumer.

The annual pace of growth is well below trend and the slowest outside of recessions and the major shocks of the pandemic and the GFC. It is particularly weak given the current strong pace of population growth, running at 2.4%yr. Australia has now recorded four consecutive quarters of declining per capita GDP.

Domestic demand edged 0.2% higher over the quarter with solid growth in public demand but near-flat private demand.

The main surprise was a larger than expected contribution from household consumption, up 0.4%qtr although this was offset by a larger than expected drag from private new non-dwelling construction. Some of this reflects a temporary boost from one-off events – the Taylor Swift concerts and Formula 1 look to have added about 0.1ppt to consumption in the quarter.

Significant upward revisions to historical estimates of spending suggest consumers may be more cautious over the year ahead. These revisions relate to estimates of Australian tourism spending abroad. The total mark-up adds just over $22bn to the last five quarters of spending estimates and lifts the annual growth profile of total consumer spending by about 1ppt. However, it also implies a much larger run-down in reserves carried over from the pandemic. Nearly half of this aggregate buffer now looks to be gone. That suggests households may be less inclined to spend and more inclined to rebuild savings buffers as their incomes recover.

Meanwhile the recovery in incomes remains slow, real household disposable income flat in the quarter and up just 0.4%yr. The various headwinds to income – from the rising cost-of-living, higher interest rates and higher tax payments – are moderating but with only a muted recovery in incomes so far.

Elsewhere: dwelling investment and business investment were both soft in the quarter, speaking to wider issues facing the construction sector; net exports were a large drag, again reflecting the surge in tourism-related imports; and inventories provided some offset, reversing a run-down last quarter.

The update shows productivity and unit labour costs continuing to improve, but only very gradually. Hours worked tracked GDP in the quarter with labour productivity flat on a year ago (albeit still an improvement on declines). Growth in unit labour costs slowed from 6.6%yr to 5.8%yr.

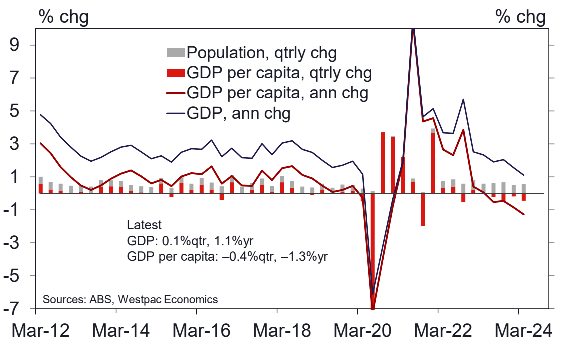
Looking ahead, the economy is expected to see some improvement as consumer headwinds continue to subside and policy provides more support as tax cuts and fiscal support measures impact from July and an eventual easing in interest rates comes through from November. The March quarter update will be a mixed result for the RBA, subdued growth indicating restrictive policy is aiding disinflation but the revised picture of the consumer throwing up some questions and the slow improvement in domestic cost drivers a little unsettling.

GDP: March qtr 2024

	% qtr		% yr	
	Dec	Mar	Dec	Mar
Private consumption	0.3	0.4	1.0	1.3
Dwelling investment	-3.6	-0.5	-3.1	-3.4
Business investment*	1.2	-0.7	8.8	3.9
Private final demand*	0.3	0.1	2.1	1.5
Public spending*	0.4	0.6	4.6	4.5
Domestic demand	0.3	0.2	2.8	2.3
Stocks – private non-farm #	-1.0	1.0	-0.6	0.0
– other #	0.7	-0.2	-0.3	-0.3
GNE	0.0	1.0	1.8	2.1
Exports	-1.3	0.7	3.0	3.2
Imports	-3.5	5.1	4.9	7.4
Net exports #	0.4	-0.9	-0.2	-0.7
Statistical discrepancy #	-0.1	0.1	0.1	-0.1
Non-farm GDP	0.3	0.1	1.5	1.3
GDP, real	**0.3**	**0.1**	**1.6**	**1.1**
GDP, nominal	1.6	1.4	4.5	3.5
GDP deflator	1.2	1.3	2.8	2.4
Household deflator	0.7	1.1	4.6	4.7
Earnings per worker (non-farm)	0.5	0.6	5.2	4.1
Real household disp income	1.8	0.0	0.5	0.4

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

Australia: weak growth, per capita declines



Matthew Hassan, Senior Economist, Westpac Group

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5 June 2024

Domestic demand (Pat Bustamante)

Domestic demand (+0.2%qtr and +2.3%yr): The growth in spending by consumers, businesses, and governments was as expected, edging 0.2% higher over the quarter.

The underlying mix differed to expectations. Household consumption and public spending contributed positively to growth in demand, partially offset by declines in business investment and dwelling construction.

Private demand (0.1%qtr and 1.5%yr): The economic slowdown is more pronounced across the private economy as high inflation, a larger tax take, and higher interest rates are weighing on demand.

Private final demand slowed abruptly. Over the past three quarters private demand has averaged just 0.2% - below the pre pandemic average of around 0.5% per quarter. This has seen a step down in the annual pace, to 1.5%yr from 2.1%yr in the previous quarter

Public demand (0.6%qtr and 4.6%yr): Public spending has contributed to growth in demand.

Public consumption, which includes assistance to households in the form of subsidies, grew +1.0%qtr and 4.1%yr. As expected, new public investment fell in the quarter (-1.2%qtr).

As a share of the economy, public demand reached 27.2% of GDP in the quarter – a new record high, with the previous peak of 27.1% of GDP recorded during the pandemic (September quarter 2021). This is well above the pre-pandemic average of around 22.3% of GDP illustrating the scale of the assistance governments are providing.

Consumer spending (0.4%qtr and 1.3%yr): The big surprise this quarter was a larger than expected contribution from household consumption. This was in part driven by temporary factors, including the 'Swift effect'. Household consumption grew 0.4% in the March quarter, up from Westpac's expectation of 0.1%.

In annual terms consumer spending was 1.3% higher, much higher than Westpac's expectation of a 0.1%yr due to major revisions to historical estimates of consumer spending on tourism overseas.

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

Home building (–0.5%qtr and –3.4%yr): Home building activity weakened further in the March quarter, the slowdown in building approvals starting to have a clearer impact on activity despite a still large backlog of delayed projects.

Activity contracted by –0.5%qtr, including renovations –0.5%qtr, and new home building, –0.6%qtr. The outlook is challenging given capacity constraints in the industry and elevated material and labour costs. Building approvals also remain historically low presenting a downside risk to activity once the existing pipeline of projects is cleared.

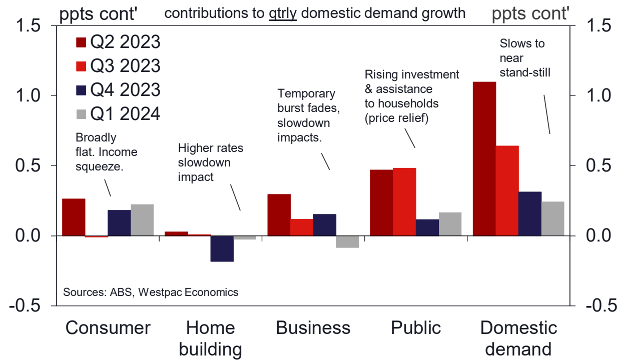
Real estate (-2.2%qtr and +5.6%yr): The real estate sector, in the form of ownership transfer costs (turnover in the property sector), contracted after expanding for three consecutive quarters.

Property prices have propelled higher on low volumes as rising demand (associated with strong population growth) has run up against limited supply. That mix is seeing patchy growth in turnover and transfer costs.

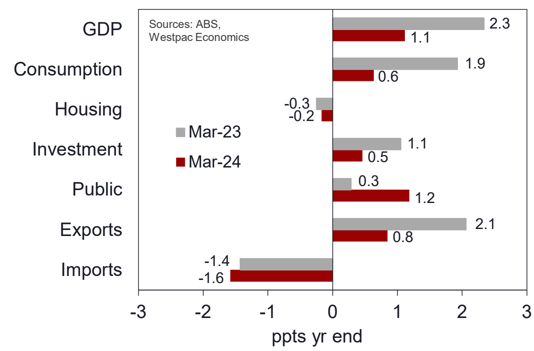
New business investment (-0.7%qtr and +3.9%yr): Business investment fell as a drag from new non-dwelling construction (-4.3%qtr) more than offset an increase in equipment spending (+2.0%qtr).

New engineering construction declined by -4.8%qtr to be 0.1% lower in annual terms, as work on mining projects fell from a high in the December quarter.

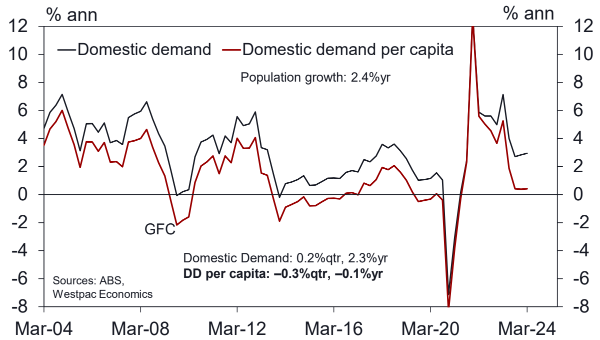
Australia: domestic demand



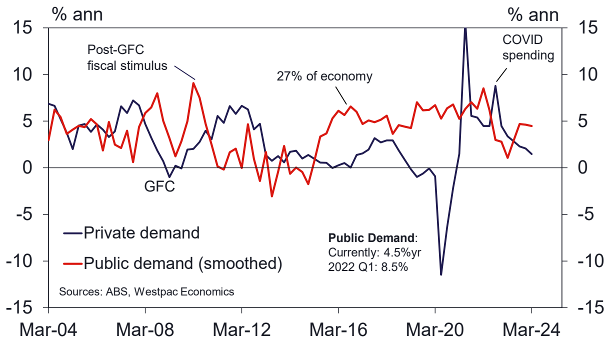
GDP growth: year-end contributions



Domestic demand: per capita spending contracts



Public demand versus private demand



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New building investment fell -3.2%qtr to be +2.7% higher in annual terms. The ABS puts this down to a small reduction in the number of small to medium sized building projects under construction compared to December.

New equipment spending grew by +2.0%qtr (a touch softer than expected) as businesses fitted out recently completed warehouses and data centres and purchased more vehicles.

Looking at sectors, mining investment has now declined for two consecutive quarters driven by reduced work on oil and gas projects. CAPEX intentions point to mining investment stalling over the next five quarters.

On the other hand, non-mining investment fell by -0.7%qtr after increasing by +3.2%qtr in December, to remain higher compared to a year ago (+3.6%). The outlook is brighter here with private CAPEX intentions pointing to modest growth over the next five quarters.

Some non-mining businesses that had to put investment spending on hold during the pandemic and have struggled to expand capacity during various post-COVID supply shocks still have a need to build their capital stocks. This is helping ease capacity constraints in some sectors, where reported capacity utilisation levels remain above average. It is also allowing the business sector to respond to structural changes and invest in the transition to net zero emissions.

GDP: the expenditure estimate

The expenditure estimate of GDP printed 0.1%qtr and 1.1%yr for the March quarter.

Domestic demand inched 0.2% higher and there was a net negative combined contribution of –0.2ppts from net exports and total inventories. The small GDP gain of 0.1% overall was driven by a positive 'statistical discrepancy'.

Net exports detracted -0.9ppts from growth in the March quarter. This was due to growth in imports volumes (+5.1%) far exceeding growth in exports volumes (+0.7%). This is a reversal from last quarter, when weakness in import volumes and expansion in export volumes saw net exports contribute positively to growth (+0.4ppts).

Total inventories contributed +0.7ppts to activity, including non-farm business inventories, +1.0ppt (on an inventory build-up following the run-down last quarter, particularly in the wholesale and mining sector) while public authority inventories detracted -0.3ppts.

Household Sector (Matthew Hassan)

The March quarter accounts were a mixed update for Australian consumers. On the positive side, spending posted a better-than-expected rise in the quarter, with history also revised up. Against this, some of the March quarter rise looks to be temporary, disposable incomes remain under intense pressure and carry-over savings from the pandemic reserve now look to have been run down more substantially.

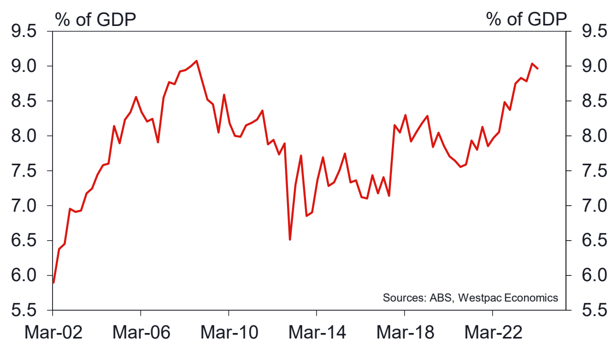
Household consumption grew 0.4%qtr in the March quarter, coming in above Westpac's expectation of a 0.1%qtr gain.

In annual terms consumer spending was up 1.3%yr, coming in much higher than Westpac's expectation of 0.1%yr. We noted this risk in our forecast update yesterday (see here). The ABS has made dramatic upward revisions to historical estimates of tourism-related spending by Australians abroad (under services imports in the balance of payments). This spending is also included in consumption, which covers all spending by Australian residents. The revisions add a whopping $22bn to nominal spending over the last five quarters and significantly alter the growth profile (see Chart right). What was a stalling over the year to September now shows annual growth slowing to 1.4%yr.

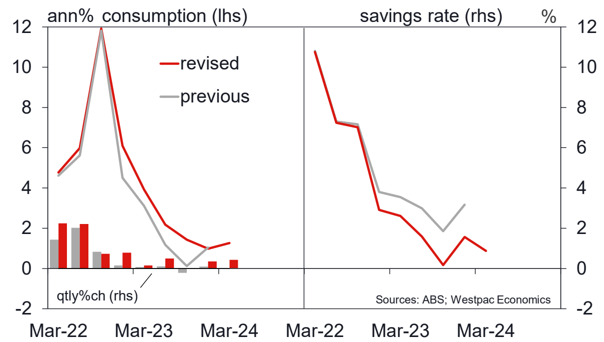
To be clear, this is still weak, implying significant declines in per capita terms. But it is not quite as bleak as the picture presented previously. Rather than being the worst on recent (outside of the

New public demand: fresh record high

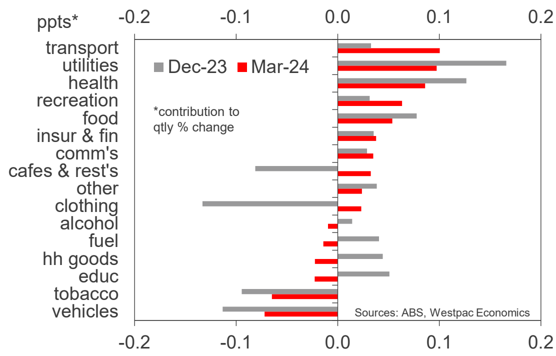
Non-mining investment



Consumer spending and savings: revisions



Consumer spending by category



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COVID period), annual per capita spending declines are now milder than those seen during the GFC and comparable to those seen during the recessions in the early-1990s, the early-1980s and the mid-1970s. Note also, that the revisions also have flow-on effects to savings rates, which are now significantly lower (see below).

For the March quarter more specifically, the spending detail showed solid gains for transport (+3.3%qtr), utilities (+4.9%qtr, partly reflecting lower energy rebates); health (+1.2%qtr); recreation (+0.6%qtr); and clothing (+0.6%qtr coming off a big 3.3%qtr drop). These last two categories include a boost from the Taylor Swift concerts and Formula 1 – on a combined basis accounting for about 0.1ppt to the 0.4% rise in Q1. Against this were declines in spending on vehicles (–2.4%qtr), alcohol & tobacco (–2.1%qtr), education (–0.6%qtr), household goods (–0.5%qtr) and vehicle operations (–0.3%qtr).

Around incomes, wages and salaries showed a slower gain in the quarter but non-wage incomes were a little firmer than expected. Total gross income finished up 0.9%qtr, annual growth slowing to 6.7%yr.

Policy effects were milder than in previous quarters. Interest payments rose a further 3.2%qtr as the November rate rise came into effect. This was the smallest quarter increase since March 2022. Tax payments also eased a touch.

The bottom line showed household disposable income (net of interest and tax) up 1.1%qtr, annual growth holding at 5.2%yr.

That was slightly better than expected but largely washed out through a stronger than expected price increase (see inflation on page over). Real disposable income was flat in the quarter and up just 0.4%yr, having declined materially, by 4.3%, over the year to September 2023. The consumption deflator rose 1.1%qtr, annual growth holding at 4.7%yr.

The picture is of the various headwinds to income – from the rising cost-of-living, higher interest rates and higher tax payments – moderating but with only a muted recovery in incomes so far.

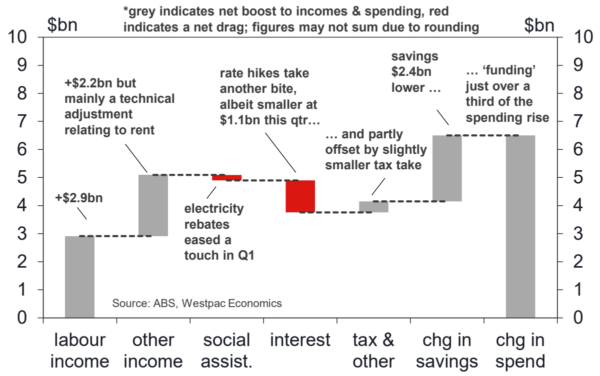
That in turn meant more of the spending gain in the quarter was ‘funded’ by reduced saving. The household savings rate dropped from (a downwardly revised) 1.6% in Q4 to just 0.9% in Q1. Note that 6.5% is roughly ‘par’ for savings, the low reads implying that households are continuing to run down the extra savings reserves accumulated during the pandemic. Indeed, we estimate that about 40-45% of the estimated $250bn reserve has now been deployed. Previous estimates had suggested only 23% of the reserve had been run down as at December. Household spending has been more resilient than previously estimated, but now households have smaller buffers to support spending going forward.

The States (Ryan Wells)

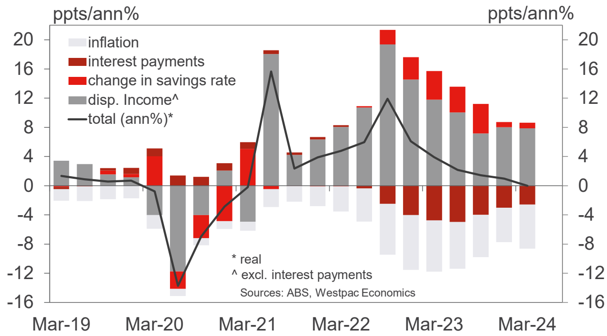
New South Wales exhibited a solid performance, state final demand bouncing back after a flat print at the end of last year, rising 0.5% over the opening quarter to be 2.1% higher over the year to the March quarter 2024. In response to the surge in population growth – New South Wales being largest recipient of the foreign student intake – and high levels of aggregate demand, both the private and public sector remain in pursuit of capacity and are investing accordingly, total private investment up 1.0% (4.3%yr) and new public investment also lifting 1.2% (7.6%yr).

Investment remains an important channel for growth in an otherwise challenging backdrop. Households are under pressure, battered by high inflation, a rising tax take and elevated interest rates – consumption in New South Wales posting the softest result in the quarter (0.3%) to be equal-weakest across the nation over the year (0.8%yr). The state’s housing sector also continues to face challenges, new dwelling construction having now recorded its third consecutive decline (–6.6% versus Q2 2023).

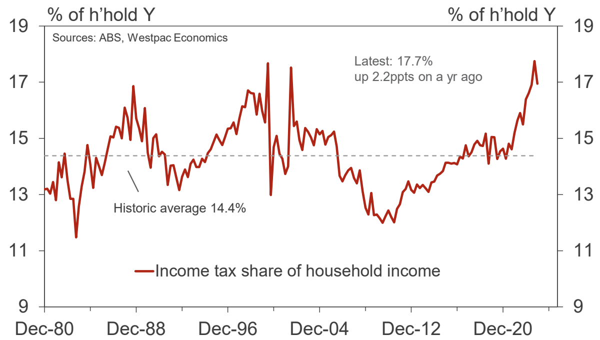
Household income flows: change, Q4 to Q1



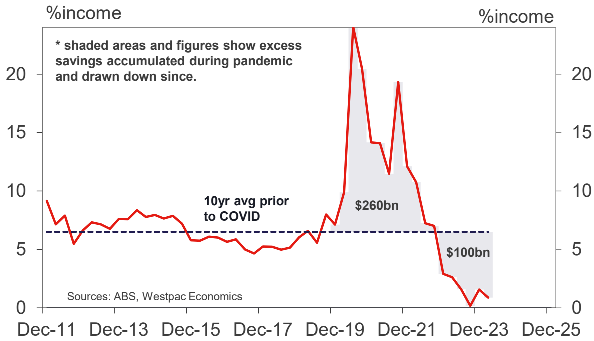
Consumer spending: drivers and headwinds



Household income tax still near historic highs



Household savings ratio



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Victoria's state demand has remained broadly stagnant over the last two quarters, a slight decline in Q4 2023 (–0.1%) followed by a flat result in Q1 2024. With robust prints from the first half of last year now cycling out, annual growth has moved sharply lower (2.3%yr to 1.5%yr), the weakest pace across the nation (in line with Tasmania).

Victoria's public demand profile stands in contrast to the rest of the nation, weakest both in the quarter and over the year (0.1%, 3.0%yr). Underlying this, a sharp pull-back in new public investment over the last two quarters has seen annual growth in this segment fall flat, likely mirroring the State Government's recent decisions to reduce spending on certain projects. Against the backdrop of fading support from public demand, private demand was unable to provide much support in the quarter – a decent showing in household consumption (0.4%) and new dwelling construction (3.4%) offset by a broad-based decline in new business investment (–1.1%).

Queensland posted the strongest result across the nation in Q1 2024, state final demand rising 0.8% and is second only to Western Australia on an annual basis, up 2.8%yr. An important driver of Queensland's resilience relative to other state economies has been its public sector, lifts in government consumption (6.2%yr) – support for Queensland households – more than offsetting the ongoing cool-down in public investment (4.0%yr).

The Queensland Government's recently announced energy rebates and public transport subsidies will continue to support state final demand over the period ahead. These initiatives may also continue to support discretionary consumption, as has been the case recently – household consumption posting the largest rise for two consecutive quarters (1.5%yr). In this context, businesses still see an opportunity to expand capacity, with new business investment up 5.4% versus March 2023.

South Australian state final demand was muted in the opening quarter, a modest 0.2% rise that left annual growth broadly unchanged at 1.8%yr. The contrast between private and public sector demand is perhaps most stark in South Australia (0.3%yr vs. 5.7%yr) – the latter responsible for nearly all of the growth in state final demand over the past year.

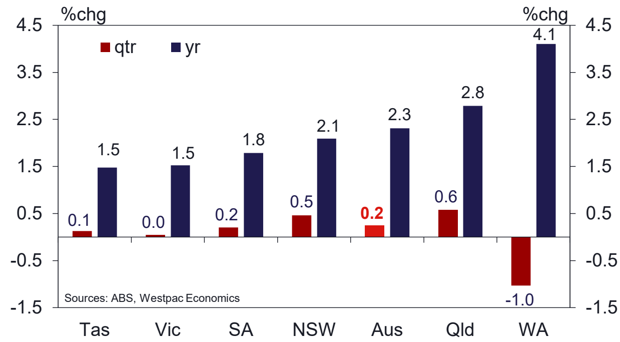
While it was encouraging to see private consumption move higher in the March quarter (+0.5%), South Australia has not been immune to the broad set of headwinds looming over households over the past year (0.8%yr). There remains significant volatility in new business investment on a quarterly basis, though it is clearly continuing to cycle lower (–3.0%yr) – latest data pointing to a sizeable pull-back in non-residential construction (–14%qtr) as work on small-to-mid sized projects fall.

Western Australia's performance in Q1 2024 was perhaps the most surprising across the nation, reporting a sharp contraction in state final demand (–1.0%). Testament to WA's strength over the past year, even with the latest decline, the state's annual growth pace is still double the rest of the states (4.1%yr vs. 2.0%yr).

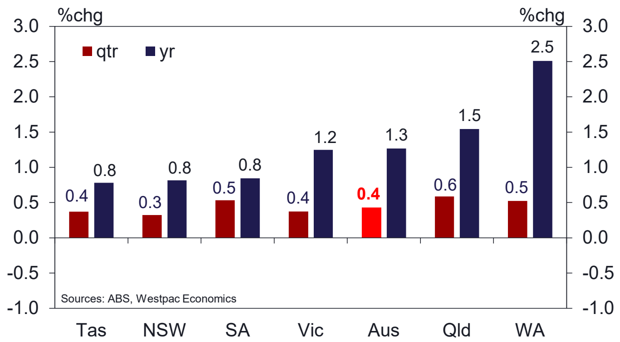
The Q1 surprise centred on new business investment, a significant contraction of –6.7% spread across non-residential building (–8.1%), infrastructure (–10%) and equipment investment (–6.0%). This segment can be highly sensitive to changes in mining sector conditions. That was certainly the case not only for the latest quarter's decline, but also the outperformance over the past year (+6.1%yr). As is the case across the nation, the public sector continues to provide substantial support to the state economy (+5.8%yr) but what puts Western Australia ahead is its household sector and its greater degree of resilience, private consumption posting another robust lift of 0.5% (2.5%yr).

Tasmania continues to face a challenging outlook, state final demand nearly stalling in the first quarter of the year (0.1%) and tracking the equal softest annual pace across the nation (1.5%yr). Tasmanian households are holding back on spending as income pressures continue to loom (0.8%yr). Housing investment also remains very weak (–13%yr) cushioned somewhat by public demand (3.4%yr).

State demand: Q1 2024



Consumer spending: Q1 2024



GDP by industry

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Production: an industry perspective (Jameson Coombs)
Across industries growth was mixed in the March quarter. Activity expanded in 11 of 19 industries, led by arts and recreation (+2.7%), healthcare (+1.4%) and utilities (+0.9%).

Major events, including Taylor Swift's Australian tour, underpinned the strong expansion in arts and recreation. The consequence being that at least a partial unwind is expected in the June quarter. Stronger household spending on essentials remains an important theme which supported activity in healthcare and utilities in the March quarter, but also across a broader range of industries including transport and education.

Rounding out the laggards in the March quarter were construction (–2.6%) and wholesale trade (–2.0%). The sharp downturn in residential building construction continues to weigh on the broader construction sector. A surge in the cost of construction has undermined the profitability of fixed priced builds, while labour shortages and weak demand for new projects are an added pressure. This was compounded by weakness in engineering construction in the March quarter as both public and private investment softened.

Over the 12 months to the March quarter of 2024, output was firmer across 13 of 19 sectors. Spearheading the front was arts & recreation (+5.0%), rental, hiring and real estate (+4.2%) and healthcare (+3.8%). Rounding out the bottom were agriculture (–8.0%), wholesale trade (–5.8%) and accommodation and food services (–3.0%).

Income (Pat Bustamante)
The income measure of the economy – GDP (I) – grew 0.2% in the quarter, when excluding the impact of prices – i.e. in real terms. This was unchanged from 0.2% growth in the December quarter. In annual terms, real GDP (I) was 1.1% higher – the slowest rate since the December quarter 1991. The following analysis is based on the nominal measures of income in the national accounts.

In nominal terms, GDP (I) rose 1.4% in the quarter, lower than the 1.6% growth rate in the previous quarter. In annual terms, growth in nominal GDP (I) was 3.5% in the March quarter, lower than the average of around 5.6%qtr over the 2023 calendar year.

Total factor income – i.e. GDP (I) minus taxes less subsidies on production & imports – rose 1.5% in the quarter and 3.1% in annual terms.

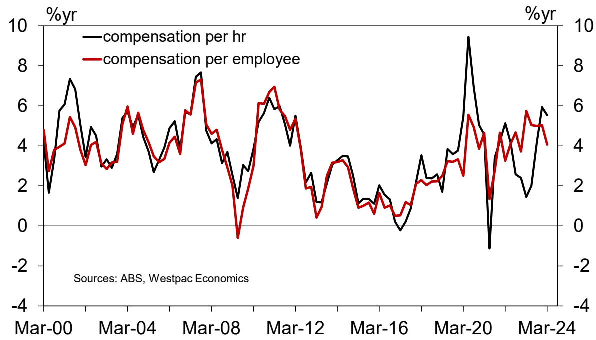
Total compensation of employees (COE) rose 1.0% in the quarter and 7.1% in the year. This was the smallest quarterly gain since the September quarter 2021. Private sector COE rose 0.9%qtr and public sector COE rose 1.6%qtr. Growth in public sector COE increased due to pay rises and back-pay across Commonwealth agencies. There were also wage increases for health and education workers for some state governments due to new enterprise agreements.

Gross operating surplus (GOS) for private non-financial corporations – i.e. corporate profits – was 2.2% higher in the quarter. This was driven by manufacturing, professional, scientific and technical services and accommodation and food services due to increased events in major cities. In annual terms, this represented a 7.3% fall, with this drag underpinned by lower mining GOS.

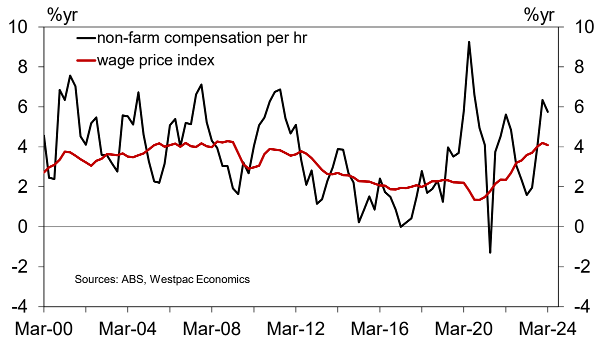
Gross mixed income (GMI) – representing profits of the unincorporated sector, including sole traders and farm businesses – was up 0.6% in the quarter and 3.3% lower in annual terms. This has been weak over 2023 – contracting in three of the four quarters during the calendar year.

Inflation (Justin Smirk)
The National Accounts price indices presented a more mixed outcome on inflation compared to the March quarter CPI even if the headline price measure, the GDP implicit price deflator (IPD), rose 1.3% in the quarter, a bit stronger than the 1.0% gain in the CPI.

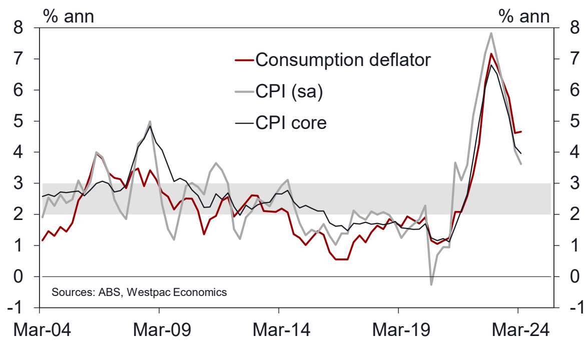
Workers compensation



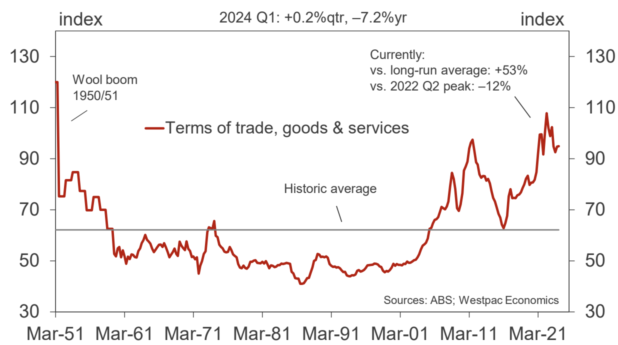
Workers compensation – NA vs WPI



Consumer inflation off peak, but still too high



Terms of trade, elevated



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In the year to March, the IPD is up 2.4% compared to the 3.6%yr gain in the CPI. The annual pace of the IPD has been very volatile hitting 9.2%yr in December 2022 before moderating to a low of 2.0%yr in June 2023 rising back to 2.8%yr in December 2023.

Readers may remember that the terms of trade can have a significant impact on the IPD leading to meaningful variations with the CPI. The terms of trade fell -7.2% in the March quarter to be flat in the year (+0.2%). The terms of trade has been falling steadily for the last four quarters as it was down -12.1% in June 2023, -9.4% in September and then -4.1% in December.

The Domestic Final Demand deflator (DFD), which measures domestic prices, lifted 0.9% in the March quarter to be up 4.5% in the year which is also a faster pace than the 3.6%yr reported by the CPI. The annual pace of inflation from DFD was 7.1% back in December 2022 with a steady deceleration to 4.6%yr by December 2023.

The Gross National Expenditure deflator (GNE), which is immune to any price impact from changes in the terms of trade, gained 1.3% in the quarter to be up 4.6% in the year. We had seen GNE inflation moderate from 6.8%yr in December 2022 to a low of 4.4%yr in December 2024. A stronger rise in the quarter for the GNE deflation did not only hold the annual pace above that for the CPI, it also led to a modest acceleration were as CPI inflation decelerated from 4.1%yr to 3.6%yr in the March quarter.

The Household Final Consumption Expenditure deflator (HFCE) gained 1.1% in the March quarter to be up 4.7% in the year. Again, the pace of inflation has moderated since December 2022 (7.2%yr) to a low of 4.6%yr in December 2023 before a slight uptick was reported in the March quarter.

Compare that to the seasonally adjusted CPI (as the HFCE deflator is also seasonally adjusted) which lifted 0.9% in the March quarter to be up 3.6% in the year. Seasonally adjusted CPI inflation peaked at 7.8%yr in December 2022 before decelerating to 4.0%yr in December 2022. There are some significant differences between the HFCE and the CPI, one of which is that the HFCE has a floating basket of goods and services with the weights set by consumption in that quarter whereas the CPI has the fixed basket with a fixed set of weights. As such, the HFCE will be affected by changes in consumer spending patterns as relative prices change – i.e. we would expect to see consumers substituting cheaper goods for more expensive goods at times of high inflation and thus would expect to see a softer inflation profile with the HFCE compared to the CPI.

As such, it is interesting to note that HFCE continues to report faster rates of inflation, both on a quarterly and annual basis, than the CPI. In fact, while there are some difference between the various GDP deflators all are reporting stronger price gains than the CPI. We need to dive into the data more to understand why this is so, but we can make the observation from the CPI that price inflation for non-discretionary goods & services (4.2%yr) continues to run at a faster pace than that for discretionary goods & services (2.9%yr; 2.3%yr excluding tobacco).

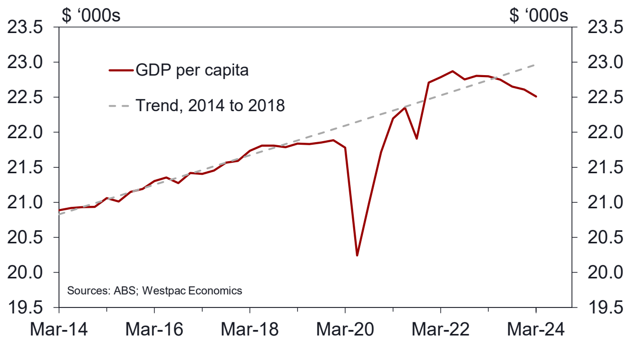
Wages, labour costs and productivity

Labour costs in the national accounts are measured by total compensation of employees, i.e. the wages bill.

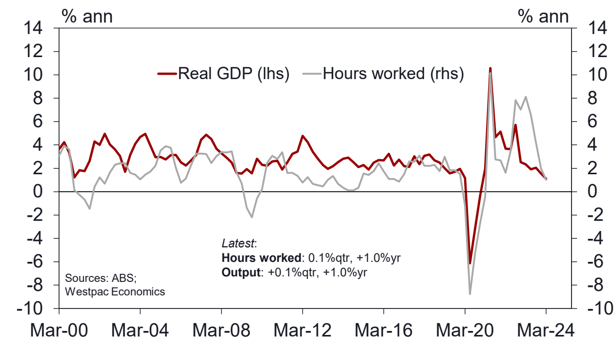
Total non-farm compensation of employees gained 1.0% in March, a moderation from the 1.5% gain in December 2022 and 2.8% in September. This has seen the annual pace decelerate from 10.3%yr in December 2022 to 8.4%yr by December 2023 then to 7.2%yr in March 2024. The recent peak in the annual pace of total employee compensation was 11%yr in September 2022.

Total non-farm compensation of employees is not a pure wage measure as it is affected not just by changes in rates of pay but also by changes in the number of employees and the hours worked as well as the composition of the workforce and the nature of

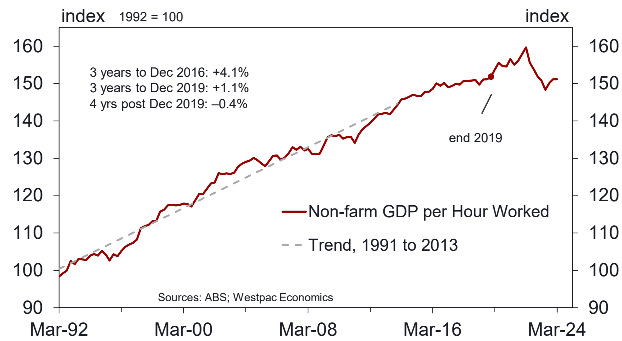
GDP per capita



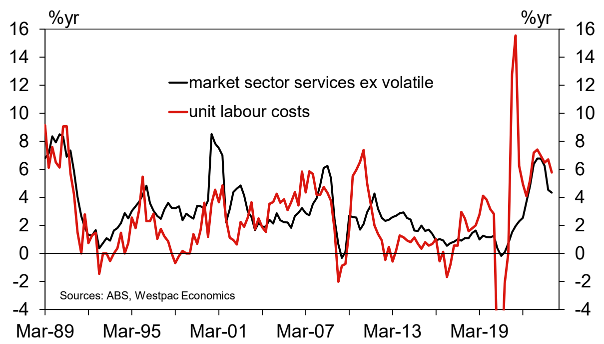
Hours worked: near-flat in Q1, up 0.1%



Australia: labour productivity



Unit labour costs & services inflation



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employment relationships.

We can narrow this down a bit more by looking at compensation per hour worked. Non-farm compensation per hour worked gained 0.5% in March, down from 1.7% in December 2023 and 3.5% in September 2023. The annual pace had lifted from a recent low of 1.6% in March 2023 to a peak of 6.3%yr in December 2023 before easing back to 5.8%yr in March 2023

This compensation per hours worked measure should be more in-line with the WPI. However, it's a far more volatile measure of labour costs and it is not unusual for it to temporarily surge well above the annual pace of the WPI which was running at 4.1%yr pace in the March quarter.

Labour productivity, measured as GDP per hour worked, rose just 0.1% to be up 0.1%yr. Given the weak gain in economic growth this is not surprising even given that hours worked lifted just 0.1% in the quarter (1.0% in the year). Nevertheless, we have seen a meaningful turn around in productivity, from the -5.3%yr low in March 2023 to now be broadly flat in the year. We are looking for productivity to continue to improve as we move though 2024.

Looking at the market sector, hours worked fell -0.7% in March, the second quarterly fall in a row following the -0.4% in December. This has seen the annual pace for market sector hours work decline -0.5%yr, a downward leg from the broadly flat print in December (0.2.%yr) and the recent peak of 9.1%yr in September 2022. Market sector GDP per hour worked lifted 0.4% in March to be up 0.8%yr. This was a moderation from the 1.3%yr pace in December but is still a significant improvement on the recent low of -5.0%yr back in December 2022.

Bringing this all together with unit labour costs (ULC), which measures the labour cost to produce one unit of GDP output, rose 0.4% in the quarter which was the smallest quarterly increase in ULCs since the -0.9% print in December 2021. From a peak of 7.4%yr back in March 2023 the annual pace has now moderated to 5.8%yur in March 2024. The moderation is broadly consistent with the moderation in market services ex volatile annal inflation rate.

However, real non-farm unit labour costs (which are ULC deflated by the GDP deflator) fell -0.7% in March following a -0.2% print in December 2022. This has seen the annual pace ease to 3.4% from 3.6% in December 2022 and the recent peak of 4.9%yr in June 2023. The fact that ULC are increases at a slower pace than overall GDP prince inflation) suggests firms appear to be able to pass on a larger share of rising wage costs but even then, margins appear to be under a bit more pressure than they were in 2022 when real non-farm ULC inflation was negative.

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