4 September 2024

AUSTRALIAN GDP Q2 BULLETIN

Australian national accounts, June quarter 2024.

Key points

- The Australian economy remains sluggish, growing just 0.2% in the June quarter, with increased spending by governments, foreign students and visitors driving most of the gain.
- New private demand stalled to be flat in the June quarter. Consumer spending declined 0.2%qtr, despite the 0.6%qtr population increase, showing consumer budgets remain under extreme pressure.
- Underlying cost pressures across the economy remain broadly unchanged, with a step down in average wages growth offsetting the subdued productivity outcome.

GDP: June quarter 2024

	% qtr		% yr	
	Mar	**Jun**	**Mar**	**Jun**
Private consumption	0.6	-0.2	1.2	0.5
Dwelling investment	0.1	0.1	-2.9	-3.0
Business investment*	-0.4	0.1	4.5	2.2
Private final demand*	0.3	0.0	1.6	0.8
Public spending*	0.8	0.8	4.3	3.4
Domestic demand	0.5	0.2	2.4	1.5
Stocks – private non-farm #	0.9	-0.5	0.1	0.6
– other #	-0.2	0.2	-0.2	0.1
GNE	1.2	-0.1	2.1	2.2
Exports	0.8	0.5	3.3	0.1
Imports	6.1	-0.2	7.7	5.2
Net exports #	-1.1	0.2	-0.8	-1.1
Statistical discrepancy #	0.1	0.1	0.0	0.0
Non-farm GDP	0.2	0.2	1.3	1.1
GDP, real	0.2	0.2	1.3	1.0
GDP, nominal	1.2	0.2	3.7	4.4
GDP deflator	1.1	-0.1	2.5	3.4
Household deflator	1.1	0.8	4.8	4.4
Earnings per worker (non-farm)	0.6	0.3	4.0	3.5
Real household disp income	0.1	0.1	0.1	0.4

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

Q2 real GDP: 0.2%qtr, 1.0%yr
Q2 Domestic demand: 0.2%qtr, 1.5%yr

New private demand stalled in Q2

Westpac Economics
Pat Bustamante, Matthew Hassan, Justin Smirk, Ryan Wells, Jameson Coombs

The Australian economy remains sluggish, with GDP rising just 0.2%qtr and 1.0%yr in the June quarter. The aggregate outcome was broadly in line with Westpac's and the market's expectations.

The underlying mix provided the big surprise, with consumer spending falling 0.2%qtr – the largest quarterly decline since the GFC, excluding the COVID period. This is particularly weak given the backdrop of strong population growth, up another 0.6%qtr in Q2 (the second strongest quarterly jump in the population on record).

This protracted period of weakness in consumer spending is now clearly weighing more heavily on the business sector where investment increasing by just 0.1%qtr and 2.2%yr in Q2 – a step down from the 4.5%yr recorded in the March quarter. As a result, total private demand (consumer spending and business investment) was flat in Q2.

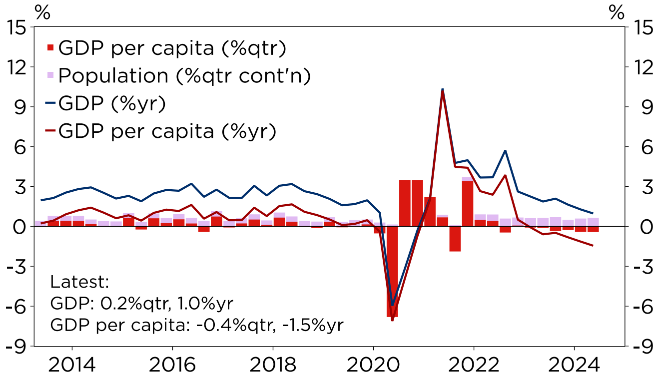
This weakness in private demand suggests there is a risk that the gradual recovery expected in the second half of 2024 is slower and/or weaker to pan out. This is a key uncertainty we have highlighted in the past.

The annual pace of growth is well below trend and the slowest since the early 1990s recession, outside of the pandemic period, and particularly weak in per capita terms given population growth running at 2.5%yr. Australia has now recorded six consecutive quarters of declining per capita GDP – the longest stretch on quarterly estimates going back to 1959.

Underlying cost pressures remain broadly unchanged, with a step down in average earnings growth offsetting the subdued labour productivity outcome. Unit labour costs (a key measure of domestic cost pressures) are now running at 1.8% in six-month annualised terms, broadly in line with the March quarter. This is lower than the average pace in 2019 when underlying inflation was below the RBA's 2-3% target band.

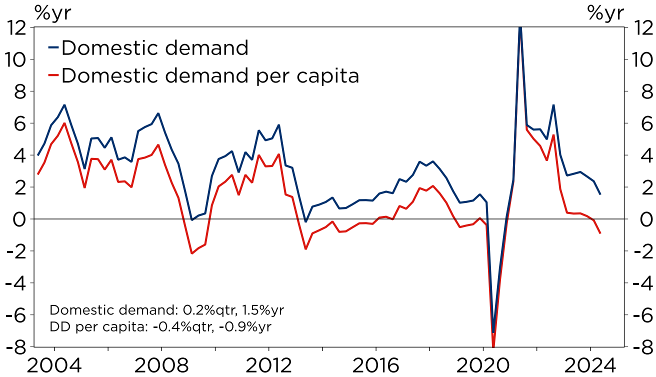
The June quarter update will be a mixed result for the RBA, subdued growth indicating restrictive policy is aiding disinflation, the revised picture of the consumer suggesting it is weighing more heavily but the slow improvement in domestic cost drivers a little unsettling.

Australia: weak growth, per capita declines



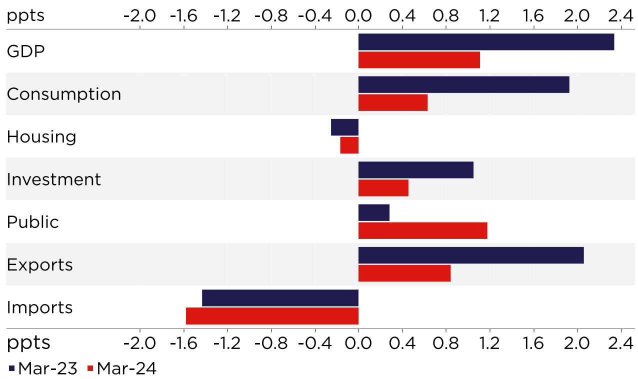
Source: ABS, Macrobond, Westpac Economics

Australia: domestic demand



Source: ABS, Macrobond, Westpac Economics

GDP growth: year-end contributions



Sources: ABS, Macrobond, Westpac Economics

GDP: the expenditure estimate

New private spending by consumers and businesses continues to be weak, hitting a wall in the June quarter to remain essentially unchanged.

The decline in consumer spending was the biggest surprise, down 0.2% in the June quarter to be just 0.5% higher in annual terms. Outside of pandemic lockdowns, this is the largest quarterly fall in consumption since the GFC, with only one other fall since then in the March quarter of 2019. It is extremely unusual for household consumption to fall when the population continues to grow strongly – this shows the extreme squeeze on household budgets. With population growth running at around 2.5%yr, this means that per capita spending declined around 2.0% over the past year.

Household real disposable income continued to stabilise for the third consecutive quarter, although it remains a massive 4.7% below its September quarter 2021 level. It appears households are using this stabilisation in real incomes to maintain spending on essentials. The household savings ratio held flat at 0.6% in the June quarter, a low rate that suggests consumers are drawing down on reserves to support demand. Our estimates suggest about half of the extra savings accumulated during the COVID period have now been run down.

We are seeing increasing signs that the weakness in consumer spending is spilling over into businesses, particularly those at the coalface of the consumer-led slowdown, with new business investment up just 0.1% in the June quarter, to be 2.2% higher in annual terms.

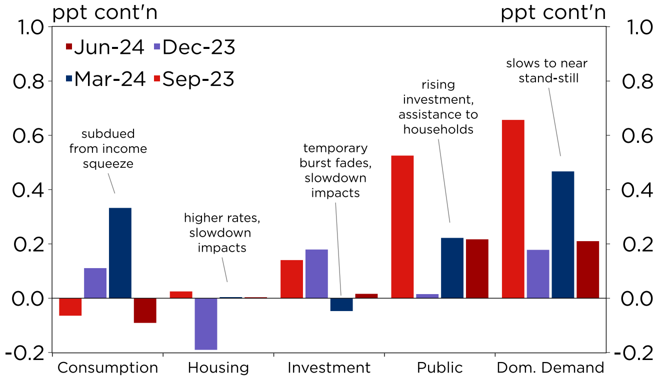
Housing construction stabilised in the quarter, up 0.1% for a second consecutive quarter after falling by 3.6% in the December quarter 2023. Investment in new dwellings increased 0.6%qtr, with renovation activity declining 0.7%. Housing construction is down 3.0%yr.

In stark contrast, total new spending by governments continues to grow strongly and is now at a record share of the economy (27.3% of GDP, above the previous peak of 27.1% of GDP in the September quarter 2021). Higher public sector wages on the back of upgraded enterprise bargaining agreements and the expansion of government support programs increased public consumption in the quarter. Further growth is expected next quarter as the cost-of-living measures announced in recent budgets come into effect. We also saw public investment bounce back and increase 1.5% after falling in the March quarter.

Net exports and inventories were broadly as expected. Net exports contributed 0.2ppts to GDP growth, led by increased spending by foreign students and visitors. Inventories detracted 0.3ppts, the private sector maintaining stocks following a big rise last quarter, and the public sector rebuilding after a run down in Q1.

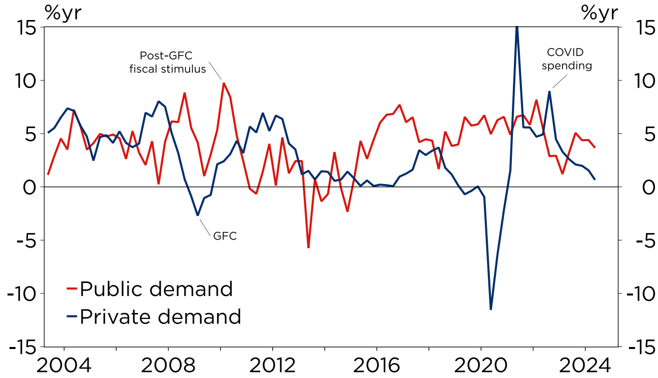
In year ended terms, the economy grew 1.0% in the June quarter, down from 1.3% in the March quarter. This was in line with Westpac's forecast and slightly above the consensus of 0.9%yr. As we foreshadowed, upward revisions to historical estimates of business investment and public demand increased the year ended number.

Domestic demand: per capita spending



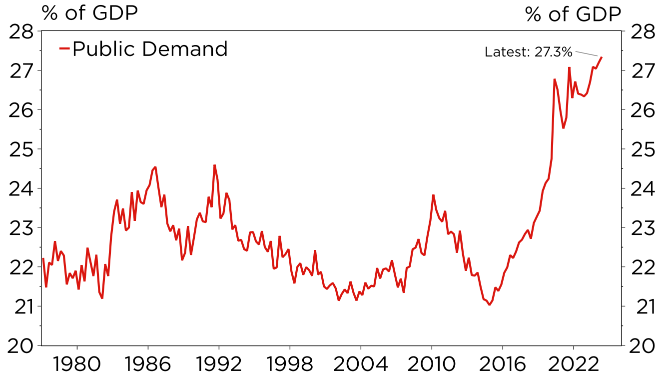
Source: ABS, Macrobond, Westpac Economics

Public demand versus private demand



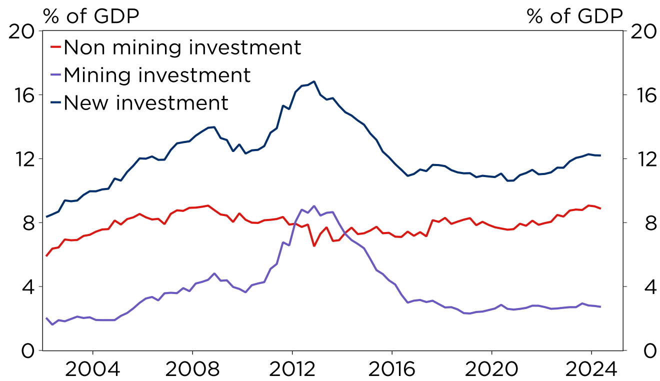
Source: ABS, Macrobond, Westpac Economics

New public demand: fresh record high



Source: ABS, Macrobond, Westpac Economics

Investment share of GDP



Source: ABS, Macrobond, Westpac Economics

Household sector

Conditions remain very tough for Australia's households. Incomes barely kept pace with price rises in the June quarter with real aggregate spending declining overall. Both prices and volumes undershot expectations. Downward revisions have also lowered the growth trajectory for spending meaning per capita spend has now fallen by a sharp 2%yr.

Household consumption declined 0.2%qtr, undershooting our expectation of a 0.2% gain. March's 0.4%qtr rise was marked up to 0.6%qtr but previous period were revised the other way (suggesting seasonal patterns have been reassessed), the net effect lowering annual growth. With the June quarter undershoot, annual consumption growth dropped to just 0.5%yr, a more material weakening than the 1% result we had expected going into the release.

The June quarter weakening was widespread but most pronounced for 'discretionary' items, down 1.1%qtr on a combined basis.

Across the detailed categories, the biggest drags came from transport (–4.4%qtr), vehicles (–2.6%qtr), clothing (–1.6%qtr), alcohol (–2%qtr) and cafes & restaurants (–1.5%qtr). There also notable declines in some 'essential' categories including basic food (–1%qtr) and fuel (–0.9%qtr). Where there were gains, some of the pick up looks unlikely to be sustained. For example, the timing of rebates likely contributed to a 2.4%qtr rise in utilities spend in the quarter that will almost certainly reverse as new measures come into effect in the September quarter. A surprisingly strong 4% rise in household goods may also partly relate to bigger than usual 'End of Financial Year' sales this year.

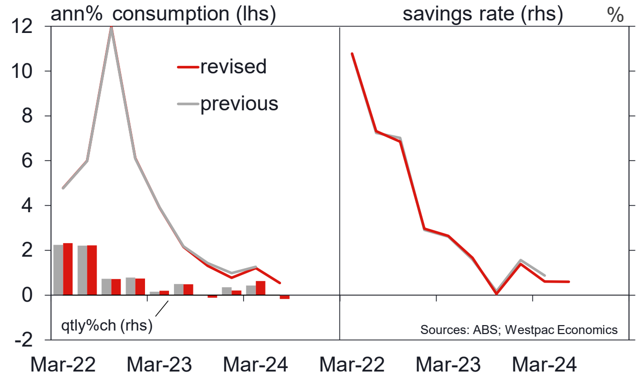
The update was even more disappointing around household incomes. Wages and salaries posted a 1% gain, average non farm earnings per employee up just 0.3% in a quarter when prices rose 1%. Total gross income, including non-wage sources, was up 0.9%qtr, 5.2%yr.

Disposable income, after tax and interest, was also up 0.9%qtr in nominal terms, annual growth a touch slower at 4.9%yr. Interestingly, the quarter saw another sizeable increase in tax payments, the $3bn rise almost as large as the $3.3bn increase in labour income. Some of the tax flow may relate to the realisation of capital gains rather than rising income.

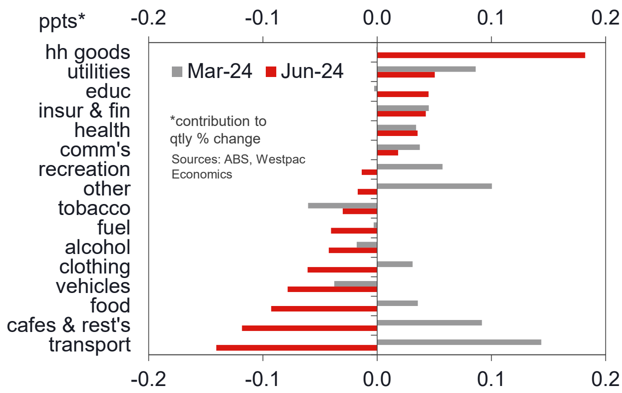
Nearly all of the rise in disposable income was absorbed by higher prices, real disposable income up just 0.1%qtr, 0.4%yr.

The aggregate household savings ratio remained very low, holding steady at just 0.6% of income. Note that 6.5% is roughly 'par' for savings given that compulsory superannuation contributions and contractually-obliged

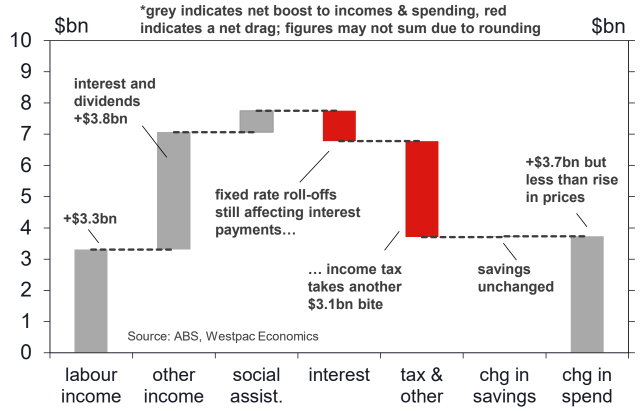
Consumer spending & savings: revisions



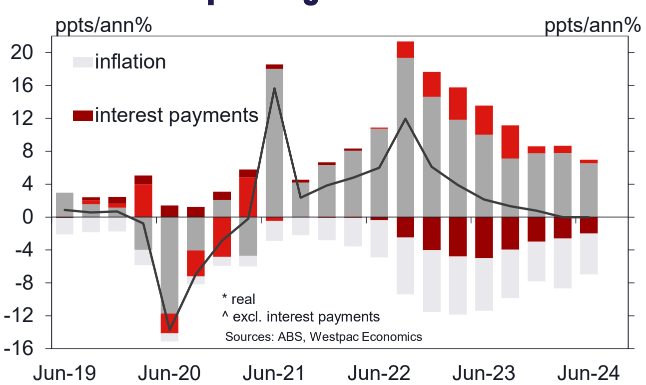
Consumer spending by category



Household income flows: change, Q1 to Q2



Consumer spending: drivers and headwinds



repayments of mortgage principal means there is always a significant portion of income being saved quarter to quarter. As such, the low rates being observed now imply that many households are drawing down on other savings reserves to maintain spending, the large pool of excess savings accumulated during the pandemic period in particular. Indeed, we estimate that about half of this $260bn reserve has now been drawn down. That in turn suggests we are closer to the point that diminished access to this reserve (and a reluctance to continue running what is left down) become more of a headwind to spending.

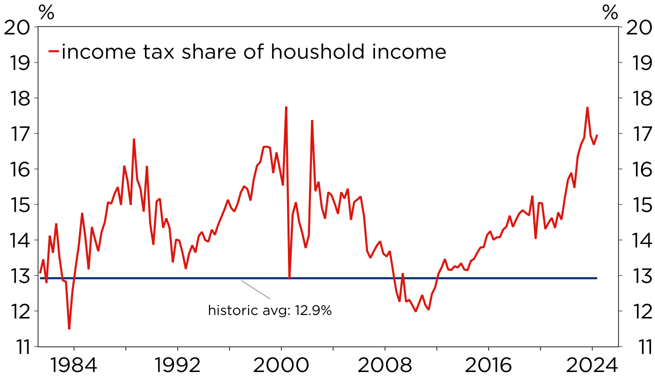
The states

New South Wales was the only state to record a decline in the quarter (–0.4%) – the weakest result since the ‘delta’ outbreak in Q3 2021 – leaving activity almost flat over the year (0.2%yr). NSW’s experience is particularly acute, serving as the posterchild for the impact of high interest rates and cost-of-living pressures on private demand, which fell by a massive –0.6% (–0.4%yr) in Q2, the weakest across the nation. This was driven by a pull-back in household consumption (–0.6%), centred on discretionary items. Issues surrounding the state’s residential construction sector continue to linger, new dwelling investment posting its fifth consecutive quarterly decline to be down –10.7% versus last year. At a time of rapid population growth and a need for capacity expansion, new business investment has stalled nearly flat at 0.3%yr. At 2.0%yr, public demand is also the weakest across the nation, to the extent that it is only just offsetting weakness in the private economy.

Victoria’s state demand profile is more constructive than what was initially presented at the start of the year, with an upwardly revised gain of 0.6% in Q1 (flat result prior) followed by another 0.6% rise in Q2, leaving state demand up 1.4%yr to be broadly in line with the national average. Like most states, the pulse for household consumption remains weak (0.5%yr). Momentum in business investment is also waning but remains supportive, lifting 0.9% (1.4%yr) in the quarter. Encouragingly, housing construction remains buoyant in Vic amid a clear national slowdown, recording a 2.4% (1.4%yr) lift in this segment. Public demand remains a key support for state demand; however, a third consecutive quarterly decline in new public investment – likely mirroring the State Government’s decisions to reduce spending on certain projects – leaves the onus on government consumption as the primary means to support state growth.

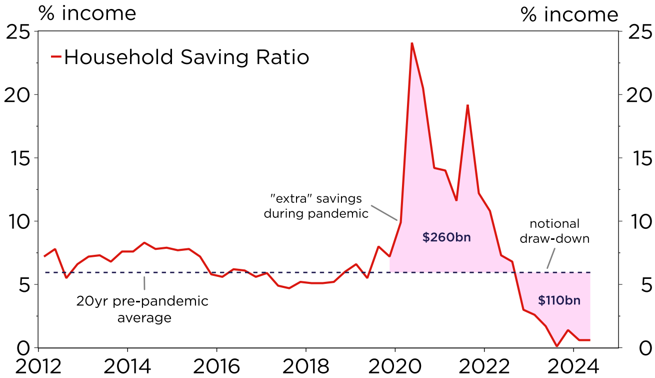
Queensland had a decent showing over the June quarter, state final demand rising 0.4% (1.8%yr). Growth in Qld’s private economy is broadly in line with the national average, up 0.8%yr. The key difference, however, is a more constructive picture for household consumption, second only to WA at 1.1%yr. The investment landscape

Household income tax still near historic highs



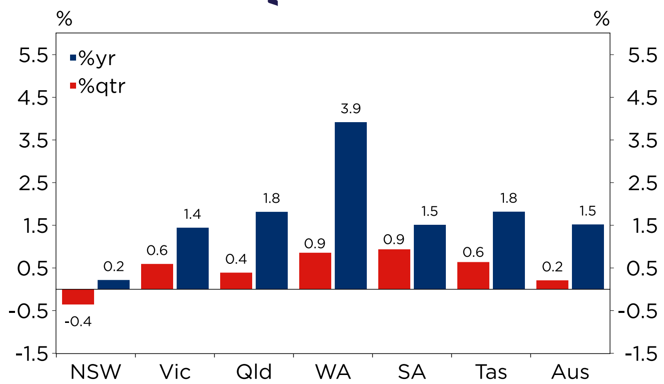
Source: ABS, Macrobond, Westpac Economics

Household savings ratio



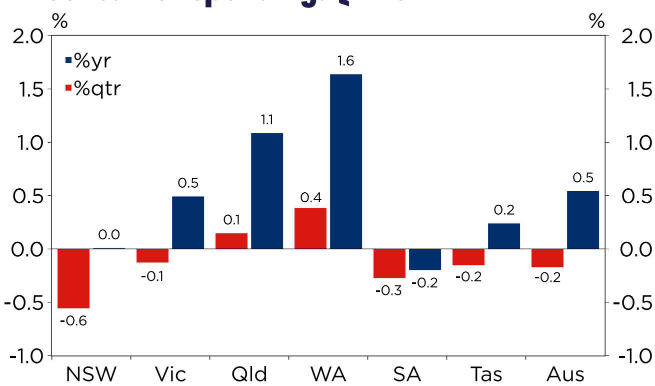
Source: ABS, Macrobond, Westpac Economics

State demand: Q2 2024



Source: ABS, Macrobond, Westpac Economics

Consumer spending: Q2 2024



Source: ABS, Macrobond, Westpac Economics

still has its challenges however, new business investment falling –0.5% in Q2 to be 1.1% higher over the year, as prior momentum from infrastructure projects fade. The appreciable 4.3% lift in housing construction in Q2 is certainly welcome, but large contractions over recent previous quarters highlight the clear pressures that continue to face the sector. Public demand is providing a meaningful offset, up 4.2%yr, centred on government consumption (6.5%yr) supported by state government cost-of-living rebates.

Western Australia continues to buck the wider trend grappling the rest of the nation. State final demand rebounded from an investment-driven contraction at the start of the year, bouncing 0.9% higher in Q2 to be up 3.9% over the year, a staggering two-and-a-half times the growth of domestic demand nationally. Underlying this is a robust private economy, as evinced by the clear pulse in household consumption (1.6%yr), rapid expansion of the state's housing capacity (5.8%yr) and resilience in new business investment (6.3%yr). It is interesting to note that public demand was broadly flat in the quarter – government consumption falling –0.5% and new public investment up 3.0% – but given the breadth and scale of the state government's support, the latest result is unlikely to mark the start of a material waning in the public sector's contribution to state final demand growth.

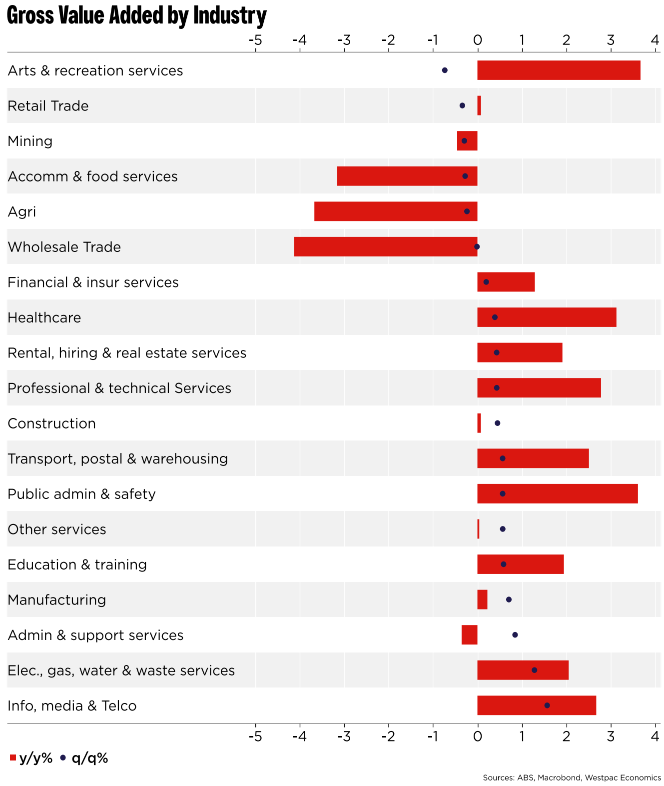
South Australia exhibited the strongest performance in Q2, with state final demand rising 0.9%. This follows a very choppy growth profile over the past year, leaving state demand in line with the national average, currently at 1.5%yr. The sharp contrast between private and public sector demand is perhaps most stark in South Australia. At 6.2%yr, public demand is now responsible for all the state's demand growth, reflecting ongoing and rapid investment in the critical infrastructure and broader government consumption. The private economy remains incredibly weak (–0.2%yr), with household consumption, housing construction and new business investment all in contraction on an annual basis.

Tasmania continues to claw-back from prior weakness, with state final demand rising a solid 0.6% to be 1.8% higher over the year. This is largely thanks to the public sector, where government consumption has accelerated to a nation-leading pace 9.6%yr. As is the case across most other states however, the private economy hangs in a fragile state, with private demand posting its third consecutive quarterly decline, slipping to –0.1%yr.

Production

While 13 of 19 industries recorded growth in the June quarter, there was a clear rift between consumer and non-consumer facing sectors. Retail, accommodation & food services, and art & recreations services all went backwards in the quarter as household consumption retreated at its fastest pace since the GFC (outside of

GDP by industry



the pandemic).

Meanwhile, performance in business-to-business sectors was more sound. Strong demand for software products underpinned strong gains in the information, media & telecommunications sector (+1.6%) while professional & technical services (+0.4%), manufacturing (+0.7%), and transport, postal and warehousing (+0.6%) all performed solidly. Significant public spending continued to provide a tailwind for the healthcare (+0.4%) and education & training (+0.6%) sectors.

Although growth in many sectors more insulated from consumers remains positive, the overall momentum of growth is slowing as weakness spills over from households to businesses. We expect this will likely continue in the near term, with a significant turn in the consumer still some way off. This is likely to keep private demand constrained for some time.

Income

In real terms (i.e. excluding the impact of prices), the income measure GDP (GDP (I)) rose 0.2% in the June quarter unchanged from the March quarter. In annual terms, real GDP (I) was 1.0% higher, down from 1.3% in the March quarter and the slowest rate since the December quarter 1991 (outside of the pandemic).

In nominal terms (i.e. including the impact of inflation), GDP (I) rose 0.2% in the quarter, lower than the 1.4% quarterly pace averaged since the September quarter of 2023. In annual terms, growth in nominal GDP (I) was 4.4%.

Total compensation of employees (COE) rose 0.9% in the quarter, marking the third consecutive quarterly slowdown in the growth of COE. In 6-month annualised terms, COE growth slowed to 3.1% which is below the pre-pandemic 5-year average annual pace of 3.9%. A reminder that wages growth has reversed rapidly and does not present a significant upside risk to inflation.

State and Commonwealth government wage increases underpinned a 1.4% quarterly rise in public sector COE, while private sector COE was up just 0.7% in the quarter.

Gross operating surplus (GOS) for private non-financial corporations – i.e. corporate profits – tumbled 2.8% in the quarter. A large fall in the price of key mining commodities contributed to the fall, though weakness was evident broadly across both mining and non-mining sectors. This weakness was broadly offset by strong growth in public sector GOS (+7.7%) and to a lesser extent, financial corporations GOS (+1.0%).

Gross mixed income (GMI) – representing profits of the unincorporated sector, including sole traders and farm businesses – rose 1.2% in the quarter and 0.4% in annual terms. GMI was weak throughout much of 2023 but has staged a solid acceleration over the first half of 2024.

Inflation

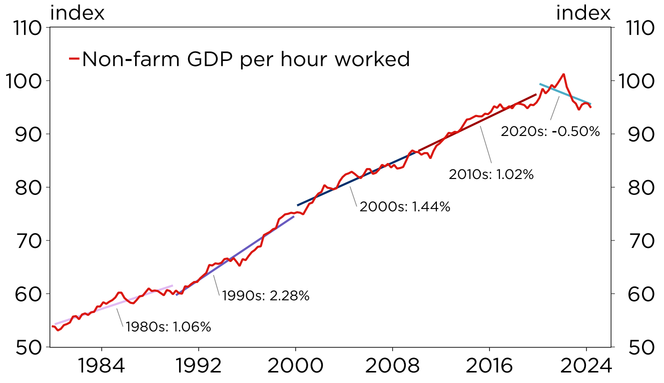
As is often the case the National Accounts, price indices present a more mixed picture on inflation compared to the Consumer Price Index (CPI); the headline price measure, the GDP implicit price deflator (IPD), fell –0.1% in the quarter, a lot weaker than the 1.0% gain in the June quarter CPI.

In the year to June, the IPD is up 3.4% compared to the 3.8% gain in the CPI. The annual pace of the IPD has been very volatile hitting 9.0%yr in December 2022 before moderating to a low of 2.1%yr in June 2023 and the rising back to 2.8%yr in December 2023.

Readers will remember that the terms of trade can have a significant impact on the IPD resulting in meaningful variations to the CPI. The terms of trade fell –3.1% in the June quarter to be down –3.9%yr, from a revised –7.2%yr in March. The terms of trade have been volatile over the past two years but has tracked a steady trend decline.

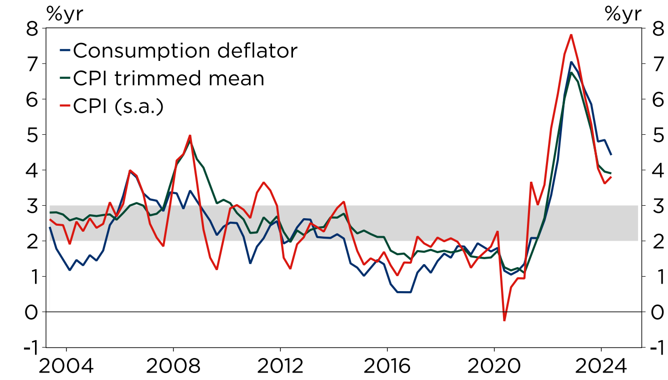
The Domestic Final Demand deflator (DFD), which measures domestic prices, lifted 0.9% in the June quarter following on from a 0.9% gain in the March quarter to be up 4.2% in the year which is a faster pace than the 3.8%yr reported by the CPI. The annual pace of inflation from DFD was 7.1% back in December 2022 with a steady deceleration to 4.7%yr by December 2023.

Australia: labour productivity



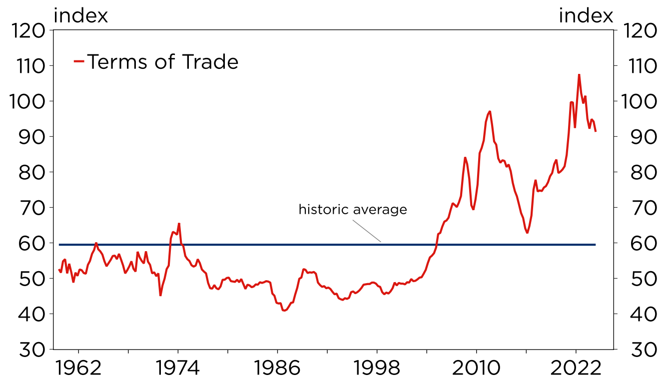
Source: ABS, Macrobond, Westpac Economics

Consumer inflation off peak, but still too high



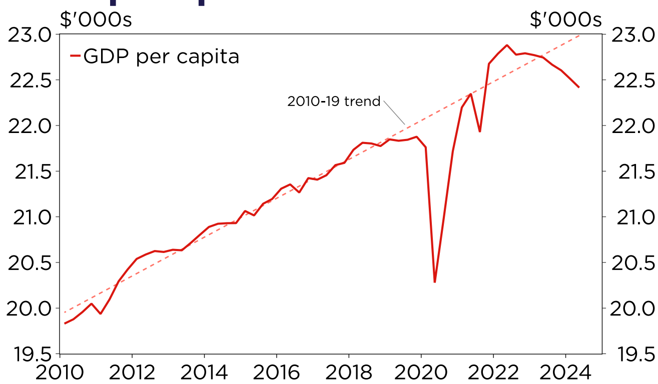
Source: ABS, Macrobond, Westpac Economics

Terms of trade, elevated



Source: ABS, Macrobond, Westpac Economics

GDP per capita



Source: ABS, Macrobond, Westpac Economics

The Gross National Expenditure deflator (GNE), which is immune to any price impact from changes in the terms of trade, gained 0.8% in the quarter to be up 4.4%yr. We had seen GNE inflation moderate from 6.8%yr in December 2022 to a low of 4.4%yr in December 2023. A stronger rise in the first half of 2024 for the GNE deflator has held the annual pace above that of the CPI.

The Household Final Consumption Expenditure deflator (HFCE) gained 0.8% in Q2 to be up 4.4%yr. Again, the pace of inflation has moderated since December 2022 (7.1%yr) to its current low. Compare that to the seasonally adjusted CPI (as the HFCE deflator is also seasonally adjusted) which lifted 1.0% in the June quarter to be up 3.8% 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 fixed basket of goods and services with a fixed set of weights. We would expect that the HFCE is 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 this is not the case, we suspect that the faster rate of inflation seen in non-discretionary goods and services may be driving the higher rate of inflation for the HFCE as there are no cheaper substitutes available.

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 0.9% in the June quarter, a moderation from 1.0% gain in March and the even stronger 1.6% gain in December 2022 and 2.7% in September 2022. This saw the annual pace decelerate from 10.3%yr in December 2022 to 8.3%yr by December 2023 then to 6.3%yr in June 2024. The recent peak in the annual pace of total employee compensation was 11%yr in September 2022.

As total non-farm compensation of employees is wage bill measure it is not a good indicator for pure wage inflation as it is affected not just by changes in rates of pay but also by changes in the number of employees, hours worked as well as any changes in the composition of the workforce as well as changes to the nature of employment relationships.

We can, however, narrow this down a bit by looking at compensation per hour worked. Non-farm compensation per hour worked gained 0.3% in June, the same as it was in March and down from 1.5% in December 2023 and 3.5% in September 2023. The annual pace had lifted from a recent low of 1.4%yr in March 2023 to a peak of 6.0%yr in December 2023 before easing back to 5.6%yr in March 2024 then it has a slight uptick to 5.8%yr in June.

This compensation per hours worked measure should be more in-line with the WPI. However, as it still has compositional differences 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 through the first half of 2024.

Labour productivity, measured as GDP per hour worked, fell –0.8% in June, following a revised –0.1% decline in March, to be up 0.5% in the year. Given overall weak economic growth, this is not surprising even given hours worked lifted 1.1% in the quarter, following a 0.3% gain in March, to be up 0.5% in the year. Nevertheless, we have seen a meaningful turn around in productivity, from the –5.5%yr low in March 2023 to now be broadly flat to slightly stronger in the year to the June quarter. Westpac is looking for productivity to continue to improve as we move though the second half of 2024.

Looking at the market sector, hours worked gained 0.9% in June reversing the quarterly falls seen in previous three quarters (for a total decline of –1.6%). This has seen the annual pace for market sector hours work decline to a –0.7%yr pace, a fall from the near-flat print in December (0.4%yr) and the recent peak of 9.1%yr in September 2022. Market sector GDP per hour worked fell 0.7% in June for the annual pace to hold flat at 1.0%yr. Market sector GDP per hour work had lifted in each of the previous three quarters to be up 1.8% over that period, suggesting we were seeing a modest improvement in productivity which stalled in June on the back of a surge in hours worked.

Bringing this all together is nominal unit labour costs (NULC), which measures the labour cost to produce one unit of GDP, rose 1.2% in the quarter which was a turnaround from the soft 0.4% gain in March. We are expecting hours worked to soften from here which, along with an improvement in output and softer wages growth, should see unit labour cost inflation soften; the current six-month annualised pace of NULC inflation moderated from 3.6%yr in March to 3.4%yr in June. Our current expectation is that NULC will be less than 3%yr by end 2024 but nevertheless, we expect the RBA to remain focused on the current 5½%yr pace and expect that they would like to see it back below 4% before they relax their stance on monetary policy.

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