Economic Insights
CommSec

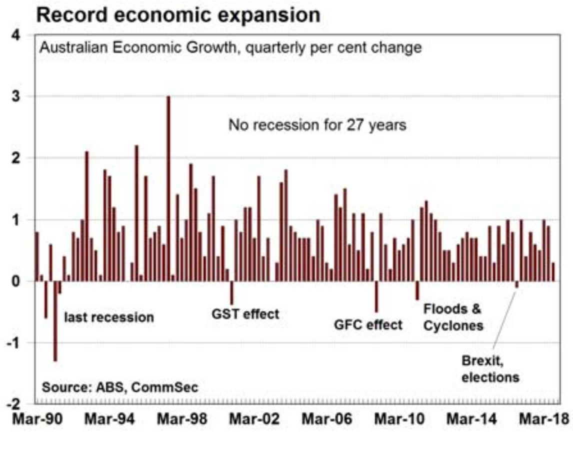
Record economic expansion rolls on

National accounts

- **Record expansion: Australia's record economic expansion is now well into its 28th year. The Australian economy grew by 0.3 per cent in the September quarter after growing 0.9 per cent in the June quarter. Annual economic growth eased from 3.1 per cent to 2.8 per cent.**
- **Contribution to growth: The biggest contribution to growth came from net exports (+0.3 percentage points), from household consumption (+0.2 pp), public investment (+0.2pp), government consumption, dwelling investment and business equipment investment (all adding 0.1pp). Inventories cut growth by 0.3pp with non-dwelling construction cutting 0.2pp from growth and ownership transfer costs cut 0.1pp from overall economic growth in the quarter.**
- **Income: Real gross national income rose by 0.2 per cent in the September quarter to be up 2.8 per cent on the year. In nominal terms GDP increased by 1.0 per cent in the quarter and rose by 5.2 per cent over the year.**
- **Productivity: Gross value added per hours worked in the market sector fell by 0.2 per cent in the September quarter, but was up by 0.4 per cent on the year. Hours worked in the market sector rose by 0.1 per cent in the September quarter and was up by 1.8 per cent on the year.**
- **Industry sectors: Twelve of the 19 industry sectors expanded in the September quarter. Strongest growth was by Administrative and support services (up 2.8 per cent). Health care and social assistance grew 2.6 per cent, adding 0.2 percentage points to GDP growth. Five sectors added 0.1pp to growth while Construction cut 0.2pp from growth with the Mining sector cutting 0.1pp.**

What does it all mean?

- In a recent speech the US Federal Reserve chair said *"Business cycles don't last forever, unless you're Australia…"* – a reference to our record-breaking economic expansion. And Australia's economic expansion does roll on, now well into its 28th year.
- The Reserve Bank noted yesterday that our economy is "performing well". And indeed it is. Economic growth is above 'normal', inflation is contained, the jobless rate is at 6-year lows and interest rates remain at record lows. Economic growth was a touch softer than expected in the September quarter, but this only highlights that the economy does bob around from quarter to quarter.
- There were good contributions to economic growth from all quarters in the September quarter. Business, government and Aussie consumers all provided a contribution. The main negative was inventories. But if business ran down the stocks sitting on shelves then this may serve to boost production in coming quarters in order to meet demand.
- Looking forward there are a few challenges. The US and China have work to do in securing a trade deal. There is Brexit. There are worries about the future health of the US economy. At home, the correction in Sydney and Melbourne home prices is still to be played out. And there is a Federal



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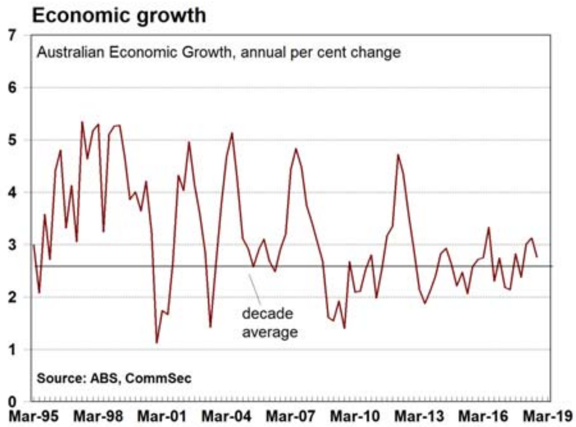
Election in 2019. But the economy faces the challenges from a position of strength. There is ample scope for stimulus should it be necessary. And the Reserve Bank still believes that the next move in rates is up, not down.

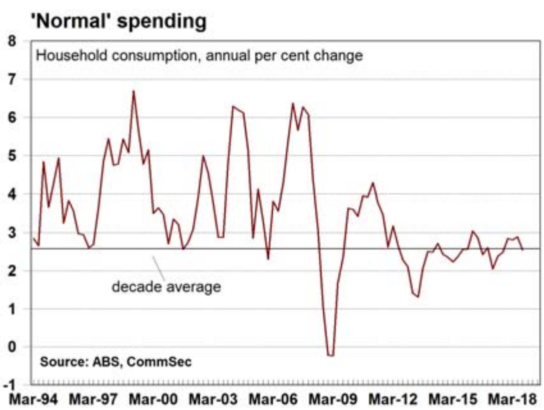
- The Australian economy is expected to grow by 3.5 per cent in 2018/19 and 3.1 per cent in 2019/20.
- Interest rate settings remain solidly on hold.

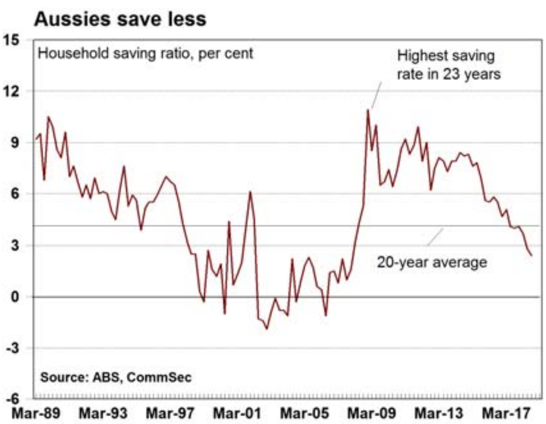


What do the figures show?

National Accounts:

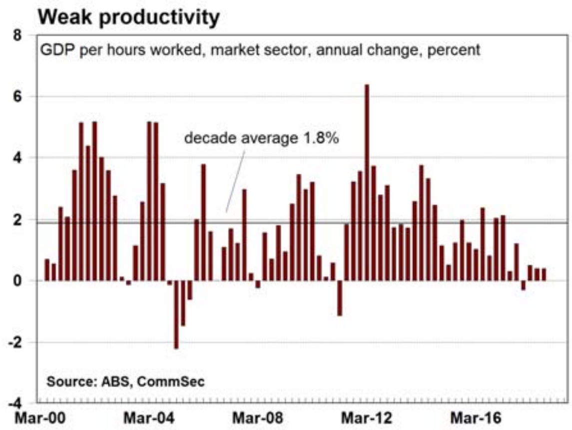
- ***Economic Growth:*** The Aussie economy grew by 0.3 per cent in the September quarter after lifting 0.9 per cent growth in the June quarter.
- ***The economy*** grew by 2.8 per cent over the year to September after 3.1 per cent growth in the year to June. Growth has averaged 2.6 per cent over the decade and averaged 2.9 per cent over the last 15 years.
- ***The expenditure measure of GDP*** grew by 0.4 per cent in the quarter (3.3 per cent annual) with income up 0.1 per cent (2.5 per cent annual) and production up 0.3 per cent (2.5 per cent annual).
- ***The non-farm economy*** rose by 0.3 per cent in the September quarter after increasing by 0.9 per cent in the June quarter. Annual growth stands at 3.0 per cent.
- ***Farm GDP*** fell by 1.0 per cent in the September quarter after rising 1.0 per cent in the June quarter. Farm GDP fell by 8.1 per cent over the year.
- ***At current prices,*** GDP rose by 1.0 per cent in the September quarter after 1.1 per cent increase in the June quarter. Annual growth stands at 5.2 per cent (decade average 4.6 per cent). As at September 2018, **the Australian economy was valued at $1,872 billion.**
- ***Growth drivers:*** The biggest contribution to growth came from net exports (+0.3 percentage points), from household consumption (+0.2 pp), public investment (+0.2pp), government consumption, dwelling investment and business equipment investment (all adding 0.1pp). Inventories cut growth by 0.3pp with non-dwelling construction cutting 0.2pp from growth and ownership transfer costs cut 0.1pp from overall economic growth in the quarter.
- ***Inflation:*** In terms of domestic price pressures, the household consumption implicit price deflator rose by 0.4 per cent in the September quarter after increasing by 0.3 per cent in the June quarter. Annual growth stands at a 4-year high of 1.8 per cent. Real non-farm unit labour costs fell by 0.1 per cent in the September quarter after falling by 0.4 per cent in the June quarter. Real non-farm unit labour costs fell by 1.6 per cent over the year.
- ***Productivity:*** Gross value added per hours worked in the market sector fell by 0.2 per cent in the September quarter, but was up by 0.4 per cent on the year. Hours worked in the market sector rose by 0.1 per cent in the September quarter and was up by 1.8 per cent on the year.
- ***States & Territories:*** The only data available is state final demand (more accurate data would include net exports but it is not available for all states and territories). In the September quarter, growth was strongest in NSW (up 1.1 per cent) from the ACT (up 0.9 per cent), Tasmania (up 0.6 per cent), Western Australia (up 0.4 per cent) and Victoria (up 0.2 per cent). State final demand fell in the Northern Territory (down 8.2 per cent) and Queensland (down 0.4 per cent).
- ***Consumer spending lifts.*** Household spending rose by 0.3 per cent in the September quarter to be up 2.5 per cent for the year. Eight of the 17 sectors recorded weaker spending in the quarter. Spending rose most for Transport services (up by 1.8 per cent) from Insurance and other financial services (up 1.6 per cent). Spending





fell most for Purchase of cars (down 1.3 per cent) followed by Cigarettes & tobacco (down by 1.2 per cent).

- ***Industry sectors:*** Twelve of the 19 industry sectors expanded in the September quarter. Strongest growth was by Administrative and support services (up 2.8 per cent). Health care and social assistance grew 2.6 per cent, adding 0.2 percentage points to GDP growth. Five sectors added 0.1pp to growth while Construction cut 0.2pp from growth with the Mining sector cutting 0.1pp.
- ***Other points:***
  - ***Profit share rose.*** In seasonally adjusted terms, the ratio of profits to total factor income rose from 27.9 per cent to 28.1 per cent in the September quarter. **The wages share** rose from 52.1 per cent to 52.2 per cent.
  - ***Household savings ratio falls.*** The household saving ratio fell from 2.8 per cent in seasonally adjusted terms to a 10½-year low of 2.4 per cent in the September quarter – the lowest level since December 2007. In trend terms household saving fell from 3.0 per cent to 2.6 per cent.
  - ***Imports rose as a share of spending.*** The imports to sales ratio rose from 0.403 in the June quarter to 0.404 in the September quarter.
  - ***The private non-farm inventories to total sales ratio*** rose from 0.591 per cent to 0.592 per cent in the September quarter.

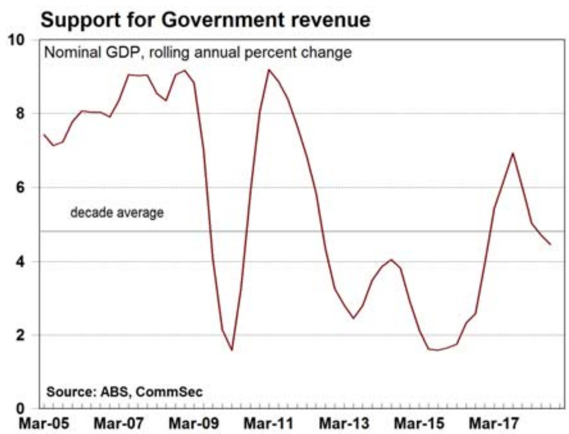


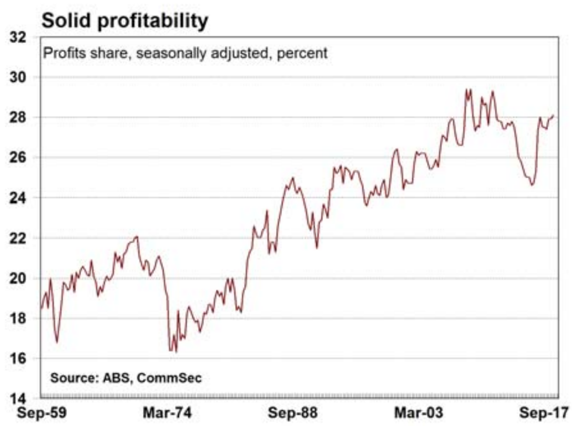
What is the importance of the economic data?

- The quarterly **National Income, Expenditure and Product release (national accounts)** from the Bureau of Statistics is an assessment of Australia's economic performance. Detailed estimates are provided on incomes (wages, profits), spending (such as household, dwelling investment and trade (exports and imports) and production. Other data includes household saving and the economic performance of States and Territories. The main use of the national accounts figures is as a historical record of economic performance. The information has little forward-looking value for currency, interest rate or share markets.

What are the implications for interest rates and investors?

- Australia's record-breaking expansion continues. Importantly, the economy continues to grow faster than the 'normal' growth pace. After below-par growth in 2017 – largely due to weather disruptions to our export sectors – output rose back above long-term trend levels in early 2018 and annual growth remains near 3 per cent.
- The Reserve Bank remains upbeat. In announcing the interest rate decision yesterday, the Reserve Bank Board said: *"The Australian economy is performing well. The central scenario is for GDP growth to average around 3½ per cent over this year and next, before slowing in 2020 due to slower growth in exports of resources."* Given revisions to past economic data, the 3.5 per cent goal will be challenging.
- Admittedly the report card for the September quarter is good, rather than being great. Quarterly growth was only modest at 0.3 per cent, but after 0.9 per cent growth in the June quarter. However the main drag was inventories so it's possible that growth will bounce back in the December quarter.
- Household saving also remains low. The Reserve Bank will no doubt hope that the "welcome" lift in wage growth continues – and anecdotes suggest that this remains possible. Reflecting the strong job market, consumer





confidence is high, and that is causing people to spend rather than squirrel extra money away in precautionary saving. Clearly with wage growth of 2.3 per cent well above the 1.8 per cent growth of "prices' (the household consumption deflator) it is understandable that consumers are spending. Still, it is an issue to watch.

- Productivity growth also remains weak. Clearly job growth has proven strong and it will take time for all the new starters to get up to full speed. But firmer productivity growth is necessary to boost wage growth. At present wage growth of 2.3 per cent is largely being explained by 1.9 per cent growth of prices and 0.4 per cent productivity growth.

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