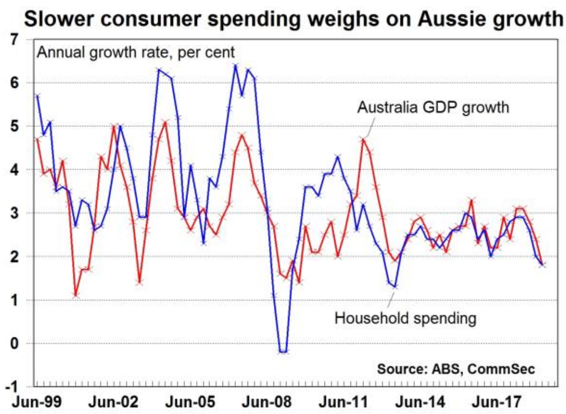
Weakest Aussie economic growth in 9½ years

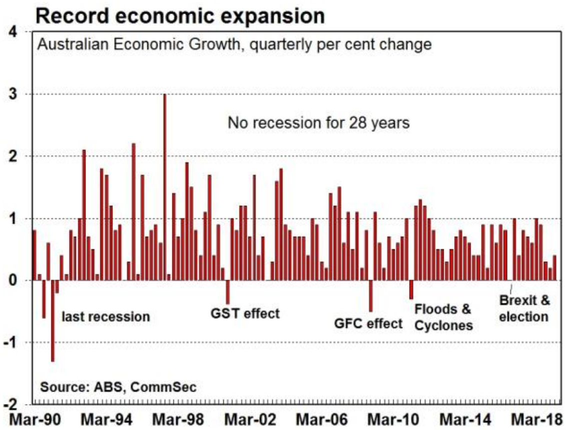
National accounts

- **<u>Growth slows:</u> The Australian economy grew by 0.4 per cent in the March quarter (consensus: +0.5 per cent) after growing by 0.2 per cent in the December quarter. Annual economic growth fell from 2.3 per cent to 1.8 per cent (consensus: +1.8 per cent) – the weakest rate since September 2009.**
- **<u>Contribution to growth</u>: The biggest contribution to growth came from government consumption and net exports (both +0.2 percentage points); household consumption and non-dwelling investment (both +0.1pp). Ownership transfer costs (-0.2pp); dwelling investment and inventories (both -0.1pp) detracted from overall economic growth during the quarter. Public and business equipment investment were flat.**
- **<u>Income:</u> Real gross national income rose by 0.9 per cent in the March quarter to be up 3.0 per cent on the year. In nominal terms GDP increased by 1.4 per cent in the quarter and rose by 4.9 per cent over the year.**
- **<u>Productivity:</u> Gross value added per hours worked in the market sector fell by 0.5 per cent in the March quarter to be down by 0.9 per cent on the year. Hours worked in the market sector rose by 1.0 per cent in the March quarter and were up by 2.1 per cent on the year.**
- **<u>Industry sectors:</u> Fourteen of the 19 industry sectors expanded in the March quarter. Strongest growth was recorded by Arts & recreation services (up by 2.1 per cent), followed by Professional, scientific and technical services (up by 1.8 per cent) and "Other" services (also up by 1.8 per cent). Four sectors added 0.1pp to growth, but the Construction sector (down by 0.9 per cent) cut 0.1pp from overall GDP growth during the quarter.**

What does it all mean?

- The Aussie economy has lost momentum. The annual growth rate is the weakest since September 2009. Like other advanced economies, output has slowed since mid-2018 as US-China trade tensions weigh on global growth. But domestic demand has also slowed, as evidenced by low inflation.
- And soft consumer spending is the main culprit. Household incomes are being squeezed due to a combination of modest wages growth and increasing taxes paid due to 'bracket creep' (where taxpayers are pushed into higher





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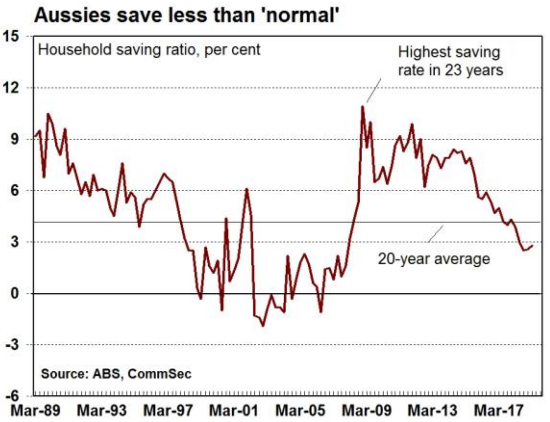
income tax brackets). The negative 'wealth effect' from the property downturn is encouraging Aussies to deleverage amid elevated household debt, crimping consumption.

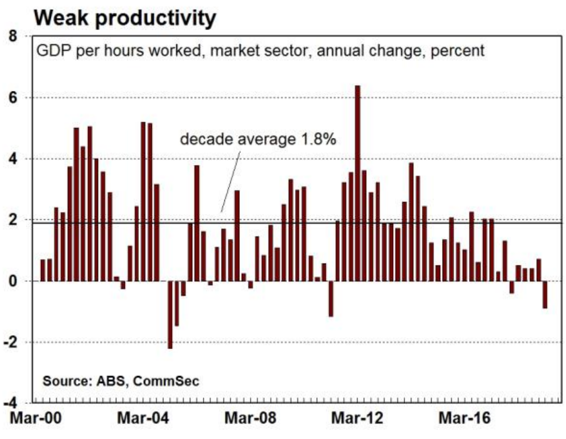


- The Reserve Bank cut interest rates to fresh record lows of 1.25 per cent yesterday and appears likely to reduce interest rates to at least 1 per cent. With low economic growth, inflation contained and few signs that the job market is tight enough to lift wages, policymakers have acted. And Governor Philip Lowe has acknowledged that *"the Australian economy is likely to have spare capacity for a while yet."*
- That said, there are still some bright spots as the Aussie economy continues into its 28th consecutive year of expansion. Despite a weakening in leading indicators of job growth, the labour market remains solid, infrastructure investment has increased, national income has lifted, financial conditions have eased and the resources sector is in good shape. Business investment intentions have improved.
- And the Australian government's enviable fiscal position will enable it to cut taxes, supporting consumer spending and the broader economy. Either way, both monetary and fiscal stimulus are needed to reduce unemployment and revive inflation. But businesses also need to respond through increased investment.

What do the figures show?

National Accounts:

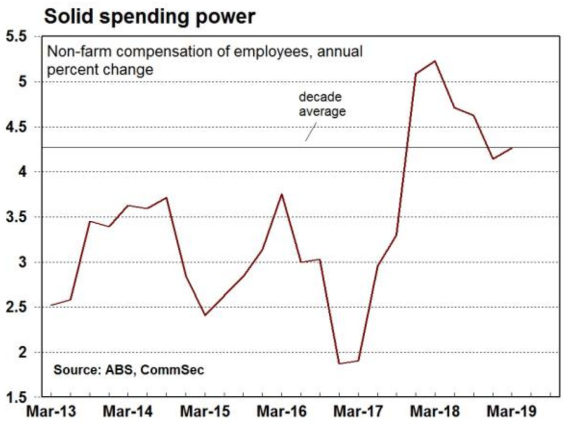
- ***Economic Growth:*** The Aussie economy grew by 0.4 per cent in the March quarter after lifting by 0.2 per cent growth in the December quarter.
- ***The economy*** grew by 1.8 per cent over the year to March after 2.3 per cent growth in the year to December. Growth has averaged 2.6 per cent over the decade and averaged 3.0 per cent over the last 15 years.
- ***The expenditure measure of GDP*** grew by 0.2 per cent in the quarter (2.1 per cent annual) with income up 0.5 per cent (1.5 per cent annual) and production also up 0.5 per cent (1.8 per cent annual).
- ***The non-farm economy*** rose by 0.4 per cent in the March quarter after increasing by 0.3 per cent in the December quarter. Annual growth stands at 2.0 per cent.
- ***Farm GDP*** fell by 0.2 per cent in the March quarter after falling by 5.2 per cent in the December quarter. Farm GDP fell by 6.8 per cent over the year.
- ***At current prices,*** GDP rose by 1.4 per cent in the March quarter after a 1.2 per cent increase in the December quarter. Annual growth stands at 4.9 per cent. As at March 2019, **the Australian economy was valued at $1,920.5 billion.**
- ***Growth drivers:*** The biggest contribution to growth came from government consumption and net exports (both +0.2 percentage points); household consumption and non-dwelling investment (both +0.1pp). Ownership transfer costs (-0.2pp); dwelling investment and inventories (both -0.1pp) detracted from overall economic growth during the quarter. Public and business equipment investment were flat.
- ***Inflation:*** In terms of domestic price pressures, the household consumption implicit price deflator rose by 0.4 per cent in the March quarter after also increasing by 0.4 per cent in the December quarter. Annual growth stands at 1.5 per cent. Real non-farm unit labour costs fell by 1.1 per cent in the March quarter after falling by 0.1 per cent in the December 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 0.5 per cent in the March quarter to be down by 0.9 per cent on the year. Hours worked in the market sector rose by 1.0 per cent in the March quarter and were up by 2.1 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 March quarter, growth was strongest in Tasmania (up 0.7 per cent; followed by Queensland (up 0.5 per cent); NSW (up 0.4 per cent); and Victoria (up 0.2 per cent). State final demand fell in the Northern Territory (down 2.3 per cent); Western Australia (down 0.3 per cent) and the ACT (down 0.2 per cent).
- ***Consumer spending:*** Household spending rose by 0.3 per cent in the March quarter to be up 1.8 per cent for the

year. Eleven of the 17 sectors recorded stronger spending in the quarter. Spending rose most for Electricity, gas and other fuel (up 1.8 per cent); Purchase of vehicles (up 1.2 per cent); and Communications (up 1.1 per cent). Spending fell most for Cigarettes and tobacco (down 0.9 per cent); Clothing and footwear (down 0.6 per cent); and Recreation and culture (down 0.5 per cent).

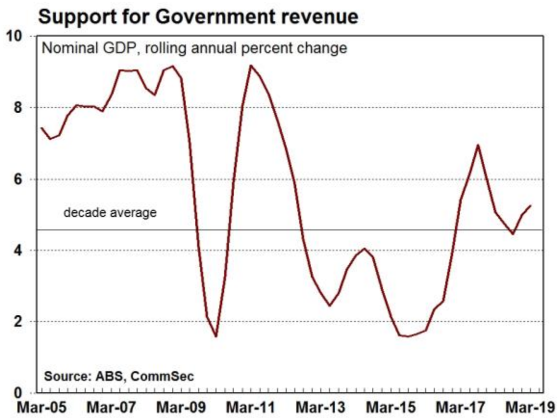
- **Industry sectors:** Fourteen of the 19 industry sectors expanded in the March quarter. Strongest growth was recorded by Arts & recreation services (up by 2.1 per cent), followed by Professional, scientific and technical services (up by 1.8 per cent) and "Other" services (also up by 1.8 per cent). Four sectors added 0.1pp to growth, but the Construction sector (down by 0.9 per cent) cut 0.1pp from overall GDP growth during the quarter.



- ***Other points:***
  - ***Profit share rose.*** In seasonally adjusted terms, the ratio of profits to total factor income rose from 28.6 per cent to 29.1 per cent in the March quarter. **The wages share** fell from 52.0 per cent to 51.8 per cent.
  - ***Household savings ratio.*** The household saving ratio rose to 2.8 per cent in the March quarter in seasonally adjusted terms from 2.6 per cent in the December quarter. In trend terms household saving fell from 2.6 per cent to 2.7 per cent.
  - ***Imports rose as a share of spending.*** The imports to sales ratio fell from 0.406 in the December quarter to 0.401 in the March quarter.
  - ***The private non-farm inventories to total sales ratio*** fell from 0.586 per cent to 0.583 per cent in the March quarter.

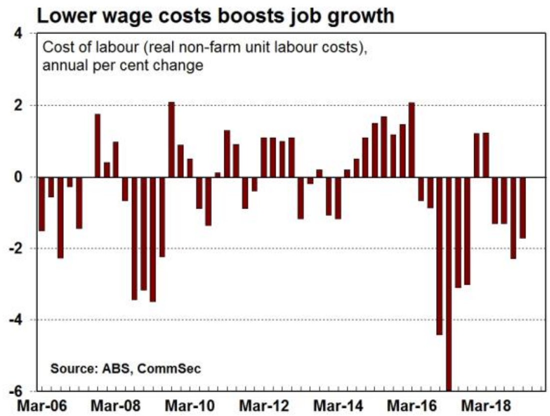
What is the importance of the economic data?

- 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 economic expansion continues, but annual growth has slowed to a 9½-year low. Aussies are spending less and saving more, restraining economic activity. The annual growth rate of consumer spending is the weakest in almost six years at 1.8 per cent – in-line with broader economic growth.
- Business investment increased during the quarter, but has fallen over the year to March, reflecting a weakening in machinery and equipment spending, pointing to a softening in business conditions and confidence in the lead up to the Federal election. The completion of LNG project-related construction work was an additional drag.
- That said, the income side of the equation is a big positive with nominal GDP up by almost 5 per cent over the year to March. And the terms of trade has risen by over 6 per cent over the same period due to a lift in iron ore prices. But the drought continued to weigh on the rural sector.
- CommSec believes the Reserve Bank could cut interest rates again in August. Additional monetary and fiscal stimulus through tax cuts and infrastructure spending are both needed to support the economy through the current 'soft patch'.



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