Latest data highlights economic resilience

National Accounts

- The Australian economy (as measured by gross domestic product or GDP) contracted by 1.9 per cent in the September quarter, reflecting lockdowns (survey: -2.9 per cent). The economy is up 3.9 per cent on the year.
- In nominal terms, the economy fell 0.6 per cent in the September quarter but was 11.2 per cent up on the year.
- The biggest contribution to the contraction in the economy was household spending (-2.5 percentage points), followed by inventories (-1.3pp). Net exports added 1.0pp to growth with government consumption adding 0.8pp and commercial building adding 0.2pp.
- The household saving rate jumped from 11.8 per cent to 19.8 per cent with household gross disposable income up 4.6 per cent – the strongest pace in 13 years.

What does it mean?

- The National Accounts publication is the most comprehensive measure of Australia’s economic performance including economy-wide output and spending. But it is somewhat dated – with more up-to-date indicators (covering November) also released today. And in the Covid-19 world, that is important.
- Because the September quarter was dominated by lockdowns across Australia, especially in the south-east. So it is understandable that the economy contracted by 1.9 per cent in the quarter – the second biggest contraction in 47 years.
- But state and territory economies came out of lockdowns from mid-October. Over November, Aussies embraced the new freedoms such as shopping at ‘bricks and mortar’ stores at the Black Friday sales – putting forced savings to work. So it shouldn’t surprise if the economy rebounds in the December quarter by a similar or bigger magnitude as the September quarter contraction.
- The September quarter economic contraction was smaller-than-forecast by economists, suggesting an encouraging economic resilience, especially compared to last year’s initial national lockdown in the June quarter. And the annual pace of economic growth at 3.9 per cent was above the pre-pandemic pace of around 2 per cent.
- Today’s report also served to highlight the importance of government fiscal support during lockdowns with public demand stemming the slump in economic activity.
Economic Insights: Latest data highlights economic resilience

December 1, 2021 | 2

121-The-Big-Issues-of-2022.pdf). This includes responding to new variants such as Omicron. Governments stress that lockdowns are a thing of the past, although that doesn’t mean that border restrictions won’t change from time-to-time as we are seeing now.

- Commonwealth Bank (CBA) Group economists expect the Australian economy to grow 3.5 per cent in the current 2021 calendar year before growing 4.4 per cent in 2022. Home building, household spending, private business investment and infrastructure spending will all drive the Australian economy over 2022. Some dollars may be diverted from domestic consumer spending to overseas travel, but that is far from certain.

- Rate hikes could begin in November 2022 in response to higher rates of inflation and a tighter job market, including firmer wage growth.

- Today’s data has no implications for the sharemarket. It is just important to be aware of the context of the economic contraction and expected rebound.

What do you need to know?

- Economic Growth: The Australian economy (as measured by gross domestic product or GDP) contracted by 1.9 per cent in the September quarter after rising 0.7 per cent in the June quarter.

- The economy grew by 3.9 per cent in the year to September. Growth has averaged 2.3 per cent over the decade and growth averaged 2.5 per cent over the last 15 years.

- As at September 2022, the Australian economy was valued at $2,122.2 billion.

- The non-farm economy fell by 2.0 per cent in the September quarter after growing by 0.6 per cent in the June quarter. Non-farm GDP is up 3.2 per cent over the year.

- Farm GDP rose by 0.3 per cent in the September quarter to be up by 43.4 per cent over the year – just off the fastest growth in 17 years.

- At current prices, GDP fell by 0.6 per cent in the September quarter after rising by 3.3 per cent in the June quarter. Nominal GDP grew by 11.2 per cent on the year (decade average +4.0 per cent).

- Incomes: Overall incomes fell by 0.6 per cent in the September quarter. Corporate profits rose by 4.7 per cent with the wage bill up 0.5 per cent and taxes down by 27.6 per cent.

- GDP per capita fell by 2.0 per cent in the September quarter but was up 3.5 per cent on the year.

- Contribution to the overall result: The biggest contribution to the contraction in the economy was household spending (-2.5 percentage points), followed by inventories (-1.3pp), business equipment spending and public investment (both -0.1pp). Net exports added 1.0pp to growth followed by government consumption (+0.8pp), commercial building (+0.2pp) and ownership transfer costs (+0.1pp).

- Inflation & wages: In terms of domestic price pressures, the household consumption implicit price deflator rose by 0.3 per cent in the September quarter. Annual growth lifted from 1.7 per cent to 1.8 per cent. Real non-farm unit labour costs rose by 0.3 per cent in the September quarter to be up 7.8 per cent over the year.

- Household savings ratio. The household saving ratio rose from 11.8 per cent in the June quarter to 19.8 per cent in the September quarter.

- The terms of trade rose by 0.4 per cent in the September quarter to record highs and was up 23.1 per cent on the year.
Economic Insights: Latest data highlights economic resilience

- **Productivity and output measures**: GDP per hours worked rose by 3.7 per cent in the September quarter to be up 1.7 per cent on the year. Gross value added per hours worked in the market sector fell by 1.9 per cent in the quarter to be up 4.7 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). State final demand in the September quarter: NSW (down 6.5 per cent); Victoria (down 1.4 per cent); Queensland (up 1.8 per cent); South Australia (up 1.4 per cent); Western Australia (up 0.6 per cent); Tasmania (up 4.2 per cent); Northern Territory (up 4.0 per cent); and the ACT (down 1.6 per cent).

- **Consumer spending**: Household spending fell by 4.8 per cent in the September quarter to be down 2.5 per cent for the year.

- **Industry sectors**: Thirteen of the 19 industry sectors contracted in the September quarter. The biggest contribution to the overall decrease in output came from Accommodation and Food Services (-0.5 percentage points); Wholesale trade, Health care and social assistance and Other services (all -0.2 pp). Seven other sectors trimmed 0.1pp from to growth.

- In percentage terms the biggest fall in the quarter was in Accommodation and Food Services (down 26.4 per cent), ahead of Other services (down 11.8 per cent).

Craig James, Chief Economist
Twitter: @CommSec