



Economics | June 1, 2022

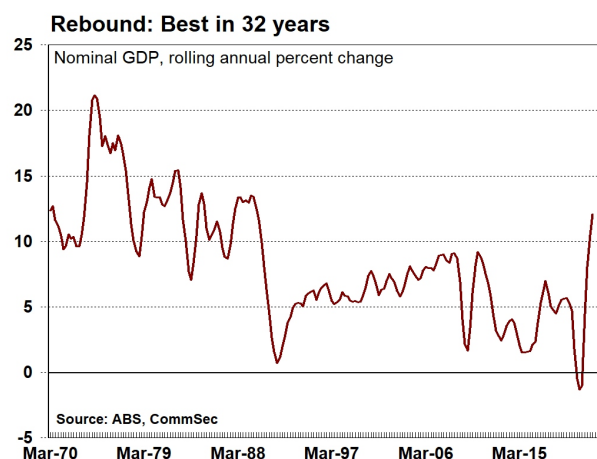
Solid economic expansion continues

National Accounts

- The Australian economy (as measured by gross domestic product or GDP) grew by 0.8 per cent in the March quarter to be up by 3.3 per cent on the year. 'Normal' growth of the Australian economy is around 2¼ per cent.
- In nominal terms, the economy grew by 3.7 per cent in the March quarter and was up 10.2 per cent on the year.
- The biggest contribution to the expansion of the economy was inventories (+1.0 percentage points), followed by household spending (+0.8pp), government consumption (+0.6pp), private and public investment (+0.2pp). Net exports (exports less imports) trimmed 1.7 percentage points from growth.
- Only Agriculture, Forestry and Fishing (-5.8 per cent), Mining (-1.5 per cent), Rental, Hiring and Real Estate Services (-1.8 per cent) and 'Other Services' (-0.4 per cent) recorded weaker production in the March quarter.
- The household savings rate fell from 13.4 per cent to 11.4 per cent in the March quarter.
- In terms of productivity, GDP per hours worked rose by 1.7 per cent in the quarter to be up 2.8 per cent on the year.
- Real unit labour costs fell by 2.0 per cent in the March quarter and were down by 2.7 per cent on the year.

What does it mean?

- The National Accounts publication is the most comprehensive assessment of Australia's economic performance including economy-wide output and spending. But the publication is dated – containing the last pieces of data to be issued for the quarter just past. In fact, decidedly more timely readings for the month of May were released this morning, covering home prices and manufacturing activity.
- But all indicators show the Australian economy to be doing well, actually very well. It may be overstating to describe the figures as "a beautiful set of numbers" but it goes close. This will provide encouragement to the new incoming government. But while the economy is healthy, there are no shortages of challenges including supply chain issues, rising prices, shortages of labour, the overall 'living with Covid' environment (including influenza) and an unsettled global environment.
- Of encouragement was the lift in inventories (notably through imports) to address supply chain issues. Also positive was the lift in productivity and lower labour costs. More Aussies were out and about in the quarter, shown through spending outpacing incomes, and leading to lower savings. Household savings are still well above pre-Covid levels. So lower savings, higher wages and more jobs, points to further solid growth in spending in coming months.
- The strength of the economy was highlighted by the April



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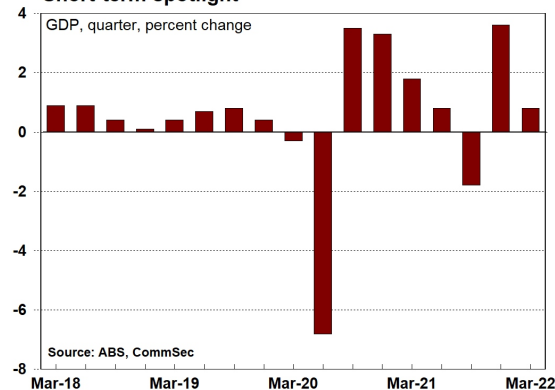
budget estimates, released last Friday, showing that the deficit is tracking almost \$10 billion better than what was estimated by the Department of Finance. The national accounts also showed a near 16 per cent rise in taxation receipts in the past quarter on bumper wages and profits.

- Probably the greatest challenge for the new government is the tight job market. With the labour market tight as a drum, pushing up wages and prices, the first order of business for the new government will be to focus on measures to boost the supply of workers. This may include measures to lift migration of skilled workers, measures to reduce disincentives for people moving cities or regional areas to obtain jobs around the country and measures to encourage both internal and overseas in-bound migration.
- And while more workers are required, other key issues include boosting education, training and productivity. At a practical level, reducing the cost and access to training, boosting social and economic infrastructure, inducements for research and development and cutting red tape are all important.
- The latest data confirms that the era of super-low interest rates has outlived its usefulness. A more 'normal' economy requires more 'normal' interest rates. Commonwealth Bank (CBA) group economists expect the cash rate to rise by 25 basis points next week as well as in July, August and November 2022 and November 2023.

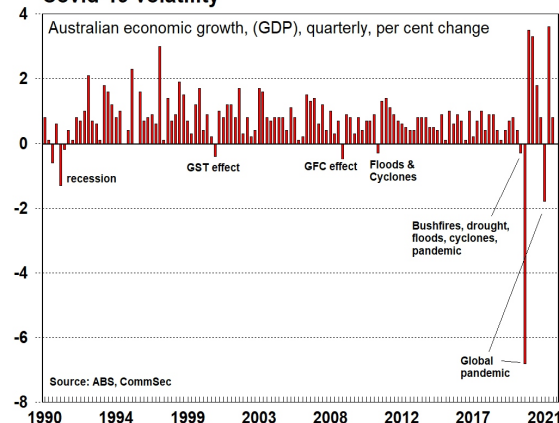
What do you need to know?

- Economic Growth:** The Australian economy (as measured by gross domestic product or GDP) grew by 0.8 per cent in the March quarter to be up 3.3 per cent on the year.
- Annual economic growth has averaged 2.3 per cent over the decade and growth averaged 2.5 per cent over the last 15 years.
- As at March 2022, the Australian economy was valued at \$2,229 billion.**
- The non-farm economy** grew by 1.0 per cent in the March quarter and was up 3.8 per cent over the year.
- Farm GDP** fell by 6.7 per cent in the March quarter to be up by 9.8 per cent over the year.
- In current prices,** GDP rose by 3.7 per cent in the March quarter after expanding 3.5 per cent in the December quarter. Nominal GDP grew by 10.2 per cent on the year (decade average +4.0 per cent).
- Incomes:** Overall incomes rose by 3.7 per cent in the March quarter. Compensation of employees rose by 1.8 per cent; non-financial corporate profits rose by 7.3 per cent; with taxes up by 15.7 per cent.
- Real GDP per capita** rose by 0.3 per cent in the March quarter and was up 2.5 per cent on the year.
- Contribution to the overall result:** The biggest contribution to the expansion of the economy was by inventories (+1.0 percentage points), followed by household spending (+0.8pp), government consumption (+0.6pp), private and public investment (+0.2pp). Net exports (exports less imports) trimmed 1.7 percentage points from growth.
- Inflation & wages:** In terms of domestic price pressures, the household consumption implicit price deflator rose by 1.6 per cent in the March quarter. Annual growth lifted from 2.3 per cent to 3.2 per cent. Real non-farm unit labour costs fell by 2.4 per cent in the March quarter to be down 1.9 per cent over the year.

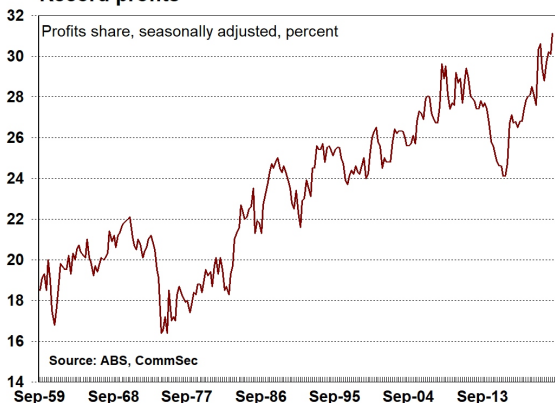
Short-term spotlight



Covid-19 volatility

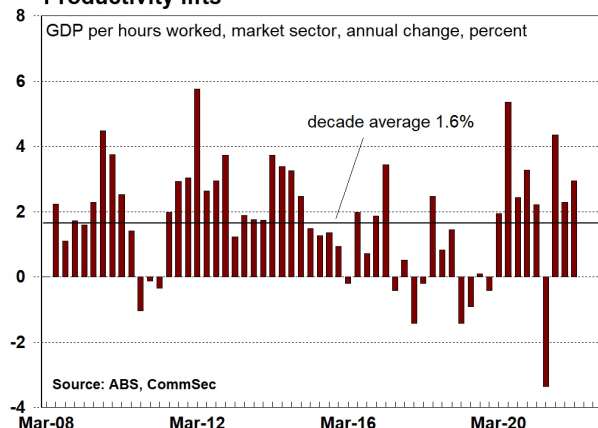


Record profits

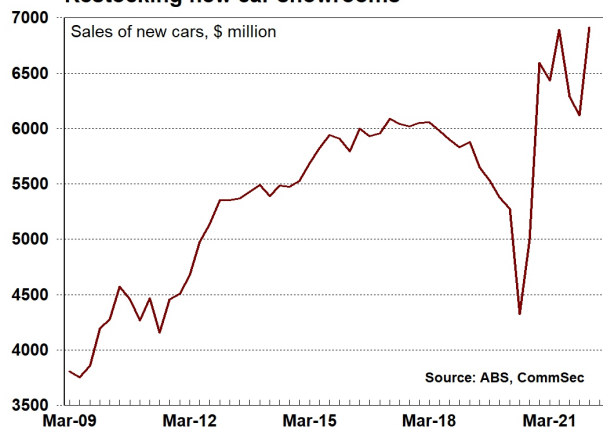


- **Household savings ratio:** The household saving ratio fell from 13.4 per cent in the December quarter to 11.4 per cent in the March quarter.
- **The terms of trade** rose by 5.9 per cent in the March quarter to record highs.
- **Productivity and output measures:** GDP per hours worked rose by 1.7 per cent in the March quarter after falling 0.8 per cent in the December quarter. GDP per hours worked was up 2.8 per cent over 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 March quarter: NSW (up 1.2 per cent); Victoria (up 2.4 per cent); Queensland (up 0.8 per cent); South Australia (up 0.8 per cent); Western Australia (up 2.2 per cent); Tasmania (down 0.6 per cent); Northern Territory (up 2.2 per cent); and the ACT (up 1.7 per cent).
- **Consumer spending:** Household spending rose by 1.5 per cent in the March quarter to be up 4.0 per cent for the year. Biggest gains were Transport services (up 60 per cent); Purchase of vehicles (up 13 per cent) and Hotels, cafes and restaurants (up 5.3 per cent).
- **Industry sectors:** Fourteen of the 19 industry sectors grew in the March quarter. The biggest contributions to the growth in the economy came from Transport, Postal and Warehousing and Professional, Scientific and Technical Services (all +0.2 percentage points); followed by four other sectors (each +0.1pp).
- Agriculture, Forestry and Fishing (-5.8 per cent), Mining (-1.5 per cent), Rental, Hiring and Real Estate Services (-1.8 per cent) and 'Other Services' (-0.4 per cent) recorded weaker production in the March quarter.

Productivity lifts



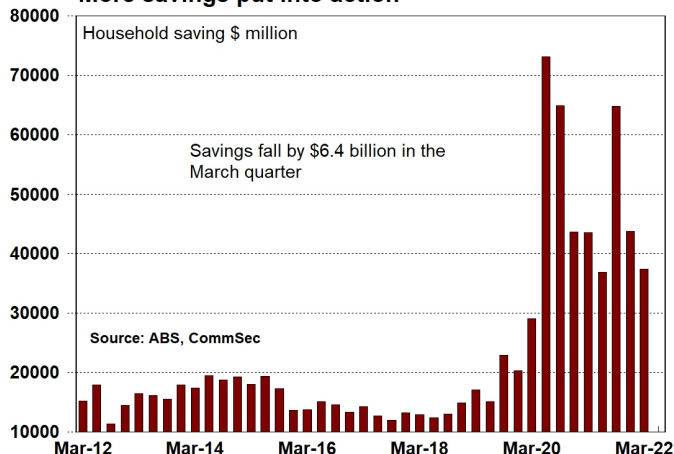
Restocking new car showrooms



Craig James, Chief Economist

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More savings put into action



Fluctuating savings

