AUSTRALIAN ECONOMIC UPDATE

GDP Q1 2021 – GDP Recovers Pre-COVID Levels

National Australia Bank

2 June 2021

Bottom line: Q1 GDP rose by 1.8% (1.1% y/y) and is now 0.8% above pre-COVID levels. Overall, these data show that the rebound was uninterrupted by the tapering in some fiscal support in Q1 and that brief periods of virus-related shutdowns have not stalled the recovery. Services consumption continued to recover in the quarter and the household savings rate saw further normalisation, but some pandemic impacts continue to linger. Services consumption and exports are still softer than pre-pandemic levels, while the household savings rate remains elevated, as does goods consumption. Today's outcome also reflects the ongoing support of policy makers with both housing and business investment key supports to growth in the quarter. This release will have few implications for policy as it confirms that, in aggregate, activity has recovered its pre-COVID level. Combined with an outlook for continued healthy growth over the next two years, that leads us to continue to expect the RBA to taper QE and hold back on rolling the YCC target forward at the July meeting – taking the foot slightly off the accelerator but maintaining an exceptionally easy stance.

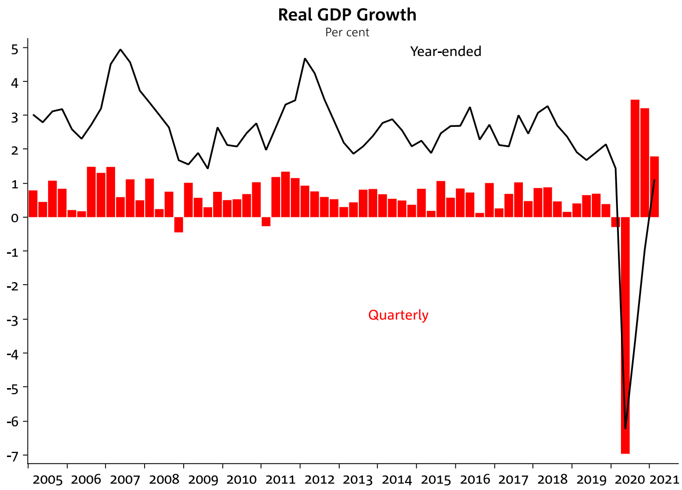
Today's result was driven by the continued rebound in services consumption and both dwelling and business investment which have seen significant support from policy makers. Household consumption rose 1.2% with the rise in services (up 2.4% and underscored by a 14.8% rise in hotels, cafes and restaurants) partially offset by a 0.5% fall in goods consumption. Overall, consumption is now 1.5% below pre-pandemic levels. Household income growth remained strong in the quarter, supported by strong employment outcomes, despite the impact of government support payments fading, and the savings rate continued to normalise but remains elevated.

Dwelling investment continued its strong growth, with renovation activity rising and investment in dwellings also continuing to lift. Encouragingly, business investment recorded another solid outcome, boosted by a lift in new machinery & equipment spending (+10.3%) which was offset by softer investment in buildings. Inventories made a solid contribution to growth in the quarter likely reflecting restocking by the goods distribution industries following supply disruptions amidst strong demand over the past year. Net exports weighed on the overall result with import growth outpacing that of exports, while public final demand only made a small contribution. Growth was broad-based across states and industries but was particularly evident in the services industries still recovering from pandemic-related shutdowns as well as construction and manufacturing which have been supported by the strength in housing.

Looking forward, we expect growth to continue through 2021 and for activity to continue to show signs of support from policy makers – particularly for business and dwelling investment. Today's data show that despite the tapering of the JobKeeper program through Q1, the economy has continued to recover. Q2 will be the first full quarter following the withdrawal of this program, but higher frequency indicators suggest that activity has continued to lift. Indeed, we expect unemployment will decline to around 5% by end 2021, and to around 4.4% by end 2023 as labour demand grows alongside the rise in activity. The pattern of activity will likely see ongoing impacts from the pandemic, with consumption patterns still impacted by border closures while stimulus will continue to support both business and dwelling investment. Lockdowns (as currently in Victoria) remain a risk, but if short-lived should not significantly impact the recovery. Despite the much-better-than-expected recovery to date, remaining spare capacity will see soft underlying inflationary pressure and therefore the need for exceptionally easy monetary policy to continue.

Key figures

Key aggregates	q/q % ch		y/y % ch
	Dec-20	Mar-21	Mar-21
GDP (A)	3.2	1.8	1.1
GDP (E)	3.1	1.7	1.2
GDP (I)	3.3	1.9	0.9
GDP (P)	3.2	1.8	1.3
– Non-Farm GDP	2.6	1.8	0.5
– Farm GDP	36.2	3.0	38.9
Nominal GDP	4.4	3.5	4.0
Real gross domestic income	4.5	3.5	4.5
Real net national disposable income per capita	5.3	3.4	5.8
Terms of trade	5.5	7.4	15.4



Source: National Australia Bank, Macrobond

HIGHLIGHTS

- **Household consumption** continued to rebound in the quarter, rising by 1.2% (0.0% y/y). Services consumption continue to recover in the quarter, lifting by 2.4%. The increase was driven by the ongoing recovery in Hotels, cafes & restaurants (up 14.8%) and recreation & personal services (up 3.3%). Notably, transport services (including travel) rose by 8.8% but remains around 75% below pre-COVID levels. Goods spending fell 0.5% driven by a decrease across most categories except for other goods, which rose 3.3%. Overall, these data confirm that there may be some normalisation of spending patterns with goods consumption pulling back while services normalise at a slower rate (due to ongoing border closures etc.). Indeed, the household savings rate remains elevated at 11.6% (though fell slightly in the quarter).
- **Underlying business investment** grew for the second consecutive quarter, rising 3.6% q/q, but remains around 2% below its pre-pandemic level. As in Q4, the main driver was machinery and equipment investment (up 10.3% q/q, underlying basis) with vehicle purchases again appearing to be a big part of this. There were also increases in new engineering construction, as well as in research & development, software and, in particular, mining exploration, but new building construction again fell (-3.8% q/q) to be down by over 16% over the year. As in Q4, both mining and non-mining investment grew, but the roles were reversed with non-mining investment showing stronger growth, perhaps reflecting government investment incentives.
- **Dwelling investment** recorded another strong increase of 6.4% in the quarter supported by the Government's homebuilder program. Alterations & additions spending drove the increase (up 10.8%), though investment in new dwellings (up 4.0%) also saw a solid gain. The lift in dwelling investment is evident across the states but is particularly strong in Qld (up 10.7%) and NSW (up 9.6%). Victoria saw the smallest increase in the quarter.
- There was only a small increase in **government demand** (0.2 q/q on an underlying basis), a notable downshift from the 1% and higher quarterly growth rates seen in 2020. The modest growth in the quarter reflected a fall in government consumption (outside of national defence) at both the Federal and State/local government levels, although this was offset by further growth in public underlying investment. ABS commentary suggests one downwards factor was a fall in university employee expenses (at least in some states such as NSW and Victoria).
- **Net exports** detracted 0.6ppts from quarterly GDP growth, as export volumes grew more modestly (0.5% q/q) than imports (3.7% q/q). The increase in exports was driven by another large increase in rural exports (13.8% q/q), with a smaller contribution from non-rural commodities, while manufacturing exports declined as did travel service exports (with international borders largely closed for tourism this may well reflect declining international student numbers). While import growth was still robust, it has decelerated over the last two quarters (matching the pattern for the domestic recovery). Service imports also increased, but this reflects transportation services as travel debits (outbound tourism) remains moribund.
- **State final demand** (SFD) grew strongly in most jurisdictions but showed only moderate growth in Queensland and the ACT, while it declined in the Northern Territory (-1.9% q/q). SFD growth was strongest in WA (3.0% q/q) reflecting very strong growth in business investment, due to mining sector investment and small business investment in equipment. Victoria was the next strongest (2.3% q/q) partly reflecting the full impact of the easing in restrictions that occurred from late Q3 and into Q4. The decline in Northern Territory SFD reflected a fall in household consumption as well as in public and private investment, but followed a couple of very strong quarters. Similarly, household consumption declined in Queensland – but this may reflect a correction to previous strength as both NT and Queensland (as well as the ACT), are the only jurisdictions where household consumption is above its pre-COVID-19 level). Compared to its pre-virus level, SFD is strongest in the ACT, WA and Tasmania, but weakest in NSW and, in particular, Victoria (which despite the strong growth in the quarter, is the only jurisdiction where SFD remains below its pre-COVID-19 level).
- The production side of the accounts showed **gains across most industries**. Construction made the largest contribution to growth, supported by the strength in dwelling investment. Manufacturing and Transport, Postal & Warehousing also made solid contributions to growth in the quarter alongside another sizeable contribution from taxes less subsidies. Utilities, retail, info media and public admin were slightly softer in the quarter. In year-ended terms, Admin & Support and Transport, Postal & Warehousing remain weakest, reflecting the delayed recovery in these sectors with ongoing border closures continuing to impact the latter. Retail, wholesale and Agri are strongest.
- **Australia's agricultural sector** continues to enjoy broadly strong seasonal conditions, following an extremely strong season last year. Agriculture, forestry and fishing grew 2.9% q/q, contributing 0.1pp to GDP. Crops continue to drive strong results, reflecting the nation's largest wheat harvest on record over summer 2020-21. Looking ahead, while seasonal conditions remain broadly encouraging, it is hard to see the coming season outperforming the previous. This points to lower farm GDP growth in the back half of 2021.

SUMMARY CHARTS AND TABLES:

GDP (E) by component

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Dec-20	Mar-21	Mar-21	Mar-21
Household Consumption	4.5	1.2	0.0	0.7
Dwelling Investment	4.2	6.4	7.9	0.3
Underlying Business Investment^	2.3	3.6	-1.4	0.4
Machinery & equipment	8.5	10.3	7.2	0.4
Non-dwelling construction	-2.0	-1.4	-8.9	-0.1
New building	-5.0	-3.8	-16.6	-0.1
New engineering	0.9	0.7	-1.3	0.0
Underlying Public Final Demand	1.0	0.2	5.1	0.1
Domestic Demand	**3.4**	**1.6**	**1.9**	**1.6**
Stocks (a)	-0.1	0.7	1.0	0.7
GNE	**3.3**	**2.3**	**2.9**	**2.3**
Net exports (a)	**-0.1**	**-0.6**	**-1.6**	**-0.6**
Exports	4.1	0.5	-6.2	0.1
Imports	5.4	3.7	1.0	-0.7
GDP	**3.2**	**1.8**	**1.1**	**1.8**

(a) Contribution to GDP growth ^ Excluding transfers between the private and public sector

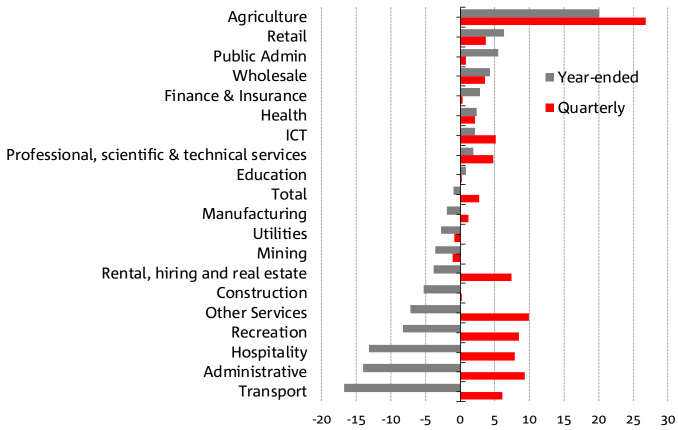
INCOME MEASURES

Income measures	q/q % ch		y/y % ch
	Dec-20	Mar-21	Mar-21
Real GDI	4.5	3.5	4.5
Real net disposable income per capita	5.3	3.4	5.8
Compensation of employees	1.5	1.5	3.0
Average compensation of employees (average earnings)	-0.3	0.1	3.3
Corporate GOS	-5.5	-1.9	9.1
Non-financial corporations	-7.0	-2.5	11.0
Financial corporations	1.1	0.9	2.1
General government GOS	1.4	1.4	5.8
Productivity & unit labour cost			
GDP per hour worked	-0.3	0.8	2.5
GVA per hour worked mkt sector	0.2	0.3	2.9
Non-farm nominal unit labour cost	9.0	2.0	-0.2
Non-farm real unit labour cost	7.4	0.3	-3.5

State final demand

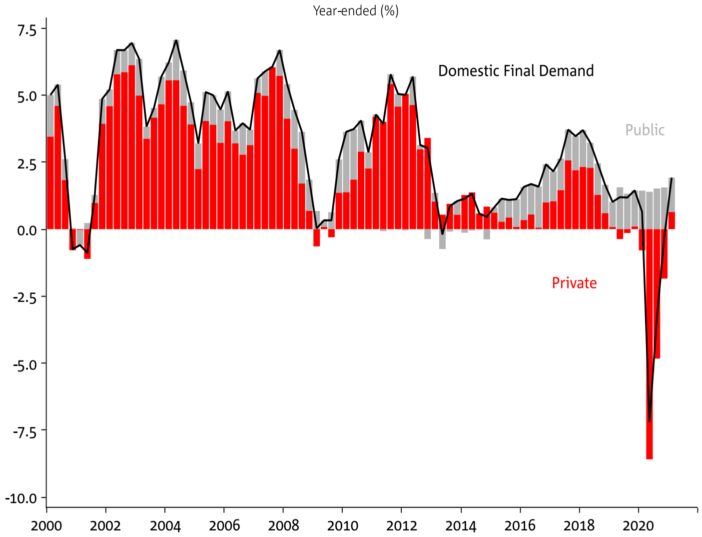
State/ Territory	Q/Q		Y/Y
	Dec-20	Mar-21	Mar-21
NT	4.2	-1.9	4.6
WA	2.0	3.0	3.8
QLD	1.9	0.4	3.0
TAS	3.7	1.6	2.9
SA	0.7	1.4	2.6
ACT	1.1	0.5	2.1
NSW	2.8	1.5	1.9
VIC	7.3	2.3	-0.3

Industry GVA Growth



Domestic Final Demand Growth

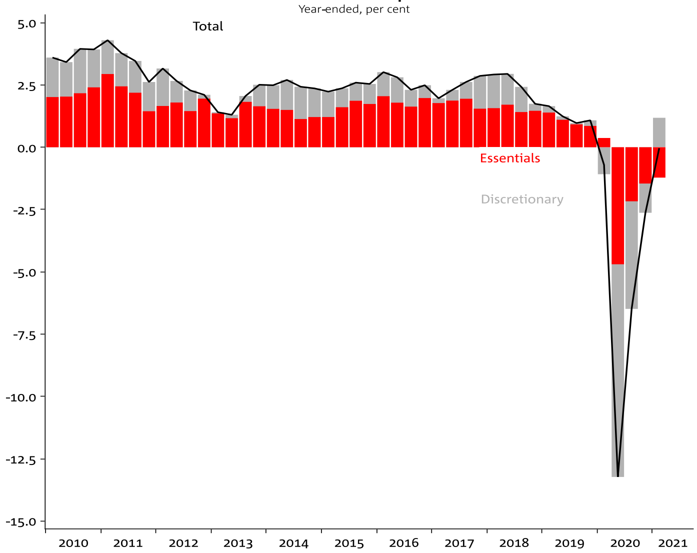
Year-ended (%)



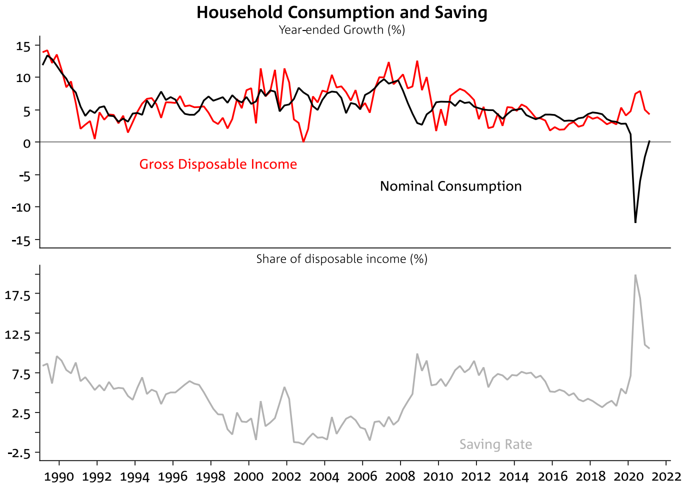
Source: National Australia Bank, Macrobond

Real Household Consumption Growth

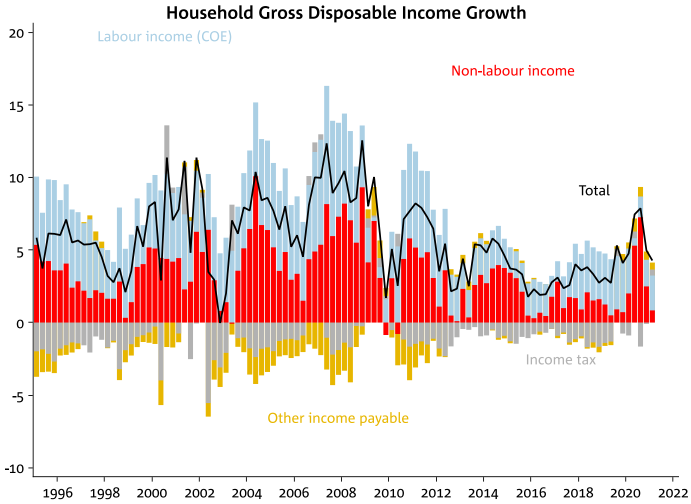
Year-ended, per cent



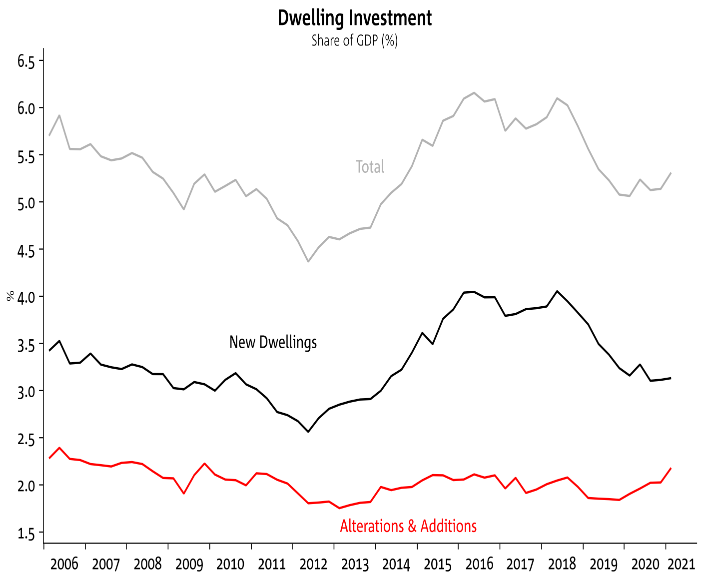
Source: National Australia Bank, Macrobond



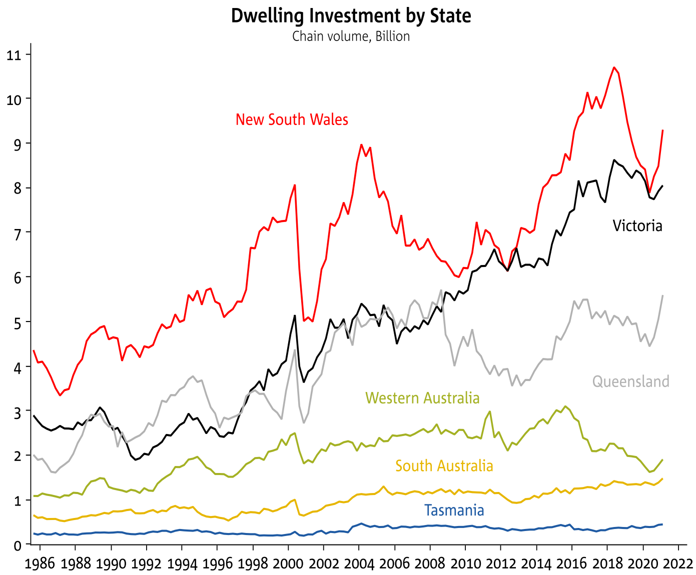
Source: National Australia Bank, Macrobond



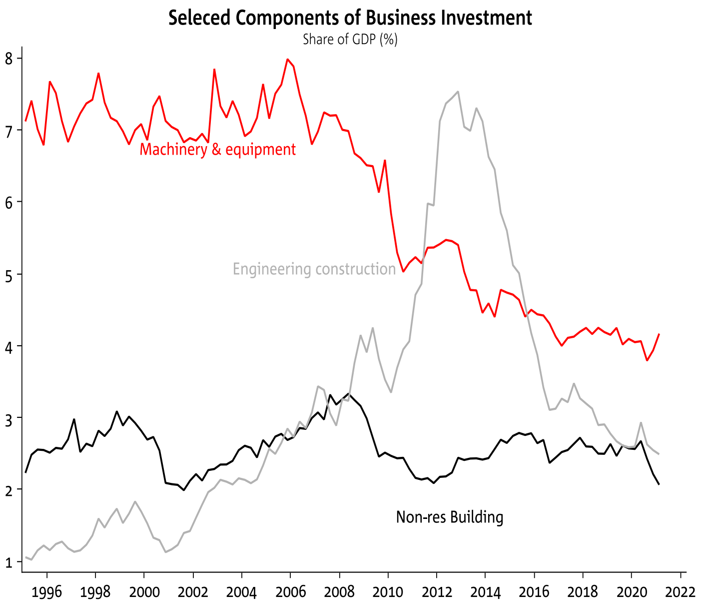
Source: National Australia Bank, Macrobond



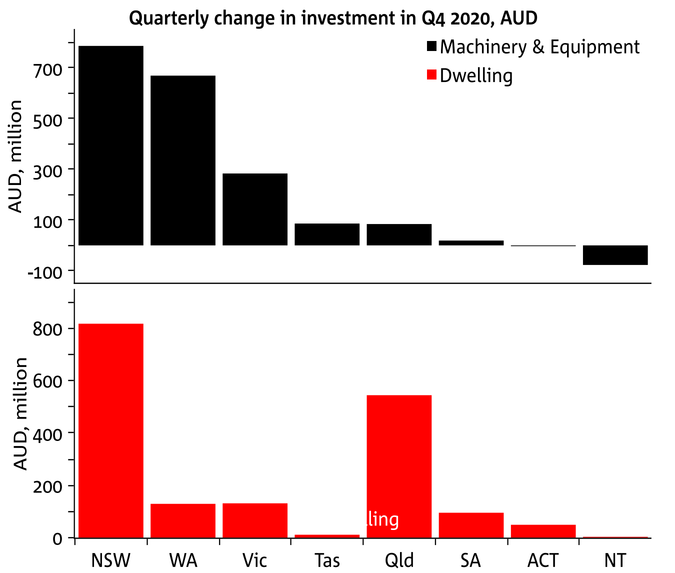
Source: National Australia Bank, Macrobond



Source: National Australia Bank, Macrobond



Source: National Australia Bank, Macrobond



Source: National Australia Bank, Australian Bureau of Statistics

AUTHORS:

Alan Oster, Group Chief Economist
Gareth Spence, Senior Economist
Antony Kelly, Senior Economist
Phin Ziebell, Economist

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Dean Pearson
Head of Economics
+(61 3) 8634 2331

Australian Economics and Commodities

Gareth Spence
Senior Economist
+61 (0) 436 606 175

Tony Kelly
Senior Economist
+(61 3) 9208 5049

Phin Ziebell
Economist – Agribusiness
+61 (0) 475 940 662

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural & Industry Economics
+(613) 9208 2929

International Economics

Gerard Burg
Senior Economist – International
+(61 3) 8634 2788

Global Markets Research

Ivan Colhoun
Global Head of Research
+61 2 9237 1836