

AUSTRALIAN ECONOMIC UPDATE

GDP Q2 2022 – A solid result ahead of a slower H2 2022



7 September 2022

Bottom line: GDP rose by 0.9% q/q (3.6% y/y), driven by a solid outcome for household consumption and a boost from trade. These data largely pre-date the rapid series of rate rises over recent months but did show an ongoing normalisation in the household saving rate – which will likely decline further as rates rise. Services spending continued to recover while spending in some goods categories moderated, reflecting further rebalancing – and we expect this dynamic to continue to play out. Average earnings per hour (AENA) moderated due to a rebound in hours worked, but in annual terms continues to track well above the WPI measure of wages growth, pointing to growing domestic inflation pressures. Unit labour costs growth also accelerated in the quarter. Overall, the accounts suggest the economy was in strong shape entering the tightening phase of monetary policy but this doesn't alter our view that growth will slow to below trend in both 2023 and 2024. Implications for monetary policy are also limited with the RBA likely to increase rates further in coming months with inflation high and higher frequency data pointing to ongoing strength in spending and the labour market in early Q3.

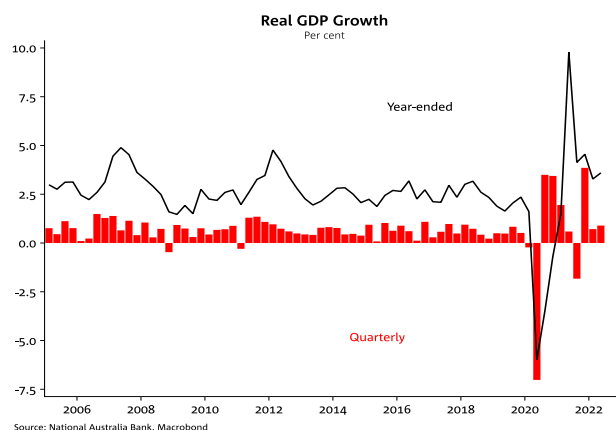
Today's release reflects many moving parts including a rebound from a COVID impacted Q1, weather and supply impacts on construction, the ongoing recovery in services spending and normalising trade patterns. The expenditure side printed largely as expected with services consumption driving the 2.5% increase in spending while goods consumption held at a relatively high level. Trade made a significant contribution following the large detraction from imports in Q1 while government spending remained high and dwelling investment fell on weather-related disruptions and supply constraints. By industry, the gains came through travel, accommodation, and arts & rec – reflecting the rebound in household spending in these sectors after an Omicron impacted Q1 and the ongoing recovery from the pandemic more broadly.

The nominal side of the accounts continued to reflect a broad-based build-up of price pressures, with the consumption deflator up 1.5% q/q and overall domestic final demand deflator growing 1.6% q/q. Both are tracking at very high rates in annual terms at 3.7% and 4.9%, respectively. Average earnings growth was volatile in the quarter but continues to track well above the WPI in annual terms. Importantly for domestic inflationary pressure, unit labour cost growth accelerated in quarterly terms and continues to track above pre-pandemic rates. The strength in the terms of trade also continues to support income growth in the economy more broadly.

Looking forward, we expect growth to continue at a slower rate as we move further past the rebound from lockdowns and as higher prices and interest rates start to weigh on households and the economy more broadly. Overall, we see growth slowing to be below trend over the next two years. Key dynamics in a national accounting sense will be the further rebalancing of spending from still-elevated goods to services, the ongoing recovery in services trade and the overall impact on household savings and income as rates rise. Average earnings growth and unit labour cost growth will also grow in importance given their implications for price pressures. We expect the slower growth to eventually feed through to the labour market with the unemployment rate drifting up over the next two years but remaining broadly around full employment. That sees wage and domestic inflationary pressure continue to build as the impact of international factors begins to wane.

Key figures

| Key aggregates | q/q % ch | | y/y % ch |
|--|----------|--------|----------|
| | Mar-22 | Jun-22 | Jun-22 |
| GDP (A) | 0.7 | 0.9 | 3.6 |
| GDP (E) | 0.6 | 0.8 | 3.4 |
| GDP (I) | 0.9 | 0.8 | 3.6 |
| GDP (P) | 0.7 | 1.1 | 3.8 |
| – Non-Farm GDP | 0.9 | 0.9 | 3.4 |
| – Farm GDP | -7.5 | 2.0 | 10.4 |
| Nominal GDP | 4.1 | 4.3 | 12.1 |
| Real gross domestic income | 2.4 | 2.3 | 5.6 |
| Real net national disposable income per capita | 1.6 | 2.3 | 2.1 |
| Terms of trade | 7.5 | 4.6 | 7.5 |



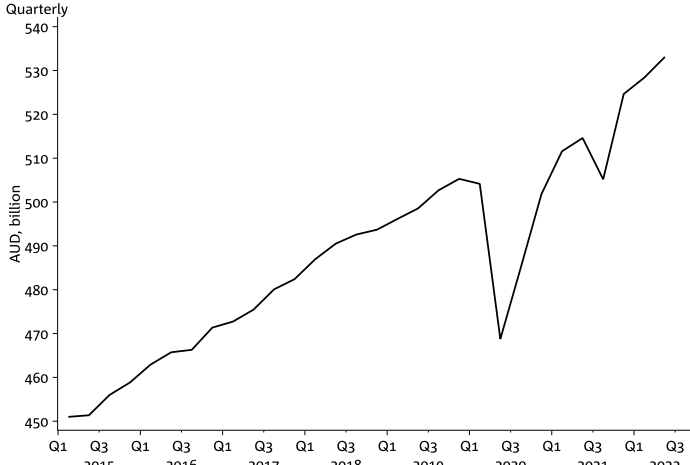
HIGHLIGHTS

- **Household consumption** rose 2.5% q/q (up 6.0% y/y), rebounding further as spending patterns continued to normalise from the pandemic. The increase was driven by a large rise in services consumption (up 3.6%) as the easing Omicron outbreak and reduced travel restrictions saw hospitality consumption rise 8.8% and transport consumption jump nearly 40% (from a low base). On the other hand, goods spending moderated to be down 0.1%, led by falls in food, vehicle, and household goods spending – though clothing consumption rose in the quarter. Overall, household consumption contributed 1.1ppt to GDP growth.
- **Business investment** increased by 0.6%q/q (underlying basis). At a sector level, this entirely reflected growth in non-mining investment as mining investment again declined to be 9.3% below where it was a year ago (despite a run-up in commodity prices and profits). By type of investment, there was a second consecutive quarter of strong growth in machinery & equipment (3.9% q/q, underlying basis), which more than offset falls in non-dwelling construction (particularly engineering) and in mineral exploration.
- **Dwelling investment** fell 2.9% q/q (4.6% y/y) further extending the decline over recent quarters as capacity constraints and weather events have weighed on the sector. The decline was particularly notable in Qld (down 6.0%) and Vic (down 3.8%) but rose 3.8% in SA. The pipeline of work to be done remains elevated, although building approvals are now falling.
- Underlying **Public demand** was essentially flat. General consumption fell because of declines in state/local consumption – which the ABS attributes to lower spending on health after the Q1 peak of the Omicron wave – and Federal government defence spending. Growth in Federal government non-defence spending slowed. Weakness on the consumption side was offset by robust growth in underlying public investment.
- **Net exports** added 1.0 ppts to quarterly GDP growth, reflecting a large increase in export volumes (5.5% q/q), mainly driven by a lift in rural/resource exports and a large rebound in transport and service credits. Imports also rose (0.7% q/q) - while the Q1 surge in goods imports was partially unwound this was more than offset by large increase in services imports (14.3% q/q). The large increases in service credits and debits are attributable to border re-opening, although both travel services and debits were still around 40% below their pre-COVID levels.
- **State final demand (SFD)** grew most strongly NSW (1.9% q/q), SA (1.5%), Vic and Qld (both up 1.0%), but WA saw only marginal growth (0.1%) while it declined in the NT (-0.5%). SFD in all states & territories was boosted by household consumption, with quarterly growth ranging between 1.4% to 2.5%. The strongest household consumption growth was in NSW which also saw strong growth in public and business sector investment. SA was one of few places not to see a fall in dwelling investment (NT and ACT the only others) while it also saw robust growth in government consumption (the only jurisdiction not to see a fall). Growth in WA was held back by a fall in investment while for NT there was a large fall in public consumption. Nevertheless, relative to its pre-COVID level, SFD has grown most strongly in NT, with WA also one of the stronger performers.
- The ongoing rebound in services consumption flowed through to the **production side** of the accounts, with large increases in transport, postal & warehousing (up 7.5%), accommodation & food (up 10.7%) and arts & recreation (up 3.5%). Health & social assistance also rose, up 2.5% after an Omicron-impacted Q1. Mining price movements had little impact on production in volume terms, up just 0.2%, but agriculture, forestry & fishing rose 1.6% in the quarter as the strong grain harvest continued to flow through the sector. Manufacturing production fell 1.1%.
- **Household disposable income** grew by 1.0%, supported by a 2.3% increase in compensation of employees as hours rebounded from Omicron and flooding, employment increased and wages picked up. The hours rebound saw AENA per hour decline 0.5% q/q but the measure remains 4.6% higher over the year. With consumption increasing 3.7% in nominal terms, net savings fell again in the quarter with the household savings rate falling from 11.1% to 8.7%. Still, the savings rate remains above its pre-pandemic average. Dwelling related interest payments increased 9.8% but this was mostly offset in aggregate by interest received, with the effects of recent rate increases likely to be more evident in Q3.
- On the **nominal side**, recent price pressures were again evident with the household consumption deflator increasing 1.5% (unchanged from Q1) and domestic demand deflator up 1.6% (up from 1.4% in Q1). The terms of trade rose further, up 4.6% as both export and import prices rose. Overall, nominal GDP grew 4.3% q/q (12.1% y/y).

KEY CHARTS:

GDP is now 5.5% above pre-COVID levels

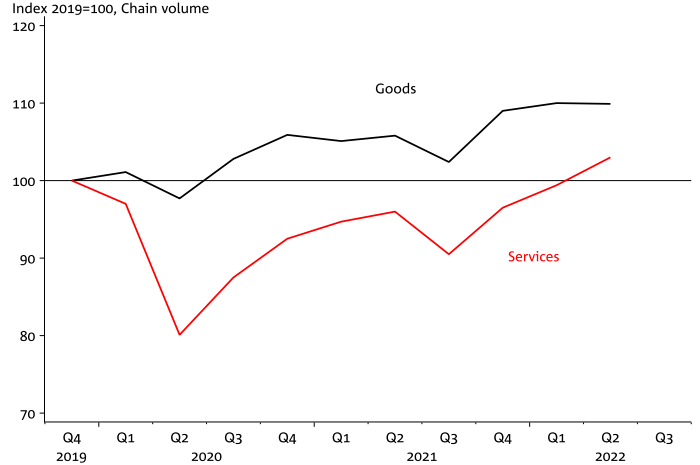
Gross Domestic Product



Source: National Australia Bank, Australian Bureau of Statistics

Services continued to recover and goods remained elevated

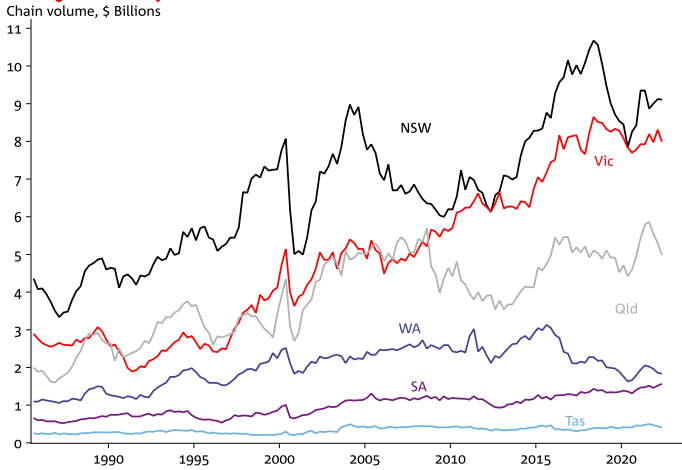
Household Consumption



Source: ABS, NAB

Dwelling investment remains high but volatile

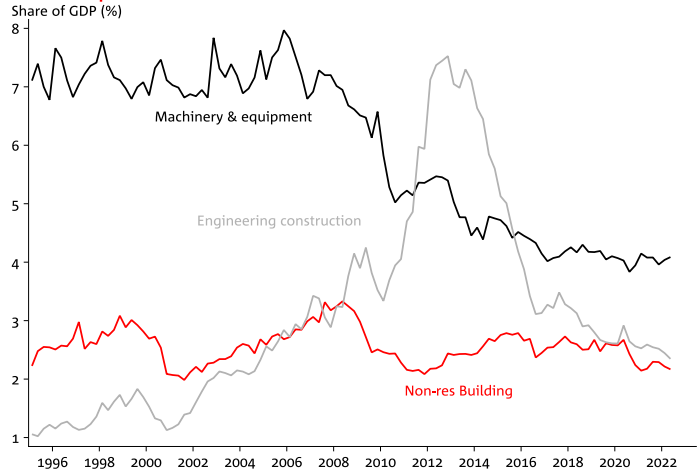
Dwelling Investment by State



Source: National Australia Bank, Australian Bureau of Statistics

Business investment growth remains soft

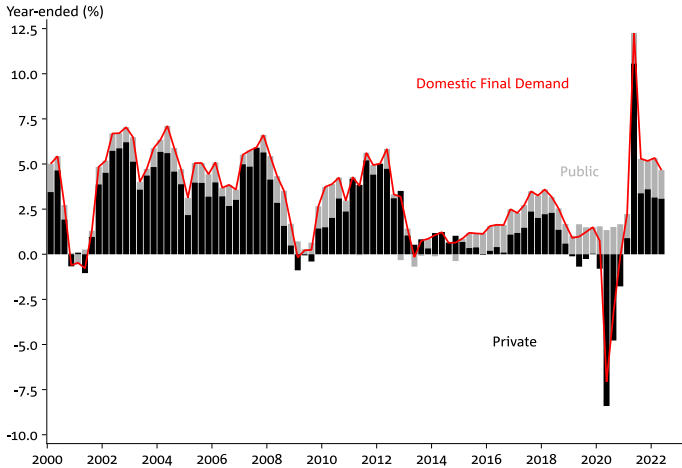
Selected Components of Business Investment



Source: National Australia Bank, Australian Bureau of Statistics

Private sector demand remains robust

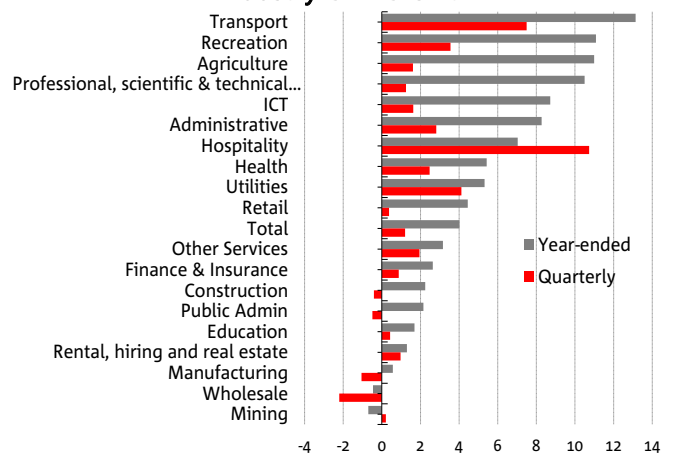
Domestic Final Demand Growth



Source: National Australia Bank, Australian Bureau of Statistics

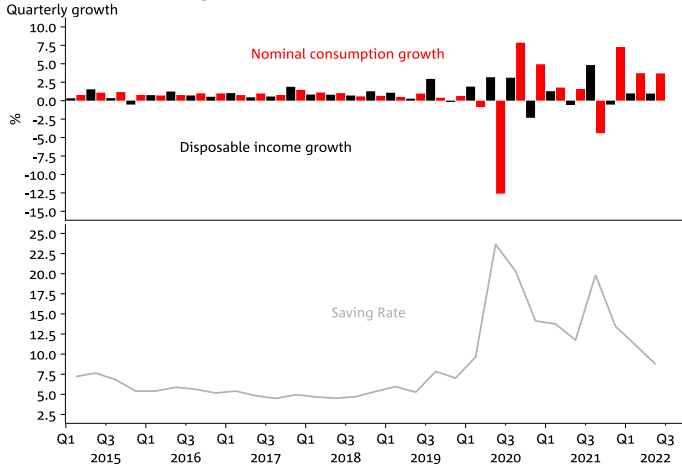
GVA growth – rebound in COVID affected sectors continues

Industry GVA Growth



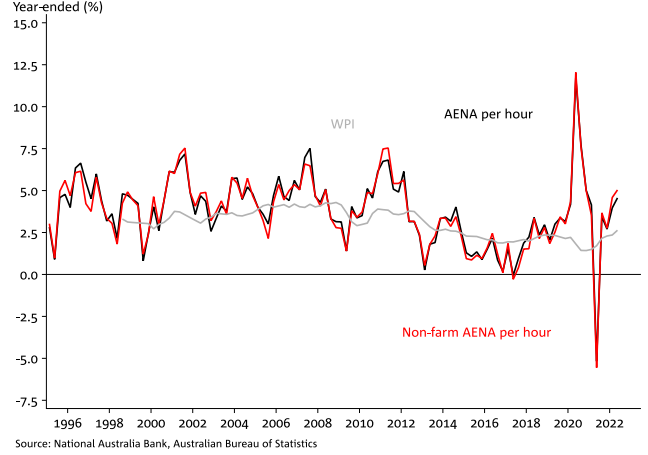
The savings rate declined further but remains elevated

Household Income and Savings



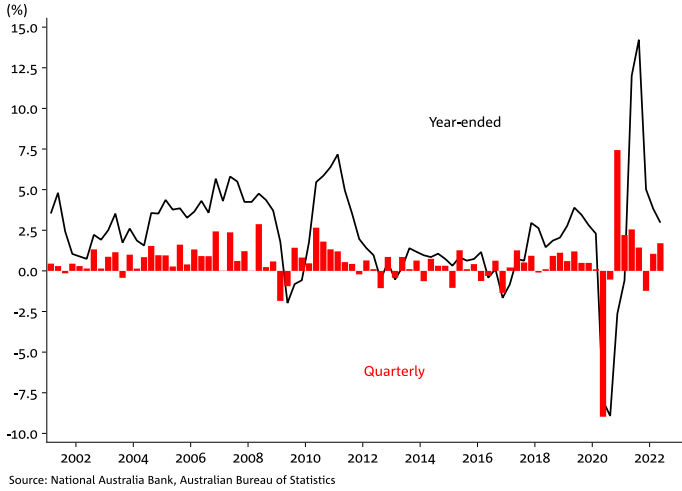
Wage pressures continued to build

Income Growth



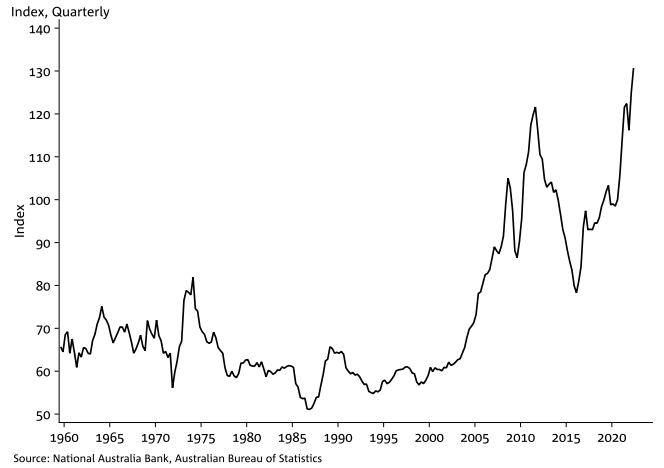
Nominal unit labour cost growth accelerated

Nominal Unit Labour Cost Growth



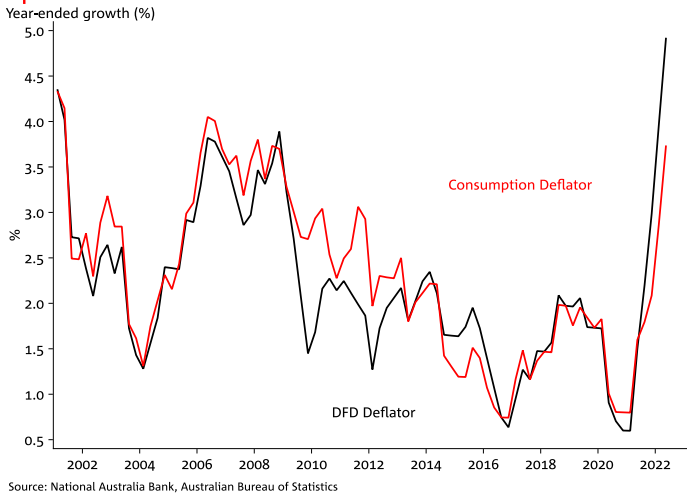
The terms of trade reached a new record.

Terms of trade



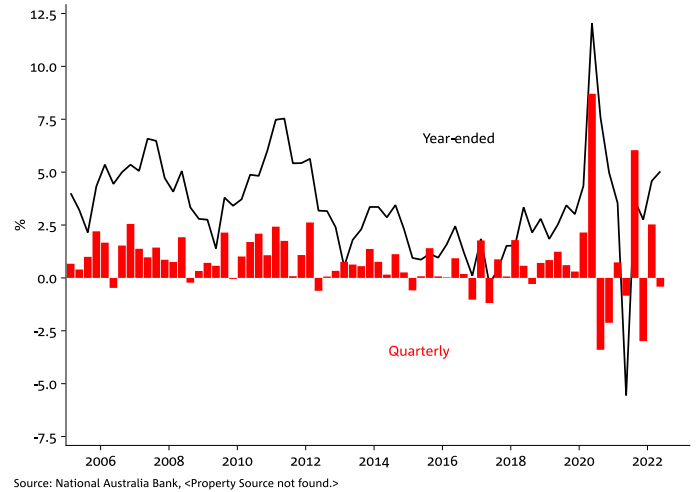
Price deflators reflect strong price pressures

Implicit Price Deflators



Year-ended AENA growth moved higher

Non-farm AENA Growth



Summary Tables

Key variables

| GDP Expenditure Components | q/q % ch | | y/y % ch | | Contribution to q/q % ch |
|---------------------------------|-------------|-------------|-------------|-------------|--------------------------|
| | Mar-22 | Jun-22 | Jun-22 | Jun-22 | |
| Household Consumption | 2.2 | 2.2 | 6.0 | 1.1 | |
| Dwelling Investment | -0.5 | -2.9 | -4.6 | -0.2 | |
| Underlying Business Investment^ | 1.0 | 0.6 | 1.4 | 0.1 | |
| Machinery & equipment | 3.2 | 3.9 | 4.5 | 0.2 | |
| Non-dwelling construction | -1.0 | -1.9 | -1.9 | -0.1 | |
| New building | -1.2 | -0.3 | 3.6 | 0.0 | |
| New engineering | -0.7 | -3.4 | -6.6 | -0.1 | |
| Underlying Public Final Demand | 2.5 | 0.0 | 6.0 | 0.0 | |
| Domestic Demand | 1.9 | 1.0 | 4.7 | 1.0 | |
| Stocks (a) | 1.0 | -1.2 | -0.3 | -1.2 | |
| GNE | 2.9 | -0.2 | 4.4 | -0.2 | |
| Net exports (a) | -2.3 | 1.0 | -0.9 | 1.0 | |
| Exports | -0.8 | 5.5 | 4.9 | 1.1 | |
| Imports | 11.3 | 0.7 | 10.0 | -0.1 | |
| GDP | 0.7 | 0.9 | 3.6 | 0.9 | |

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

Income measures

| Income measures | q/q % ch | | y/y % ch |
|--|----------|--------|----------|
| | Mar-22 | Jun-22 | Jun-22 |
| Real GDI | 2.4 | 2.3 | 5.6 |
| Real net disposable income per capita | 1.6 | 2.3 | 2.1 |
| Compensation of employees | 1.9 | 2.4 | 7.0 |
| Average compensation of employees (average earnings) | -0.2 | 1.4 | 3.4 |
| Corporate GOS | 7.9 | 10.0 | 24.9 |
| Non-financial corporations | 9.2 | 11.2 | 28.5 |
| Financial corporations | 1.0 | 3.6 | 7.7 |
| General government GOS | 0.8 | 0.8 | 3.5 |
| Productivity & unit labour cost | | | |
| GDP per hour worked | 1.2 | -2.0 | 1.5 |
| GVA per hour worked mkt sector | 1.0 | -2.6 | 1.1 |
| Non-farm nominal unit labour cost | 0.8 | 1.9 | 3.6 |
| Non-farm real unit labour cost | -2.5 | -1.1 | -3.8 |

State final demand

| State/ Territory | Q/Q | | Y/Y |
|---------------------|--------|--------|--------|
| | Mar-22 | Jun-22 | Jun-22 |
| VIC | 3.1 | 1.0 | 6.5 |
| NT | 2.5 | -0.5 | 4.7 |
| SA | 1.0 | 1.5 | 4.7 |
| NSW | 1.9 | 1.9 | 4.1 |
| QLD | 0.8 | 1.0 | 4.0 |
| ACT | 2.6 | 0.6 | 3.9 |
| WA | 1.8 | 0.1 | 3.3 |
| TAS | -0.9 | 0.6 | 2.4 |

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