Australian Economic Update

GDP Q3 2022 – Post-COVID normalisation continues

NAB Group Economics

Overview

GDP rose by 0.6% q/q (5.9% y/y) and continues to reflect a strong economy where GDP is now 6.5% above pre-Pandemic levels – stronger than most major economies. The broad themes we know that are playing out in the economy were certainly reflected in this release. Household consumption growth remained solid – supported by recovering services spending, while a normalisation in goods spending appears to be well underway. Recovering supply chains and catch-up from weather-related disruptions were also evident. The tight labour market and broad-based inflation pressure we have seen were also reflected with a broader – though more volatile - set of wage/earning measures growing strongly and consumption and domestic demand deflators rising sharply. Overall, while these accounts confirm a strong economy and broad-based inflationary pressure, they are dated with higher frequency data pointing to at least some slow down in early Q4. That said, household income measures were very strong and we continue to see the RBA raising rates by 25bp at each of the next two meetings taking the cash rate to 3.6%. We continue to see growth slowing from here and will release full set of updated forecasts next week.

Key points

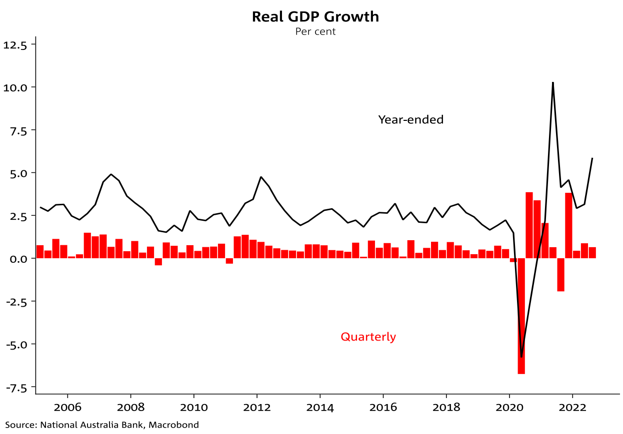
In real terms, today's release reflected another solid outcome for the economy – where GDP is now 6.5% above pre-COVID levels. Household consumption was again relatively strong, rising by 1.1% q/q, and business and dwelling investment also made contributions. Of note was the ongoing rebalancing within household consumption, with spending on goods (ex motor vehicles) down 0.4% q/q but services up 1.7% q/q. Motor vehicles were up solidly likely reflecting the clearing of backlogs. In a similar vein the solid outcome for non-res construction and small improvement in dwelling construction also likely reflects some catch-up after supply and weather-related disruptions earlier in the year. Trade detracted on net with rural exports rising, consumption imports higher, and services trade continuing to normalise.

The broad-based inflationary pressure we have seen in other indicators was also evident in the accounts. The consumption and DFD deflators rose strongly in quarterly terms and in annual terms are now tracking at their highest rate since the early 1990s. Of particular note is the strong 2.6% q/q outcome for average earnings and a 2.2% rise in nominal unit labour costs (productivity adjusted wage costs). At face value these measures suggest a stronger underlying wage pressure than implied by the WPI, reflecting a very tight labour market.

Elsewhere in the accounts, strong growth in household disposable income was outpaced by the ongoing rebound in household consumption, resulting in a further normalisation of the savings rate to 6.9% - around its pre-pandemic level. Income was well supported by strong growth in labour earnings, though the early impact of higher interest rates was obvious on both income payable and receivable.

Key figures

Key aggregates	q/q % ch		y/y % ch
	Jun-22	Sep-22	Sep-22
GDP (A)	0.9	0.6	5.9
GDP (E)	0.8	0.6	5.8
GDP (I)	0.7	0.6	5.9
GDP (P)	1.1	0.7	5.9
– Non-Farm GDP	0.8	0.6	6.0
– Farm GDP	4.2	0.8	1.2
Nominal GDP	4.1	0.8	13.1
Real gross domestic income	2.1	-1.0	5.8
Real net national disposable income per capita	1.9	-2.7	2.1
Terms of trade	4.8	-6.7	-0.4



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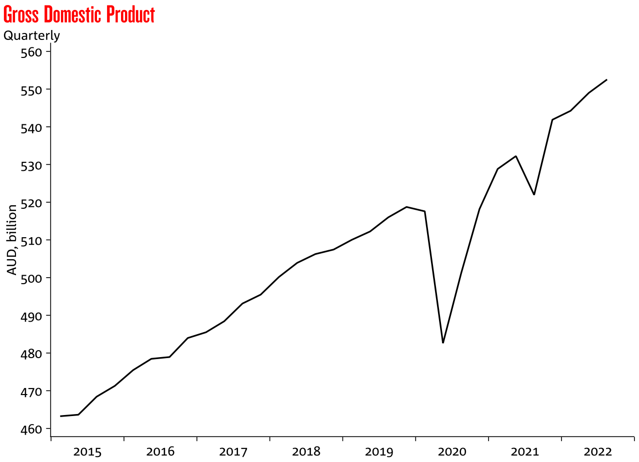
Details

- **Household consumption** rose 1.1% q/q (up 11.8% y/y due to base effects from lockdowns). The rise was once again driven by the ongoing recovery of services (up 1.7%), led by hospitality (up 5.5%) and transport services (up 13.9%). Goods consumption grew by a more modest 0.3%, supported by a 10.1% increase in purchases of vehicles as supply backlogs cleared. Excluding vehicles, goods consumption fell 0.4%, reflecting the ongoing rebalancing seen across 2022. Overall, household consumption contributed 0.6ppt to GDP growth.
- **Business investment** increased by 0.7%q/q (underlying basis), with increases in both non-mining and mining investment (although mineral exploration declined for the second consecutive quarter). By type of investment, there was a fall in underlying machinery & equipment investment, but this was offset by a rebound in new building and new engineering construction. Over the year to Q3, underlying business investment grew by 3.7%, as the pace of investment growth has slowed from that seen end 2021 to mid-2022 as the economy rebounded from lockdown (in part help by tax incentives).
- **Dwelling investment** rose 1.0% q/q but, due to declines in the previous three quarters, it was 3.9% below its year ago level. According to the ABS, activity was boosted in the quarter by a 'slight' easing of labour and material shortages, and fewer weather impacts. At a state level, only NSW, Queensland (just), Tasmania and ACT saw dwelling investment rise. A decline in housing market sales activity was, according to the ABS, also the driver behind the large fall in **ownership transfer costs** (down 11.2% q/q).
- There was a small increase in underlying **public demand** (0.2% q/q). General consumption rose by 0.1% with a fall in Federal government consumption offset by increases at the state & local level (0.8% q/q). At a state level, there were a variety of factors in play, including a pull-back in COVID-related consumption – such as on rapid antigen tests – and flood related spending in NSW. Underlying public investment again grew, but at 0.5% q/q it was at a slower pace than in the last two quarters.
- **Net exports** detracted 0.2 ppts from quarterly GDP growth. Goods exports increased 1.4% q/q – principally due to a big lift in rural exports but there was a small fall in resource exports with the ABS noted that east coast floods disrupted mining shipments. The 1.5% q/q increase in goods imports was reasonably broad based with growth in consumption, intermediate and capital goods (all within the range of 1.3-1.8% q/q). The ongoing normalisation of international travel meant services trade again grew rapidly (+11% for credits and +16% for debits) although both remain well below their pre-COVID-19 levels.
- **State final demand (SFD)** grew 0.7% in NSW and Qld and 0.6% in WA, but was more modest at 0.1% in SA and was flat in Vic. For the smaller states, Tas grew 1.6%, the NT by 2.7% and ACT by 0.2%. Household consumption was stronger across the board and private investment also grew everywhere except WA and the ACT, while falling government spending on COVID weighed in Vic, SA, and the ACT.
- On the **production side** of the accounts, there were once again strong increases in transport, postal & warehousing (up 3.5%) and accommodation & food (up 3.4%) as domestic and international travel continued to recover. There was also a noticeable rise in construction (up 2.3%) as supply shortages eased and new projects commenced, and a range of other services rose including administrative and professional services, wholesale, retail, utilities, and education. Mining production rose 1.2% but manufacturing fell 1.3% and agriculture, forestry & fishing also edged down 0.4%.
- **Household disposable income** grew by 1.6%, supported by a 3.0% increase in compensation of employees. Average compensation per employee rose by a very strong 2.5%, reflecting a combination of underlying wage growth, increased superannuation and likely some job switching and bonus payments. Indeed, the increase in average earnings exceeded inflation in the quarter, supporting real incomes. At the same time, rising rates began weighing heavily on disposable income with dwelling related interest rising 36%, though property interested received also rose at a similar rate. With consumption continuing to grow strongly, the savings rate declined further to 6.9%, much closer to its pre-COVID levels.
- On the **nominal side**, domestic price pressures remain very elevated with the household consumption deflator accelerating to 2.0% (from 1.5% in Q2) and domestic demand deflator up 1.8%. However, the GDP deflator grew just 0.2% with domestic pressures were offset by a fall in the terms of trade as commodity prices eased, down 6.6%. Overall, nominal GDP grew 0.8% q/q (13.1% y/y).

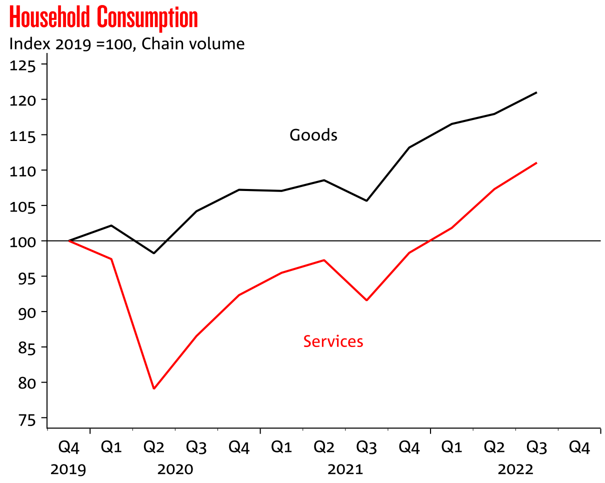
Key Charts

GDP is now 6.5% above pre-COVID levels



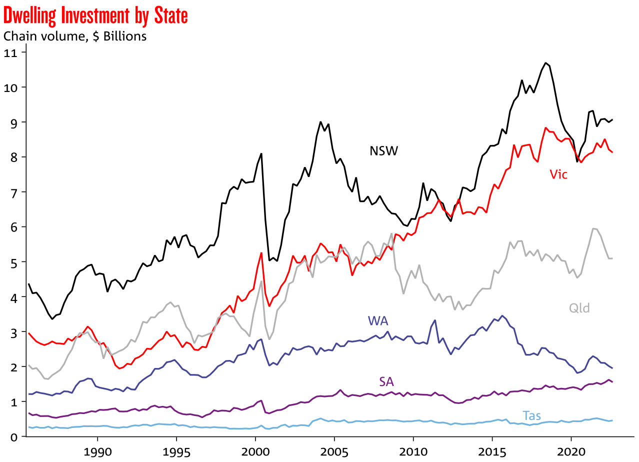
Source: National Australia Bank, Australian Bureau of Statistics

Services consumption continues to normalise



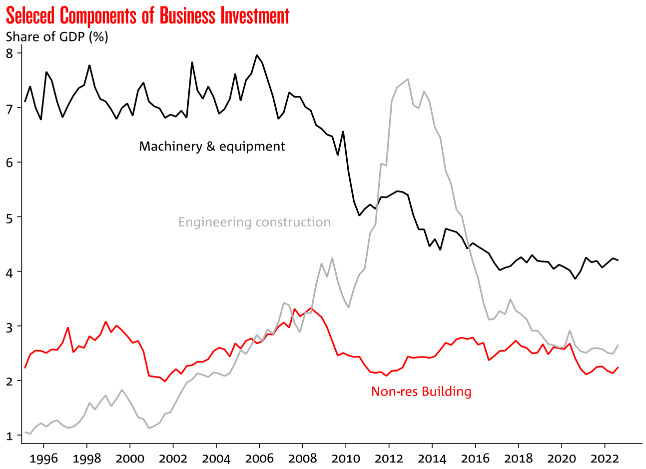
Source: National Australia Bank, Australian Bureau of Statistics

Dwelling investment rose in Q3 but was uneven across states



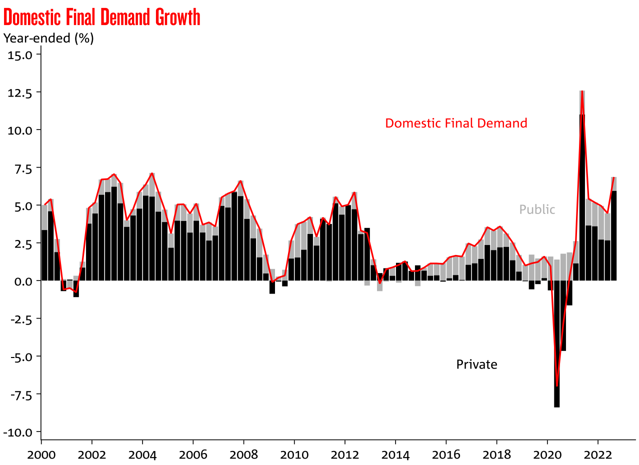
Source: National Australia Bank, Australian Bureau of Statistics

Business investment growth modest



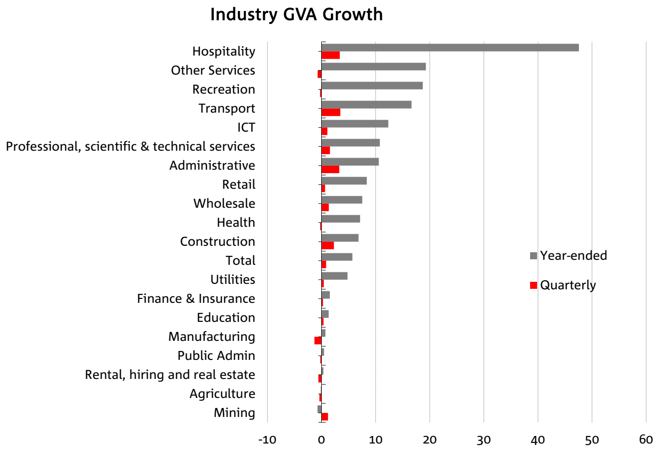
Source: National Australia Bank, Australian Bureau of Statistics

Private sector demand robust

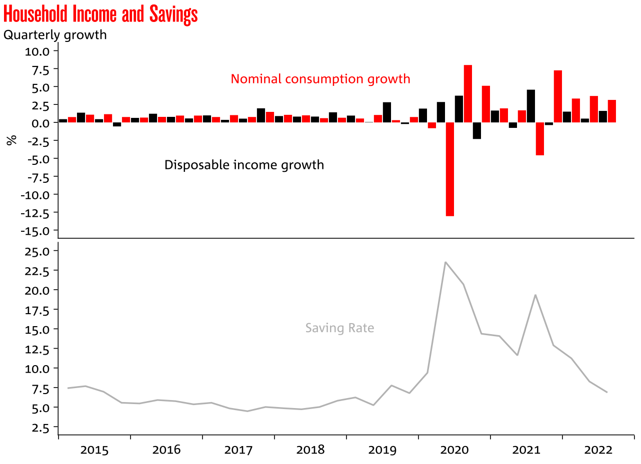


Source: National Australia Bank, Australian Bureau of Statistics

GVA growth – continued rebound in COVID affected sectors

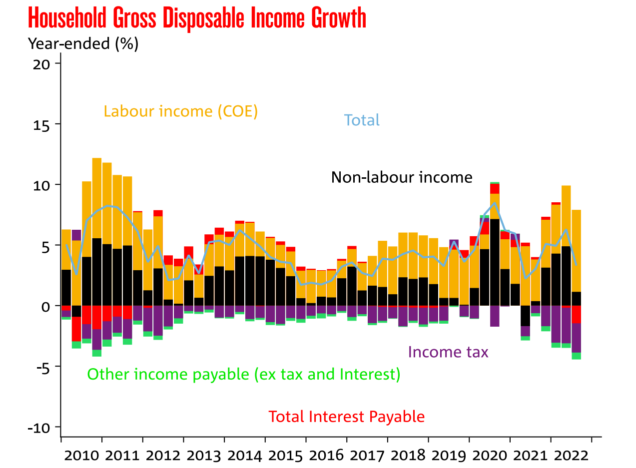


The savings rate now around its pre-COVID level



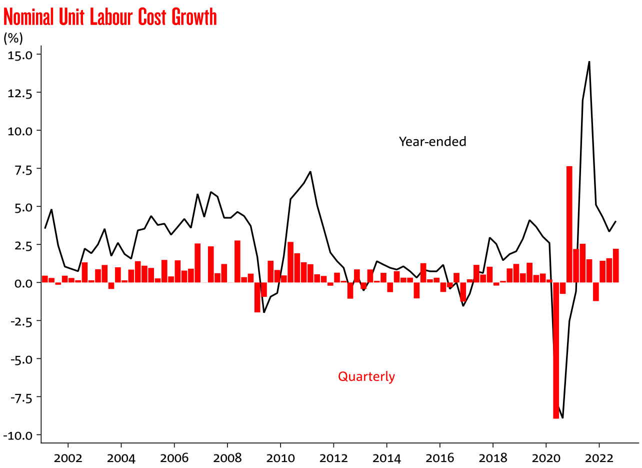
Source: National Australia Bank, Australian Bureau of Statistics

Rates impacts now evident in disposable income



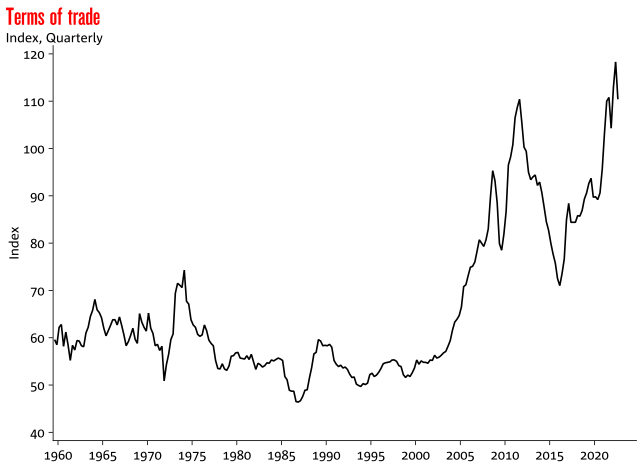
Source: National Australia Bank, Australian Bureau of Statistics

Lift in nominal unit labour cost growth



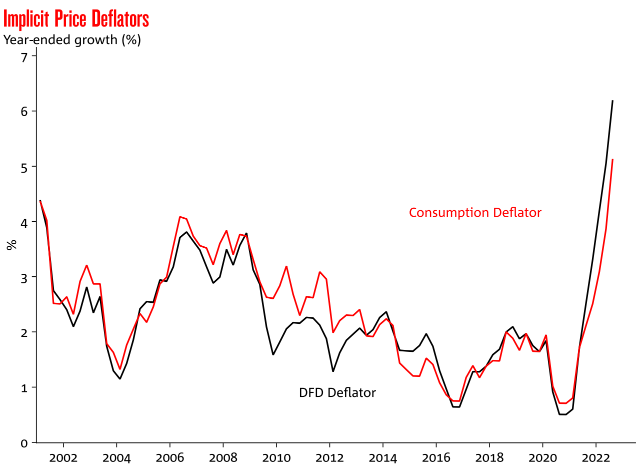
Source: National Australia Bank, Australian Bureau of Statistics

The terms of trade fell back but still elevated



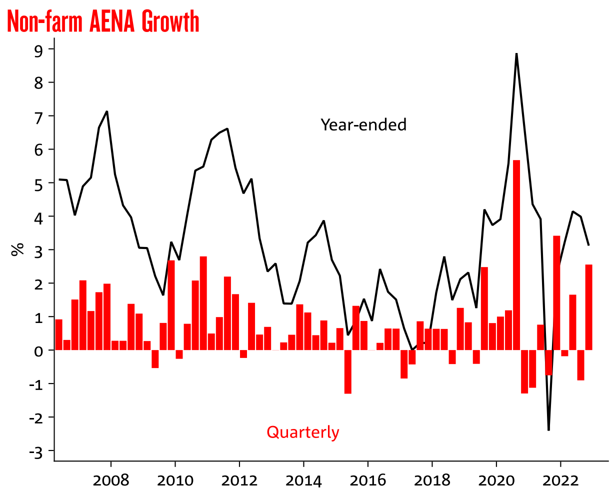
Source: National Australia Bank, Australian Bureau of Statistics

Price deflator growth accelerated



Source: National Australia Bank, Australian Bureau of Statistics

Year-ended AENA growth was strong



Source: National Australia Bank, <Property Source not found.>

Summary Tables

Key variables

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Jun-22	Sep-22	Sep-22	Sep-22
Household Consumption	2.1	1.1	11.8	0.6
Dwelling Investment	-3.1	1.0	-3.9	0.1
Underlying Business Investment^	1.5	0.7	3.7	0.1
Machinery & equipment	4.7	-3.0	3.5	-0.1
Non-dwelling construction	-0.1	4.3	4.8	0.2
New building	0.0	3.8	4.1	0.1
New engineering	-0.3	4.8	5.5	0.1
Underlying Public Final Demand	-0.1	0.2	3.2	0.0
Domestic Demand	**1.0**	**0.6**	**6.9**	**0.6**
Stocks (a)	-1.0	0.2	1.0	0.2
GNE	**0.0**	**0.8**	**8.0**	**0.8**
Net exports (a)	**0.8**	**-0.2**	**-1.9**	**-0.2**
Exports	5.3	2.7	6.8	0.6
Imports	1.4	3.9	19.1	-0.8
GDP	**0.9**	**0.6**	**5.9**	**0.6**

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

Income measures

Income measures	q/q % ch		y/y % ch
	Jun-22	Sep-22	Sep-22
Real GDI	2.1	-1.0	5.8
Real net disposable income per capita	1.9	-2.7	2.1
Compensation of employees	2.5	3.2	10.0
Average compensation of employees (average earnings)	1.6	2.5	4.8
Corporate GOS	10.1	-3.5	15.6
Non-financial corporations	11.4	-4.9	17.2
Financial corporations	2.6	4.9	7.7
General government GOS	1.4	1.1	6.0
Productivity & unit labour cost			
GDP per hour worked	-2.8	0.6	-0.6
GVA per hour worked mkt sector	-3.1	0.7	-2.6
Non-farm nominal unit labour cost	2.0	2.2	4.5
Non-farm real unit labour cost	-1.3	1.7	-2.1

State final demand

	Q/Q		Y/Y
State/ Territory	Jun-22	Sep-22	Sep-22
NSW	1.7	0.7	11.1
VIC	0.8	0.0	7.9
ACT	0.9	0.2	6.2
SA	2.3	0.1	4.1
WA	0.2	0.6	3.3
QLD	1.3	0.7	3.2
NT	-1.0	2.7	2.9
TAS	0.8	1.6	0.2

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