Data snapshot

Bank of Melbourne

Wednesday, 1 December 2021

National Accounts

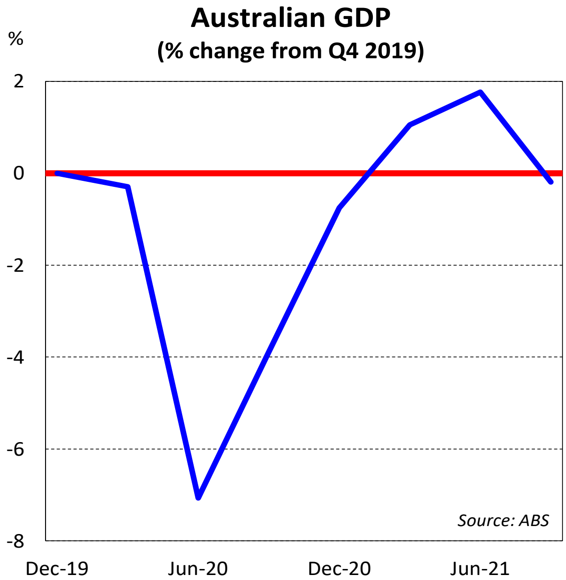
Simply Resilient!

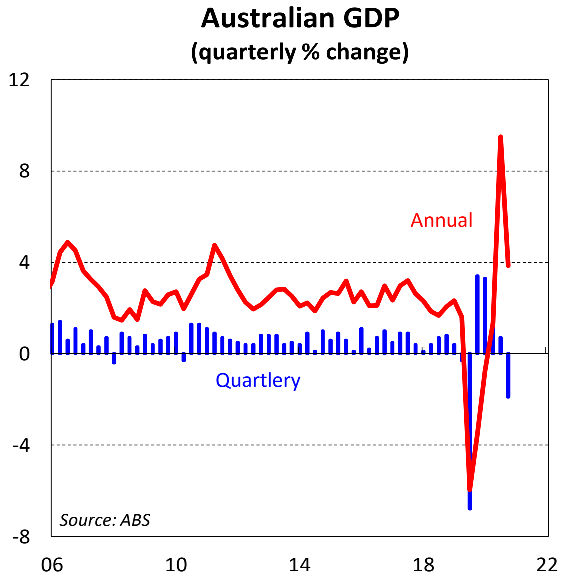
- **Today's data was another impressive example of resilience in the Australian economy. GDP shrunk 1.9% in the September quarter. It was the third largest fall on record but critically it was less than the 2.7% fall expected by consensus. It was also a lot less than the fall feared when the country was in the midst of the lockdowns last quarter.**
- **The fall in economic activity in the September quarter was led by falls in household spending in the lockdown-affected regions of NSW, Victoria and the ACT. Indeed, household spending fell 8.4% collectively in these regions but rose 0.7% in the rest of Australia.**
- **Household spending did not fall as much as feared. Government support helped household budgets. Household gross incomes spiked 4.6% in the quarter – the fastest in nearly 13 years. Consumers and businesses might have also become more adaptable to lockdowns.**
- **The falls in household spending were most stark for transport services (-41%), hotels, cafes and restaurants (-21%), arts & recreation (12%).**
- **Industries that are least sensitive to lockdowns and restrictions – mining and agriculture – outperformed. The hardest hit industry was accommodation & food services.**
- **A fall in business spending also drove the fall in GDP in the quarter, as businesses pressed the pause button during lockdown in the big states. Inventories was the other category that dragged output lower.**
- **An economic recovery is now underway in Australia and the next set of national accounts should show growth returned in the December quarter. We expect the economic recovery to ramp up over 2022 and above-trend growth to materialise.**
- **A very encouraging feature of today's data is the household savings ratio. It surged to nearly 20% to be just shy of the record high posted last year. Consumers are feeling optimistic, which suggests consumers could run down these savings to spend more in the economy.**
- **An emerging downside risk to watch is the Omicron variant of COVID-19. It is too early to tell what the impact will be. Much is still unknown about this variant, including the efficacy of current vaccines against this strain. If this variant leads to an acceleration in hospitalisations and prolonged lockdowns, then next year's growth rate could be clipped.**

Key Themes and Outlook

A lot has been made about the resilience of the Australian economy during this pandemic. The September quarter was another impressive example of resilience. Economic activity shrunk 1.9% in the September quarter. It was the third largest quarterly decline on record, but critically the fall was less than the 2.5% fall we expected and less than the 2.7% fall expected by consensus. It was also a lot less than feared when the country was in the midst of the lockdowns last quarter.

Indeed, GDP is only withing a whisker (just 0.2%) of its pre-pandemic level at the end of 2019. That's simply a remarkable result.





The fall in economic activity in the September quarter was led by falls in household spending in the lockdown-affected regions of NSW, Victoria and the ACT. Indeed, household spending fell 8.4% collectively in these regions but rose 0.7% in the rest of Australia.

Household spending did not fall as much as feared, which meant the drop in GDP was smaller than expected. Government support helped household budgets. Household gross incomes spiked 4.6% in the quarter – the fastest in nearly 13 years. But perhaps the drop in household spending was also less severe because consumers and businesses adapted better to the extended lockdowns this time round. Lessons were likely learned from last year's national lockdown.

The falls in household spending were most stark for transport services (-41%), hotels, cafes and restaurants (-21%), arts & recreation (12%). With Australians emerging from lockdown in NSW, Victoria and the ACT, economic data shows that pent-up demand is being unleashed on services.

The industries less sensitive to lockdowns and restrictions – mining and agriculture – outperformed.

A fall in business spending also dragged activity down, as businesses pressed the pause button during lockdown in the big eastern states. Inventories was the other key category that also dented activity.

An economic recovery is now underway in Australia and the next set of national accounts should show growth returned in the December quarter. We expect the economic recovery to ramp up over 2022 and above-trend growth to materialise. Growth will be spurred by a recovery in consumer and business spending.

In fact, early economic indicators are suggesting that economic activity and consumer spending is already bouncing back following the lifting of restrictions across NSW and Victoria.

A very encouraging feature of today's data is the household savings ratio. It surged to nearly 20% and is just shy of the record high posted last year during the national lockdown. Confidence measures reveal that consumers feel optimistic about the outlook. This elevated level of confidence suggests consumers are likely to run down these savings to spend more in the economy, which will drive a stronger recovery over the year ahead.

An emerging downside risk to watch is the Omicron variant of COVID-19. It is too early to tell what the impact will be. Much still unknown about this variant, including the efficacy of current vaccines against this strain. If this variant leads to an acceleration in hospitalisations and prolonged lockdowns, then next year's growth rate could be clipped.

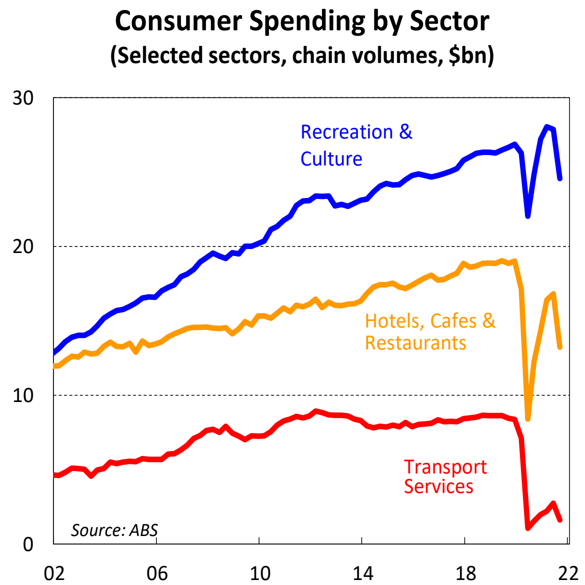
GDP Expenditure Measure:

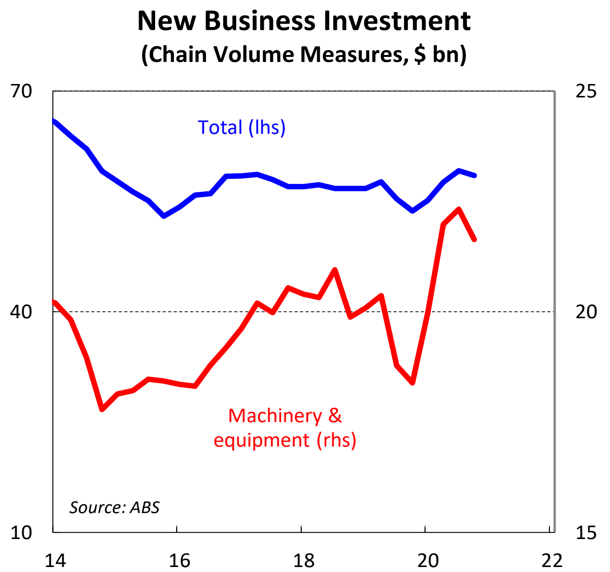
The headline GDP measure is an average of 3 measures – expenditure, income and production.

Selected Expenditure Items on GDP, Chain Volume Measures

	Quarterly % Change
Household Consumption	-4.8
Public Consumption	3.6
Dwelling Investment	0.1
Business Investment	-1.1
Public Investment	-1.7
	Contribution to GDP, ppt
Inventories	-1.3
Net Exports	1.0

Consumer spending accounted for most of the decline in economic output in the September quarter; **household consumption** fell 4.8% in the quarter and took off 2.5 percentage points from growth. The lockdowns in NSW, Victoria and the ACT led to sharp falls in household spending. But low rates, an improving labour market and a recovery in consumer confidence should help the recovery ramp up over next year.





Business investment also pulled activity down, falling by 1.1% in the quarter and taking 0.1 percentage points off growth. The most notable declines were in engineering construction and machinery & equipment – down 1.0% and 3.1%, respectively. Both of these declines disrupted the recovery that began in the second half of last year.

New dwelling investment fell 1.6% in the September quarter, but renovation activity provided an offset. Alterations & additions lifted 2.5%, leaving overall dwelling investment slightly higher in the quarter (up 0.1%).

Ownership transfer costs grew again, but for the first time in four quarters, growth was not in the double digits. Ownership transfer costs lifted by 3.1% in the September quarter and added 0.1 percentage points to growth. This category represents the expenses associated with transactions related to new and existing properties, for example, legal fees. This category has grown strongly for the past year, consistent with the lift in house prices and housing sales.

Net exports and **government spending** helped limit the size of the decline in activity.

The **government** sector grew strongly in the quarter and added a hefty 0.7 percentage points to growth in the quarter, helping to stem the drop in economic output. Public consumption jumped 3.6% in the quarter – the fastest quarterly percentage gain in 26 years. Government consumption spending surged as Federal and state governments increased health care spending in response to the Delta outbreak. However, public investment retreated 1.7% in the quarter after a solid increase in the June quarter. Despite the fall in public investment over the quarter, the pipeline of public infrastructure remains strong.

Domestic demand fell 1.8% in the quarter but was up 5.2% on a year ago.

Net exports was another significant segment that helped negate some of the drag on economic activity from falls in household spending and business spending. Net exports added 1.0 percentage points to GDP growth in the quarter. This reflected a 1.2% rise in exports and a 4.0% drop in imports. Consumer spending fell, as did the demand for imported goods.

GDP Income Measure:

The income measure of GDP fell by 1.8%, when excluding the impact of prices. In nominal terms, GDP fell 0.6% over the September quarter to be 11.2% higher over the year.

The fall in the quarter was driven by a large decline in **taxes less subsidies** of 27.6%. This reflected the stimulus measures that were introduced by the Federal and state governments to inject support the economy during the lockdowns.

Gross operating surplus (i.e. profits) of private non-financial companies rose by 4.7% over the quarter. The increase was led by rises across the mining and manufacturing sectors. Increases in the prices of LNG, coal, beef, and metals supported profits in these sectors. Profits also rose across the construction and accommodation & food services industries. These increases may seem surprising given the restrictions that were in place over the quarter. However, profits for these industries were supported by government stimulus payments.

The increase in profits was partly offset by a decline in the retail trade industry, reflecting a fall in motor vehicle and fuel retailing. Supply-chain shortages, in particular, a shortage of computer chips, has impacted the motor vehicle industry over 2021.

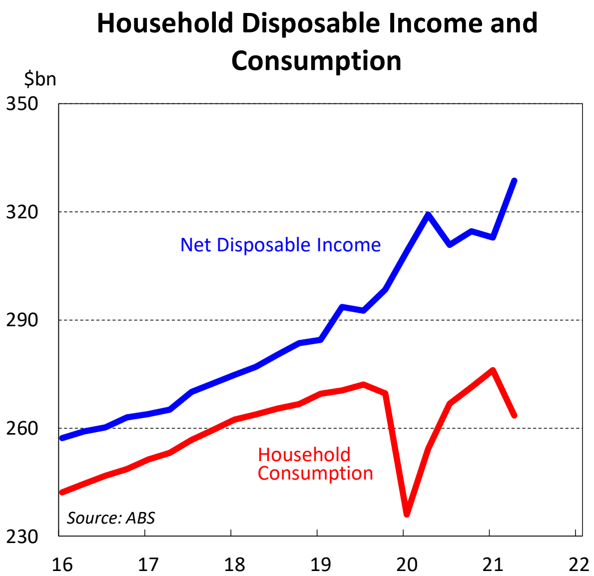
Compensation of employees (i.e. wages, salaries and other benefits) rose by 0.5% over the quarter. **Wages and salaries** were 0.3% higher. This was driven by an increase in the public sector (up 3.3%) as governments increased health care spending and staffing to manage the Delta outbreak. The increase in compensation in the public sector was partly offset by a fall in the private sector (-0.3%). There was also a large increase in **employers' social contribution** as the superannuation guarantee increased from 9.5% to 10% from 1 July 2021.

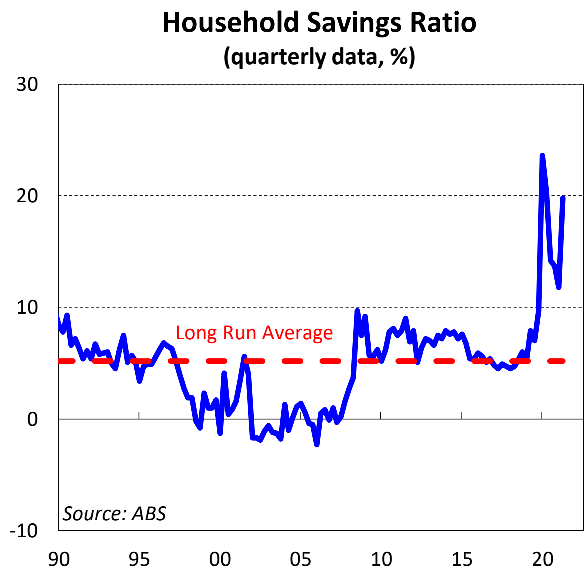
Gross household disposable income rose 4.6% over the quarter – the fastest growth in nearly 13 years. Social assistance benefits made the largest contribution to income growth as emergency government support payments bolstered income during the quarter. This pattern is consistent with the national lockdown earlier in the pandemic.

The **household saving ratio** surged to 19.8%, from 11.8% in the June quarter. This is fifth highest saving ratio in the history of the series and was well above historical average levels of around 5%. The record high for the savings ratio was 23.6%, recorded in the June quarter of 2020. Household savings increased significantly as spending was restricted by lockdowns. Additionally, household income rose over the quarter, as incomes were supported by government stimulus payments.

The rise in household savings will support the economy as restrictions lift. Households and businesses have built up a war chest of savings during lockdown periods. These savings are already being unleashed on the economy as restrictions have eased across the two largest states. Household spending will continue to be supported by these additional savings through the rest of 2021 and into 2022.

As the economy reopens, we expect the household saving ratio to trend back down towards historical levels.





The terms of trade (the ratio of export prices to import prices) rose by 0.5% over the quarter to a new record high. This follows the record high that was reported in the June quarter. The terms of trade is 1.1% higher than during the mining boom in the September quarter of 2011. Over the year to the September quarter, the terms of trade rose 23.1%.

A higher terms of trade supports national income through higher profits for mining companies, increased dividends for investors, and greater tax receipts for the Federal and state governments. The terms of trade has increased for five consecutive quarters. This improvement reflects increases in the prices of commodity that Australia exports, as strong demand for goods has led to increases in the prices of raw materials.

State Final Demand:

State and territory final demand reveal how lockdowns weighed on output. A clear two-speed economy existed over the September quarter as economies that were impacted by Delta lockdowns were hard hit. NSW, Victoria, and the ACT contracted over the period. These regions were in lockdown for much, if not the whole period. Economic activity increased across the other states and territories.

NSW suffered the largest decline in activity, contracting 6.5% over the September quarter. This was the largest quarterly fall since the June quarter of 2020, and the second biggest fall in the series. The result follows lockdown restrictions in the state for the entire quarter, causing a sharp decline in household spending of 10.8%.

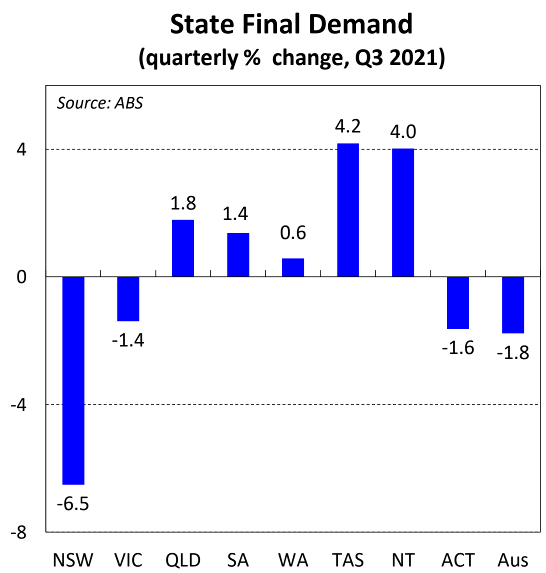
Victoria and the ACT also reported falls in economic activity, albeit less than NSW. Final demand dropped 1.4% in Victoria, much less than the 8.2% plunge during the national lockdown in the June quarter of 2020. Final demand also fell 1.6% in the ACT. The more resilient result in Victoria and the ACT likely reflects NSW being under lockdown for a substantially greater period in the September quarter.

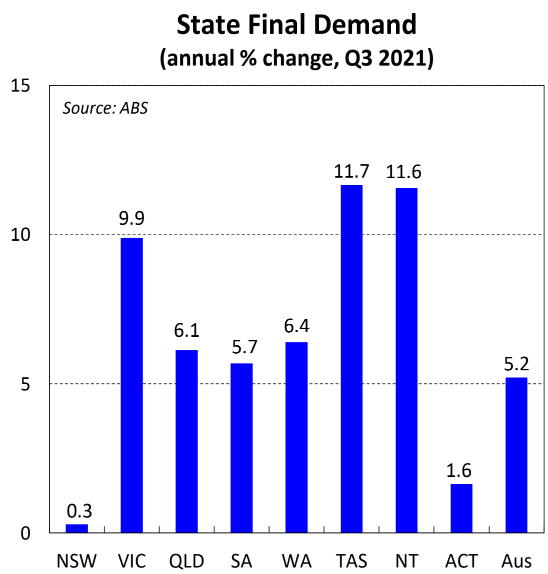
As a clear example of the two-speed economy, household spending fell 8.4% in NSW, Victoria and the ACT, compared to a 0.7% rise for the rest of the country. This highlights the importance of consumer spending activity in the two largest states, considering consumer spending subtracted 2.5 percentage points from the country's total activity in the quarter.

Economic activity was strongest in Tasmania (up 4.2%) and the NT (up 4.0%). Quarterly growth was also reported in Queensland (1.8%), SA (1.4%), and WA (0.6%).

Over the year to the September quarter, all states and territories recorded economic growth. Tasmania and the NT experienced the fastest pace of annual growth, state final demand jumping 11.7% and 11.6%, respectively. NSW and the ACT eked out growth over the year, while other states and territories grew by over 5% in annual terms.

Economic activity remained solidly above pre-pandemic levels in all states and territories, apart from NSW and Victoria. Growth in NSW and Victoria is set to rebound strongly in the December quarter, alongside the easing of COVID-19 restrictions and resumption of household spending. The expected rebound in the country's two largest states over the December quarter is set to bolster the economic recovery, as the two states contribute more than half of the country's economic activity.





Industry Breakdown:

The economic contraction was broad-based across industries in the September quarter. However, a few sectors less exposed to major lockdowns bucked the trend.

The strongest growth was in the mining sector, which rose 1.7%, rebounding from a 0.9% fall in the June quarter. The mining boost was supported by the increased demand for raw materials from China and Europe. The mining sector was also relatively shielded from lockdowns in major capital cities.

Other sectors to post solid growth over the quarter included agriculture, forestry & fishing (1.4%), financial & insurance services (1.3%), information media & telecommunications (1.3), and public administration & safety (0.8%).

Unsurprisingly, accommodation & food services contracted the most over the September quarter. Reporting a plunge of 26.4%, as services consumption ground to a halt alongside lockdowns in NSW, Victoria and the ACT. The fall in accommodation & foods services was the second largest in the history of the series, following a 38.1% tumble over the June quarter of 2020.

Industry Gross Value Added, Chain Volume Measures

Ranked by Quarterly % Change, September Quarter 2021

By Industry	Quarterly % Change	Annual % Change
Mining	1.7	0.3
Agriculture, Forestry & Fishing	1.4	36.5
Financial & Insurance services	1.3	2.6
Information, Media & Telecommunications	1.3	7.2
Public Administration & Safety	0.8	1.3
Education & Training	0.4	1.2
Electricity, Gas, Water & Waste Services	-0.2	1.0
Professional, Scientific & Technical Services	-0.9	4.1
Construction	-1.1	5.9
Manufacturing	-1.1	3.6
Rental, Hiring & Real Estate Services	-1.2	12.9
Administrative & Supportive Services	-2.1	15.0
Healthcare	-2.1	3.8
Transport, Postal & Warehousing	-3.2	10.2
Retail Trade	-3.4	-0.2
Wholesale Trade	-5.4	2.1
Arts & Recreation services	-7.5	5.3
Other Services	-11.8	2.9
Accommodation & Food Services	-26.4	-14.4

Source: ABS

Only 6 of the 19 industry categories reported growth over the September quarter, consistent with the scattered restrictions across the country and persistent lockdowns in NSW, Victoria and the ACT. Encouragingly, the magnitude of falls across all industries was less than that reported in the June quarter of 2020, following the national lockdown. Further, output remains above pre-pandemic levels in 11 of 19 sectors and output is above the lows of the June quarter of 2020 in all industries, except for mining.

In annual terms, all industries recorded growth, apart from retail trade and accommodation & food services sectors. This industry continued to be plagued by lockdowns. This is a strong result given that the country’s two largest cities were under harsh restrictions over the September quarter.

Most sectors are expected to grow over the December quarter as lockdowns ease. However, retail trade, and accommodation & food services industries are likely to surge, as households draw on savings buffers and lift consumption leading into to the holiday season.

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