

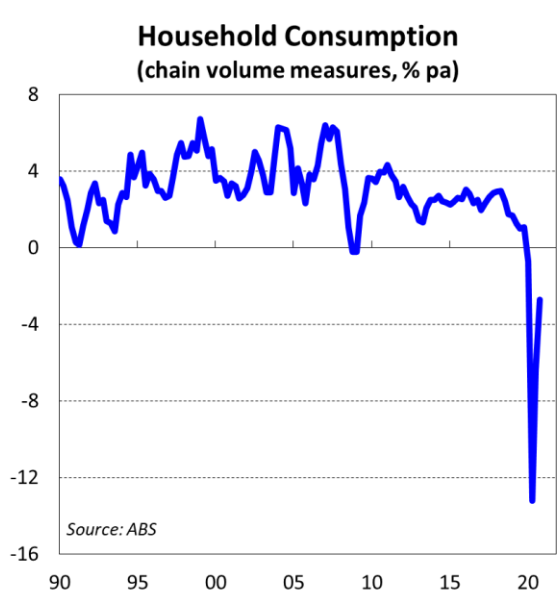
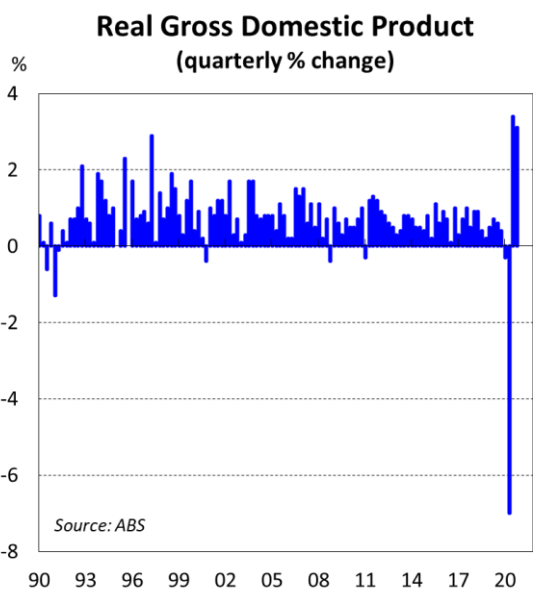
Wednesday, 3 March 2021



National Accounts

Recovery Well Underway

- GDP rose by 3.1% in the December quarter, beating consensus expectations and leaving growth for 2020 down just 1.1%. Economic activity was aided by the easing of restrictions and Victoria emerging from its second lockdown.
- The Australian economy has continued to demonstrate its resilience. Indeed, among the major economies around the world, Australia’s performance is a standout. Only China and Taiwan can claim a better performance in 2020.
- Household consumption rose 4.3% in the quarter as the economy continued to reopen and consumer confidence improved. The strong result follows the record 7.9% increase in the September quarter.
- Households are dipping into the large saving buffers they accumulated over the year which is helping to boost spending. The household saving ratio declined to 12.0% from 18.7% in the previous quarter, also partly due to a decline in household incomes as government support began tapering.
- Business investment came back to the table driven by tax incentives, lifting 2.6% in the quarter, after declining for the previous six months.
- All states and territories recorded growth in the December quarter with Victoria exploding out the blocks with its strongest quarterly growth on record.



GDP rose by 3.1% in the December quarter, beating consensus expectations and leaving growth for 2020 down just 1.1%. That is a far cry from the 6% decline in 2020 expected by policymakers early last year. The Australian economy has continued to demonstrate its resilience. Indeed, among the major economies around the world, Australia's performance is a standout. Only China and Taiwan can claim a better performance in 2020.

GDP Expenditure Measure:

More broadly, today's data reveals that economic activity continued to recover in the December quarter, aided by the easing of restrictions and Victoria emerging from its second lockdown. The savings chest was also run down, flowing on to spending. Household spending, government spending, business investment and dwelling investment contributed to growth in the quarter. However, the trade sector and inventories detracted from growth in the quarter.

Household consumption rose 4.3% in the quarter as the economy continued to reopen and consumer confidence improved. It follows the record 7.9% increase in the September quarter. This was significantly boosted by Victoria, where consumption increased 10.4%. Consumption still remains 2.7% down through the year following the unprecedented fall in the first half of 2020.

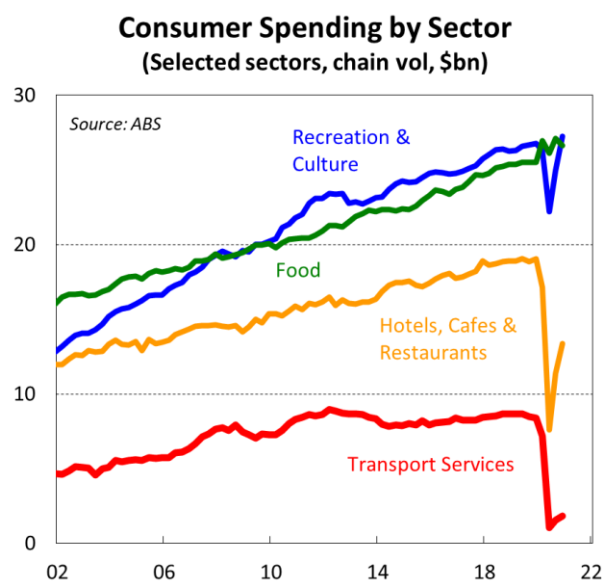
Economic activity is recovering faster than after a typical recession because much of the weakness has been due to mandated constraints rather than underlying weak demand. Consumers are eager to spend as shops and restaurants reopen and interstate travel becomes possible with the lifting of interstate border restrictions.

Consumption growth was driven by the ongoing recovery in spending on hotels, cafes and restaurants, and recreation and culture. This was particularly driven by Victoria, as the state relaxed strict lockdown measures. The strongest rise in the quarter was for the purchase of vehicles, up 31.8%. With overseas holidays off the cards for the foreseeable future, some people are spending their savings on new cars instead.

In annual terms, spending is still subdued in hotels, cafes and restaurants (-29.8%). This likely reflects a combination of ongoing capacity limits for many venues and travel restrictions. Relatedly, spending on transport services (public transport and flights) remains weak over the year (-78.1%). Reduced office attendance and voluntary health precautions, like driving to work instead of catching the train, are also weighing on this category.

Ongoing limitations on spending have seen consumers redirect their spending. Clear trends emerge when examining how households have spent their money in 2020 compared to 2019:

- Unsurprisingly, people have been dining at home more frequently, with spending on food accounting for a larger share of consumption.
- As people spent more time at home, and decked out their home offices, expenditure on furnishings and household equipment increased.
- Restrictions on recreational services, like concerts, cinemas and sporting events, has seen households spend more on recreational goods, such as TVs, camping and sporting equipment.



Dwelling investment posted a very solid 4.1% increase in the quarter, reflecting the improving housing market, landing 0.6% up over the year. Record low interest rates and government incentives have put a fire under the housing market. Relatedly, real estate activity (ownership transfer costs) continued to bound higher, increasing 15.2%, after a 21.6% bounce in the September quarter. And this has occurred on a backdrop of zero immigration which has weighed on the market.

Business investment lifted 2.6% in the quarter, after declining for the previous six months. The increase was led by equipment spending, which was up 8.1%, following several quarters of falls. Investment in non-dwelling construction was down 1.9%. In year-ended terms, business investment remains down 5.1%.

The surge in equipment spending was in response to the instant asset write-off introduced in the October budget. Under the scheme, eligible businesses are able to fully write-off assets up to \$150,000 that were purchased by the end of 2020. The federal government implemented this policy with the aim of bringing forward business investment. Today's data shows that the policy has had an impact. The government also introduced immediate expensing, which came into effect on 6 October.

Capex plans still point to capex spending declining 2020/21 but by less than expected three months ago. Current plans suggest a decline of 7.1%. We expect capex spending to increase in 2021/22, supported by the economic recovery and tax incentives to bring investment forward.

Public consumption was up 0.8% in the December quarter, with increases in both federal and state government spending. In year-ended terms, federal government spending was up 10.8% while state and local government consumption increased 6.4%. Fiscal policy continues to play a central role in supporting the economy through the recovery.

Government consumption growth was the strongest in Western Australia (4.4%), Tasmania (2.1%) and New South Wales (1.5%).

Public investment increased 2.5% in the quarter, driven largely by a 4.9% increase in investment from state and local governments.

Overall, domestic demand increased by a very strong 3.3% in the December quarter. This comes

off the record 4.6% increase in the previous quarter, and saw domestic demand return to pre-pandemic levels. This a reassuring result that reflects that the recovery is gaining momentum.

Selected Expenditure Items on GDP, Chain Volume Measures	
	Quarterly % Change
Household Consumption	4.3
Public Consumption	0.8
Dwelling Investment	4.1
Business Investment	2.6
Public Investment	2.5
	Contribution to GDP ppt
Inventories	-0.1
Net Exports	-0.1

Net exports continued to weigh on growth in the December quarter, as growth in imports (4.9%) outpaced exports (3.8%). The increase in imports is consistent with the recovery in domestic spending. In particular, Australia imported more industrial and non-industrial transport equipment, and consumption goods. Exports have picked up as global demand has improved. The increase was driven by a staggering 117.7% increase in cereal exports, after the drought broke in parts of Australia, as well as increases in the exports of other rural goods and mineral fuels.

GDP Income Measure:

When excluding the impact of prices, GDP based on income measures rose 3.3% in the December quarter, to be down 1.3% over the year.

Employee wages (compensation of employees) rose 1.5% in the quarter. This followed a strong 2.5% rise in the September quarter after a loss of 2.3% in the June quarter. Back-to-back increases of this magnitudes have not been seen since early 2011.

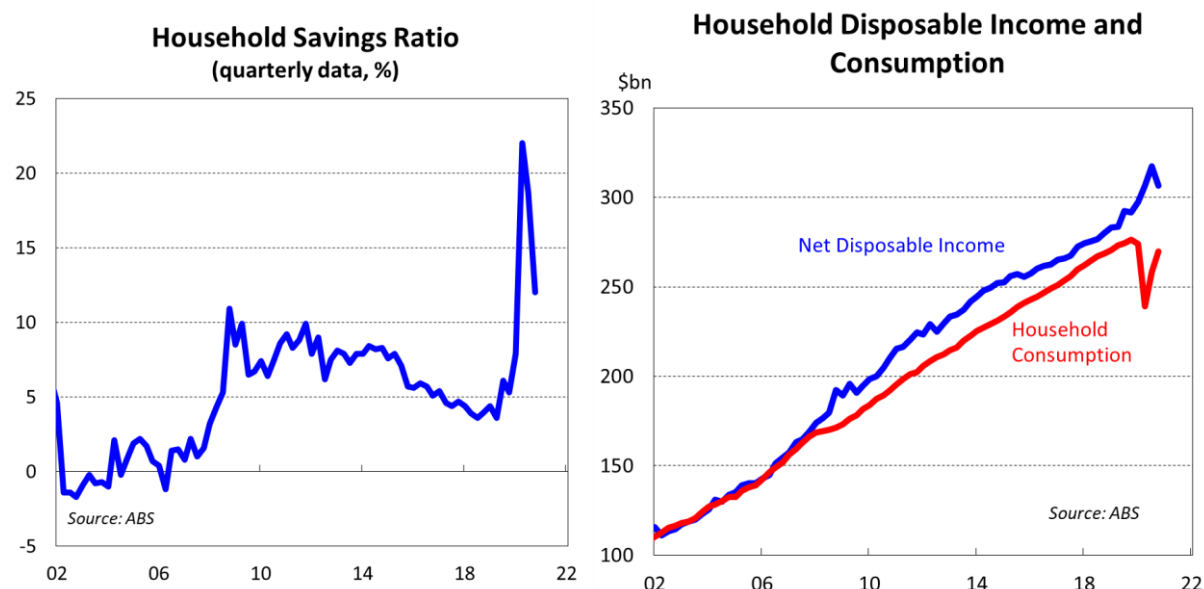
The rise in wages paid was reflected in the **hours worked** in the December quarter. These rose 3.2% following a 4.9% rise in the September quarter. While hours worked have yet to reach their pre-COVID-19 level, they have shown a remarkable recovery from the depths of the June quarter where hours worked fell 10.0%, the largest fall in the history of the series. Hours worked and wages paid were supported by JobKeeper.

Despite the increase in employee wages, household income declined by 3.1% in the quarter, reflecting the tapering of government support payments. Around this period, the payment rates of JobKeeper and other temporary support programs were reduced. The number of recipients of JobKeeper also declined as eligibility requirements were tightened.

The **household saving ratio** declined to 12.0% from 18.7% in the previous quarter, although this is still elevated relative to pre-COVID levels (around 5%). Households are dipping into the large saving buffers they accumulated over the year which is helping to boost spending.

The decline in the saving ratio reflects the fall in disposable household income and an increase in household consumption, as more spending opportunities became available. It is also likely that households felt less need to save for precautionary reasons as the economic outlook improved.

We expect the saving ratio will continue decline as the recovery moves forward. Consumer sentiment has rebounded sharply and spending is likely to increase further as ongoing social distancing restrictions are eased alongside the vaccine rollout.



The **terms of trade** (or the ratio of export prices to import prices) lifted a further 4.7%. Australia's terms of trade are now at their highest since June 2012 and have risen for each of the last four quarters. An improvement in the terms of trade means there is a net transfer of income from the rest of the world to Australia. The terms of trade are 7.4% higher than in December 2019 and relative prices are working to support the economic recovery in Australia.

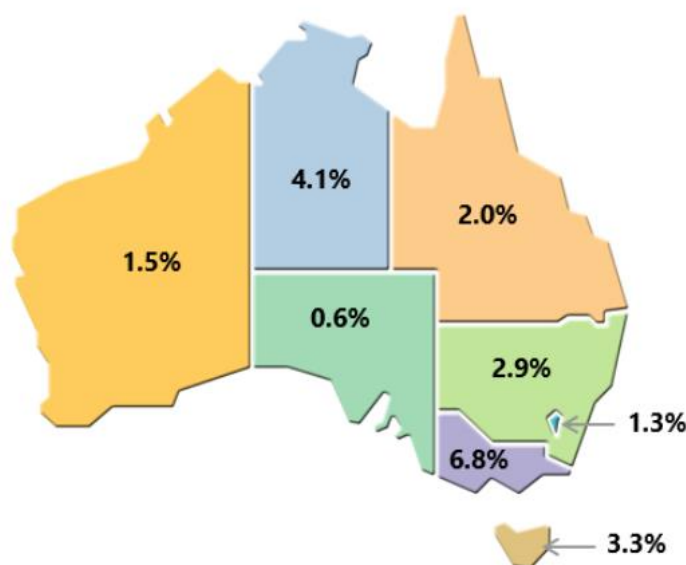
An improved outlook for the global economy on the back of fiscal stimulus, low interest rates and the vaccine rollout, has seen commodity prices push higher. The price of iron ore rose steadily from \$US102 per tonne at the end of September to \$US167 in late December before ending the quarter at \$US149 per tonne. Iron ore prices have since kicked on almost reaching \$US170 per tonne in early March. Agricultural prices also firmed over the December quarter with the RBA index of rural commodity prices rising 9.1% in Australian dollar terms.

State Final Demand:

All states and territories recorded growth in the December quarter with Victoria exploding out the blocks as it emerged from lockdown. The growth in each region reflected the opening of borders and the further easing of restrictions on social distancing across many parts of Australia.

Victoria reported growth in state final demand of 6.9%. The quarterly growth in demand was the strongest on record but came after four straight quarters of falling demand. Over the year, state final demand fell 3.5%, the weakest result among the states and territories. During the December quarter private consumption was particularly strong, rising 10.4%. Recreation and culture, clothing and footwear, hotels, cafes and restaurants, purchase of vehicles, and health were the major beneficiaries of pent-up demand.

**State Final Demand
(quarterly % change, December quarter 2020)**



At the other end of the quarterly scale was the **ACT** where final demand rose a more modest 1.3%. Placing this result in context, the ACT has recorded only one quarter of negative growth in the past two years. As restrictions were eased in the ACT, there was a solid increase in private consumption but this was counterbalanced by a decline in general government spending of COVID-19 related items. Over the year, state final demand grew 4.4% in the ACT, only outdone by the 4.6% growth reported for the Northern Territory.

NSW posted 2.6% growth in state final demand over the December quarter for a decline of 0.7% over the year. It joined Victoria as the only other state to report a fall in demand in 2020. Growth in the quarter for NSW was driven by a 4.2% lift in private fixed capital expenditure. NSW saw a 17.6% increase spending on machinery and equipment led by increased vehicle purchases across a range of industries. Consumer spending in the quarter was also firm at 3.1%.

State final demand in **South Australia** rose a modest 0.6% in the December quarter but this came off a solid 6.8% increase in the September quarter. Total final consumption expenditure increased 0.7% in the December quarter, but private gross fixed capital formation decreased 1.5%. Over the year to December final demand was flat.

Queensland reported robust growth in demand in the December quarter (2.0%) with demand up 2.5% over the year. The quarterly result was pleasing given that it followed a 7.0% jump in demand during the September quarter. There was a 1.3% decrease in government consumption expenditure, but this was outweighed by a 4.9% increase in private gross fixed capital formation. Dwelling investment was particularly strong, increasing 9.6% in the quarter.

State final demand in **Western Australia** rose 1.5% in the December quarter after a 5.5% increase in the September quarter. During 2020, Western Australia recorded only one quarterly fall in final demand as it remained relatively free of COVID-19 restrictions. Over the year, final demand rose 2.4%.

Tasmania recorded a solid 3.3% growth in demand in the December quarter. As in other states, it recorded good growth in both private consumption and private fixed capital expenditure. Over the year, demand grew 1.5%.

The **Northern Territory** saw the strongest growth (4.6%) of any region over the year. Final demand

grew 4.1% in the December quarter following 6.8% growth in the September quarter. In the December quarter, private gross fixed capital formation increased 14.1% and private consumption was up 2.7% with strong spending, as in most other regions, on hotels, cafes and restaurants, recreation and culture.

Industry Breakdown:

The further lifting of restrictions during the December quarter was evident in the industry breakdown of activity shown in the table below. Most industries reported growth during the December quarter, and those that contracted did so by relatively small amounts. However, on an annualised basis the situation is mixed with 10 of the 19 industry groups having contracted since the December quarter 2019. This was an improvement on the 14 sectors that contracted in the year to September 2020.

Industry Gross Value Added, Chain Volume Measures		
Ranked by Quarterly % Change		
By Industry Sector	Quarterly % Change	Annual % Change
Agriculture, forestry & fishing	26.8	23.1
Other services	11.2	-6.6
Administrative & support services	9.3	-14.0
Accommodation & food services	8.8	-13.2
Arts & recreation services	8.2	-8.2
Rental, hiring & real estate services	8.0	-3.8
Transport, postal & warehousing	6.0	-16.9
Info, media & telco	5.5	3.3
Professional, scientific & technical services	4.5	2.0
Wholesale trade	4.2	4.0
Retail Trade	3.7	6.3
Healthcare & social assistance	2.2	2.3
Manufacturing	1.4	-2.0
Public admin & safety	0.7	5.5
Construction	0.7	-5.3
Financial & insurance services	0.5	2.9
Education & training	0.2	0.8
Electricity, gas, water & waste services	-0.7	-2.9
Mining	-1.6	-3.5

Source: ABS

Accommodation and food services, and arts and recreation were the clear beneficiaries. Despite their remarkable rebounds during the September and December quarters, both sectors remain well below the levels of activity seen a year earlier. Both have been severely hampered by bushfires, border closures and capacity limits on venues. Both appear to be candidates for further government attention and assistance as 2021 unfolds.

Of special note is the recovery of the agricultural sector, forestry and fishing sector. Through the year to the December quarter, activity (as measured by gross value added or GVA) rose 23.1%. The agricultural sector's emergence from the drought has helped support activity. Indeed, agricultural output alone rose 22.5% in the year to the December quarter, which is the largest annual increase since 2008. Grain output rose 84.4% and grain exports rose 64.4%.

Mining recorded its weakest annual result since 2003, falling 3.6%. This is well-below the ten-year average before the pandemic (6.0%). The fall was driven mostly by coal mining and was partly offset by iron ore mining. Adverse weather caused the temporary closure of mines and disrupted production. In addition, there was a decline in global demand for coal alongside industrial shutdowns in response to COVID-19. Iron ore mining was supported by demand from China, which recommenced steel production in the second half of the year.

Health services also suffered in 2020, as restrictions led to declines in face-to-face doctor visits and elective surgeries in the first half of the year. While healthcare and social assistance GVA rose 2.4% through the year, this was well-below the pre-pandemic ten-year average (4.9%).

When the Reserve Bank speaks of the recovery being uneven, the industry breakdown is one element of that description.

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