Economic Analysis GDP Q2 2023

Overview

Seasonally adjusted real GDP rose by 0.4% in Q2 2023, broadly in line with expectations and the same as in Q1 (upgraded from 0.2%). The annual growth rate decelerated to 2.1% from 2.4%. Real GDP per capita declined by another 0.3% in Q2, while the annual rate of growth turned negative (also -0.3%).

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Real GDP	0.4	2.1
GDP (Expenditure, Real)	0.4	2.5
GDP (Production, Real)	0.5	2.0
GDP (Income, Nominal)	-1.2	3.6
Real Gross Domestic Income	-1.5	-1.1
Nominal GDP	-1.2	3.6
Terms of Trade	-7.8	-12.7
GDP Deflator	-1.5	1.5

Expenditure

The largest contribution to the expenditure measure of GDP growth came from net exports (+0.8ppts), followed by public fixed investment (+0.4ppts). Private business investment in machinery and equipment added 0.2ppts while non-dwelling construction cut 0.1ppts from growth.

Household consumption rose just 0.1%, adding just 0.1ppts to growth and taking the annual growth rate down to 1.5%, the lowest since Q1 2021.

Falling inventories detracted 1.1ppts from Q2 growth.

Production

The production measure of GDP rose by 0.5% in Q2, with the strongest contribution being 0.2ppts from construction. Utilities, rental, hiring and real estate services, and healthcare and social assistance each contributed 0.1ppt. These gains were partly offset by declines in wholesale trade and mining.

Income (Current Prices)

From the income approach, nominal GDP declined 1.2% in Q2, dragged down by an 8.6% drop in the gross operating surplus of private non-financial corporations, led by mining.

Compensation of employees rose 1.6% in Q2, the least since Q3 2021. Household disposable income rose 1.1%, but the savings ratio eased to just 3.2%, which is the lowest since Q2 2008.

Hours Worked, Productivity and Unit Labour Costs

Hours worked rose by another 2.4% in Q2, with a 2.2% bounce in the market sector. Productivity declined by 2.0% if measured by GDP per hour worked and 1.7% if measured by gross value added per hour worked in the market sector.

Real non-farm unit labour costs rose by 3.3%, which was the strongest increase since Q4 2020.

Real Income

Real net national disposable income per capita, an economic wellbeing measure that adjusts real gross domestic income to both income flows with the rest of the world and the consumption of fixed capital, fell 2.1%, which was the strongest decline since Q3 2021.

GDP Price Deflator

The GDP price deflator, the broadest measure of inflation in the economy, declined 1.5% in Q2, to be up just 1.5% through the year. This deceleration was driven by lower export prices, while the domestic demand price deflator rose 1.2% (+5.8% YoY), with the household consumption price deflator up 1.3% (+6.1% YoY) and the private investment price deflator up 6.6% YoY.

Real Domestic Final Demand

Real domestic final demand rose 0.9% in the quarter, with Western Australian real state final demand up 0.4% QoQ and 3.7% YoY, the highest annual growth of all states. The strongest quarterly contribution came from consumer spending and private investment, which was partly offset by lower general government consumption.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Western Australia	0.4	3.7
New South Wales	0.8	1.7
Victoria	0.7	1.9
Queensland	1.3	2.9
South Australia	1.3	1.7
Tasmania	-0.2	1.0
Australia	0.7	2.2

Comment

The Q2 GDP report confirmed that the Australian economy is slowing.

Domestic growth was dragged down by a slower rise in consumer spending, as households continue face the double whammy of high inflation and rising mortgage rates. These pressures are reflected in the lowest household savings ratio in 15 years.

Business investment in machinery and equipment remained a bright spot of the report, reportedly supported by the upcoming expiration of tax incentives.

However, the report also showed that price and cost pressures remain elevated in the domestic economy, with the acceleration in unit labour cost growth amid sluggish productivity as well as a further strong increase in the domestic price deflator.

While the weakness in consumer spending should translate into lower demand pressure over time, the price and cost pressures remain too acute for the RBA to drop its hawkish bias at this stage.

6 SEPTEMBER 2023

WESTERN AUSTRALIAN
TREASURY CORPORATION

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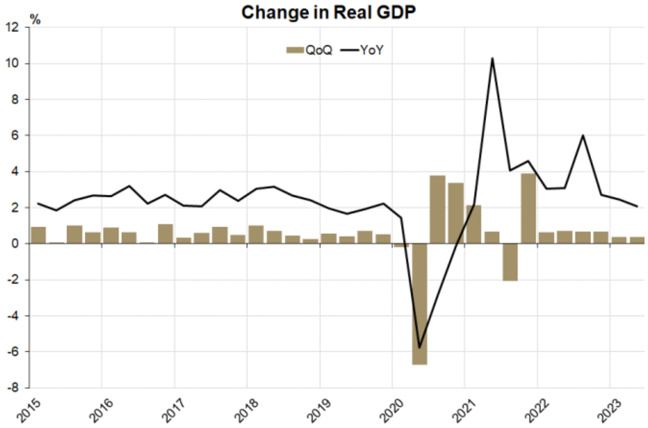
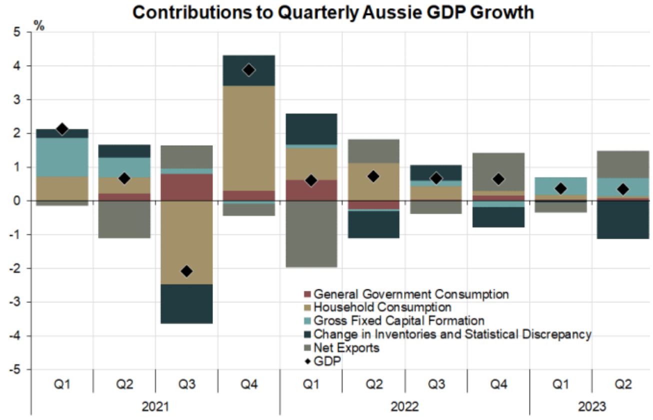
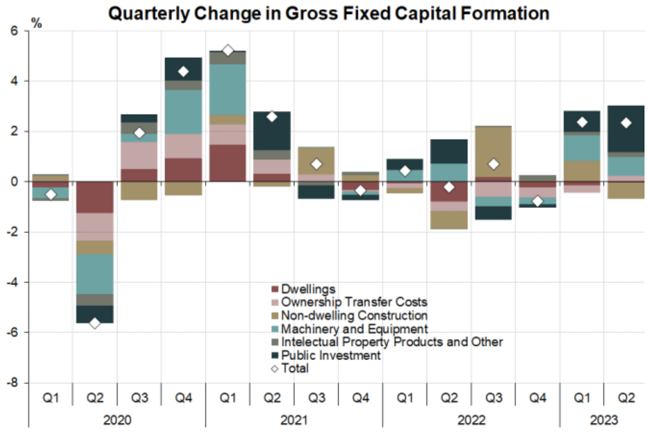
Real GDP rose by 0.4% QoQ and 2.1% YoY, the least since the COVID-related disruptions.



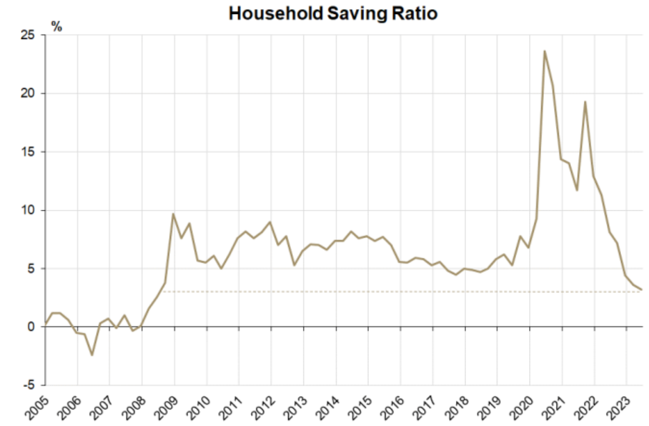
The main contributor to growth were net exports and gross fixed capital formation.



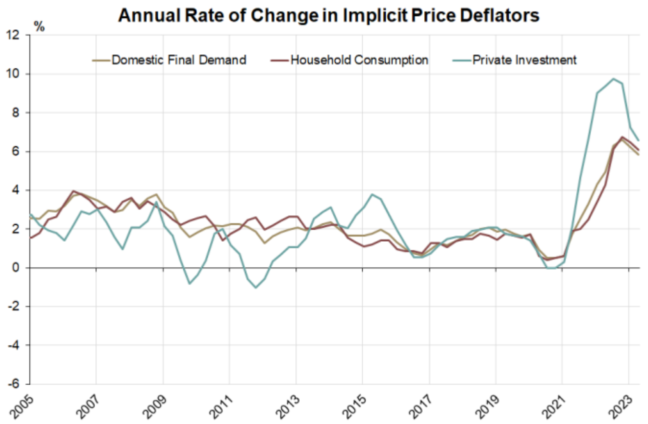
There was a strong increase in public investment and private spending on machinery and equipment in Q2.



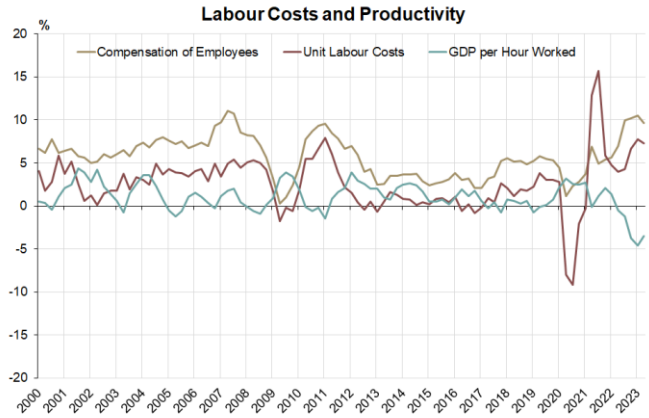
The ongoing cost-of-living pressures are reflected in the lowest household savings ratio since Q2 2008.



Domestic price pressures appear to have passed their peak but remain acute.



Lower productivity and higher wages translated into a further strong rise in unit labour costs.



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