

Overview

Australian seasonally adjusted real GDP rose by 0.2% (exp 0.3%) in Q1 2023, taking the annual rate of growth down to 2.3%. Real GDP per capita fell 0.2% in the quarter, to be up just 0.3% YoY.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Real GDP	0.2	2.3
GDP (Expenditure, Real)	0.3	2.6
GDP (Production, Real)	0.2	2.1
GDP (Income, Nominal)	2.1	9.1
Real Gross Domestic Income	0.9	2.5
Nominal GDP	2.1	9.2
Terms of Trade	2.8	0.1
GDP Deflator	1.9	6.8

Expenditure

The largest contribution to the expenditure measure of GDP growth came from private business investment, which rose 3.4% and added 0.3ppts to growth. Public sector investment rose 3.0%, adding 0.1ppts, while a 1.2% fall in dwelling investment cut 0.1ppts from growth. Household consumption rose just 0.2%, adding only 0.1ppts to growth, with this marginally positive contribution coming mainly from spending on essential goods and services. Declines in discretionary goods and services such as furnishings and household equipment, the purchase of vehicles, and other goods and services detracted from growth.

Net exports cut 0.2ppts from GDP growth in Q1.

Production

The production measure of GDP rose 0.2% in Q1. Manufacturing, and healthcare and social assistance made the biggest positive contributions (0.1ppts) while the remaining industries were either slightly negative or made only marginal contributions.

Income (Current Prices)

From the income approach, nominal GDP rose 2.1% in Q1, with a 2.8% increase in the compensation of employees adding 1.1ppts to growth and a 4.0% increase in the gross operating surplus of private non-financial corporations adding 0.9ppts. The household savings ratio dropped to 3.7%, the lowest since Q2 2008.

Hours Worked, Productivity and Unit Labour Costs

Hours worked rose by another 0.5% in Q1 but declined 0.8% in the market sector.

Productivity declined by 0.3% if measured by GDP per hour worked but picked up 0.9% if measured by gross value added per hour worked in the market sector. That said, those measures of productivity were still down 4.6% and 4.3% through the year, respectively.

Real non-farm unit labour costs declined by 0.3%, though nominal unit labour costs were up 2.0%.

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, rose 0.4%.

GDP Price Deflator

The GDP price deflator, the broadest measure of inflation in the economy, rose 1.9% in Q1. However, its annual rate of growth slowed to the still elevated 6.8%. The annual rate of growth of the domestic demand price deflator fell 0.5ppts to 6.1%, growth in the household consumption deflator fell 0.3ppts to 6.6%.

Real Domestic Final Demand

Real domestic final demand rose 0.6% in the quarter, with Western Australian real state final demand the strongest of all the states. Government spending was the biggest contributor to Western Australian real state final demand growth in the quarter, contributing 0.5ppts, while private business investment added 0.2ppts. Household spending added just 0.1ppts.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Western Australia	0.8	2.8
New South Wales	0.4	2.2
Victoria	0.7	1.9
Queensland	0.4	2.3
South Australia	0.1	2.1
Tasmania	-0.2	1.8
Australia	0.6	2.2

Comment

The Q1 GDP report confirmed that the Australian economy is slowing.

Domestic growth was dragged down by a slower rise in private consumption, as households face the double whammy of high inflation and rising mortgage rates. The scale of these pressures is also evidenced by a decline in the savings ratio to the lowest level since just before the collapse of Lehman Brothers in 2008.

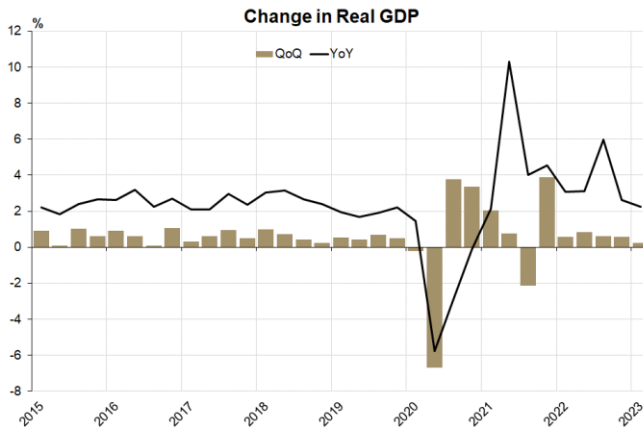
The report did contain a couple of bright spots. Business investment saw a renewed and broad-based increase in Q1, while the implicit price deflators signalled that inflation, while still high, has started to slow.

However, the report also showed that cost pressures remain elevated in the economy, with the acceleration in nominal unit labour costs growth amid sluggish productivity and strong wage growth.

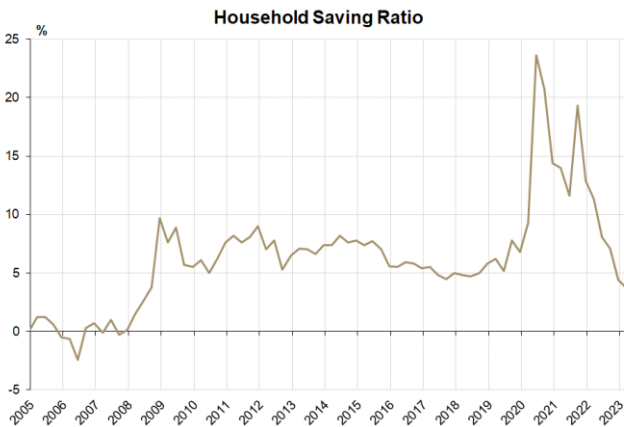
Given the cost pressures and still-high inflation, [the RBA's determination](#) to bring inflation down to target appears to have risen of late, even if it means sacrificing growth and some of the labour market gains. We do not expect the Q1 GDP report to alter the RBA's hawkish tilt.

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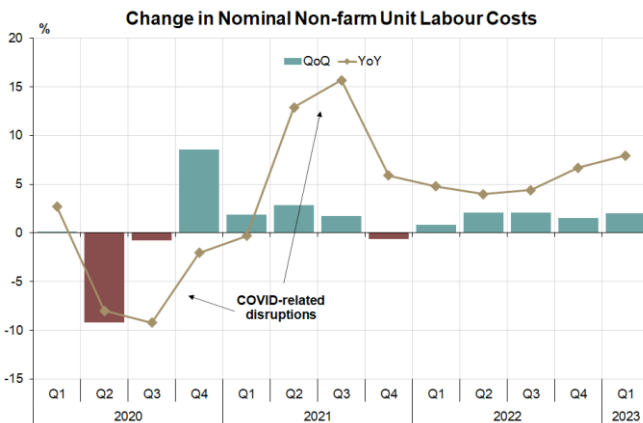
Real GDP rose by 0.2% QoQ and 2.3% YoY, the least since the COVID-related disruptions.



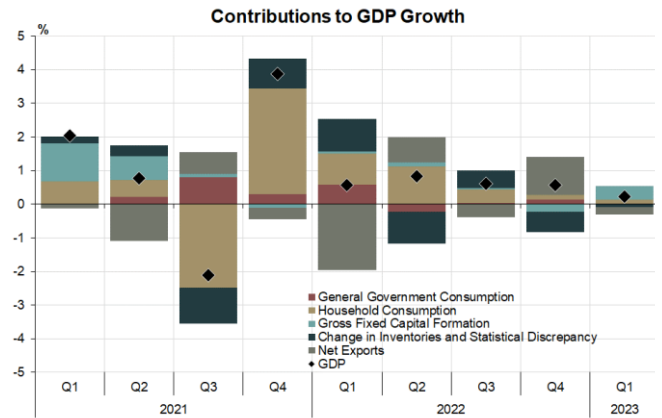
Households are saving the least since mid-2008, as cost-of-living pressures continue.



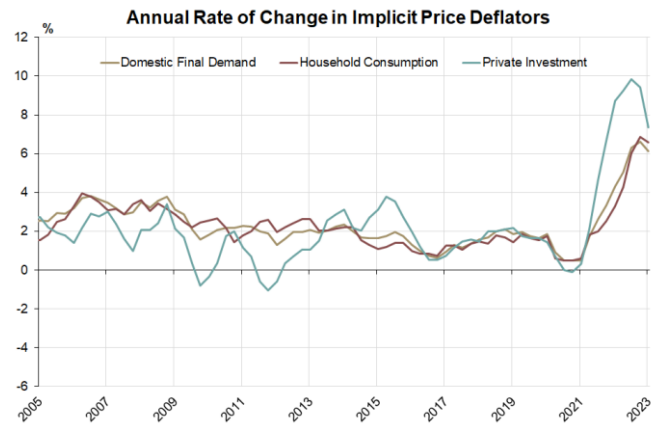
However, nominal unit labour costs are rising steadily amid a rise in wages...



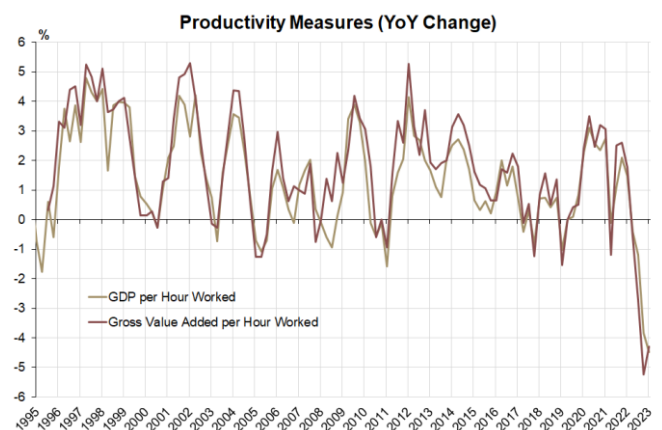
The major contributor to growth was investment, while private consumption slowed.



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



... and sluggish productivity growth.



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