

Overview

Australian seasonally adjusted real GDP rose 0.8% in Q1 2022, exceeding market expectations for a 0.6% increase. The annual growth rate of GDP declined to 3.3% from 4.4% in the previous quarter.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Real GDP	0.8	3.3
GDP (Expenditure)	0.8	2.9
GDP (Production)	0.7	3.5
GDP (Income)	3.7	10.5
Real Gross Domestic Income	2.1	5.0
Nominal GDP	3.7	10.2
Terms of Trade	5.9	8.3
GDP Deflator	2.9	6.6

Expenditure

The major contributors to the rise in real GDP in Q1 were government consumption spending, and a faster rise in inventories and household consumption, amid further recovery from COVID restrictions. The relatively large inventory contribution came as businesses strived to restock to pre-pandemic levels, as supply disruptions eased.

Private gross fixed capital formation made a positive contribution, as a pick-up in spending on machinery and equipment more than offset a slight decline in dwellings investment.

Net exports cut 1.7 percentage points from growth.

Production

On an industry level, increases in transport, postal and warehousing (4.3%) and professional scientific and technical services (3.1%) made the biggest contributions to growth. Accommodation and food services also saw a strong rise. A 5.8% fall in agriculture, forestry and fishing made the biggest negative contribution.

Income (Current Prices)

In the income approach, the largest contribution came from gross operating surplus (corporate profits), driven by a 14.7% surge in mining profits, while non-mining profits edged down 0.1%.

Compensation of employees rose by 1.8% QoQ, roughly at the same pace as employment (1.9% QoQ). Household disposable personal income grew less than spending, translating into a fall in the household savings ratio to a new pandemic low of 11.4%.

Hours Worked, Productivity and Unit Labour Costs

Hours worked declined by 0.9% in Q1, most likely reflecting the impact of Omicron and floods over east. This translated into a 1.7% rise in productivity and a 2.4% decline in real non-farm unit labour costs.

Real Income

Real net national disposable income per capita, an economic wellbeing measure adjusting real gross domestic income for income flows with the rest of the world and the consumption of fixed capital, rose by another 1.0% in Q1. This came amid a rise of the terms of trade to a new record high.

GDP Deflator

GDP deflator rose by 6.7% YoY. Domestic demand deflator increased the most since the introduction of the goods and services tax. High construction costs and house prices have translated into the fastest increase in the private investment deflator since Q1 1987.

Real Domestic Final Demand

Real state final demand rose in all states but Tasmania, where investment fell for the second quarter in a row continued after a strong increase in 2021.

Western Australia saw the second strongest quarterly increase of all states in real state final demand (2.2%), after Victoria. A rise was reported for all expenditure categories but household consumption, for which growth stalled after rising almost 2% in each of the previous three quarters.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Western Australia	2.2	4.9
New South Wales	1.2	3.8
Victoria	2.4	6.0
Queensland	0.8	5.0
South Australia	0.8	4.7
Tasmania	-0.6	3.5
Australia	1.6	4.8

Comment

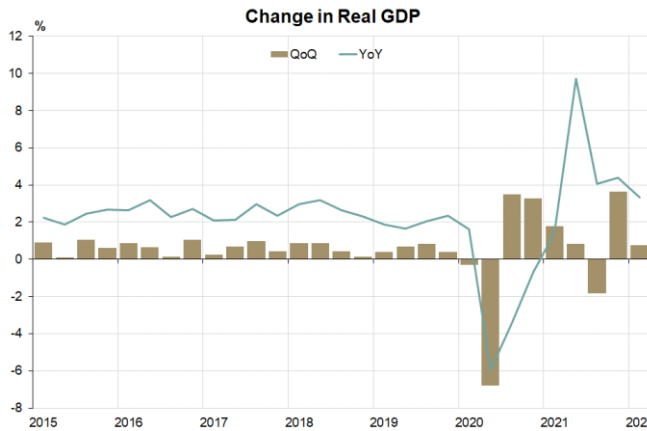
The Q1 GDP report confirms the resilience of the Australian economy to challenging external environments and temporary domestic disruptions, such as the rapid spread of Omicron and floods over east.

Australia received a large boost to domestic income from higher commodity prices, which was reflected in the surge in mining profits and the record high terms of trade. The acceleration in inflation was evident in the report. Higher prices pose a downside risk to private consumption, which has been resilient to date helped by low debt servicing costs, which are now starting to rise.

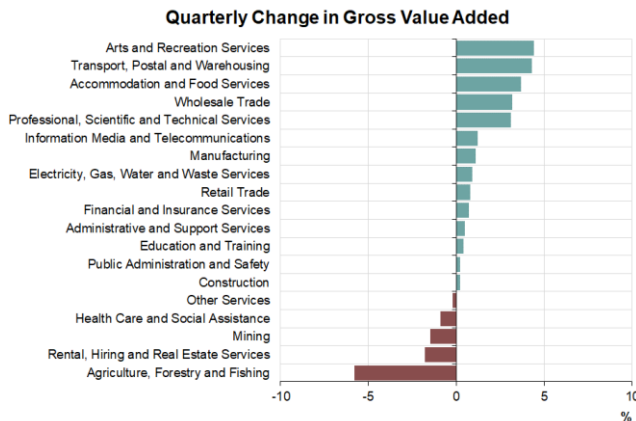
We continue to expect the RBA to raise rates by 25bps at the meeting next week and to continue to gradually raise rates in the coming months, before taking a break toward the end of the year.

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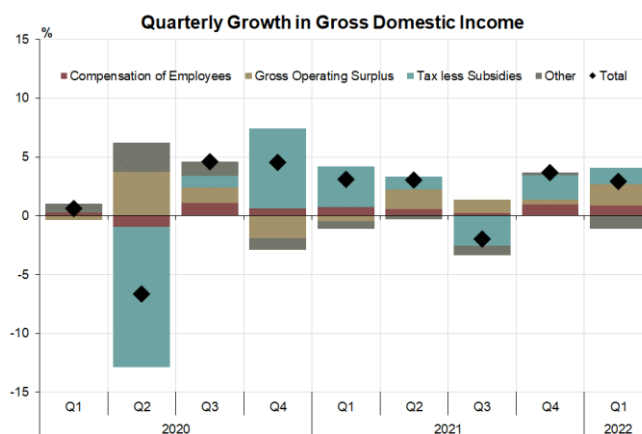
Real GDP growth normalised in Q1, after a spike in Q4 caused by the post-Delta re-opening over east.



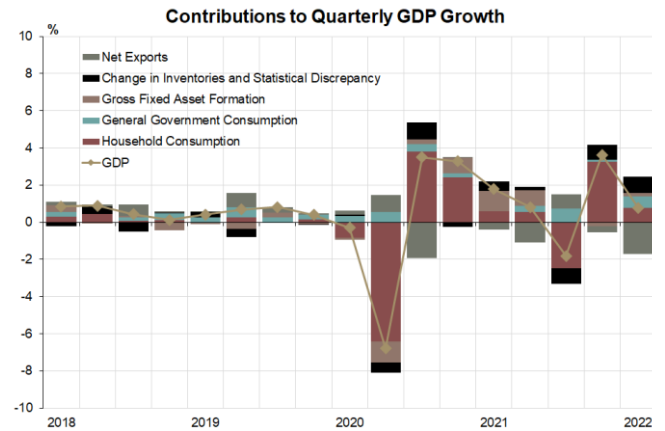
The sectors most affected by the lockdowns continued to lead the rise in gross value added.



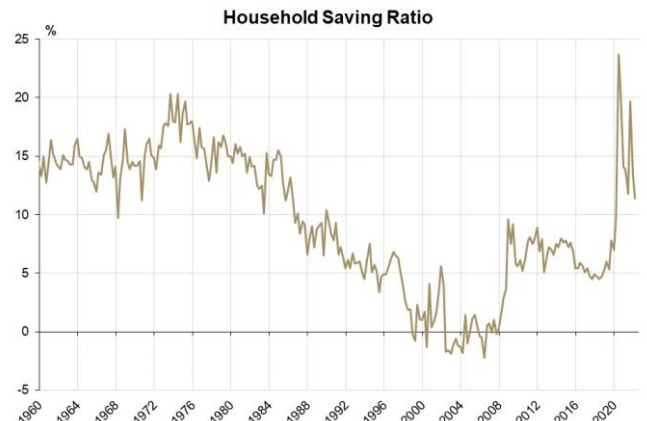
The main contributor to gross domestic income growth was a surge in corporate profits, but only in mining.



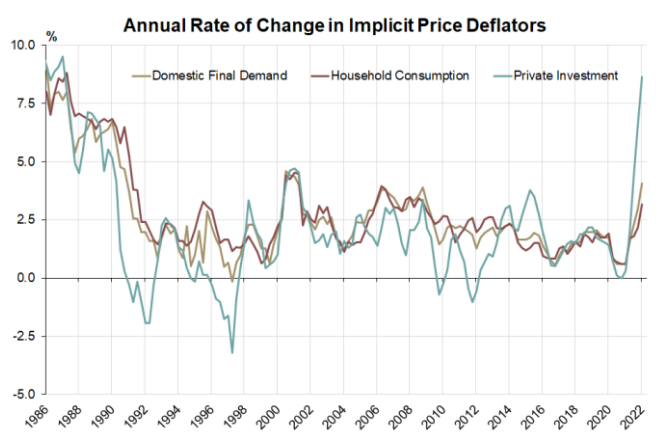
The largest contribution to growth came from higher household consumption and a rise in inventories.



The solid rise in consumption was sustained partly thanks households drawing down their savings.



Domestic prices grow the fastest in decades, mainly for private investment amid high construction costs.



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