

Overview

Seasonally adjusted real GDP rose 0.2% in Q2 2024, in line with the market expectations. The annual growth rate slowed to 1.0%, slightly more than the 0.9% expected but the least, outside of COVID-19, since the early 1990s recession. Real GDP per capita declined another 0.4%, to be down 1.5% through the year. Real GDP rose by just 1.5% in 2023-24 compared to 2022-23.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Real GDP	0.2	1.0
GDP (Expenditure, Real)	0.1	0.9
GDP (Production, Real)	0.3	0.9
GDP (Income, Nominal)	0.2	4.3
Real Gross Domestic Income	-0.6	0.0
Nominal GDP	0.2	4.4
Terms of Trade	-3.1	-3.9
GDP Deflator	0.0	3.4

Expenditure

Real GDP growth in Q2 was driven by net exports (+0.2ppts) and public spending (+0.4ppts, with general government consumption expenditure adding 0.3ppts). Dwelling investment made no real contribution, rising just 0.1%, however, a 3.9% increase in real estate ownership transfer costs added 0.1ppts to headline growth.

Private business investment fell 1.5%, cutting 0.2ppts from growth and a 0.2% fall in household consumption shaved a further 0.1ppts from the headline. Changes in inventories reduced growth by 0.3ppts.

Production

13 of 19 industry groups saw increases in production in Q2, while the remaining industries saw declines or flat results. Information media and telecommunications saw the strongest rise of 1.6%, driven by demand for emerging software products. Arts and recreation services registered the strongest decline of all industry groups (-0.8%) after a boost from major events in Q1.

Income (Current Prices)

From the income approach, the ongoing strength of employment and steady wage growth was reflected in a 0.9% increase and 0.4ppts positive contribution from compensation of employees. This was partly offset by a 2.8% fall in the gross operating surplus of private non-financial corporations and lower 'taxes less subsidies'.

Hours Worked, Productivity and Unit Labour Costs

Productivity remained soft, with market sector hours worked rising 0.9% in Q2, while gross value added per hour worked in the market sector fell 0.7% to be up just 1.1% YoY.

Falling productivity saw a 1.5% increase in real non-farm unit labour costs in Q2 to be up 1.9% YoY.

Real Income

Real net national disposable income per capita, an economic wellbeing measure that adjusts real gross domestic income for both income flows with the rest of the world and the consumption of fixed capital, declined 1.6% in Q2, to be 2.7% down YoY and the lowest since Q4 2020.

GDP Price Deflator

The GDP price deflator, the broadest measure of inflation in the economy, was flat in the quarter and up 3.4% through the year. This came as a decline in the terms of trade was offset by further growth in domestic demand prices (0.9% QoQ and 4.2% YoY). Household consumption prices rose by 0.8% QoQ and 4.4% YoY, which is slower than in the previous quarter and down from a peak of 7.1% in Q4 2022.

Real Domestic Final Demand

The final demand rose in all states except for New South Wales, with Western Australia and South Australia seeing the strongest quarterly gains of 0.9% each.

In Western Australia, state final demand growth was driven by the private sector, with household consumption picking up by 0.4% (the most of all states), dwelling investment rising 4.7% and private business investment up 2.1%. Public sector investment rose by 2.4% in the quarter. These increases were partly offset by lower general government consumption expenditure (-0.5%). Overall, Western Australian state final demand was up 3.9% YoY, by far the most of all the states.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Western Australia	0.9	3.9
New South Wales	-0.4	0.2
Victoria	0.6	1.4
Queensland	0.4	1.8
South Australia	0.9	1.5
Tasmania	0.6	1.8
Australia	0.2	1.5

Comment

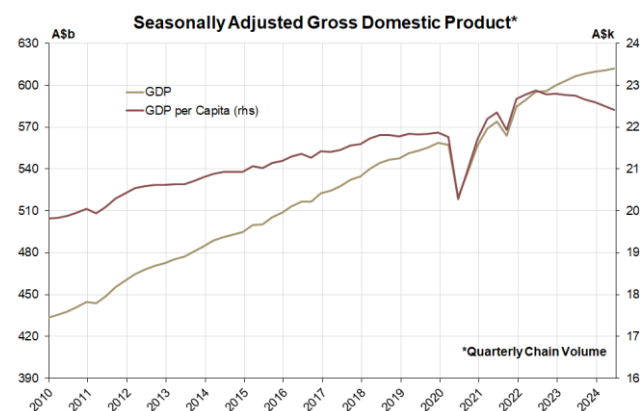
The Q2 national accounts report showed clearly that, if it had not been for government spending and the external sector, Australian GDP would have declined in Q2. Private domestic final demand fell in 0.3% in Q2, which is the first decline since Q3 2021.

GDP growth was in line with the August RBA projection, but household consumption missed the forecasts.

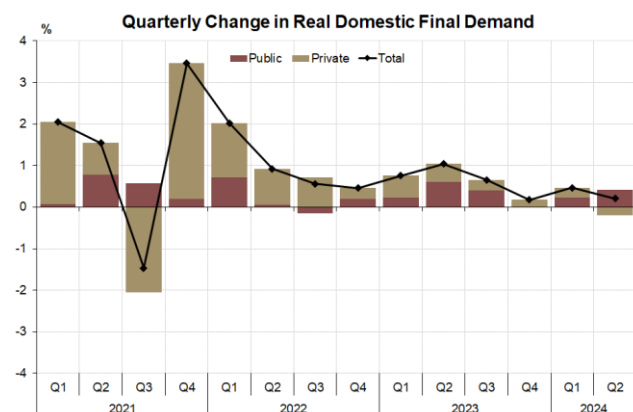
Following the Q2 national accounts report, cash rate expectations declined a bit, and the probability of a cut in December picked up from 72% to 94%. A 50bps cut is now around 60% priced in for February 2025.

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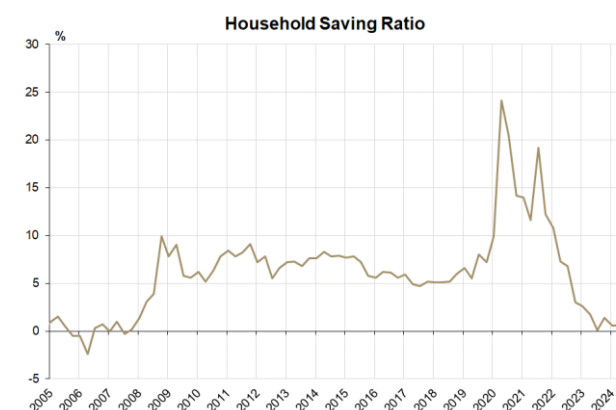
Real GDP continues to climb in absolute terms but has been declining steadily in per capita terms.



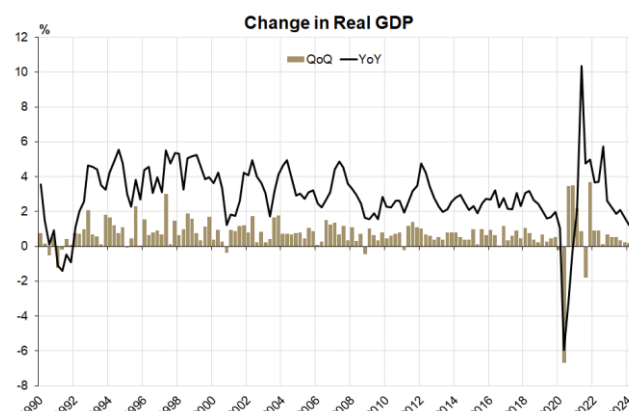
If it had not been for external sector and government spending, real GDP would have declined in Q2.



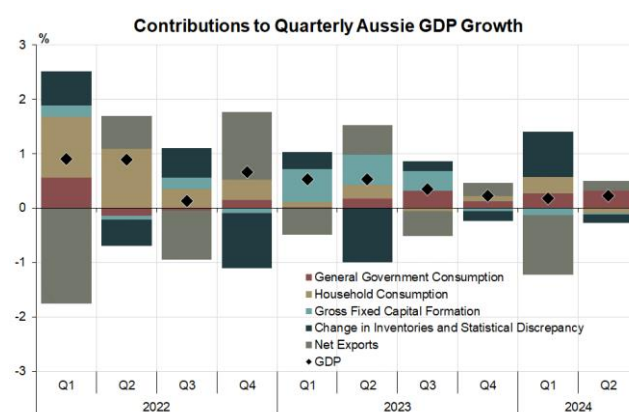
... and very low household savings.



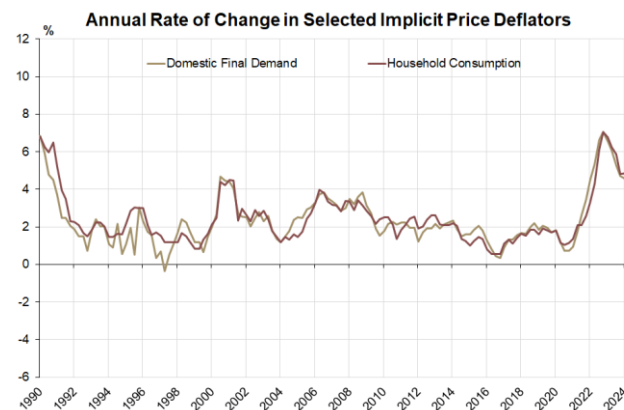
Outside of COVID-19, the annual GDP growth rate is the weakest since the early 1990s recession.



The ongoing cost-of-living pressures translated into a renewed decline in household consumption...



The implicit price deflators suggest that disinflation continues in the domestic economy.



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