

Overview

Australian seasonally adjusted real GDP rose by 0.5% in Q4 2022, less than the 0.7% pencilled in by the market. The annual growth rate decelerated to 2.7%, which was in line with the market expectations.

| Seasonally Adjusted Chain Volume, % | QoQ | YoY |
|-------------------------------------|-----|------|
| Real GDP | 0.5 | 2.7 |
| GDP (Expenditure, Real) | 0.6 | 2.6 |
| GDP (Production, Real) | 0.4 | 2.7 |
| GDP (Income, Nominal) | 2.1 | 12.0 |
| Real Gross Domestic Income | 0.6 | 4.4 |
| Nominal GDP | 2.1 | 12.0 |
| Terms of Trade | 0.5 | 7.2 |
| GDP Deflator | 1.6 | 9.1 |

Expenditure

Household consumption expenditure rose 0.3%, contributing 0.2ppts to Q4 growth, following a 1.0% increase in Q3. Growth in discretionary spending slowed to 0.4% and essential consumption spending rose 0.3%. Capital investment detracted 0.3ppts from GDP growth in Q4. Private dwelling investment fell 0.9% while ownership transfer costs dropped 6.2% as home sales declined. Private business investment declined by 1.4% due to completion of major projects.

Government consumption rose 0.6%, contributing 0.1ppts to headline growth in Q4, while public sector investment fell 0.7%.

Inventory growth slowed, shaving 0.5ppts off GDP growth in the quarter.

These small and negative contributions were more than offset by net exports, which added 1.1ppts to GDP growth.

Production

The production measure of GDP rose by 0.4% in Q4, with the mining sector contributing 0.3ppts. Outside of mining, the 'other services' category saw the strongest rise, while utilities and agriculture saw the biggest declines.

Income (Current Prices)

Compensation of employees and the gross operating surplus of private non-financial corporations each contributed 0.9ppts to the 2.1% rise in nominal income. Compensation of employees rose 2.1%, driven by higher hours worked, employment and wages. Non-farm compensation of employees per hour, closely observed by the RBA, was flat in Q4 and 2.9% up YoY.

Hours Worked, Productivity and Unit Labour Costs

Hours worked rose 1.9% in Q4, while productivity (measured by the gross value added per hour worked in the market sector) dropped by 2.4%. Real non-farm unit labour costs fell by 0.3%, after increasing by 1.5% in Q3.

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 by 1.1%.

GDP Price Deflator

The GDP price deflator, the broadest measure of inflation in the economy, rose 1.6% in Q4, taking annual growth to 9.1%, which is the highest since 1988. There were positive contributions from both the terms of trade and the domestic demand deflator, which saw a 1.3% rise in the quarter and 6.5% YoY (most since Q1 1991).

Real Domestic Final Demand

Developments in real state final demand were mixed across states.

Western Australia was one of the two states to record growth in domestic demand in Q4 (+0.1%). The rise was again driven by higher household consumption spending, with public investment also adding to growth.

| Seasonally Adjusted Chain Volume, % | QoQ | YoY |
|-------------------------------------|------|-----|
| Western Australia | 0.1 | 3.2 |
| New South Wales | -0.1 | 3.4 |
| Victoria | 0.2 | 4.1 |
| Queensland | -0.3 | 2.4 |
| South Australia | -0.2 | 3.2 |
| Tasmania | 0.0 | 1.1 |
| Australia | 0.0 | 3.3 |

Comment

The Q4 GDP report, while still solid, showed that the impacts of higher living costs and possibly, RBA rate increases, are gradually sinking into the economy.

These impacts are particularly evident in the household sector, with a significant slowdown in discretionary consumption and the savings rate dropping to 4.5%, the lowest since Q3 2017. Nominal disposable household income fell due to higher interest and rent paid.

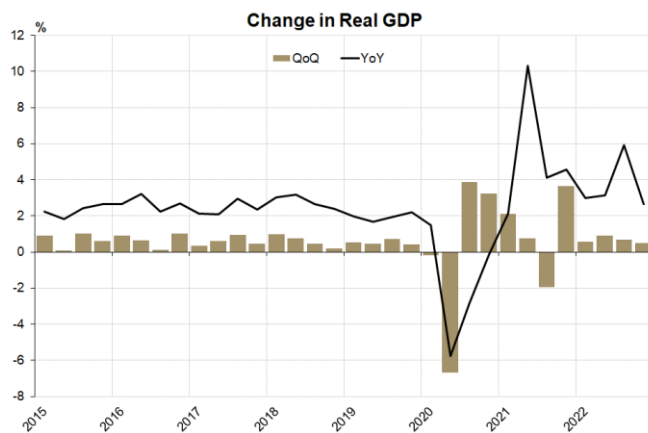
However, the full impacts of RBA tightening are yet to be felt, as monetary policy works with a lag.

The GDP figures and the details of the report were disappointing for market participants. This, along with a downside surprise to the monthly CPI indicator, translated into a slight decline in RBA cash rate expectations.

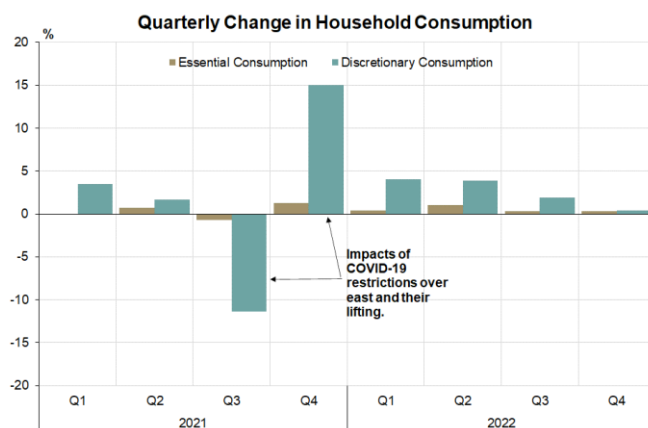
However, a 25bps hike is still expected next week, followed by more increases in the following months, as both reports showed that inflation is still unacceptably high and wages growth, despite the downside surprise in Q4, may still accelerate given the tight labour market.

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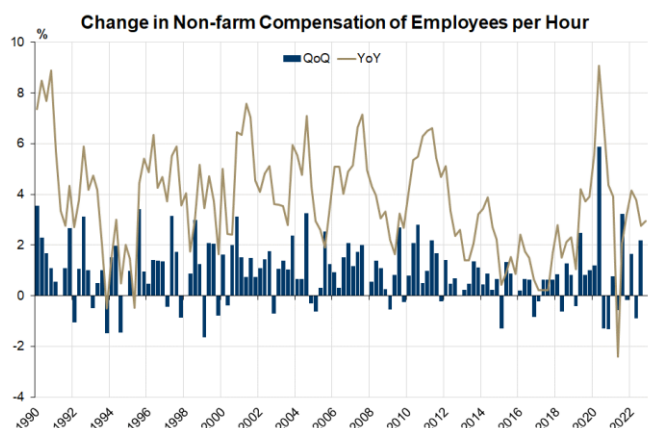
Real GDP rose by 0.5%, while the annual growth rate normalised after COVID-related disruptions.



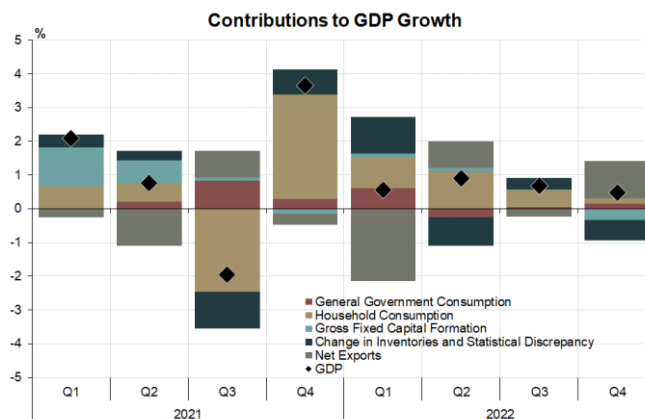
The slowdown in household consumption was particularly evident for discretionary items...



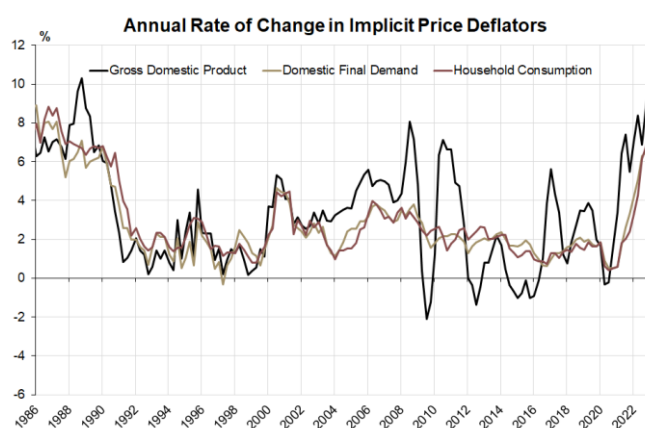
Non-farm compensation of employees per hour, closely watched by the RBA, continues to see only moderate annual growth.



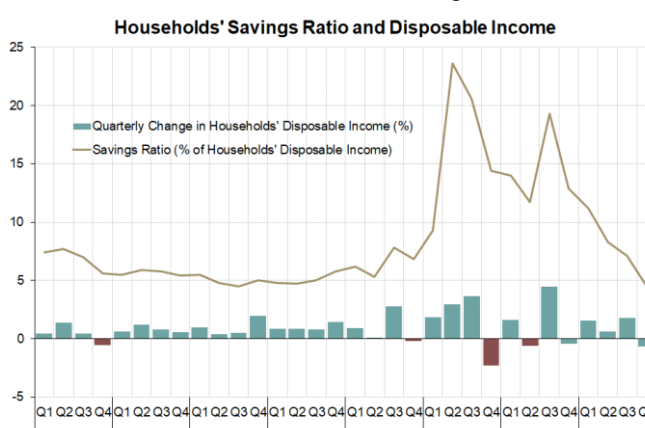
The major contributor to growth was net exports, while the rise in household consumption slowed.



... as price pressures intensified further in Q4.



However, household disposable income fell amid higher interest and rents paid, which also helped drive a decline in the household savings ratio.



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