

Overview

Australian seasonally adjusted real GDP rose by 0.7% in Q2 2021, slightly faster than the 0.5% expected by market participants. Real GDP was up 9.6% through the year in Q2, the strongest on record (since 1960), reflecting the low base from a year earlier.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Real GDP	0.7	9.6
GDP (Expenditure)	0.4	9.6
GDP (Production)	0.9	9.6
GDP (Income)	3.2	16.4
Real Gross Domestic Income	2.1	17.3
Nominal GDP	3.2	16.4
Terms of Trade	6.9	24.0
GDP Deflator	2.5	6.2

Expenditure

Like in the previous quarter, the major contribution to GDP growth in Q2 2021 came from gross fixed capital formation. However, this time the bulk of investment growth came from the public sector, reflecting elevated infrastructure investment. Business investment growth slowed, after a spike in Q1 partially driven by tax incentives. Dwelling investment growth slowed after strong increases in the preceding quarters.

Household consumption was the second largest contributor to GDP growth. Transport services saw the largest increase (25.4%) from very depressed levels in the previous quarter, thanks to easing of domestic travel restrictions. Consumption of electricity, gas and other fuel also saw a large increase, partly reflecting the completion of the A\$600 household electricity credit in Western Australia and relatively cold weather conditions in South Australia. Considerable gains were recorded in hospitality as well as the purchase and operation of vehicles.

Government consumption made its largest contribution to GDP growth since Q3 2020 due to a rise in health-related spending.

As estimated by the ABS in the [balance of payments](#) report released yesterday, net exports cut 1.0ppt from GDP growth.

Production

Administrative and support services made the biggest contribution to growth in gross value added in Q2. Large gains were recorded in hospitality as well as transport, with air transport seeing a 59.8% surge from low levels.

Income (Current Prices)

Contrary to previous quarters, the rise in gross national income was driven by a gross operating surplus, thanks to a rise in profits in mining and construction. The 'tax

less subsidies' component was the second largest contributor, reflecting a decline in subsidies due to lower government support payments amid the end of the JobKeeper subsidy.

Working Hours, Productivity and Unit Labour Costs

Growth in hours worked accelerated to 1.9%, exceeding GDP growth and translating into a renewed fall in productivity. Real unit labour costs rose 0.5% in the quarter and were up 6.8% YoY.

Real Income

The growth rate in 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, continued to normalise, but still rose a sharp 1.8% in Q2 to be up 17.2% YoY.

Real State Final Demand

Real state final demand grew in all states. New South Wales saw the largest increase, supported by a recovery in consumer spending as well as a rise in private and public investment. The lockdowns across Greater Sydney were first introduced towards the end of the quarter and, according to the ABS, had no impact on the data.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Western Australia	1.2	12.4
New South Wales	2.2	14.6
Victoria	1.4	10.5
Queensland	2.0	11.5
South Australia	1.8	12.4
Tasmania	1.4	13.1

In Western Australia, state final demand grew by 1.2% in the quarter, following a strong 3.2% increase in the previous quarter.

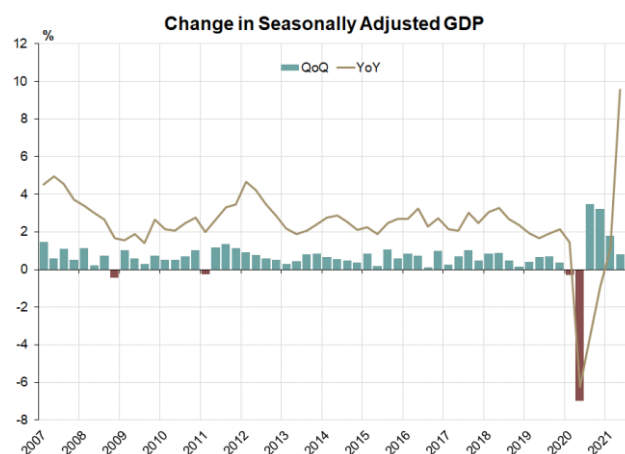
Comment

The Q2 2021 GDP was a useful snapshot of the Australian economy ahead of the recent lockdowns over east, pointing to strong momentum prior to the shock. This could imply that, once the lockdowns are lifted, there is a chance of another V-shaped recovery, similar to the one seen in 2020.

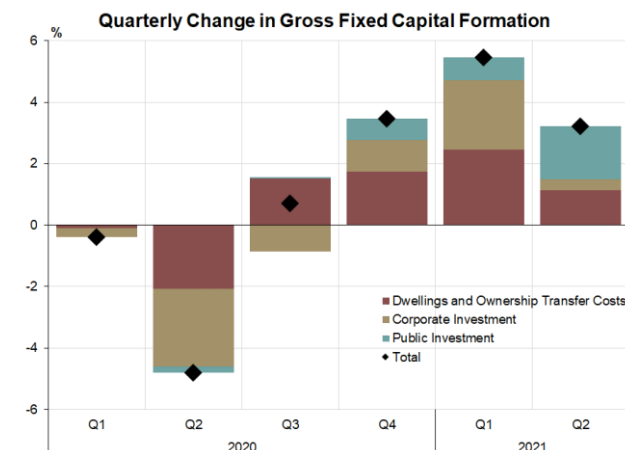
That said, the Aussie economy continues to be heavily supported by public spending. 0.7 ppts of 1.7% domestic demand growth came from general government expenditure. To assure a sustained recovery from the current COVID-19 crisis over east, fiscal and monetary policy will need to remain stimulatory in the following quarters.

1 SEPTEMBER 2021

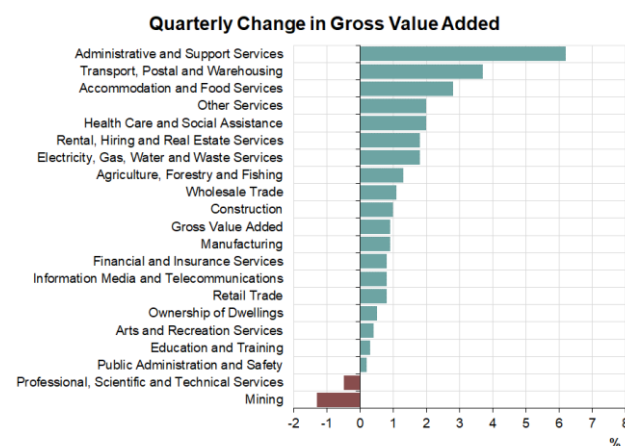
GDP growth continued to normalise QoQ but was the largest on record YoY, due to the low base from 2020.



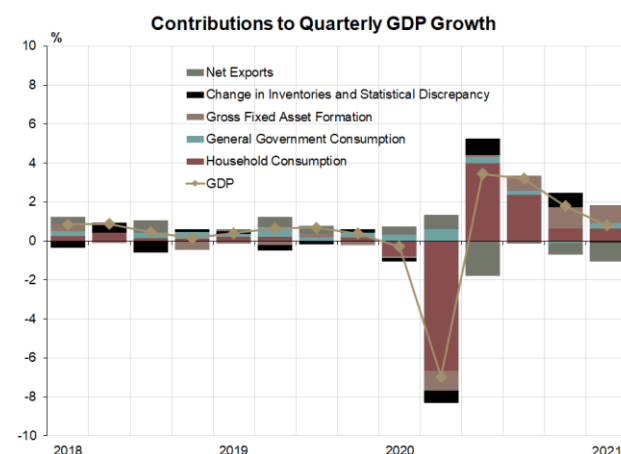
In contrast to the previous months, investment growth was driven by the public sector.



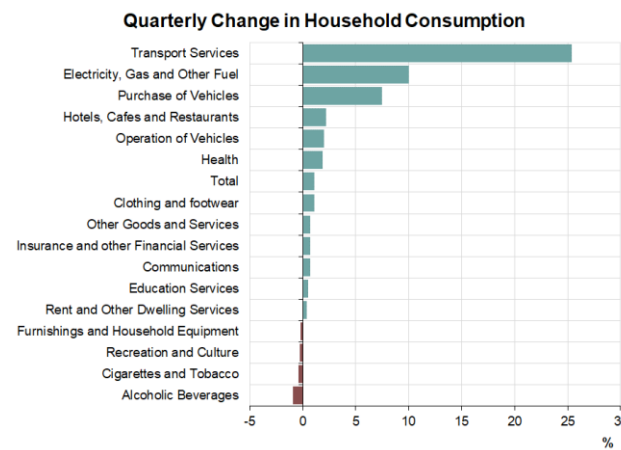
Reduced restrictions led to a solid rise in transport as well as accommodation and food services.



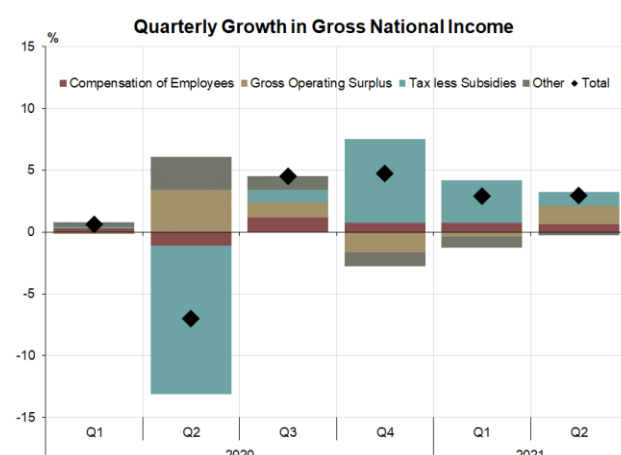
GDP growth in Q2 was again driven by investment and, to a lesser extent, household consumption.



Consumption growth was helped by a rise in transport services, energy and purchase of vehicles.



Corporate profits in mining and construction were major drivers behind growth in gross national income.



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