

Real GDP rose a seasonally adjusted 0.4% in Q3 following a 0.6% increase in Q2 (revised from +0.5%). The result was a little down on expectations for a 0.5% increase. Annual growth increased to 1.7% YoY, from 1.6% in Q2. Real GDP per capita fell 0.1% to be up just 0.2% YoY.

| Seasonally Adjusted Chain Volume | QoQ | YoY |
|----------------------------------|------|------|
| Real GDP | 0.4% | 1.7% |
| GDP (Expenditure) | 0.5% | 1.7% |
| GDP (Production) | 0.4% | 1.9% |
| GDP (Income) | 0.4% | 1.6% |
| Real Gross Domestic Income | 0.5% | 3.6% |
| Nominal GDP | 1.1% | 5.5% |
| Terms of Trade | 0.4% | 7.8% |
| GDP Deflator | 0.7% | 3.7% |

*All figures below are seasonally adjusted

Expenditure

Net exports was the biggest contributor to the expenditure measure of GDP growth in the quarter, adding 0.3 percentage points (ppts) to the headline as export volumes rose 0.7% and imports were down 0.2%. A 0.9% increase in government consumption spending added 0.2ppts and a soft 0.1% increase in household consumption added 0.1ppt to growth. Private business fixed investment fell 0.9% in the quarter and shaved 0.1ppt from growth, while dwelling construction fell 1.7%.

Production

The largest contributor to production growth was a 2.6% increase in activity in the healthcare and social assistance industry which added 0.2ppts. Mining, public administration and professional & scientific services each contributed 0.1ppt.

Income

Income at current prices increased 1.0%, with employee compensation rising 1.1% in the quarter and average compensation up 0.7%. Employee compensation was up 5.0% YoY. The gross profits of private non-financial corporations rose 2.0% in the quarter to be up 13.2% YoY. The wages share of total factor income was steady at 52.0% while the profit share rose to 29.3% from 29.2%, the highest level since March 2009. The household savings ratio picked up to 4.8%, its highest level since Q1 2017, boosted by the sharp rise in disposable income in the quarter thanks to lower interest payments and tax rebates. This is up from 2.7% in Q2, which was the lowest level in over a decade.

Real Income

Australia continues to receive a free kick for the high terms of trade, which rose a further 0.4% in Q3. Real gross domestic income (RGDI), which is real GDP adjusted for the terms of trade rose 0.5% in the quarter to be up 3.6% YoY. Real net national disposable income, a measure of economic wellbeing that adjusts RGDI for income flows with the rest of the world and the consumption of fixed capital, increased 0.5% in per capita terms to be up 3.3% YoY.

Productivity and Prices

Productivity growth remains poor. GDP per hour worked fell 0.2% in the quarter, to be down 0.2% YoY. Non-farm real unit labour costs (RULC) rose 0.1%, suggesting labour cost pressures picked up a little, though RULC was down 0.4% YoY. The real GDP deflator rose 0.7% in Q3 to be up 3.7% YoY, however this is being pushed up by commodity prices. The domestic final demand price deflator measuring domestic inflation pressure increased just 0.3% in the quarter and was up 1.8% YoY.

State Final Demand

Real domestic final demand grew just 0.2% in Q3, to be up 0.9% YoY. Quarterly growth in real state final demand was strongest in Tasmania but fell in both South and Western Australia. Tasmania has seen the best growth over the past year with 3.3%.

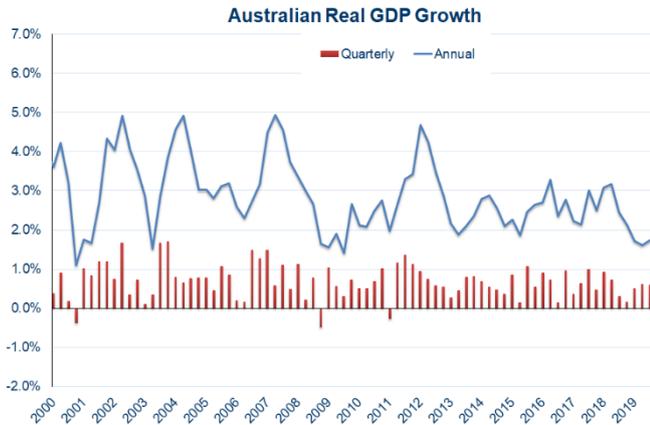
| Seasonally Adjusted Chain Volume | QoQ | YoY |
|----------------------------------|-------|------|
| Western Australia | -0.2% | 0.0% |
| New South Wales | 0.3% | 0.6% |
| Victoria | 0.4% | 1.8% |
| Queensland | 0.1% | 1.3% |
| South Australia | -0.3% | 0.2% |
| Tasmania | 0.8% | 3.3% |
| Australia | 0.2% | 0.9% |

Comment

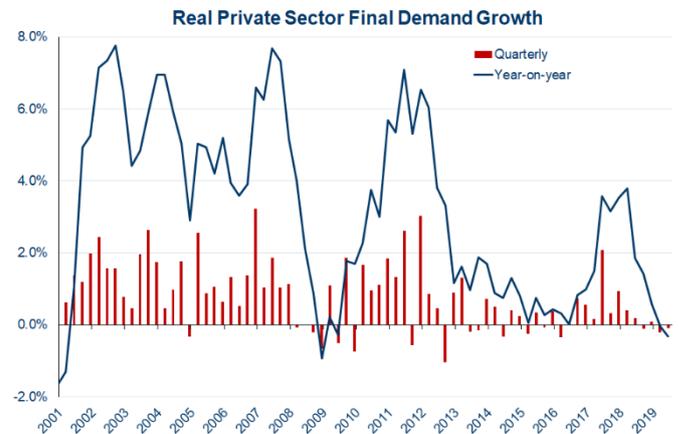
The domestic Aussie economy continues to struggle despite the ongoing strong performance of the export sector. Coupled with record low interest rates from the RBA and the lift from government consumption spending, the domestic economy should really be doing a lot better. Instead, real private final demand fell 0.1% in Q3 to be down 0.3% YoY as structural issues in the domestic economy more than offset the stimulus from low interest rates and the high terms of trade.

We continue to expect the RBA to cut the cash rate to 0.25% by mid-2020 before assessing its options for quantitative easing in the second half of the year.

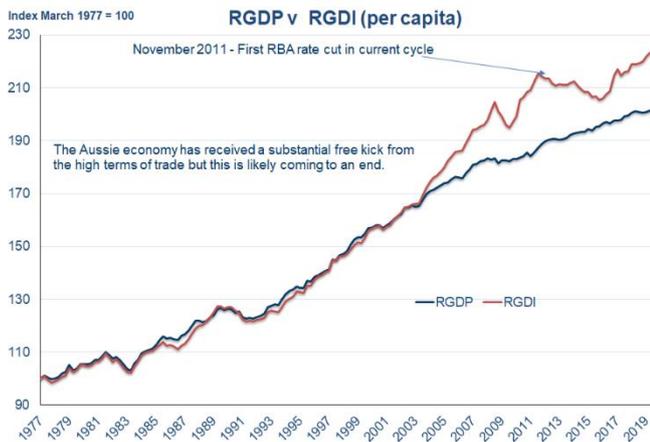
Aussie real GDP growth remains soft...



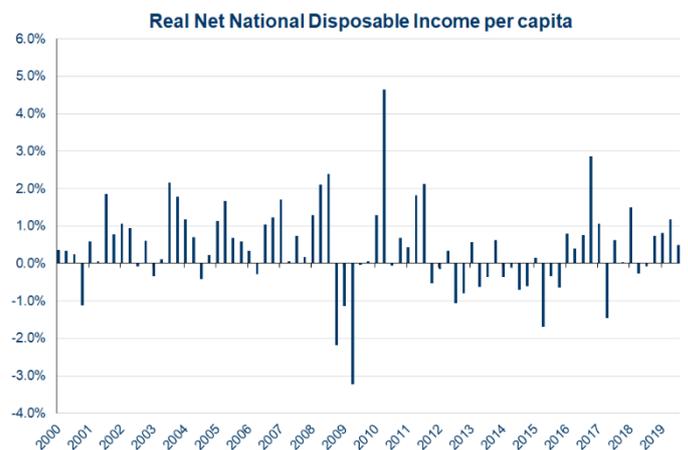
..particularly in the domestic private sector.



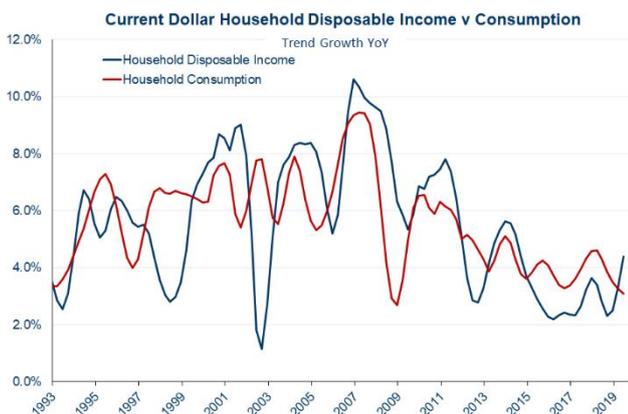
The economy continues to get a free kick from the high terms of trade...



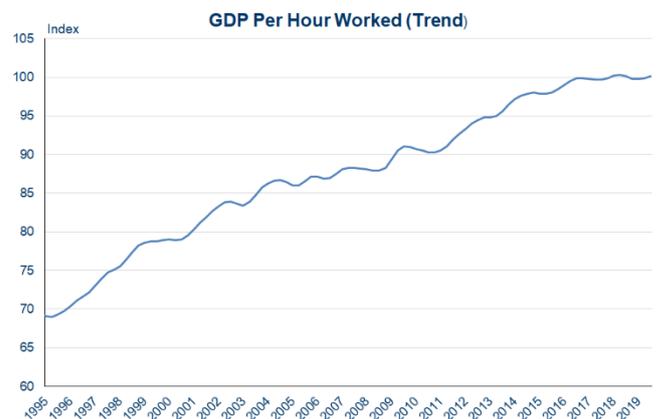
...giving national income a shot in the arm.



Household disposable income growth picked up on the back of interest rate cuts and tax rebates.



Labour productivity growth has virtually stalled over the past three years.



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