

### Overview

Australian seasonally adjusted real GDP rose by 3.1% in Q4 2020, somewhat more than the 2.5% envisaged by the market consensus. This followed an upwardly revised 3.4% increase in Q3.

GDP was 1.1% lower through the year, reflecting the sharp pandemic-related 7.0% contraction in Q2 2020.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Real GDP	3.1	-1.1
GDP (Expenditure)	3.0	-1.1
GDP (Production)	3.1	-1.0
GDP (Income)	4.4	0.4
Real Gross Domestic Income	4.9	2.1
Nominal GDP	4.2	0.6
Terms of Trade	4.8	7.3
GDP Deflator	-1.1	-1.7

### Expenditure

The rise in real GDP was again mainly driven by household consumption, reflecting the re-opening of Victoria after the 2020 Melbourne lockdown. While slower than in the previous quarter, personal spending growth remained solid at 4.3%. In Victoria, private consumption surged by 10.4%, while in other states it slowed down markedly, to a still above-average 2.2%.

Gross fixed capital formation grew at the fastest pace since Q3 2011, helped by both a recovery in public investment and the acceleration in private expenditures. Strong housing market activity translated into higher dwelling investment growth and another surge in ownership transfer costs. Private business investment grew for the first time in five quarters.

Government consumption added 0.2 percentage points to Q4 GDP growth, while net exports subtracted 0.1 percentage points from growth in the quarter.

### Production

The largest contributor to gross value added growth in Q4 2020 was the agriculture sector, which rose at the fastest pace since Q3 1983. The surge in agriculture was driven by a rebound in grain output thanks to drought breaking rain and heightened demand for cereal grains from the Middle East.

Growth was also recorded in most of the other industries, with the exception of mining, electricity, gas, water and waste services.

### Working Hours, Productivity and Unit Labour Costs

Working hours grew at a similar pace to GDP, resulting in stagnant productivity in Q4. Coupled with a recovery in wages, this translated into a record surge in unit labour costs, both in nominal and real terms, which followed two

quarters of large declines. Despite the sharp increase, unit labour costs remained well below the pre-pandemic levels.

### Income (Current Prices)

The rise in gross national income was driven by the 'tax less subsidies' component, reflecting a decline in subsidies amid lower JobKeeper payments and the unwinding of other cash flow support schemes. Lower JobKeeper payments translated into a decline in the gross operating surplus (corporate profits). Growth in compensation of employees eased from a decade high in the previous quarter.

### 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, grew by 4.7%, slightly less than the near-record 5.2% from the previous quarter.

### State Final Demand

State final demand grew across all the states. Unsurprisingly, Victoria saw the largest increase, as it recovered from the 2020 Melbourne lockdown.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Western Australia	1.5	1.2
New South Wales	2.9	-0.7
Victoria	6.8	-3.4
Queensland	2.0	2.4
South Australia	0.6	0.0
Tasmania	3.3	1.5

The smallest increase in state final demand was recorded in South Australia, which saw a decline in engineering and building construction.

Western Australia saw a 1.5% increase in state final demand in Q4, to be up 1.2% YoY. With a 0.1% rise in the entirety of 2020, Western Australia was the only state not to record a decline in domestic output over the whole year.

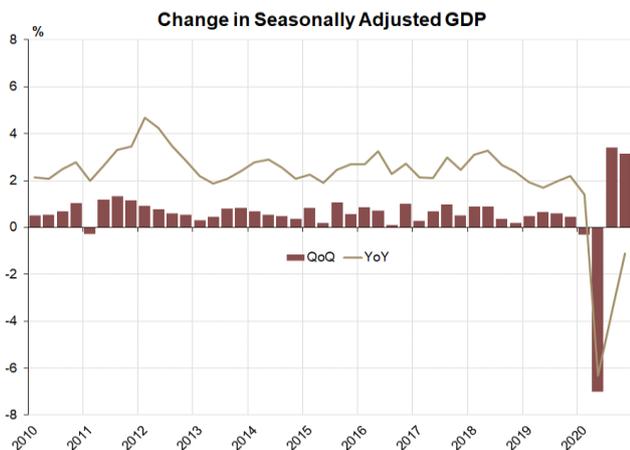
### Comment

The Q4 national accounts report signalled the ongoing recovery in Australia, even if the pace was slightly bolstered by the Melbourne reopening. Outside of Victoria, growth rates normalised after the post-lockdown bounce in Q3.

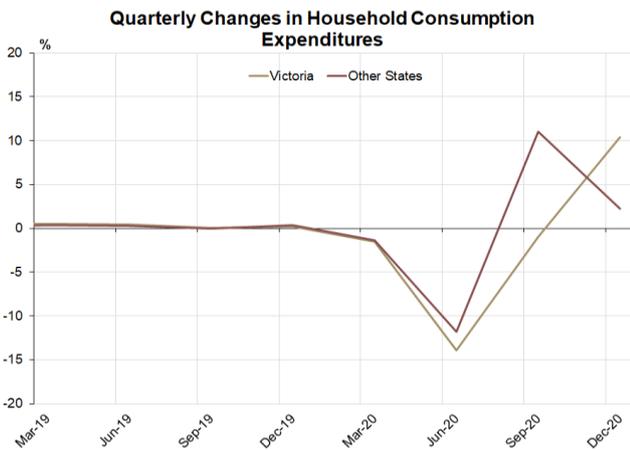
The recovery is likely to continue in the coming quarters, though at a slower pace than in the previous two quarters, with COVID-19 and the efficacy of vaccine rollout remaining the key source of uncertainty.

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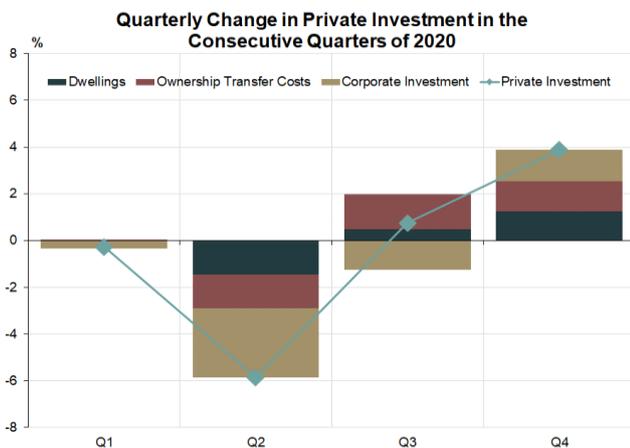
Real GDP saw another significant increase in Q4 2020.



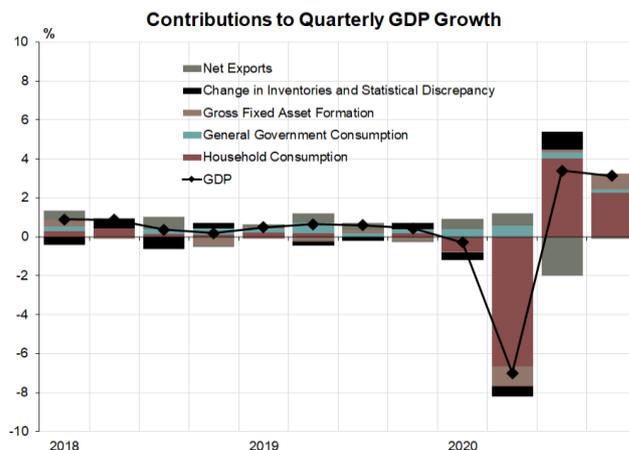
...as Melbourne re-opened after the 2020 lockdown.



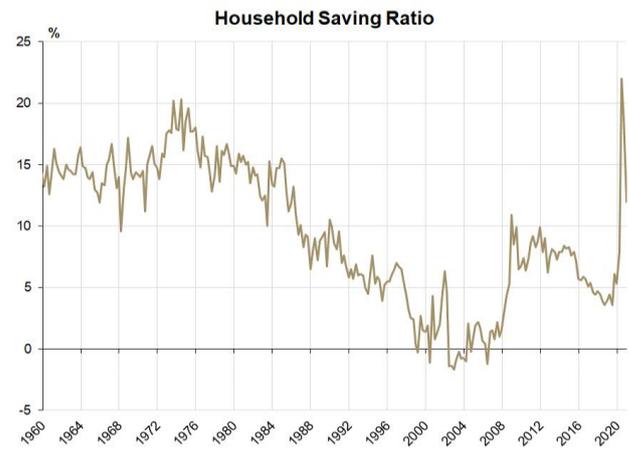
Private investment recovered amid strong housing market activity and a rebound in business investment.



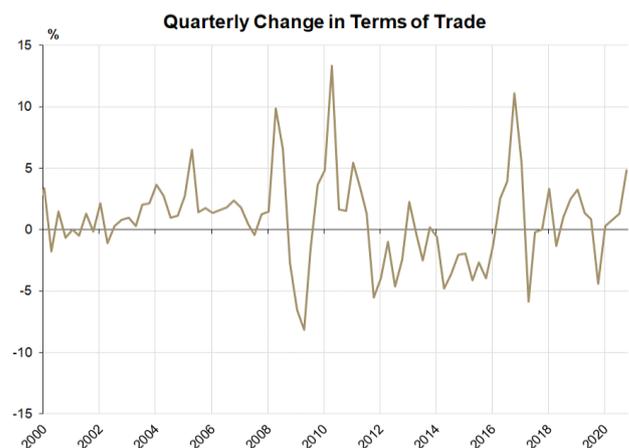
The rise was again led by household consumption expenditures...



Household saving has come off its record highs, yet remains well above the pre-pandemic levels.



The rise in iron ore prices translated into a surge in terms of trade.



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