

Overview

Australian seasonally adjusted real GDP declined 1.9% in Q3 2021, less than the 2.7% fall expected by the markets. Despite the decline, real GDP was still up 3.9% through the year.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Real GDP	-1.9	3.9
GDP (Expenditure)	-2.0	3.9
GDP (Production)	-1.9	3.8
GDP (Income)	-0.5	11.2
Real Gross Domestic Income	-1.7	9.0
Nominal GDP	-0.6	11.2
Terms of Trade	0.5	23.1
GDP Deflator	1.4	7.2

Expenditure

The big decline in Q3 real GDP growth was unsurprisingly driven by a 4.8% drop in household consumption spending, which cut 2.5 percentage points (ppts) from the headline. Lower inventories, amid supply chain disruptions, shaved another 1.2ppts from growth.

The major offsets were a positive 1.0 ppts contribution from net exports and a 5.8% increase in government consumption, which added 0.8 ppts to GDP growth, the most since the early 1990s.

Dwelling construction rose 0.1%, driven by alterations and additions. Private business capital investment increased 0.7% in the quarter, while public sector capital spending fell 1.7%.

Production

The industry composition of the Q3 change in GDP came as no surprise either, with the sectors most affected by lockdowns leading the decline. Gross value added in accommodation and food services plummeted by 26.4%, the 'other services' category saw an 11.8% drop, while wholesale trade recorded a 5.4% fall.

At the same time, a rise in output was reported for several sectors, including mining (+1.7%), agriculture, forestry and fishing (+1.4%), and finance and insurance services (+1.3%).

Income (Current Prices)

The income measure of nominal GDP fell 0.6% in the quarter, largely driven by 'taxes minus subsidies' amid enhanced government support during the lockdowns over east. This support, and the 0.5% rise in employee compensation, was reflected in a 4.6% increase in household gross disposable income that, along with the drop in spending, saw the household saving ratio jump to 19.8% in Q3, from 11.8% the previous quarter.

Private non-financial corporate profits rose 4.7% in Q3.

Working Hours, Productivity and Unit Labour Costs

The east coast lockdowns saw hours worked drop 5.4%. With hours worked falling faster than real GDP, productivity (as measured by GDP per hour worked) rose 3.7%.

Real nonfarm unit labour costs rose 0.3% for the second quarter in a row to be up 7.8% YoY, suggesting inflation pressure is rising.

Real Income

Real gross domestic income, which is real GDP adjusted for the terms of trade, fell 1.8% in Q3 but was up 9.0% YoY.

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, fell by 3.8% in Q3 but was still 7.4% higher YoY.

Real Domestic Final Demand

Real domestic final demand fell 1.7% in the quarter, driven by falls in real state final demand in New South Wales and Victoria, which were heavily impacted by lockdowns during the quarter.

Western Australian real state final demand rose 0.6%, driven mainly by a 1.9% increase in household consumption.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Western Australia	0.6	6.4
New South Wales	-6.5	0.3
Victoria	-1.4	9.9
Queensland	1.8	6.1
South Australia	1.4	5.7
Tasmania	4.2	11.7
Australia	-1.8	5.2

Comment

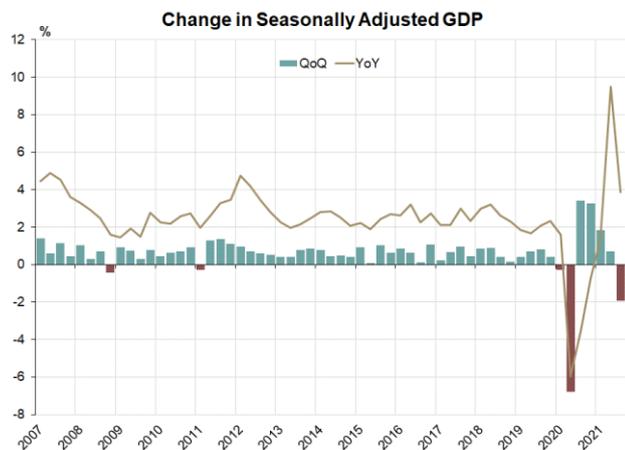
While Q3 GDP numbers surprised to the upside, this is old news now, as the Australian economy is transitioning to 'living with COVID-19' and most restrictions over east have been lifted or are soon to be lifted.

While the emergence of the Omicron variant is a near-term downside risk, the appetite of the Australian government for more lockdowns, amid high vaccination rates, appears low, implying that the recovery should continue into 2022.

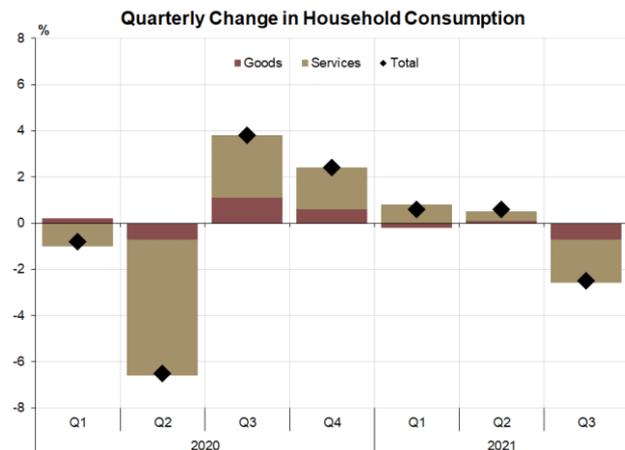
The Aussie economy is expected to rebound strongly in Q4, with the RBA projecting that real GDP will be back on its pre-Delta path by mid-2022.

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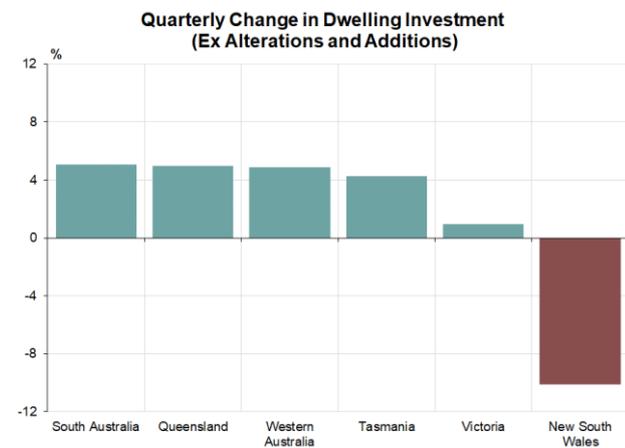
GDP fell in Q3, but remained higher than a year ago.



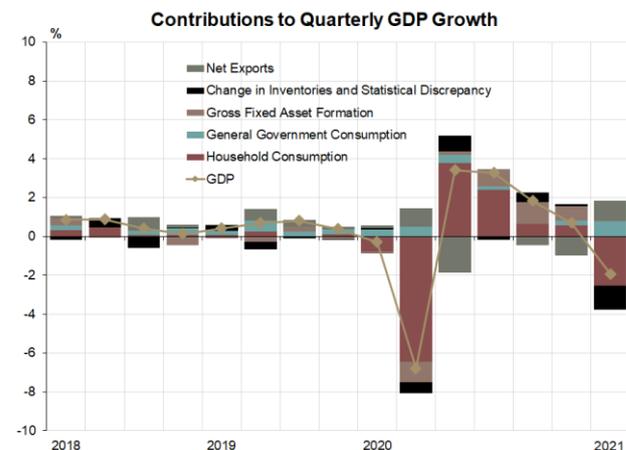
The fall in consumption was relatively large in services and quite moderate for goods.



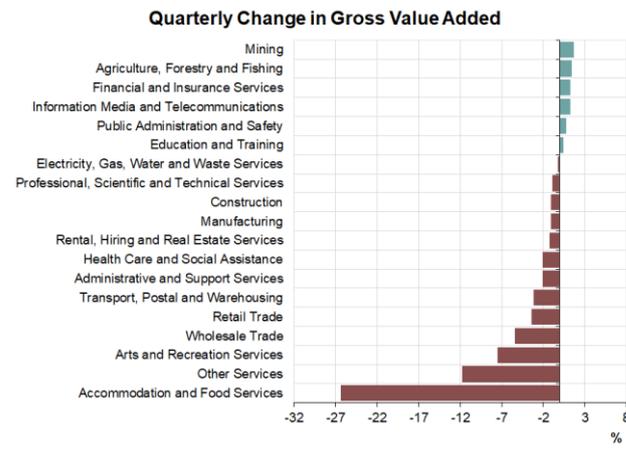
The fall in dwelling investment (ex alterations and additions) was driven by a drop in New South Wales.



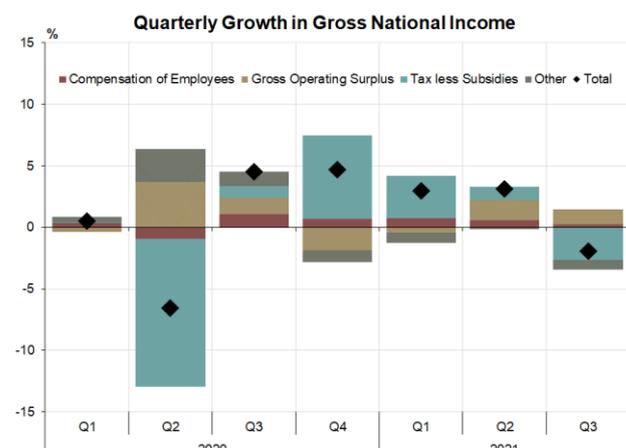
The fall in GDP was driven by lower household consumption and a fall in inventories amid lockdowns.



Unsurprisingly, the sectors most affected by the lockdowns led the fall in gross value added.



The decline in gross national income was led by 'tax less subsidies' amid increased government support.



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