

Overview

Australian seasonally adjusted real GDP rose 3.4% in Q4 2021, exceeding market expectations for a 3.0% increase. This was the fastest increase since Q1 1976, and slightly surpassed the rebound in Q3 2020 when the Aussie economy sprang back after the nationwide lockdown. Real GDP was up 4.2% YoY.

The current dollar measure of GDP was also up 3.4% in the quarter, due to a small 0.1% decline in the GDP price deflator, primarily as a result of the decline in the terms of trade.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Real GDP	3.4	4.2
GDP (Expenditure)	3.6	4.1
GDP (Production)	3.3	4.2
GDP (Income)	3.4	10.4
Real Gross Domestic Income	1.9	6.4
Nominal GDP	3.4	10.2
Terms of Trade	-5.1	10.3
GDP Deflator	-0.1	5.7

Expenditure

The Q4 rise in real GDP was attributable to the recovery from the Delta outbreaks over east. It was unsurprisingly driven by a 6.3% bounce in household consumption spending, which added 3.2 ppts to growth.

Higher inventories were the other factor contributing positively to real GDP growth in Q4 (+0.9 ppts).

These increases were offset by the negative contribution of net exports as well as a broad-based 1.5% decline in fixed capital investment, both private and public, amid shortages of labour and materials. These shortages were particularly acute for dwelling investment, which fell 2.2% after weak growth in the previous two quarters.

Production

The industry composition of the Q4 GDP growth was also typical of post-lockdown recoveries. Accommodation and food services rose by 26.1%, while the category 'other services' saw a 15.4% increase thanks to increased demand for personal care services.

Income (Current Prices)

The key contribution to GDP in the income approach came from the 'taxes less subsidies' category, which reflects increased taxes as the economy recovered and a fall in subsidies amid lower state and local support for COVID-hit businesses. Compensation for employees rose 2.0%, the most since Q3 2020, to be up 5.3% from a year earlier. Growth in private non-financial corporate profits slowed to 0.4%, from 3.2% in Q3, to be up 9.6% YoY.

Working Hours, Productivity and Unit Labour Costs

As the eastern states opened up, hours worked rose by 4.3%, while market sector labour productivity fell 1.9% in the quarter. Real non-farm unit labour costs declined by 0.1%, with annual growth slowing to 0.7%.

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, rose by 1.9% in Q4, following a 3.8% drop in the previous quarter, and was 3.5% higher than a year before.

Real Domestic Final Demand

New South Wales and Victoria, which were recovering from the Delta lockdowns, recorded the largest gains.

Western Australian real state final demand picked up by 0.1% in the quarter and 4.5% over the year. The rise in household and government consumption was almost entirely offset by a broad-based setback in investment.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Western Australia	0.1	4.5
New South Wales	6.7	4.0
Victoria	3.7	6.1
Queensland	0.0	3.9
South Australia	0.3	5.4
Tasmania	-1.5	5.8
Australia	2.9	4.6

Comment

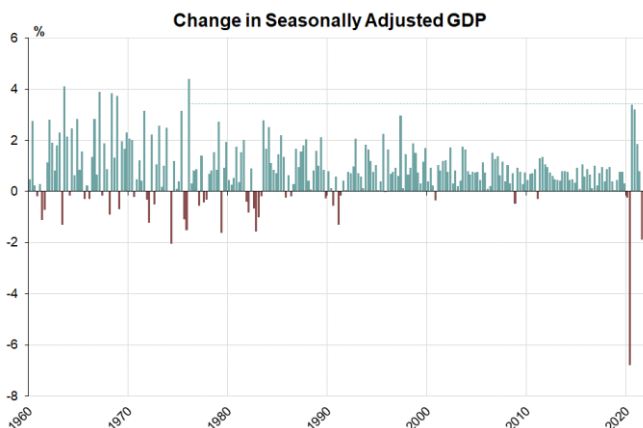
The Q4 GDP report suggests the economy had substantial momentum coming into 2022 and highlights the problems in the construction industry due to supply chain issues and labour shortages, with activity falling 2.2% despite the large amount of work in the pipeline.

While the GDP deflator fell, due to the terms of trade effect, the 1.1% rise in the final demand price deflator was the fastest increase since Q3 2008, and signals broad-based price pressure in the economy. However, the small decline in real nonfarm unit labour costs, suggests the labour market is not a driver of higher inflation pressure as yet and justifies the RBA's patience with monetary policy tightening for now.

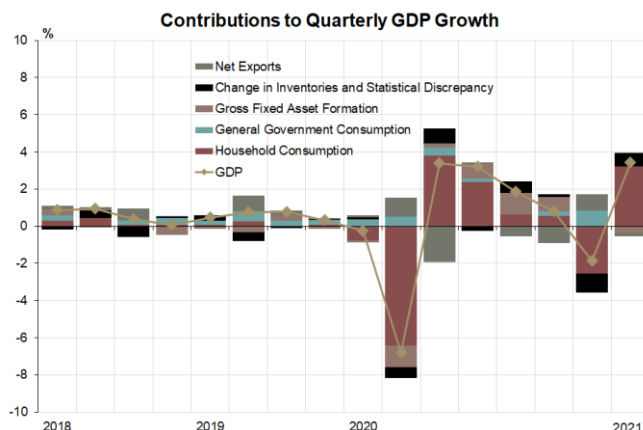
Looking beyond, the impacts of the Omicron wave will be short-lived and GDP growth is expected to moderate. The Russian-Ukrainian conflict is a new risk factor, both to the upside (rise in commodity prices) and to the downside (heightened uncertainty), but it is unlikely to derail the recovery.

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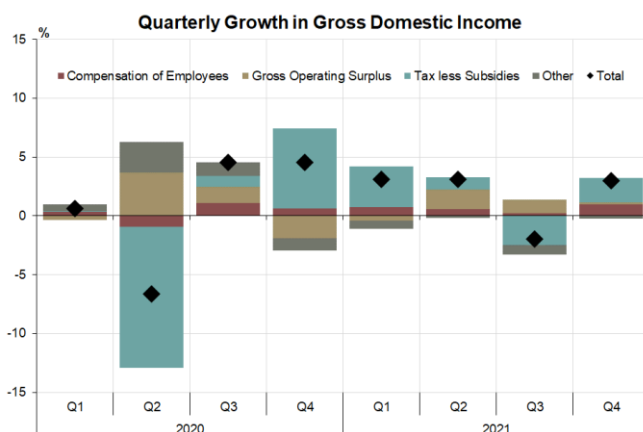
Real GDP rose most since mid-1970s in Q4 2021.



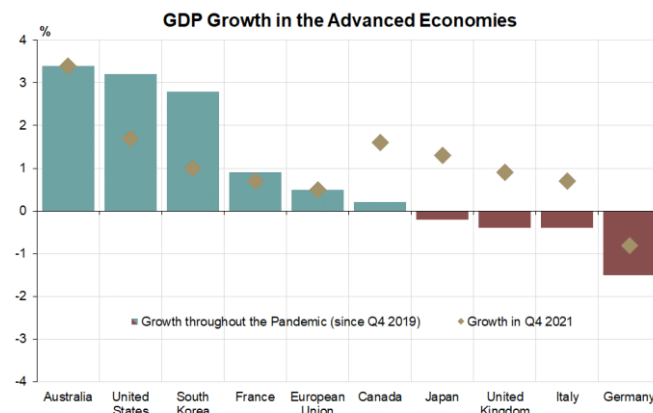
The rise in GDP was driven by higher consumption amid re-opening from the Delta lockdowns over east.



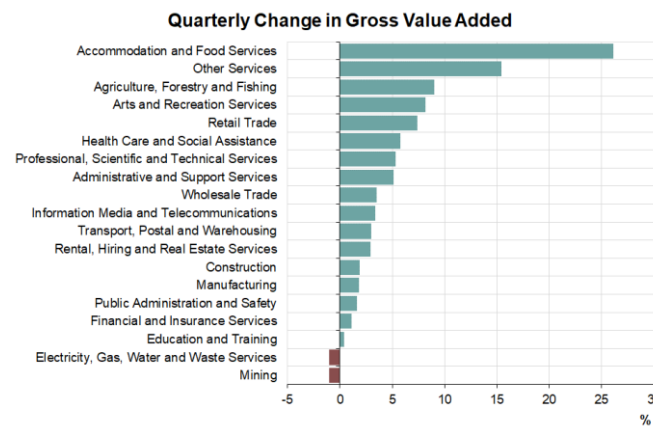
The rise in income was led by 'taxes less subsidies' amid higher taxes and lower government support.



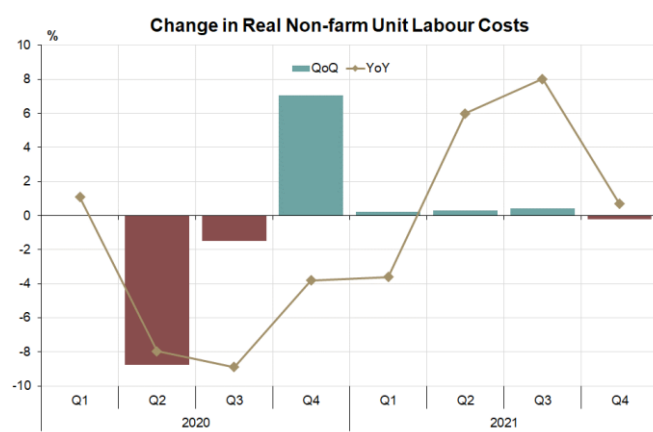
Aussie GDP growth is also high compared to other advanced economies.



The sectors most affected by the lockdowns saw the greatest increases in gross value added.



Growth in real unit labour costs, suggests rising wages aren't an inflation driver as yet.



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