

Overview

Australian seasonally adjusted real GDP rose 0.9% in Q2 2022, in line with the market expectations. The annual growth rate accelerated to 3.6% from 3.3% in the previous quarter.

Q1 GDP growth figures were downgraded to 0.7% QoQ from 0.8% QoQ previously.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Real GDP	0.9	3.6
GDP (Expenditure, Real)	0.8	3.4
GDP (Production, Real)	1.1	3.8
GDP (Income, Nominal)	4.1	12.2
Real Gross Domestic Income	2.3	5.6
Nominal GDP	4.3	12.1
Terms of Trade	4.6	7.5
GDP Deflator	3.3	8.3

Expenditure

The major contribution to the rise in real GDP in Q2 was household consumption expenditure, which rose by 2.2% and added 1.1ppts to the increase. An almost equally large contribution (+1.0ppt) came from net exports amid strong growth of commodity exports.

Gross fixed capital expenditure made no contribution to growth in Q2, as the rise in public capital spending was fully offset by a decline in private investment, amid sluggish construction activity.

The change in inventories and general government consumption detracted from GDP growth in Q2.

Production

The increase in gross value added in Q2 was led by transport, postal and warehousing (+0.3ppts) followed by accommodation & food services (+0.2ppts) and healthcare & social assistance (+0.2ppts)

Income (Current Prices)

In the income approach, the largest contribution came from gross operating surplus (corporate profits), which rose by 11.2% amid a 14.3% surge in mining profits.

Compensation of employees rose by 2.4% QoQ, slightly faster than in the previous quarter (1.9% QoQ), supported by both higher wages, employee numbers and hours worked.

Taxes less subsidies detracted from growth in Q2, due to a temporary cut in the fuel excise tax rate.

Hours Worked, Productivity and Unit Labour Costs

Hours worked rose by 2.9% in Q2. Productivity, as measured by GDP per hour worked, declined 1.9%. However, labour costs were not yet a major driver of inflation with real non-farm unit labour costs falling 1.2%.

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 another 2.3% QoQ to a new record high of A\$17.4k, as the terms of trade have also reached a series record.

GDP Price Deflator

The GDP price deflator rose by 8.3% YoY, the most since Q1 1989. The annual growth rate of household consumption deflator increased the most since Q1 1991, while the YoY rise in the private investment deflator was the steepest since Q1 1987.

Real Domestic Final Demand

Real state final demand rose in all states in Q2, with New South Wales seeing the strongest increase of 1.9%.

Western Australian real state final demand rose 0.1%, to be 3.3% up through the year. This followed strong increases in the previous quarters. A 1.4% QoQ increase in household consumption expenditure was almost fully offset by declines in the other expenditure categories.

Seasonally Adjusted Chain Volume, %	QoQ	YoY
Western Australia	0.1	3.3
New South Wales	1.9	4.1
Victoria	1.0	6.5
Queensland	1.0	4.0
South Australia	1.5	4.7
Tasmania	0.6	2.4
Australia	1.0	4.7

Comment

The Q2 GDP report again confirmed the resilience of the Australian economy to multiple unfolding challenges.

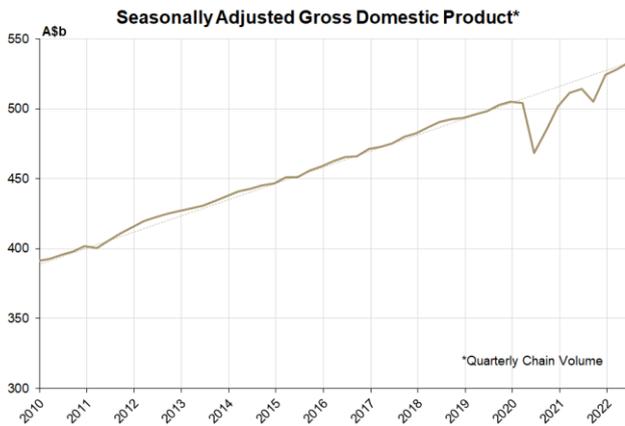
The strength was particularly evident in export volumes, supported by rising commodity prices. Household consumption growth was also strong, though the interest rate hiking cycle was only just starting in Q2. The increase in spending was at the expense of a lower savings rate, which fell to the new pandemic low of 8.7%. At the same time, investment activity saw a setback in Q2, with construction hit hard by high costs and shortages of materials and labour.

The national accounts report also showed accelerating price pressures, with the implicit price deflators rising at the fastest rates in over three decades.

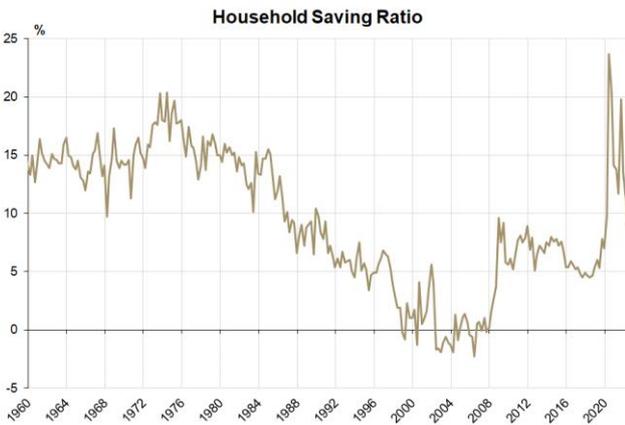
All of it speaks to a continuation of the tightening cycle by the RBA, though its pace will be dependent on the timelier data, particularly on employment and inflation.

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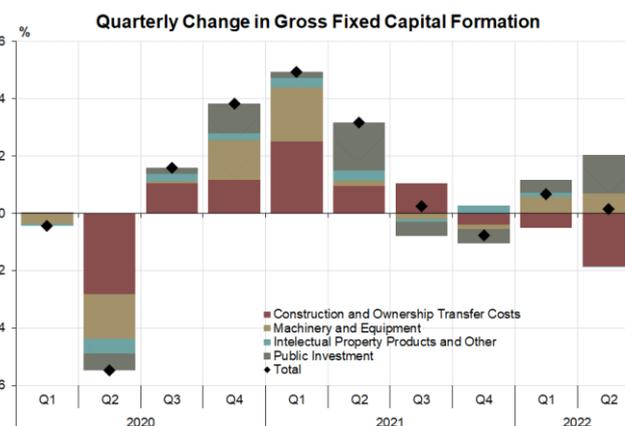
The real GDP level has come back to its pre-pandemic trajectory...



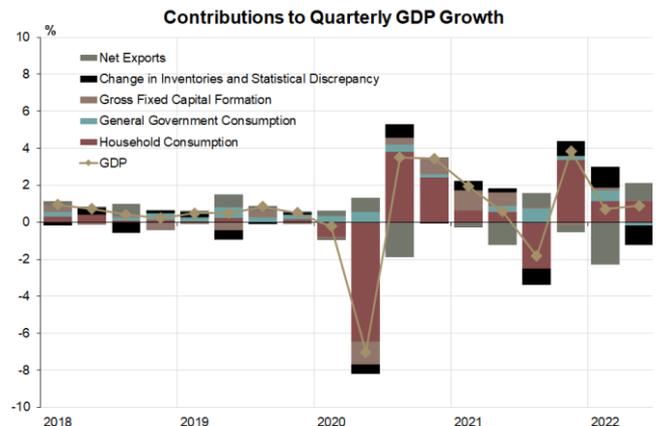
The rise in consumption was partly supported by a lower household savings rate.



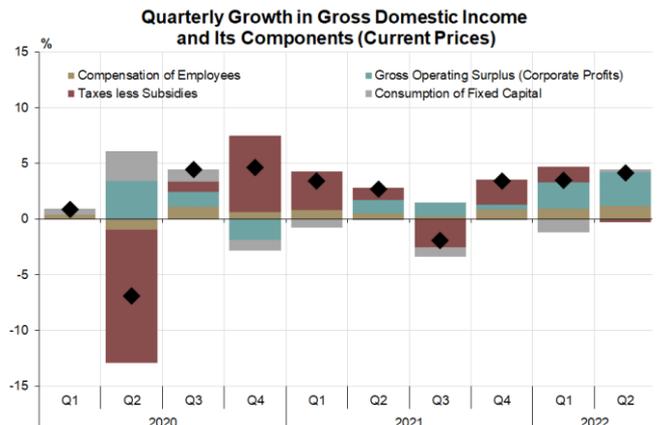
Investment activity underperformed in the quarter, dragged down by weakness in construction.



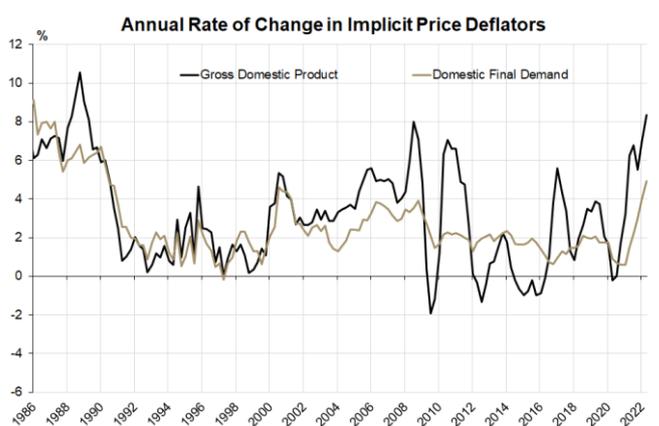
... supported by further strength in consumption as well as strong exports.



The wages bill and corporate profits have increased, while 'tax less subsidies' fell after the fuel excise cut.



Domestic price growth has accelerated further and was the fastest in three decades.



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