

Section 22

From: S22
Sent: Wednesday, 2 December 2015 8:26 AM
To: S22
Cc:
Subject: National Accounts briefing materials S22
Attachments: 151201 Final National accounts Q&A.docx; National Accounts - Sept 15 v3 (unlinked).pptx; ECN - National Accounts - September-15.pdf

Good morning S22 and S22

Please find attached the following National Account briefing materials:

- Chart pack
- Econote
- Q&A

Please let me know if you have any questions.

Cheers,

S22
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The Australian economy grew by 0.9 per cent in the September quarter and 2.5 per cent through the year. The outcome was within market expectations (median: 0.8 per cent; range: 0.3 per cent to 1.0 per cent).

The September quarter National Accounts continues to show the economy's transition from the investment phase to the production phase of the mining boom.

Net exports were the largest contributor to growth in the September quarter, contributing 1.5 percentage points to GDP growth after detracting from GDP growth in the June quarter. The strong growth in net exports largely reflects an increase in mining exports (up 8.8 per cent) due to poor weather conditions in the June quarter. Household consumption expenditure continues to add to GDP growth, growing 0.7 per cent during the quarter.

Positive contributions from net exports and consumption were partly offset by the third consecutive fall in private business investment and a fall in government investment, following strong spending on defence weapons platforms in the June quarter.

1. **GDP growth** was 0.9 per cent in the September quarter following 0.3 per cent growth in the June quarter (revised up from 0.2 per cent). Net exports and household consumption were the largest contributors to quarterly growth (contributing 1.5 and 0.4 percentage points respectively), while Private and Public investment were the largest detractors from growth (detracting 0.6 and 0.4 percentage points respectively).

2. **Household consumption** grew 0.7 per cent in the quarter to be 2.7 per cent higher through the year. The main contributors to household consumption growth were Rent and other dwelling services (up 0.5 per cent), Food (up 1.0 per cent) and Insurance and other financial services (up 0.9 per cent). The household saving ratio fell from 9.4 per cent to 9.0 per cent.

3. **Dwelling investment** rose 0.9 cent in the quarter to be 10.3 per cent higher through the year. Investment in New and used dwellings rose 2.0 per cent in the quarter, following a fall in June, while Alterations and additions fell 0.9 per cent.

4. **New private business investment** fell 4.6 per cent in the quarter and 11.0 per cent through the year as investment activity in the resources sector continues to wind down. This result reflected significant falls in New engineering construction (down 7.1 per cent), New machinery and equipment investment (down 5.7 per cent) and New building (down 2.8 per cent).

5. **New public final demand** fell 1.1 per cent in the quarter to be 2.3 per cent higher through the year. New Commonwealth public final demand fell 2.3 per cent and new state and local public final demand fell 0.3 per cent. Public consumption grew 0.7 per cent in the quarter, but was more than offset by an 8.6 per cent fall in New public gross fixed capital formation.

6. **Inventories** detracted 0.1 percentage points from GDP growth in the quarter, reflecting falls in manufacturing inventories, which moved back to trend following a build-up in June, and farming inventories, largely driven by a run-down in sorghum inventories. This was partly offset by a build-up of mining inventories.

7. **Net exports** (exports less imports) grew significantly in the September quarter, following a weak June quarter. Export volumes grew 4.6 per cent, driven by a strong recovery in Non-rural commodities, while import volumes fell 2.4 per cent in the quarter, reflecting falls in Intermediate and Services imports partly offset by increasing Consumption and Capital imports.

8. The **terms of trade** fell by 2.4 per cent in the quarter to be 10.5 per cent lower through the year. The fall follows a 4.1 per cent fall in the June quarter and reflects strength in import prices. The **current account deficit** narrowed to 4.4 per cent of GDP in the quarter (from 5.1 per cent in the June quarter).

9. **State Final Demand** fell in five of the eight states and territories. Quarterly growth ranged from a rise of 0.1 per cent in South Australia to a fall of 7.1 per cent in the Northern Territory.

10. **Nominal GDP** rose by 0.8 per cent in the quarter to be 2.2 per cent higher through the year. This reflects the fall in the terms of trade and moderate domestic inflation.

11. **By industry** Mining, Financial and insurance services, Construction, and Rental, hiring and real estate services underpinned quarterly GDP growth.

12. **Labour productivity (GVA per hour worked)** in the market sector rose by 0.9 per cent in the quarter to be 2.0 per cent higher through the year.

Summary tables

Table 1: Alternate measures of GDP (chain volume)

Per cent change	Quarter (s.a.)		tty		(orig)
	Jun	Sep	Jun	Sep	2014-15
GDP	0.3	0.9	1.9	2.5	2.2
Non-farm GDP	0.3	1.0	1.9	2.6	2.2
Farm GDP	-1.5	-3.2	2.3	-1.3	-0.5
Expenditure-based GDP	-0.2	0.9	1.8	1.9	2.2
Income-based GDP	0.6	1.1	2.0	3.1	2.3
Production-based GDP	0.4	0.8	2.0	2.6	2.0
Consensus expectations*		0.8		2.4	

*Median market expectations for real GDP growth

Source: ABS Cat No. 5206.0 Tables 2, 3 and 41 and Bloomberg.

Table 2: Expenditure components of GDP (chain volume)

	(Per cent change)			Cont. to growth (percentage pts)	
	Jun	Sep	tty	Jun	Sep
Private final demand	0.2	-0.3	0.7	0.2	-0.2
Household consumption	0.6	0.7	2.7	0.3	0.4
Dwelling investment	0.4	0.9	10.3	0.0	0.0
New business investment	-2.2	-4.6	-11.0	-0.3	-0.7
New building	0.7	-2.8	2.6	0.0	-0.1
New engineering construction	-3.0	-7.1	-21.5	-0.1	-0.3
New machinery and equipment	-2.7	-5.7	-11.4	-0.1	-0.3
New public final demand	2.3	-1.1	2.3	0.4	-0.2
Domestic final demand	0.6	-0.5	0.8	0.6	-0.5
Changes in inventories				0.0	-0.1
Gross national expenditure	0.5	-0.6	0.2	0.5	-0.6
Exports	-3.3	4.6	6.5	-0.7	1.0
Imports	0.1	-2.4	-1.2	0.0	0.5
Net exports				-0.8	1.5
GDP (E)	-0.2	0.9	1.9		
GDP	0.3	0.9	2.5		

Source: ABS Cat No. 5206.0 Tables 2, 6, 7, 8, 40 and 41 and Treasury.

Table 3: Production-based GDP (chain volume)

	(Per cent change)			Cont. to growth (percentage pts)	
	Jun	Sep	tty	Jun	Sep
Ag, forestry & fishing	-1.2	-2.3	-0.6	0.0	-0.1
Mining	-2.7	5.2	4.1	-0.2	0.4
Manufacturing	0.1	0.0	-0.9	0.0	0.0
Construction	0.4	1.2	2.0	0.0	0.1
Total services (ex. mining)	1.0	0.5	3.5	0.6	0.3
Rental, hiring & real estate	3.7	2.8	8.0	0.1	0.1
Transport, postal & w.housing	1.7	0.2	2.4	0.1	0.0
Retail trade	1.0	0.6	3.7	0.0	0.0
Wholesale trade	-0.6	-0.1	2.3	0.0	0.0
Finance & insurance	1.2	1.3	5.3	0.1	0.1
GDP (P)	0.4	0.8	2.6		
GDP	0.3	0.9	2.5		

Source: ABS Cat No. 5206.0 Tables 2, 16, 17 and 41.

Table 4: Income-based GDP (current prices)

	(Per cent)		
	Jun	Sep	tty
Compensation of employees	0.9	1.1	2.6
Gross operating surplus	-0.8	0.4	0.2
Private non-financial corporations and Financial corporations	-2.0	0.7	-1.6
Gross mixed income	2.8	1.4	12.3
Avg. non-farm compensation per employee	0.2	0.8	0.6
Household gross disposable income	1.6	0.5	3.9
Real household gross disposable income	1.0	0.4	2.3
Household saving ratio	9.4	9.0	
Profits share of total factor income	25.2	25.0	
Wages share of total factor income	53.9	54.1	
Gross national income	0.3	0.8	2.5
Nominal GDP	0.2	0.8	2.2

Source: ABS Cat No. 5206.0, Tables 2, 6, 9, 19, 36 and 41.

Table 5: Price measures (sa unless otherwise stated)

	(Per cent change)		
	Jun	Sep	tty
Chain price indexes (original)			
GDP	-0.5	-0.2	-0.5
Domestic final demand	0.7	0.6	2.1
Household consumption	0.4	0.6	1.8
Consumer price index (original)	0.7	0.5	1.5
Implicit price deflators			
GDP	0.0	-0.1	-0.3
Exports	-3.1	0.4	-4.9
Imports	1.1	2.9	6.3
Terms of trade	-4.1	-2.4	-10.5
Labour productivity (a)	0.7	0.9	2.0
Labour productivity (trend) (a)	0.6	0.7	1.9
Non-farm nominal unit labour costs	1.2	0.4	0.6

(a) For the market sector

Source: ABS Cat No. 5206.0, Tables 1, 2, 11, 13 and ABS Cat No. 6401.0.

Table 6: State final demand (chain volume)

	(Per cent change)		
	Jun	Sep	tty
New South Wales	1.1	-0.2	2.6
Victoria	1.3	0.0	4.2
Queensland	-1.3	-0.2	-2.5
South Australia	0.1	0.1	1.6
Western Australia	0.4	-1.3	-2.6
Tasmania	1.1	0.1	1.4
Northern Territory	-3.4	-7.1	-10.9
Australian Capital Territory	1.8	-1.5	0.6
Australia	0.6	-0.5	0.8

Source: ABS Cat No. 5206.0, Tables 7, 24, 25, 26, 27, 28, 29, 30 and 31.

International Comparisons

International real GDP growth comparisons¹

	Quarter on quarter				Through the year				Year average	
	Dec-14	Mar-15	Jun-15	Sep-15	Dec-14	Mar-15	Jun-15	Sep-15	2014	2014-15
Australia	0.4	0.9	0.3	0.9	2.2	2.1	1.9	2.5	2.6	2.2
G7										
United States	0.5	0.2	1.0	0.5	2.5	2.9	2.7	2.2	**2.4	**2.7
Japan	0.3	1.1	-0.2	-0.2	-0.8	-0.8	1.0	1.1	-0.1	-0.6
Germany	0.6	0.3	0.4	0.3	1.5	1.1	1.6	1.7	1.6	1.4
France	0.1	0.7	0.0	0.3	0.1	0.9	1.1	1.2	**0.2	**0.6
United Kingdom	0.8	0.4	0.7	0.5	3.0	2.7	2.4	2.3	2.9	2.7
Italy	-0.1	0.4	0.3	0.2	-0.4	0.1	0.6	0.8	-0.4	0.0
Canada	0.8	-0.2	-0.1	0.6	2.4	2.1	1.1	1.2	2.6	2.2
Euro area	0.4	0.9	0.4	0.3	1.1	1.6	1.9	1.9	**1.1	**1.4
OECD	0.5	0.5	0.6	0.4	1.8	2.0	2.2	2.0	**1.9	**2
Korea	0.3	0.8	0.3	1.2	2.7	2.4	2.2	2.7	3.3	2.7
Taiwan	0.2	0.6	-1.1	-0.3	3.2	3.8	0.9	-0.6	3.9	3.1
Hong Kong	0.2	0.7	0.4	0.9	*2.4	*2.4	*2.8	*2.3	2.5	2.6
Singapore	1.2	0.9	-0.7	0.5	2.2	2.6	2.1	1.9	2.9	2.4
ASEAN-5										
Indonesia	na	na	na	na	*5	*4.7	*4.7	*4.7	5.0	4.8
Thailand	1.2	0.3	0.3	1.0	2.0	3.1	2.8	2.9	0.9	2.2
Malaysia	1.8	1.2	1.1	0.7	5.7	5.5	5.0	4.8	6.0	5.5
Philippines	2.3	0.5	2.0	1.1	6.6	5.2	5.5	6.0	6.1	5.7
Vietnam	na	na	na	na	*6	*6.1	*6.3	*6.4	5.6	6.0
Key BRICs										
Brazil ²	0.1	-0.8	-2.1	-1.7	-0.7	-2.1	-2.9	-4.4	0.1	-1.7
Russia	-0.7	-1.6	-2.0		-0.5	-2.2	-4.5		0.6	-1.3
India	na	na	na	na	*6.6	*7.5	*7	*7.4	7.1	7.4
China	na	na	na	na	*7.2	*7	*7	*6.9	7.3	7.1
Ireland	1.0	2.1	1.9		6.1	6.6	7.3		5.2	5.9
New Zealand²	0.8	0.2	0.4		3.5	2.7	2.4		3.3	3.0

Current as at 1/12/15

1 Data are sourced from national statistical publications, OECD, CEIC databases, Thomson Reuters and Treasury.

2 The production measure of GDP (rather than the expenditure measure of GDP) is used, in accordance with the preference of national statistical agencies.

Quarter-on-quarter and through-the-year data calculated using seasonally adjusted data unless otherwise noted. Year average growth and financial year averages calculated using original data, unless otherwise noted.

Financial year average data align with the Australian financial year (September quarter to June quarter).

na = not available - country does not publish seasonally adjusted data

* Through the year results calculated from non-seasonally adjusted data

** Year average growth and financial year average growth calculated using seasonally adjusted data

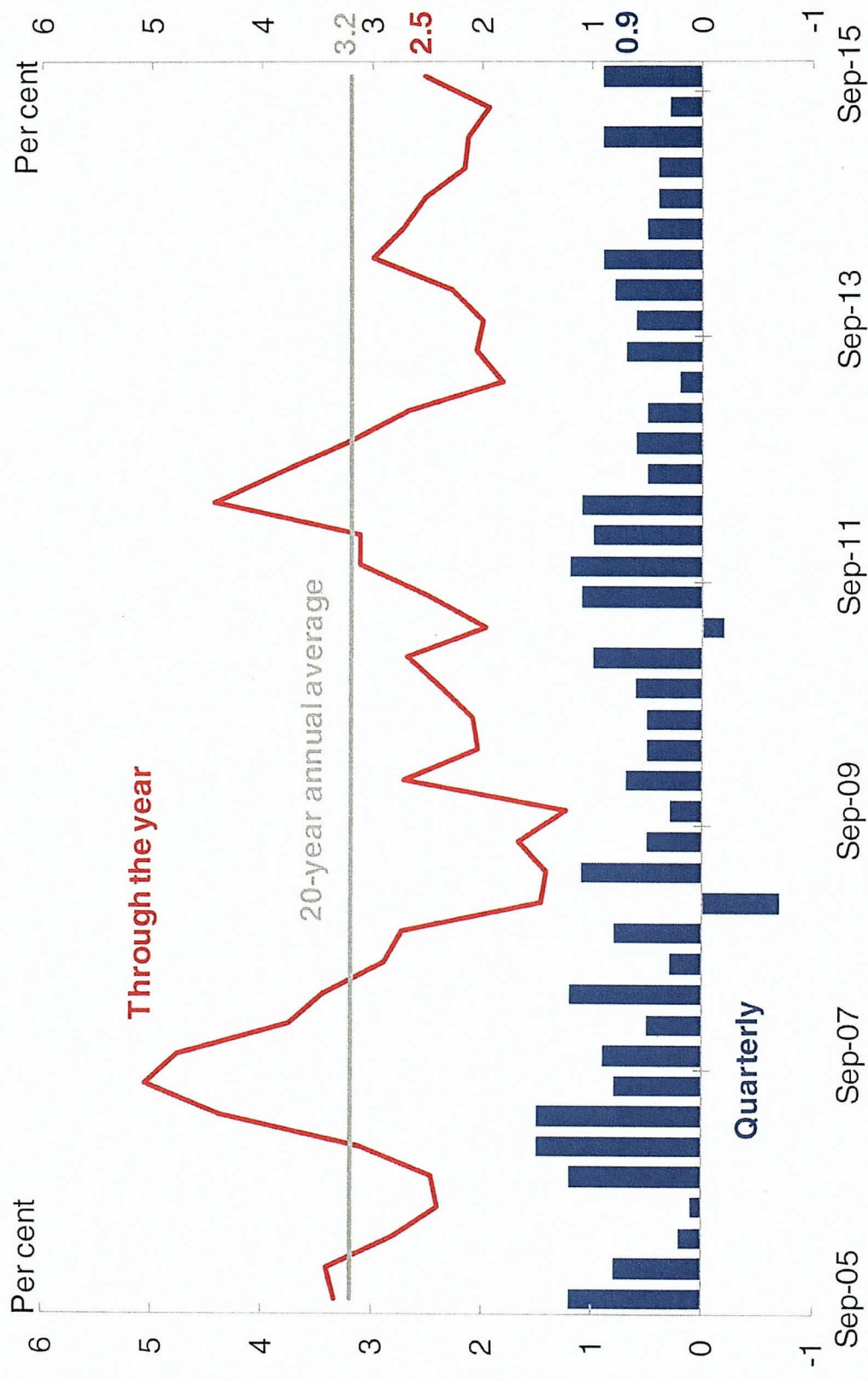


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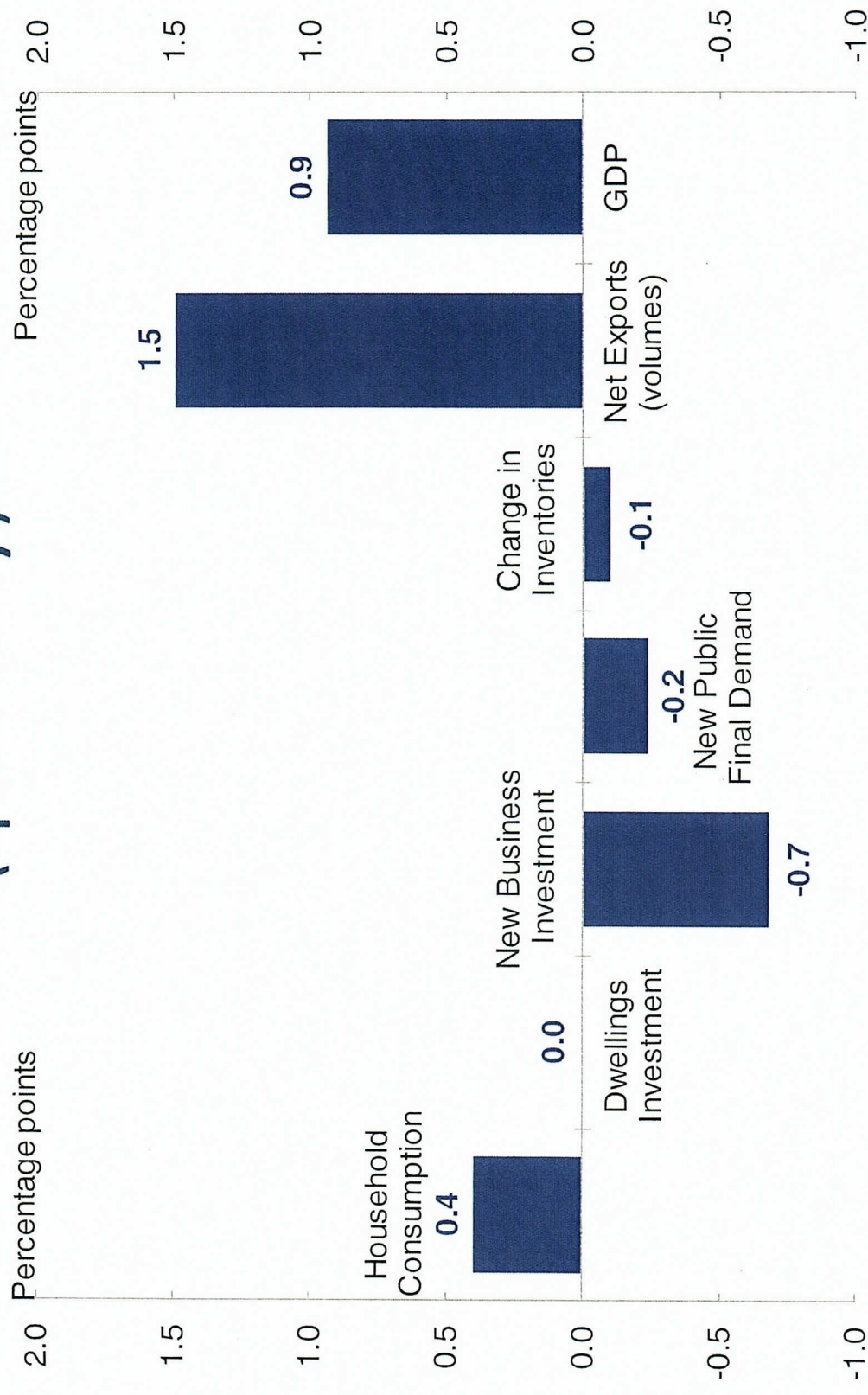
September Quarter 2015

Real GDP



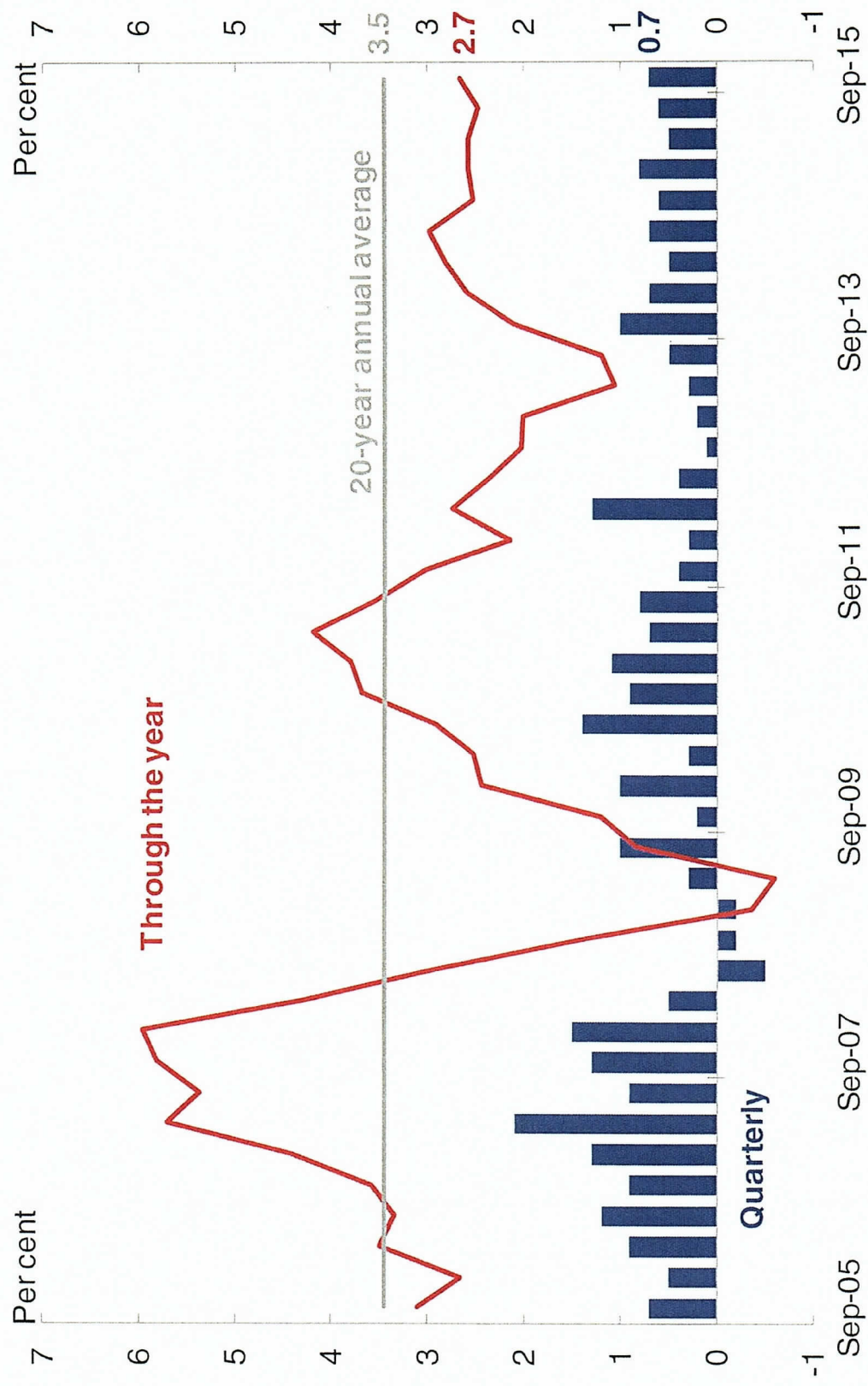
Note: Median market expectations for quarterly growth were 0.8 per cent (range: 0.3 per cent to 1.0 per cent).
 Median market expectations for through-the-year growth were 2.4 per cent (range: 1.9 per cent to 2.6 per cent).

Contributions to real GDP growth (quarterly)

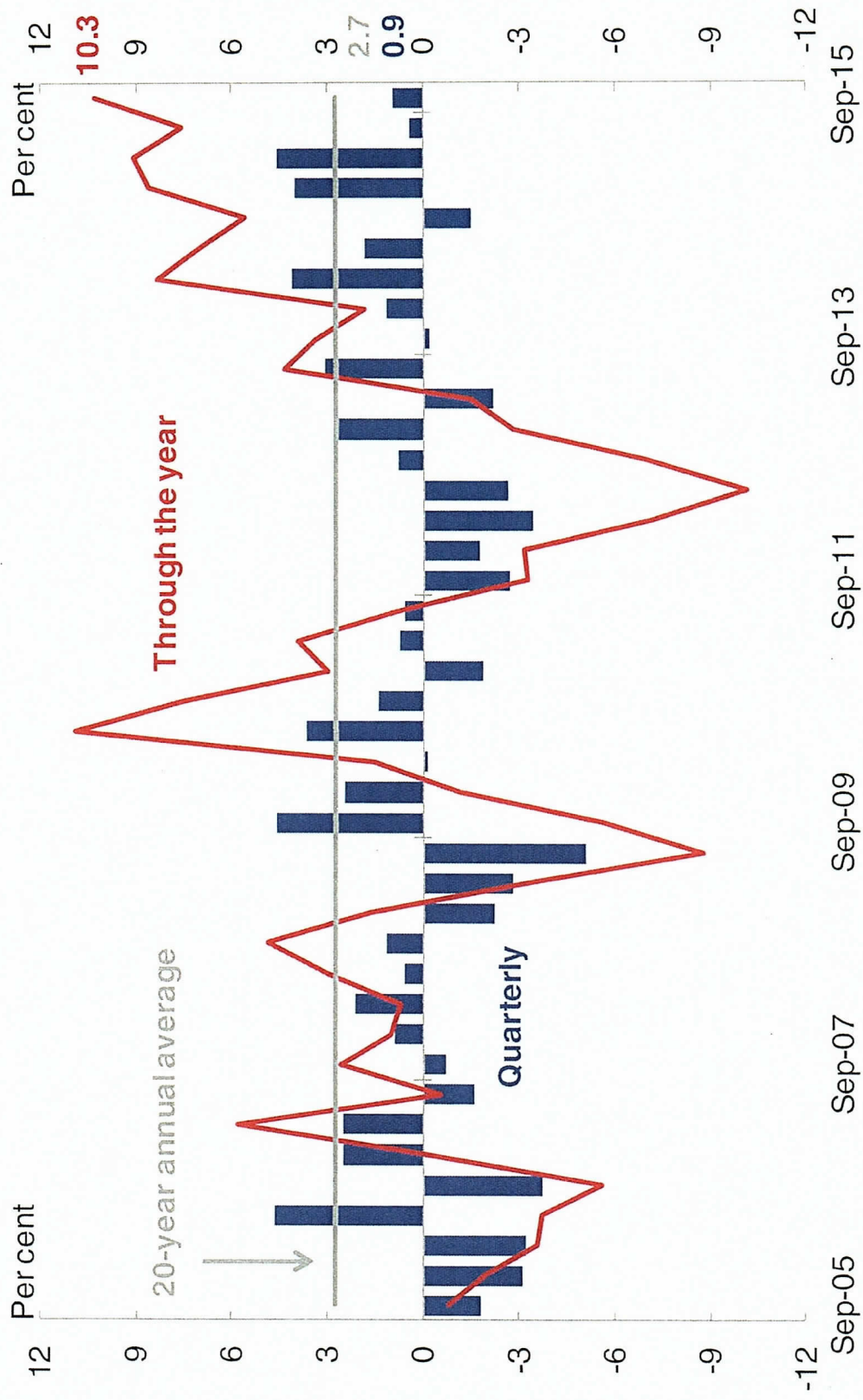


Note: The sum of individual components does not add to the aggregate due to rounding.

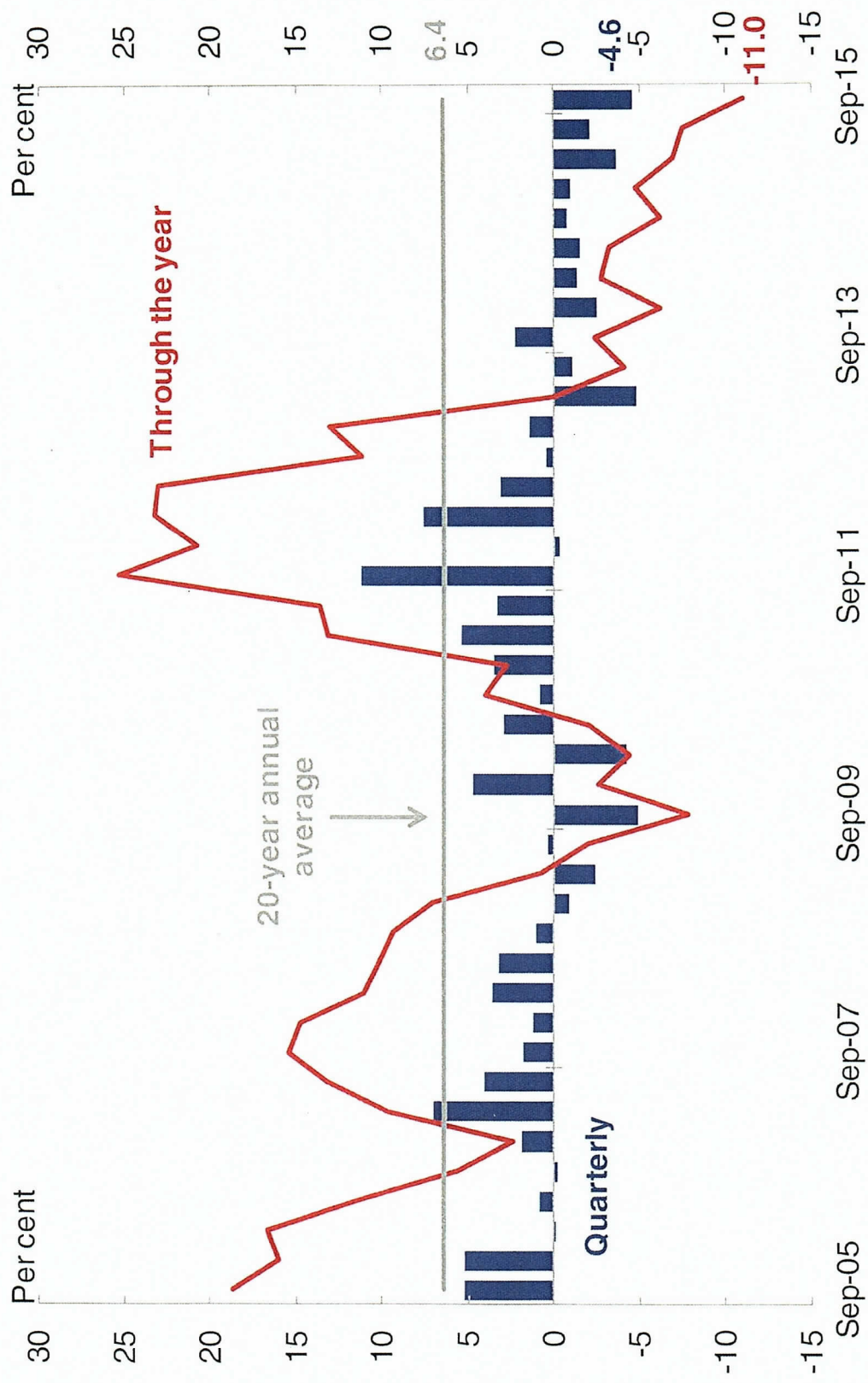
Household consumption



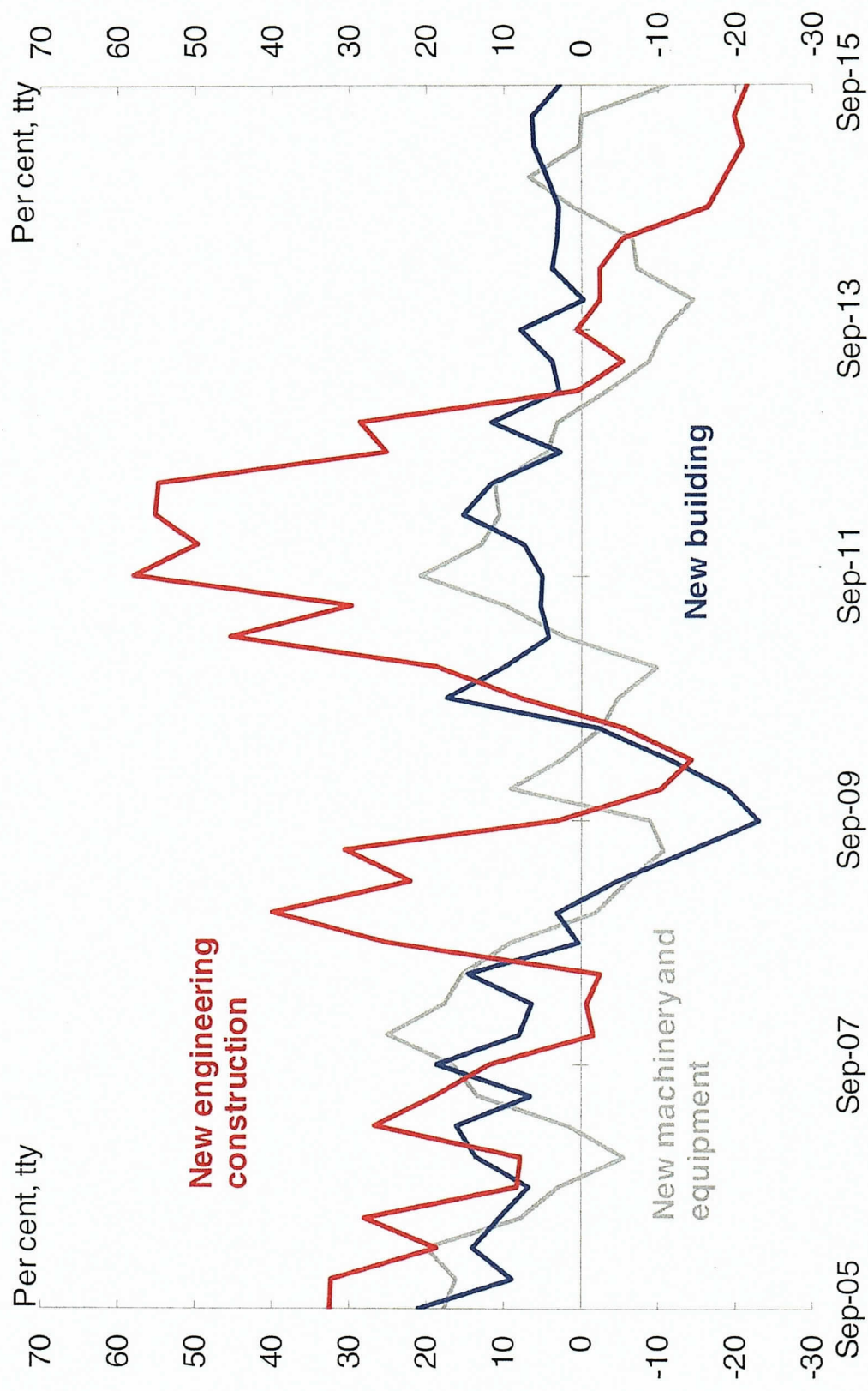
Dwellings investment



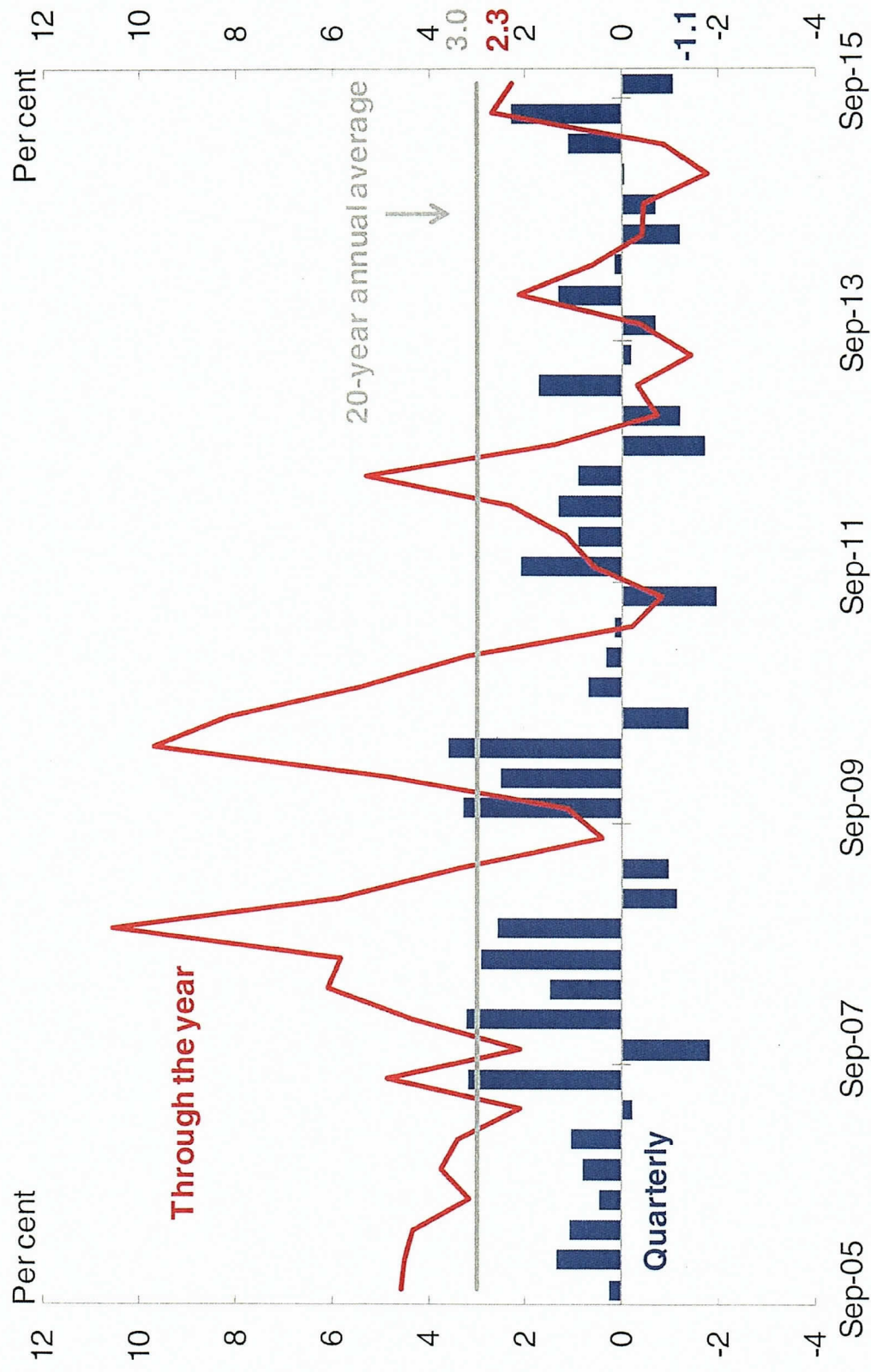
New business investment



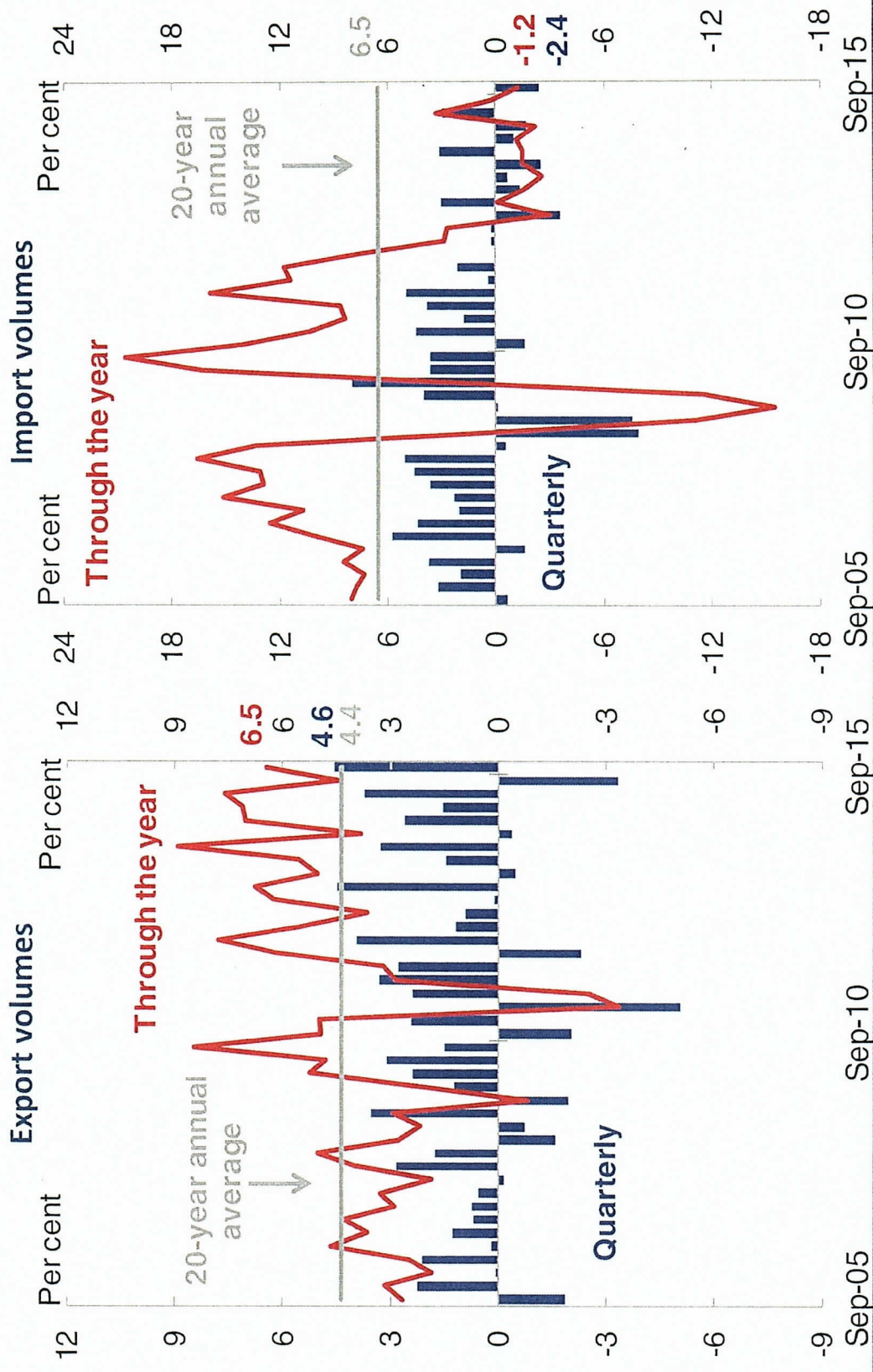
New business investment



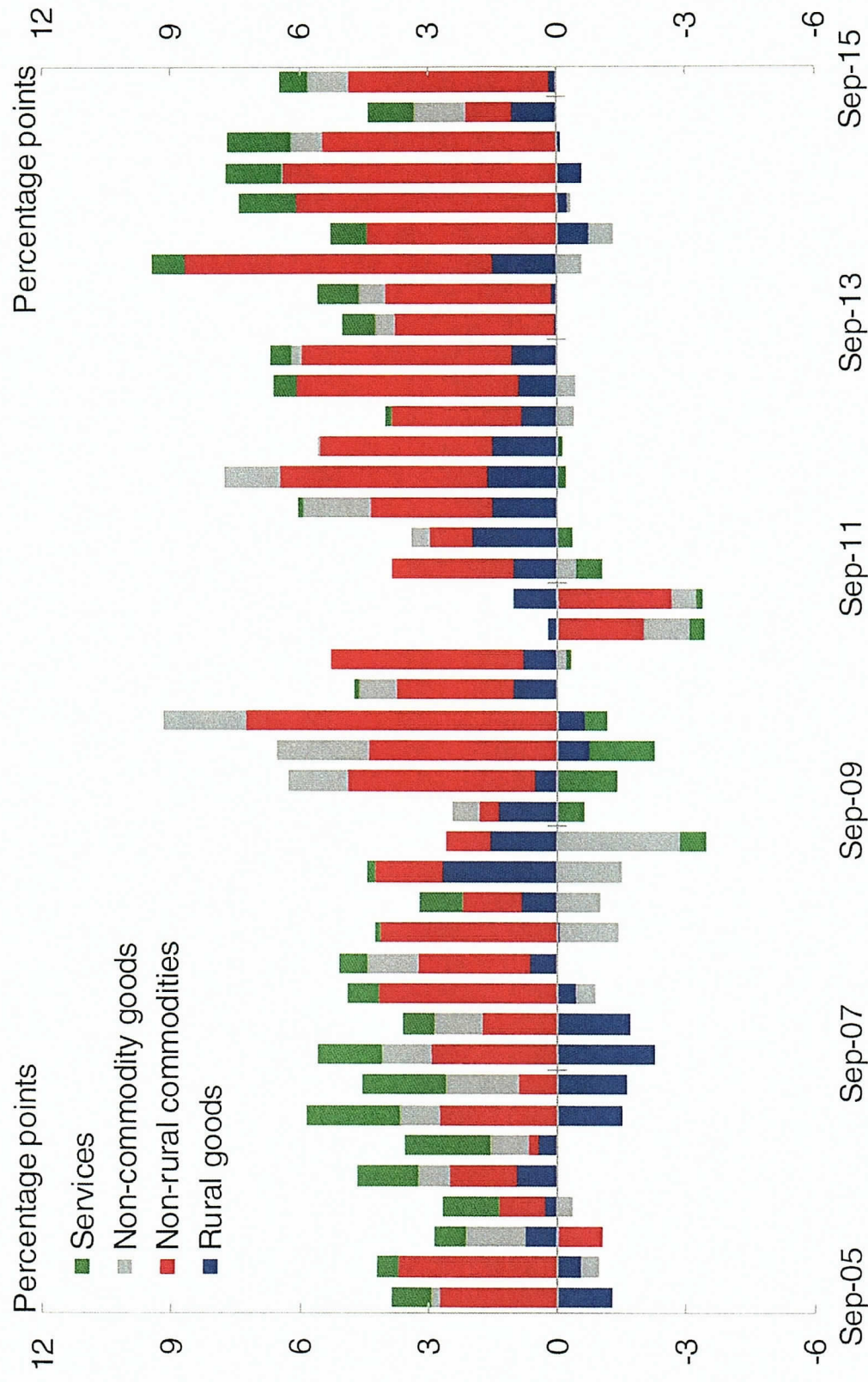
New public final demand



Export and import volumes

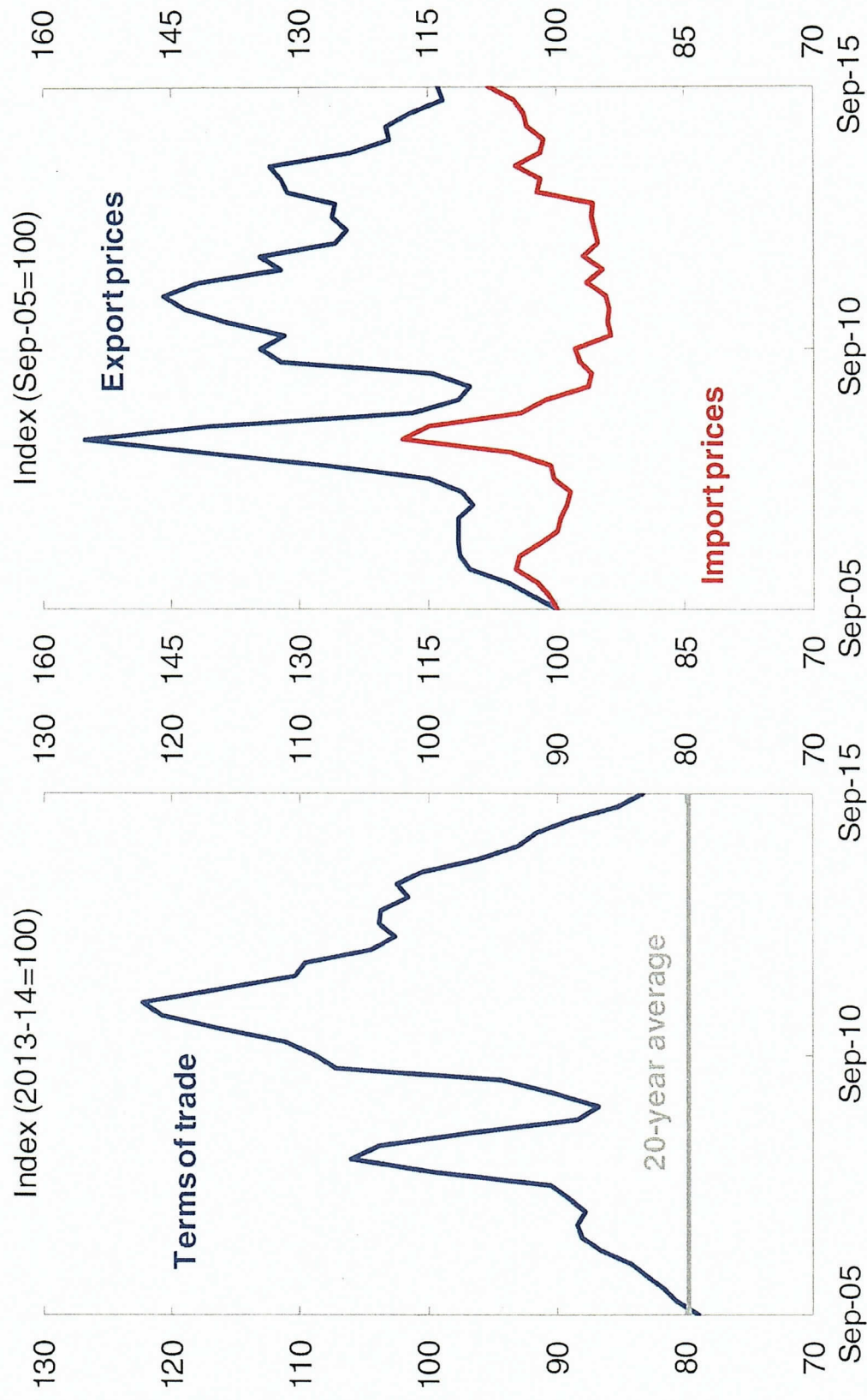


Exports drivers



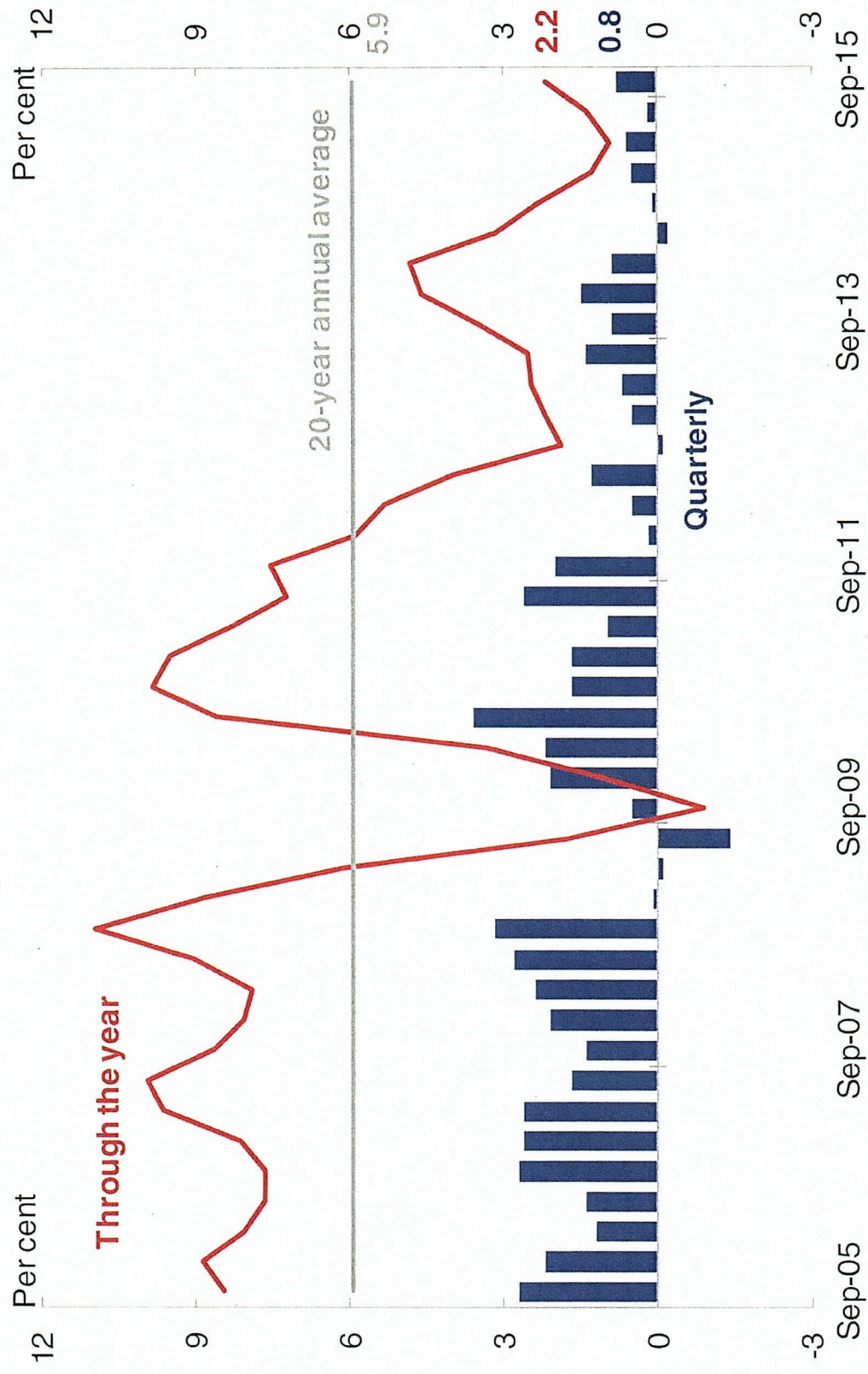
Note: This chart shows percentage point contributions to through the year growth. Non-commodity goods exports are calculated as a residual of the total.
Source: ABS Cat. No. 5302.0.

Terms of trade and import/export prices

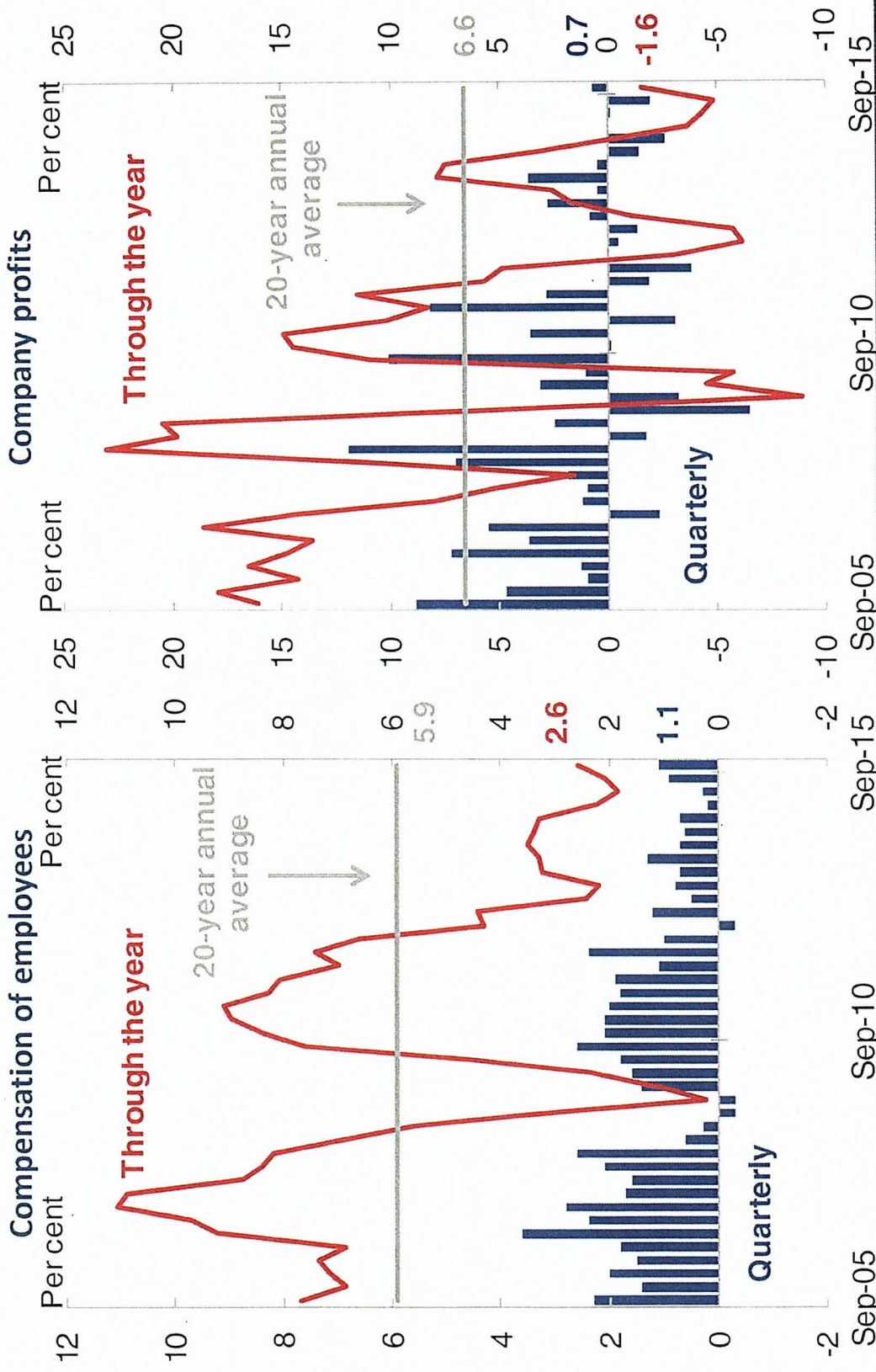


Note: Dashed lines represent 20-year average of exports and imports.

Nominal GDP

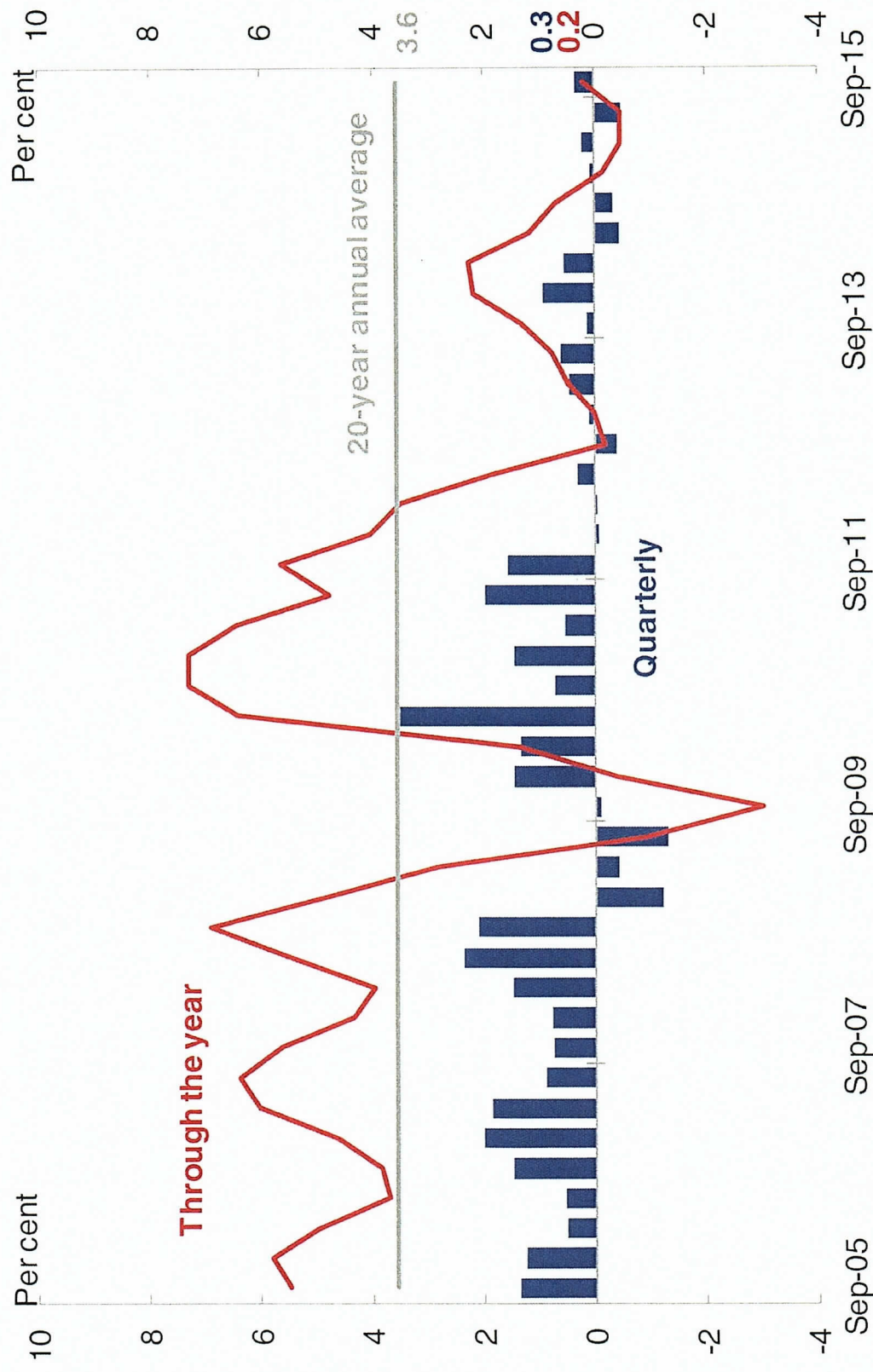


Compensation of employees and company profits

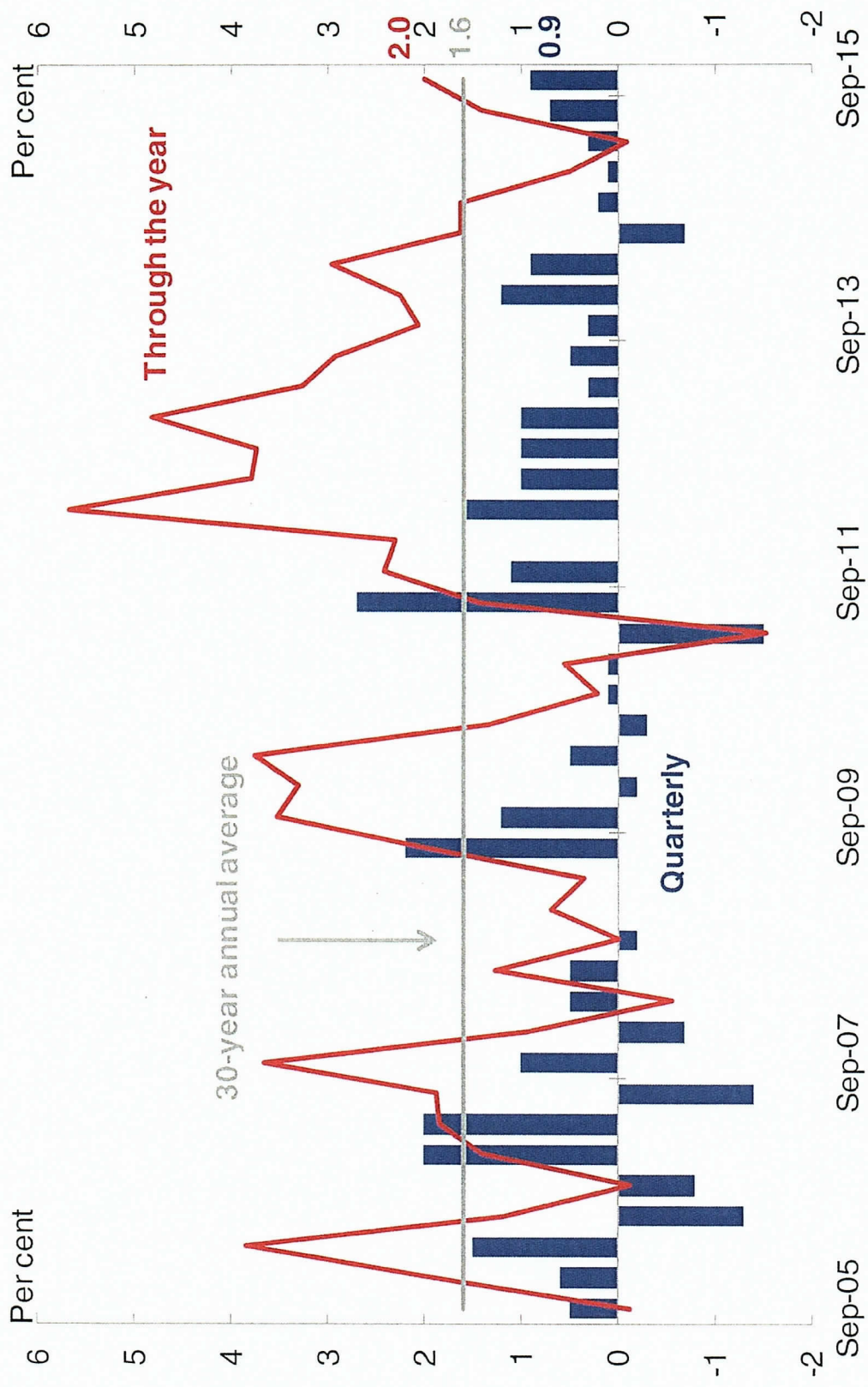


Note: Profit is the sum of private non-financial corporations gross operating surplus (GOS) and financial corporations GOS. GOS only includes the income derived from the production of goods and services and does not include depreciation, foreign exchange or other revaluation gains and losses.

Real gross domestic income

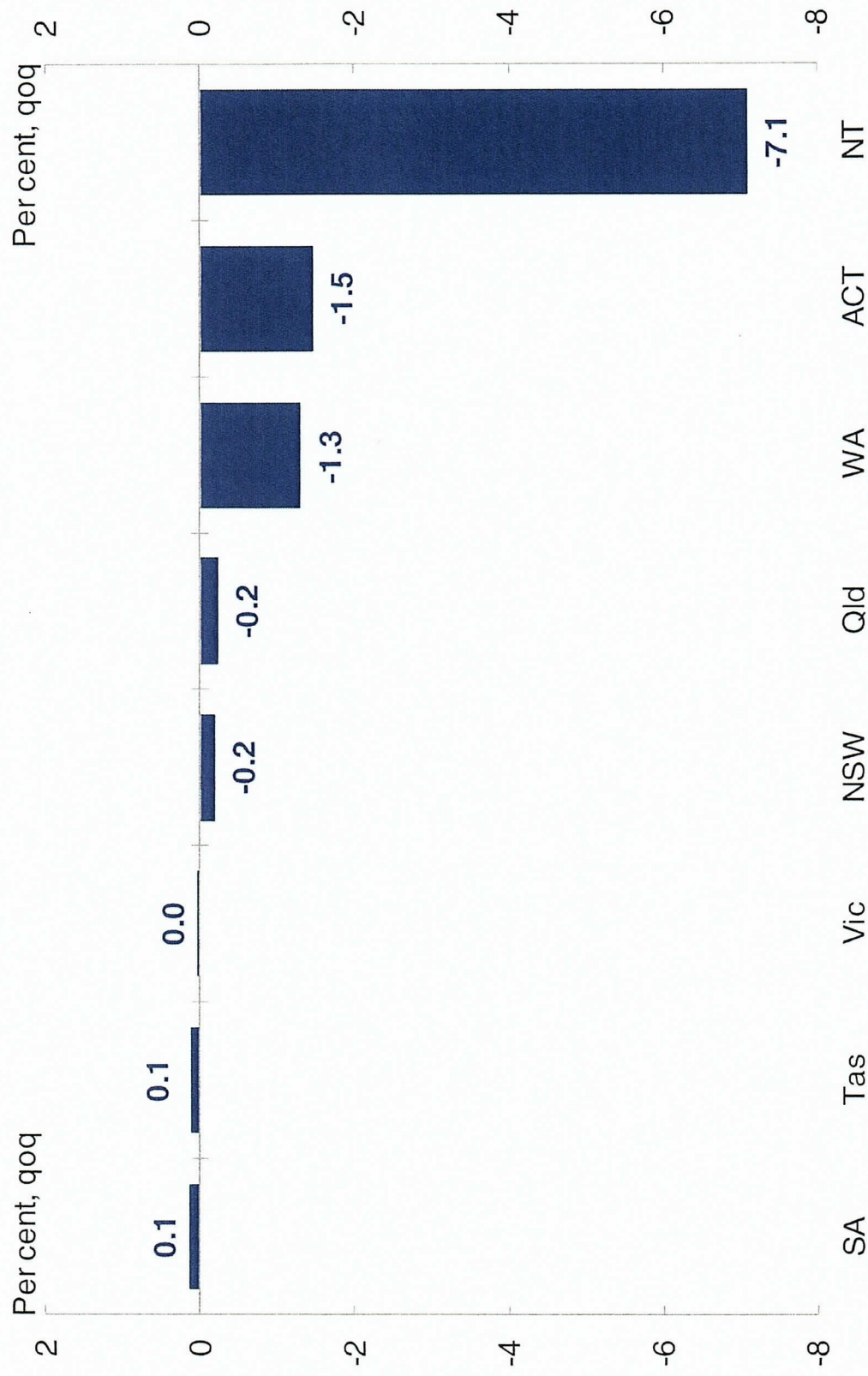


Productivity growth



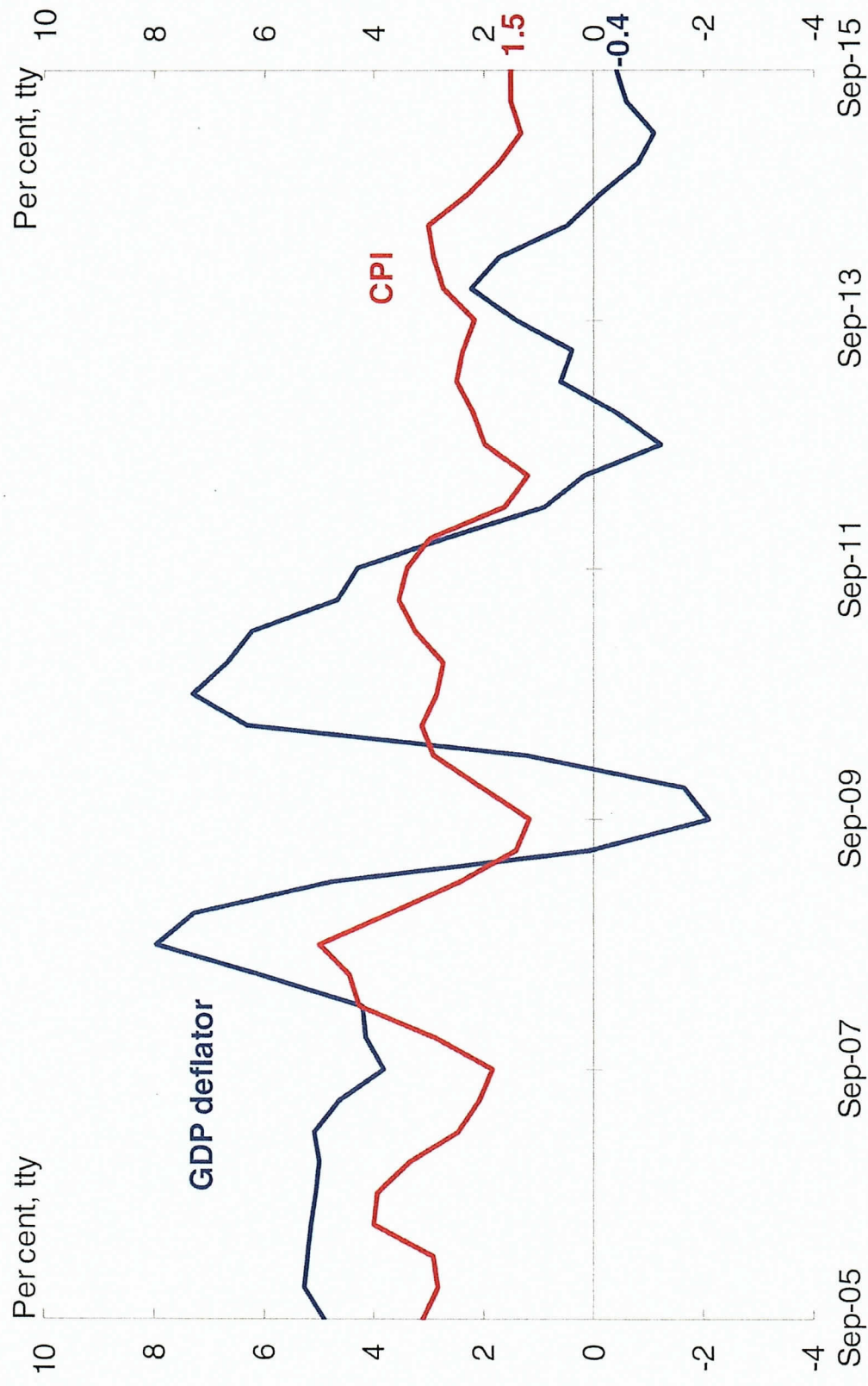
Note: Productivity is measured as gross value added per hour worked, market sector, seasonally adjusted.

State final demand



Note: State final demand (SFD) is a partial measure of gross state product (GSP) as measured by the expenditure approach, in that it excludes both international and interstate trade as well as changes in inventories. GSP is published on an annual basis in the State Accounts (ABS Cat. No. 5220.0).

GDP deflator and CPI



Source: ABS Cat. No. 5206.0 and 6401.0.



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September Quarter 2015

National Accounts – Questions and Answers

1. National income

Question: What did measures of living standards do in the September quarter?

Answer

- Real incomes have been depressed by falls in Australia's terms of trade that reduces the price paid for our exports. Real net national disposable income per capita, a measure of living standards, fell by 0.5 per cent in the September quarter and is 2.4 per cent lower through the year.
 - However, growth in employment is helping to insulate the household sector from the fall in national income. Household gross disposable income rose by 0.5 per cent in the September quarter.
 - This employment growth is being supported by moderate wage growth. The national accounts measure of wages rose 0.7 per cent in the quarter but is only 0.6 per cent higher through the year.
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3. Iron ore prices and the terms of trade

Question: Why is there a strong exports contribution to GDP despite a falling iron ore price and decreasing terms of trade?

Answer

- The resources sector continues to provide a cushion as we transition from the resources investment boom. Australia's resources exports rose 8.8 per cent in the September quarter following a weak June quarter due to adverse weather.
 - At the same time the prices of our key commodities have fallen significantly over the past 18 months as substantial increases in supply have been met with weaker demand, particularly from China.
 - On Monday, the iron ore spot price fell to around S47 . This is the lowest spot price in over ten years and is now over 20 per cent lower than the Budget forecast of US\$48/tonne.
 - Since its peak in 2011, the terms of trade has fallen by around 30 per cent.
 - The lower prices will be reflected in the upcoming Mid-year Economic Fiscal Outlook.
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2. Productivity

Question: What was the productivity outcome in the September quarter?

Answer

- Labour productivity growth in the market sector was reasonably strong in the September quarter at 0.9 per cent. Productivity is 2.0 per cent higher through the year.
 - While measures of productivity can be volatile in the short-term, over the past five years annual labour productivity growth in the market sector has averaged 2.0 per cent.
 - Over the past 30 years productivity growth has averaged 1.6 per cent.
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4. Public final demand

Question: How has Commonwealth spending and investment changed under the previous and current government?

Answer

- Commonwealth new public final demand fell by 2.3 per cent in the September quarter.
- This follows low growth in general spending over the past two financial years. Nominal Commonwealth spending grew by an average of 5 per cent over this period, in contrast to the previous six years where growth averaged 7 per cent.
- Commonwealth investment fell sharply in the September quarter, reflecting movements in defence investment, which can be very volatile.

Commonwealth investment is expected to rise after 2015-16 with the roll out of the Government's \$42 billion Infrastructure Investment Program and other major infrastructure commitments.

5. Divergence between States

Question: How are economic conditions varying between States?

Answer

- The quarterly national accounts do not provide a clear picture of conditions across the various states because state final demand does not include exports and net exports contributed strongly to growth in the September quarter.
 - The recently released 2014-15 State Accounts show that gross state product varied from 3.5 per cent in 2014-15 in WA to just 0.5 per cent in Queensland. Victoria grew 2.5 per cent, New South Wales grew 2.4 per cent, and South Australia and Tasmania both grew 1.6 per cent.
 - The direction of growth also varied, with NSW, Victoria, SA and Tasmania experiencing an increase in growth, while the WA and Queensland economies slowed relative to 2013-14. This reflects the wind down in resources investment in the North and West of the country. Conversely, migration to NSW and Victoria is picking up as mining employment is winding down. The depreciation of the Australian dollar also helps to restore industries' competitiveness in the Southern States.
 - The strength of the dwellings markets in Sydney and Melbourne is also fuelling activity and employment in the construction and related services sectors, such as real estate, and in turn supporting consumption in areas such as household goods and services.
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6. Mining and non-mining investment

Question: According to the ABS feature article on mining and non-mining investment, non-mining investment has remained stable over the past few years. Why does commentary on the outlook paint a more subdued picture?

Answer

- The data provided by the ABS is in current prices. It shows that non-mining investment has been fairly stable. Moreover, as a share of GDP it has fallen from above 13 per cent to just under 10 per cent over the last decade.
 - In real terms, that is accounting for price movements, non-mining investment grew by 2.2 per cent in 2014-15, averaging just 2 per cent in the last five years.
 - The most recent indicators also point to a more negative outlook. Non-mining capex fell by 8.2 per cent in the September 2015 quarter, the largest fall in 18 years, with investment intentions now signalling a fall in investment of 8.3 per cent in 2015-16.
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