



Australian National Accounts

Are we there yet? No, but almost

December 2023 | 6 March

From the Chief Economist

The weak 0.2 per cent GDP growth rate recorded in the Australian economy in the December quarter was no surprise.

Inflation, interest rates and taxes continued to zap consumers and discourage home building and renovations. Businesses responded by pulling back orders in anticipation of lower demand. Profits in the non-mining sector were lower, and the weather wasn't as kind to the agricultural sector as earlier in the year.

But had growth not been soft, households would have had to endure another episode of Reserve Bank versus the inflation dragon. The December quarter GDP result of 1.5 per cent growth over the year was exactly in line with the Reserve Bank's latest forecast - so the central bank will have no reason to deviate from its current 'on hold' position following this National Accounts release.

The fact that private business investment growth remained positive while the unemployment rate stayed below 4 per cent in the quarter and inflation moved down, was good news.

Towards the end of the year, some brighter news is likely as the tax cuts planned for 1 July give back some disposable income to households. Increases in real wages will also help the household sector, and if it is delivered - as currently expected by financial markets - so will an interest rate cut in the December quarter.

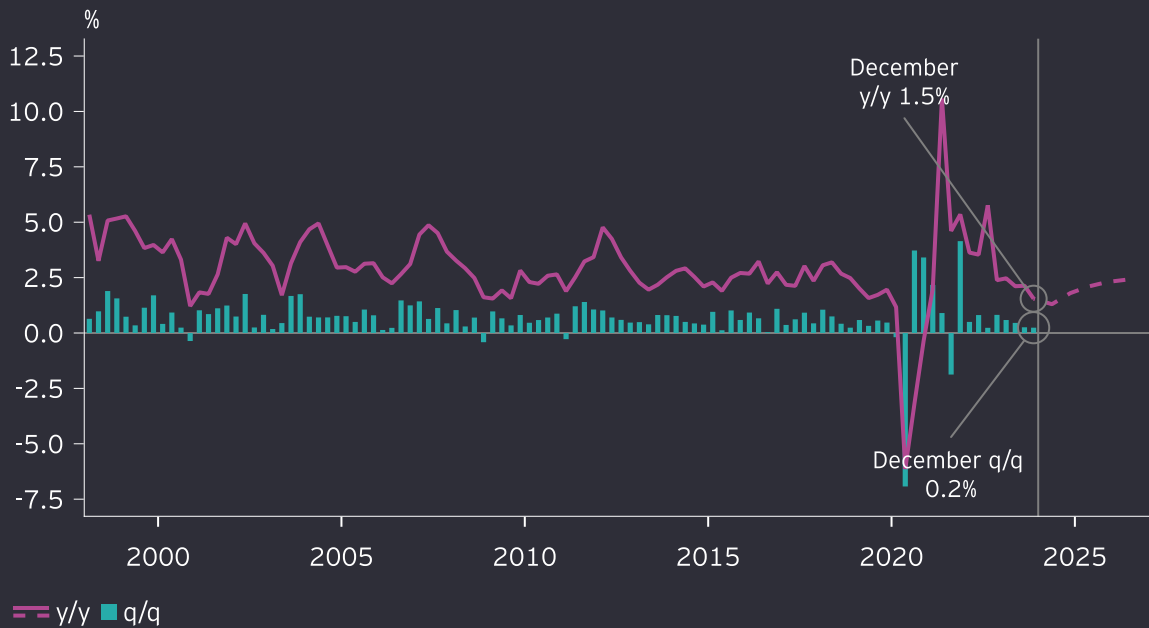
The business sector's ongoing investment augurs well for some ongoing productivity improvements which we have seen nascently begin.

As the pandemic and its aftermath continues to wash through the economy, we can't say we are at the end of the slowdown just yet. But, in the absence of any unexpected shocks, almost.

Cherelle Murphy | EY Oceania Chief Economist

1. GDP growth continued to slow in the December quarter

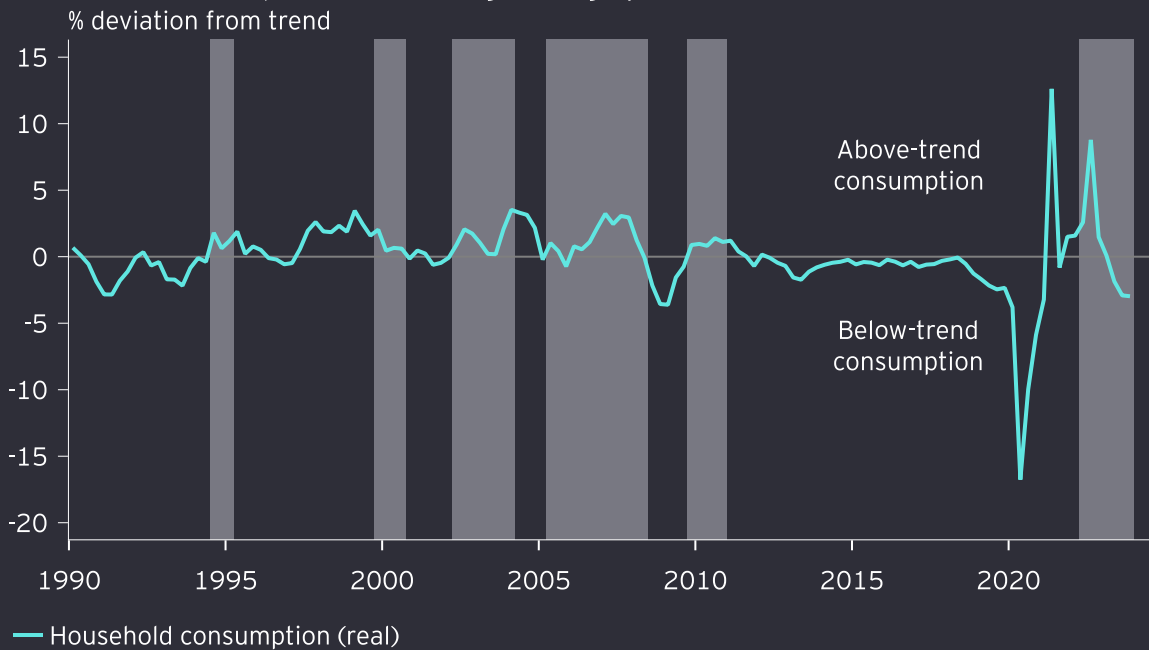
Gross domestic product
Including RBA forecasts



Source: ABS, RBA (Feb-24 SMP), Macrobond, EY

2. Interest rate hikes have pushed down consumption growth

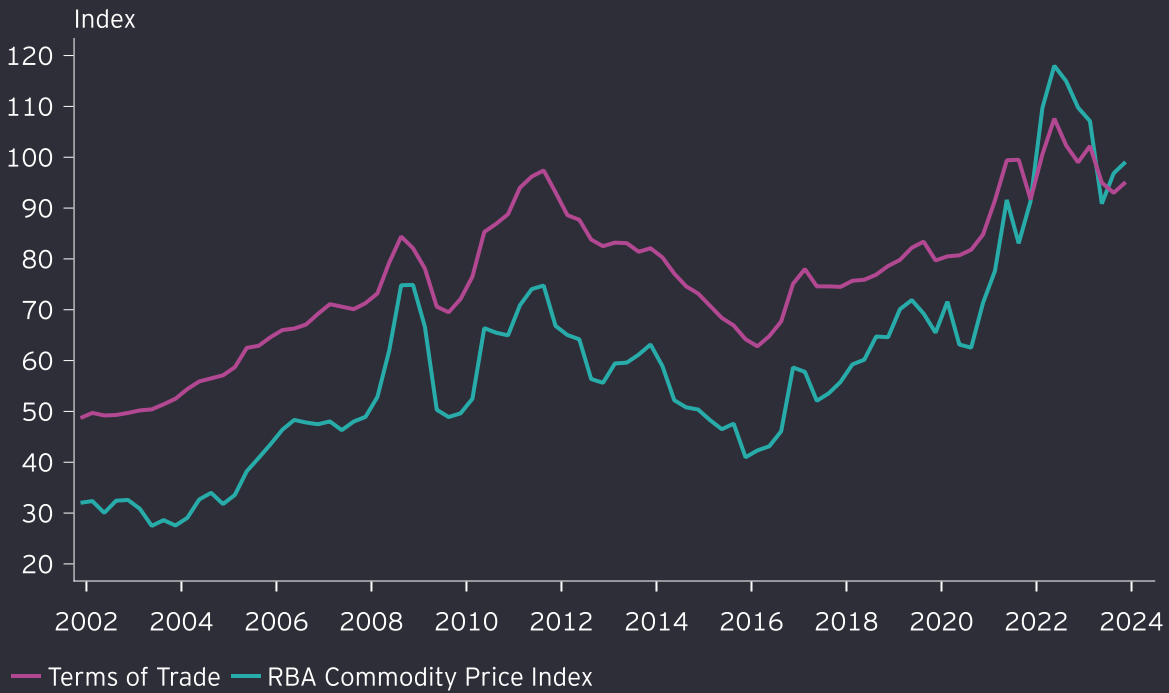
Household consumption and RBA tightening cycles



Source: ABS, Macrobond, EY
*shaded area denotes tightening cycles

3. High commodity prices continue to boost export income

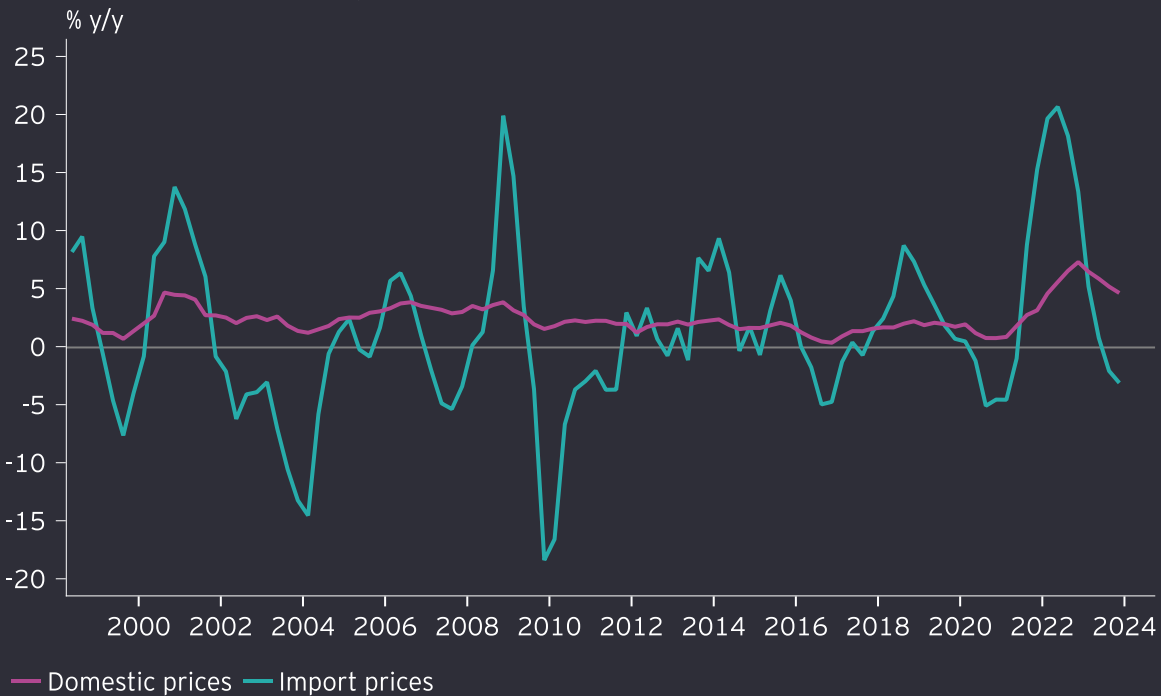
Terms of Trade and RBA Commodity Price Index



Source: ABS, RBA, Macrobond

4. Domestic price pressures are easing but still remain a cause for concern for the Reserve Bank

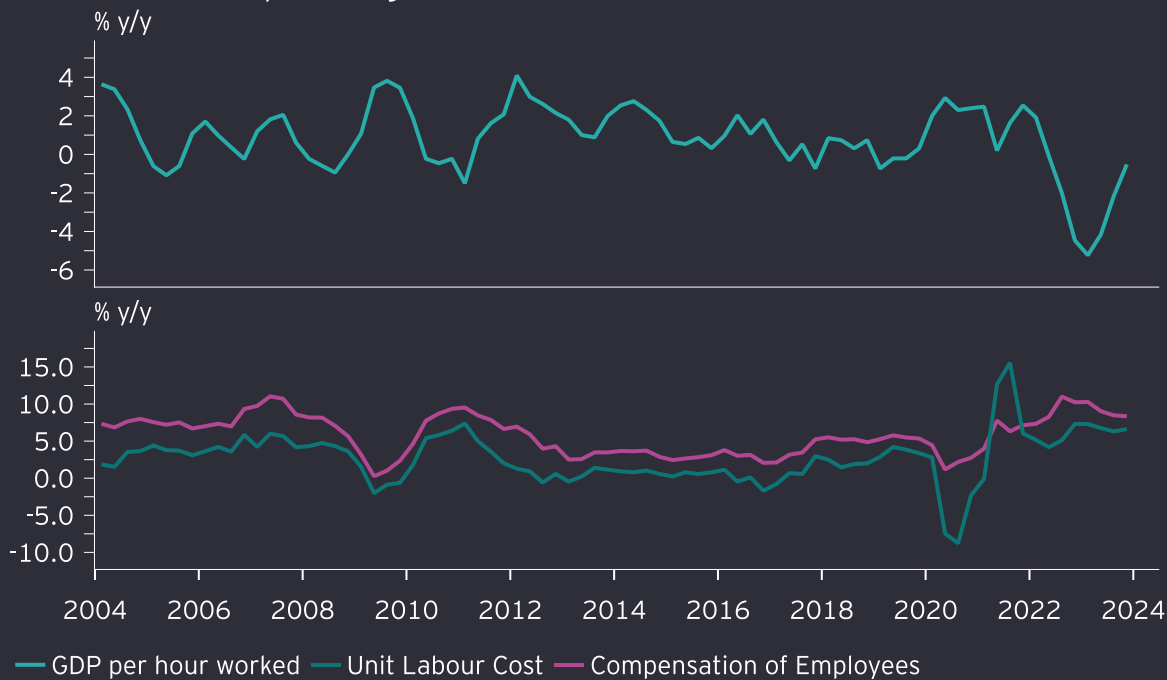
Domestic vs international prices



Source: ABS, Macrobond

5. Productivity has begun its post-pandemic recovery

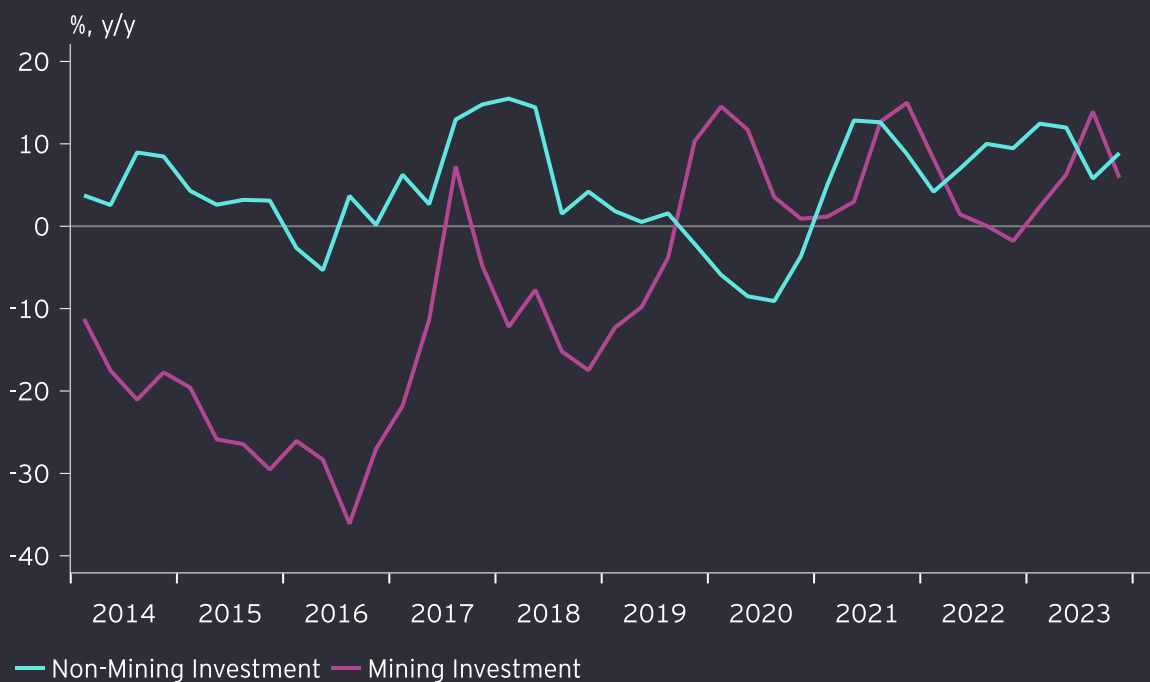
Labour Productivity and Wages



Source: ABS, Macrobond, EY

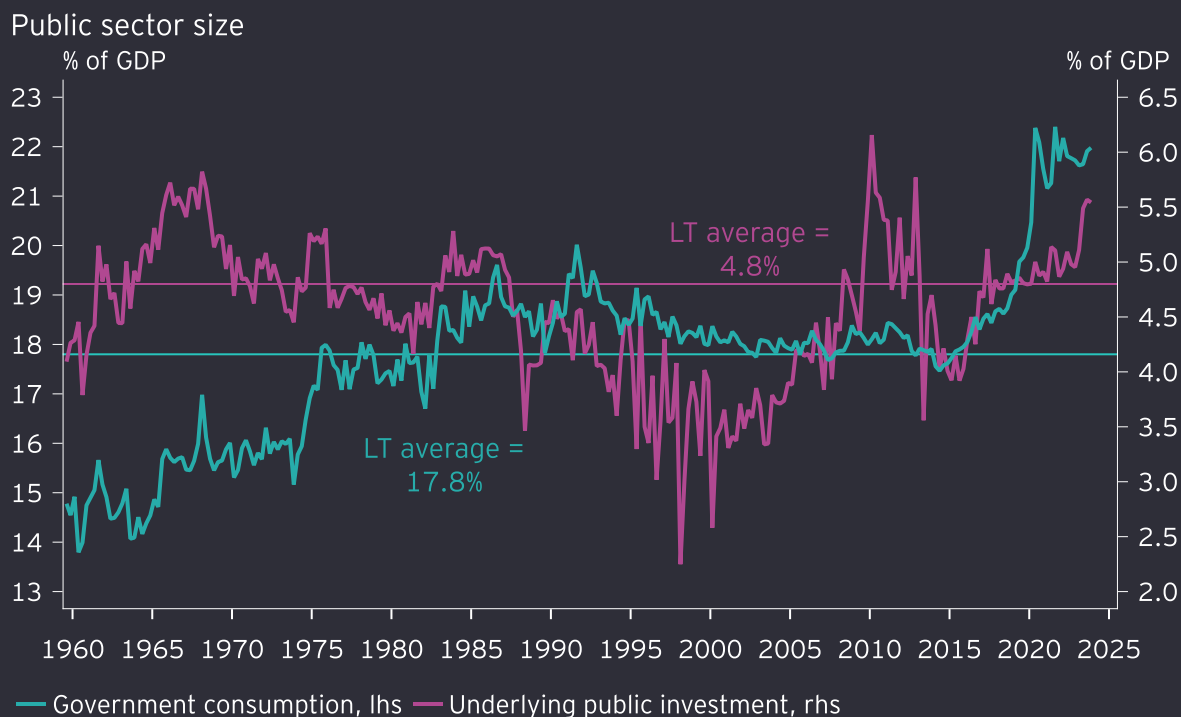
6. Investment by both the mining and non-mining sectors continues to grow

Private investment



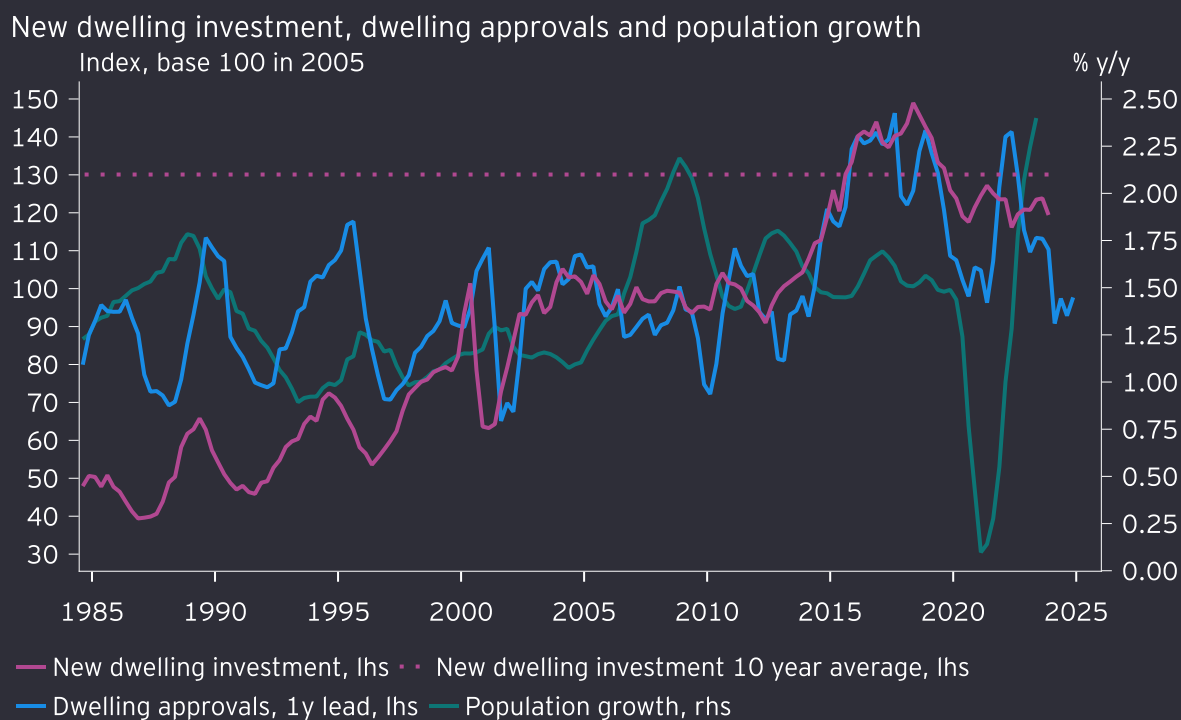
Source: ABS, Macrobond, EY

7. The public sector continues to hold a substantial share of the economy



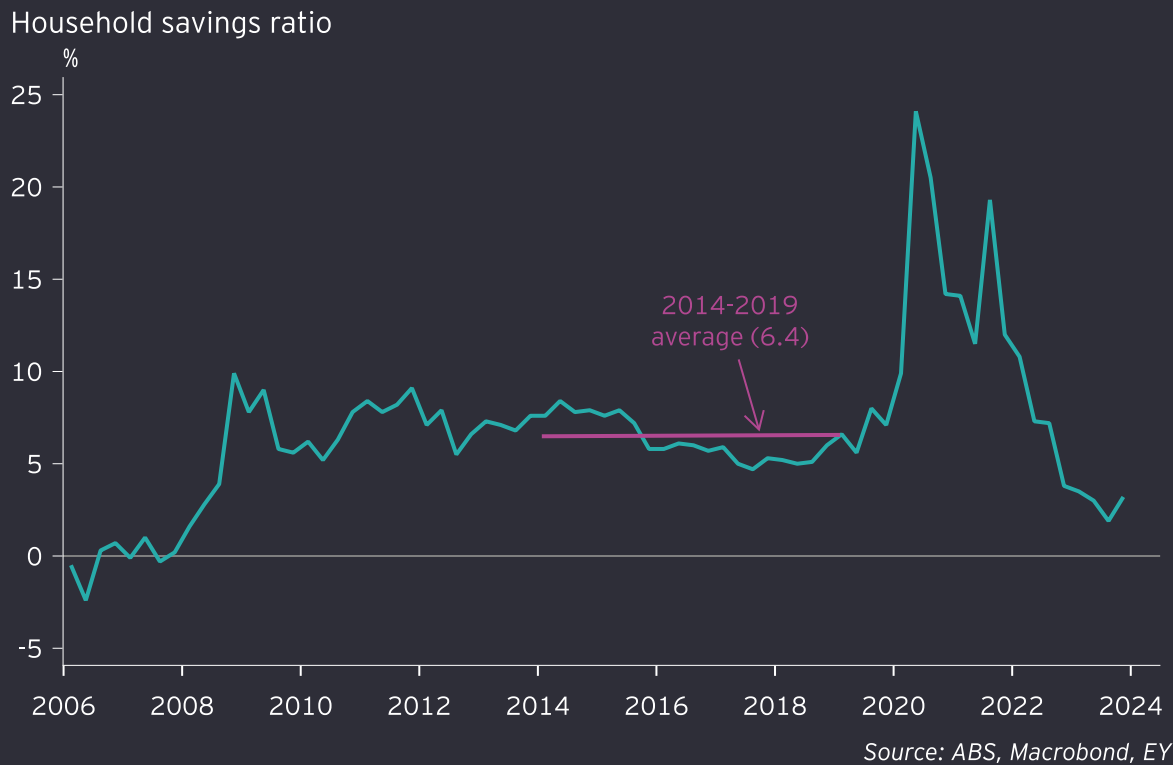
Source: ABS, Macrobond, EY

8. Poor outlook for housing as new dwelling investment falls and dwelling approvals dip while the population grows strongly

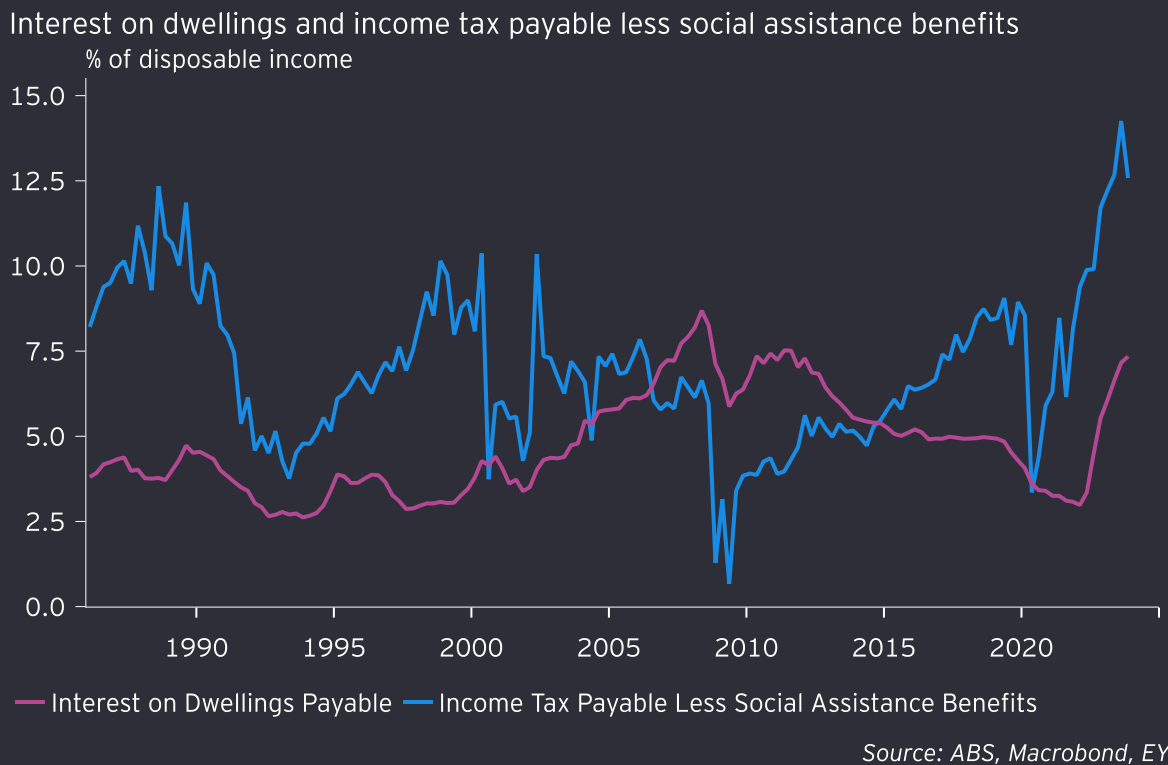


Source: ABS, Macrobond, EY

9. Household saving remains low, but the ratio to income rose for the first time in over two years



10. Tax payments (less social assistance benefits) have passed a peak having recently risen sharply relative to disposable income



EY can help

The future is uncertain, but the path there doesn't need to be.

EY Oceania Economics is an economic advisory practice specialising in applied quantitative analysis, combining the elements of Economics, Policy and Strategy to provide insights through modelling and data visualisation.

We have a deep knowledge of the Australian economy and the business environment, offering a unique perspective in a rapidly changing world.

We deliver:

- ▶ Economic scenario modelling and economic impact assessments
- ▶ Macroeconomic modelling and forecasting
- ▶ Tailored Economic Insights
- ▶ Bespoke economic models and tools
- ▶ Deep labour market modelling capabilities
- ▶ Economic Policy Development
- ▶ Climate change modelling

For updates and analysis, visit www.ey.com/en_au/economics

Key contacts



Cherelle Murphy | Oceania Chief Economist
EY Australia | Canberra
cherelle.murphy@au.ey.com



Paula Gadsby | Senior Economist
EY Economics | Perth
paula.gadsby@au.ey.com



Bonnie Barker | Senior Economist
EY Economics | Sydney
bonnie.barker@au.ey.com



Neelaabh Gupta | Consultant
EY Economics | Sydney
neelaabh.gupta@au.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2024 Ernst & Young, Australia
All Rights Reserved.

EYSCORE 002006-24-AUNZ

This communication provides general information which is current at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk. Liability limited by a scheme approved under Professional Standards Legislation.

ey.com