Australian National Accounts

Finding a new equilibrium

June 2023 | 6 September

From the Chief Economist

Australia's transition from the extremes of the pandemic and the war in Ukraine continued in the June quarter, throwing up some uncomfortable numbers in the National Accounts.

Real GDP rose by just 2.1 per cent in the year to June 2023 – a direct response to the Reserve Bank's monetary tightening designed to get inflation down. But population growth has been very strong, with the post-pandemic bounce back bringing GDP per capita down 0.3 per cent over the year. Labour productivity contracted again – a worrying sign for a central bank wanting it moving in the opposite direction.

What is also obvious from the June quarter National Accounts is an economy that is slowly finding its equilibrium again. Consumers focused on essential over discretionary purchases. Price increases softened. Firms invested and built capacity, after their supply fell short during the post-lockdown surge in demand. Renewable energy projects, including solar and wind farms, lifted non-dwelling construction. The public sector expanded health and transport infrastructure – more urgent as the population swelled.

The tightness in the labour market was still evident, but it was not throwing up an ongoing acceleration in the nation's wages' bill. New immigrants have helped that adjustment. Commodity prices that surged because of the war in Ukraine retreated a little. And better weather and more fluid supply chains eased the movement of goods.

The economic story is intricate. Australia is in a transition phase after the collision of extreme events, and we should read the June quarter National Accounts in that context.

Cherelle Murphy | EY Oceania Chief Economist

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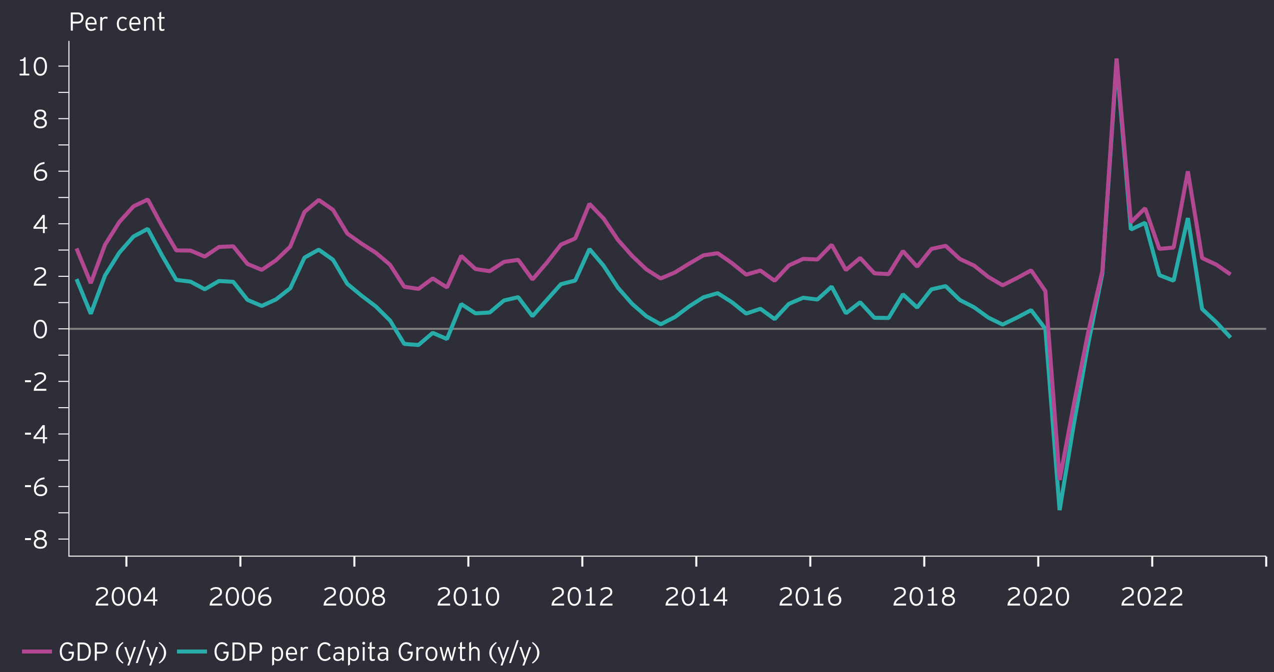
1. The economy recorded its slowest growth rate since 2020 and contracted on a per person basis

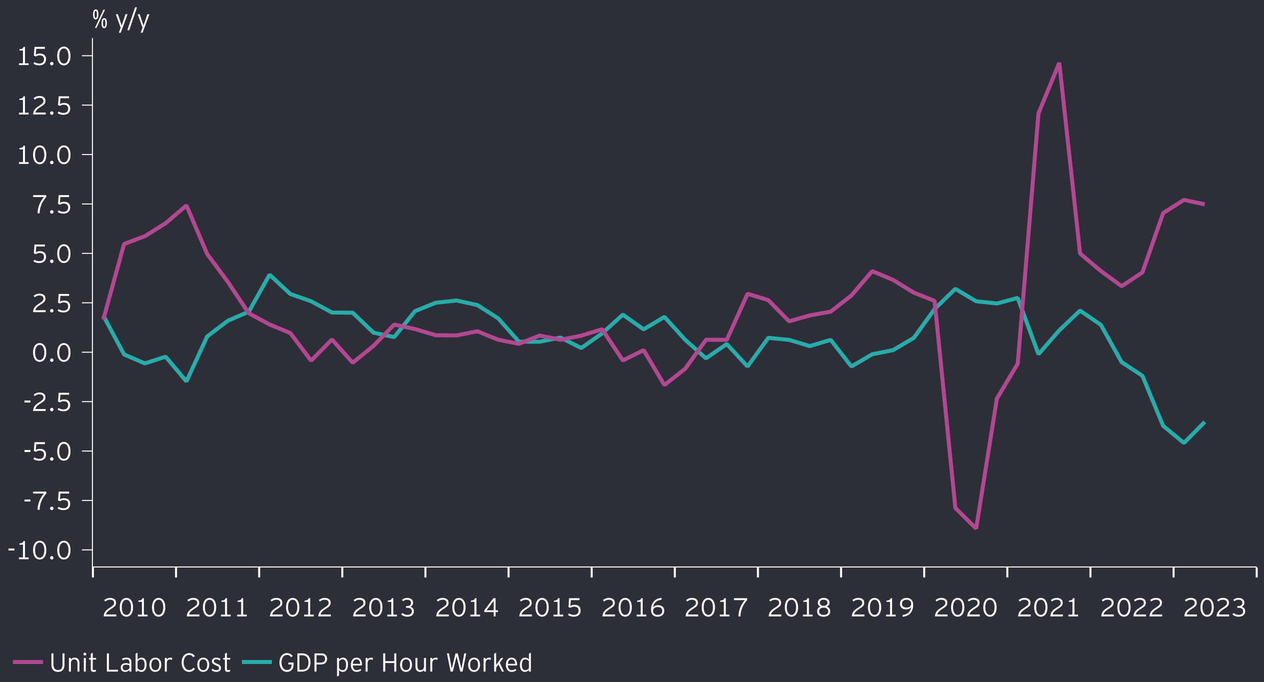
Australian GDP Growth and GDP Per Capita Growth



Source: ABS, Macrobond, EY

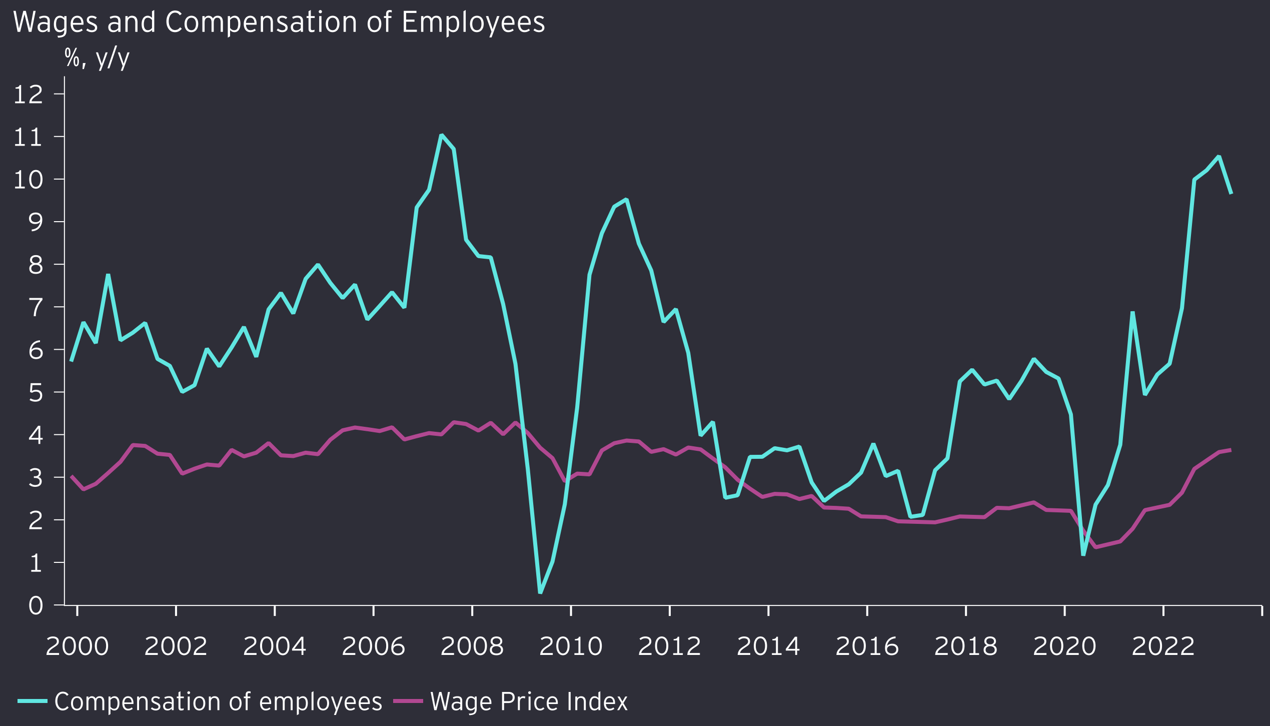
2. Declining productivity and high unit labour costs have followed from a tight labour market and pandemic-adjustment

Labour productivity and unit labour costs



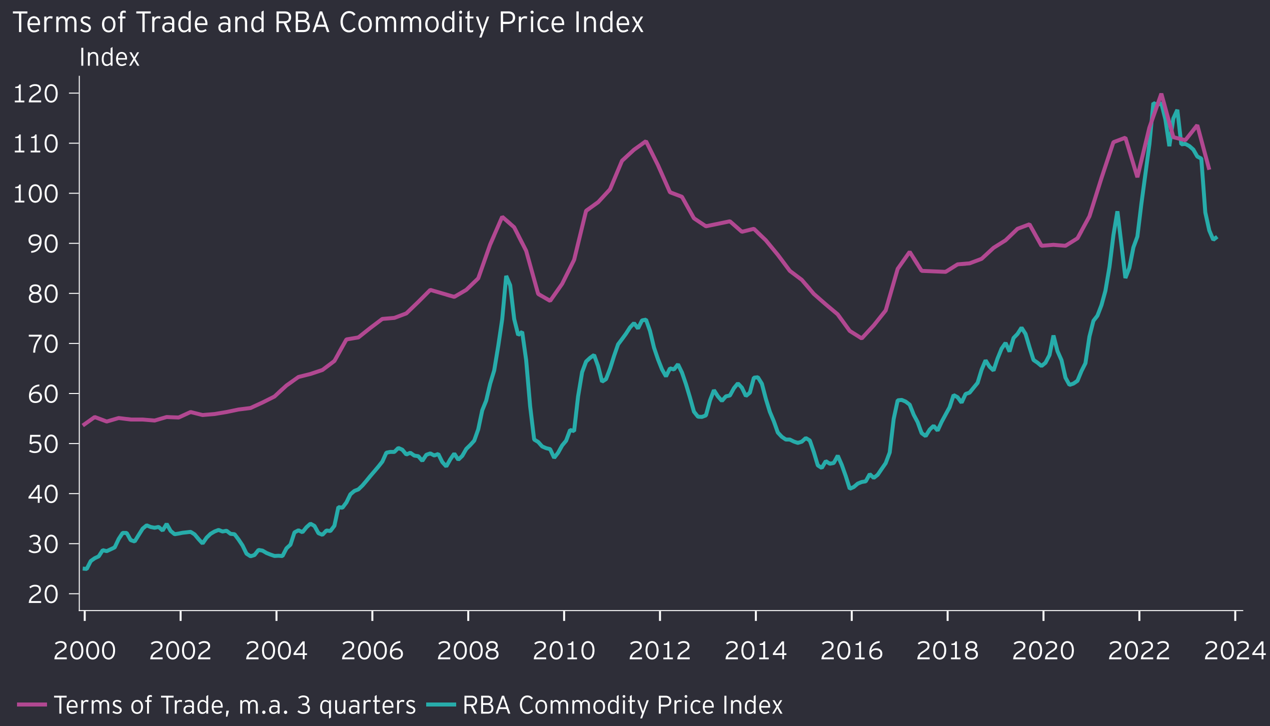
Source: ABS, Macrobond, EY

3. The wages bill continues to show the impact of a healthy labour market, although wage rate growth is more muted



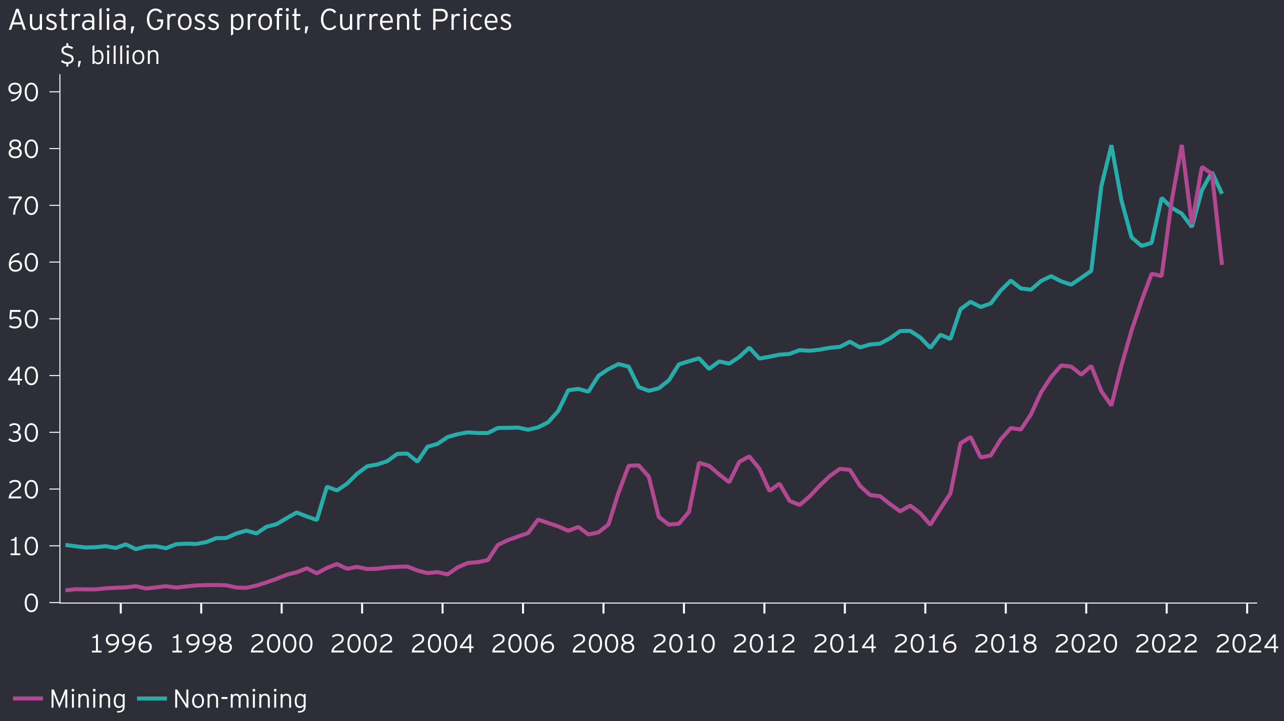
Source: ABS, Macrobond, EY

4. Australia's income boost from very high and growing commodity prices in 2020-22 is starting to retreat



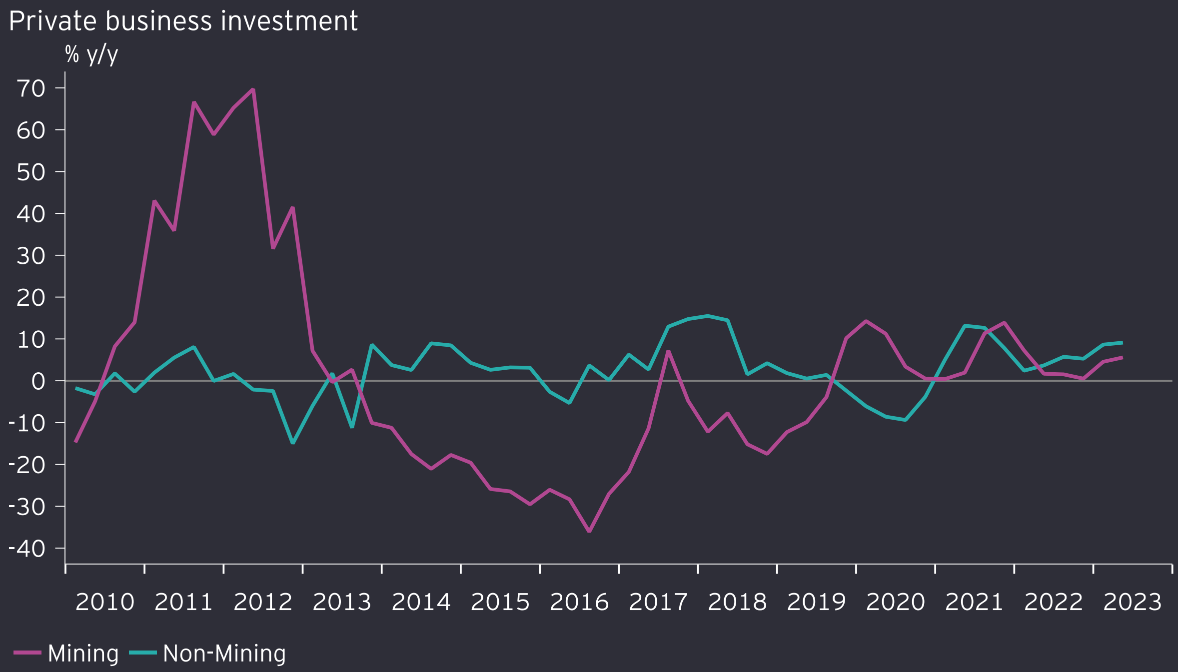
Source: ABS, RBA, Macrobond

5. The extraordinary lift in mining profits has come to an end, while non-mining profits fell slightly in the quarter



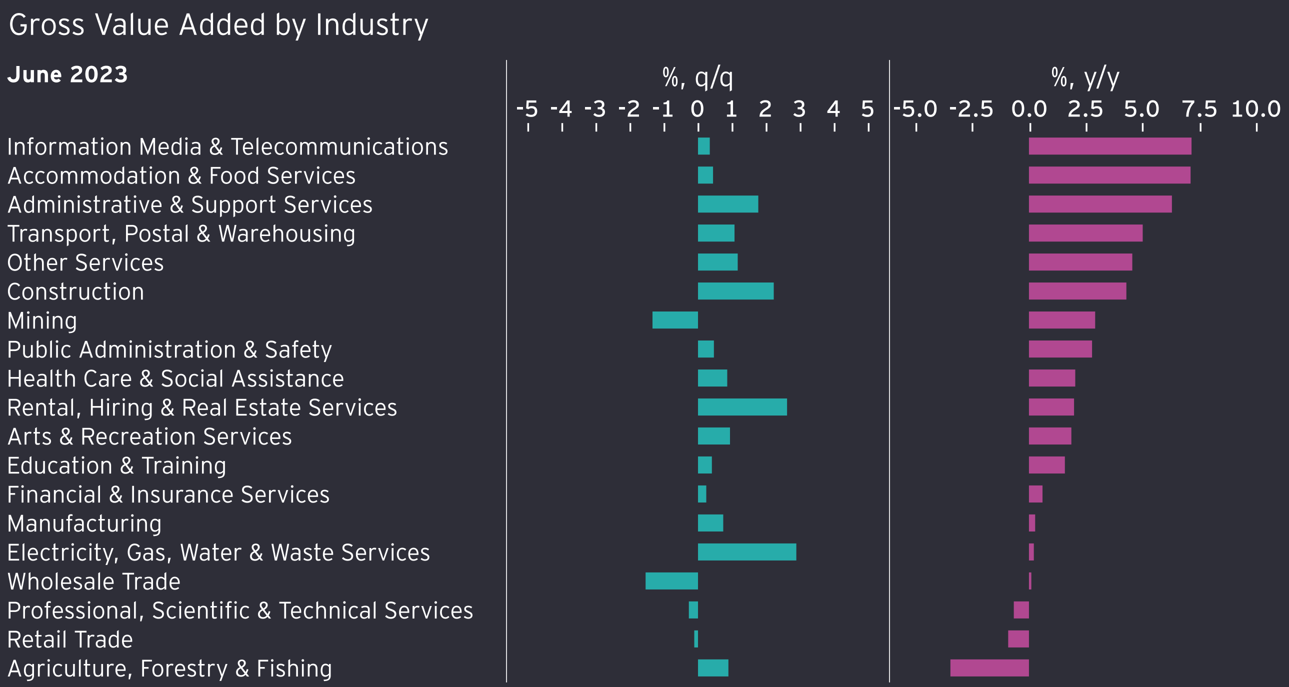
Source: ABS, Macrobond, EY

6. Businesses have not given up their expansion plans, despite evidence of a slowing economy



Source: ABS, Macrobond, EY

7. Most industries continue to expand, although weakness in interest sensitive sectors and mining is showing



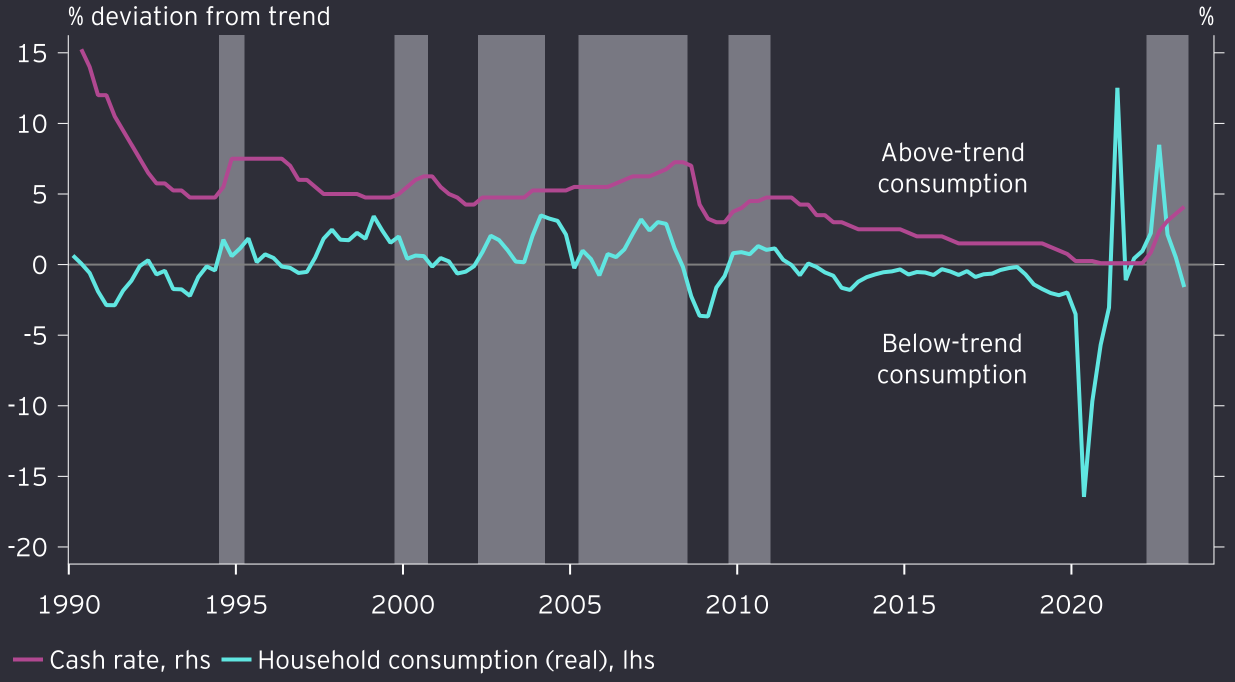
Source: ABS, Macrobond, EY

8. A run down in inventories was an unusually large drag on GDP, but related to better weather and more fluid supply chains

Source: ABS, Macrobond, EY

9. Household consumption moved below trend as interest rates rose

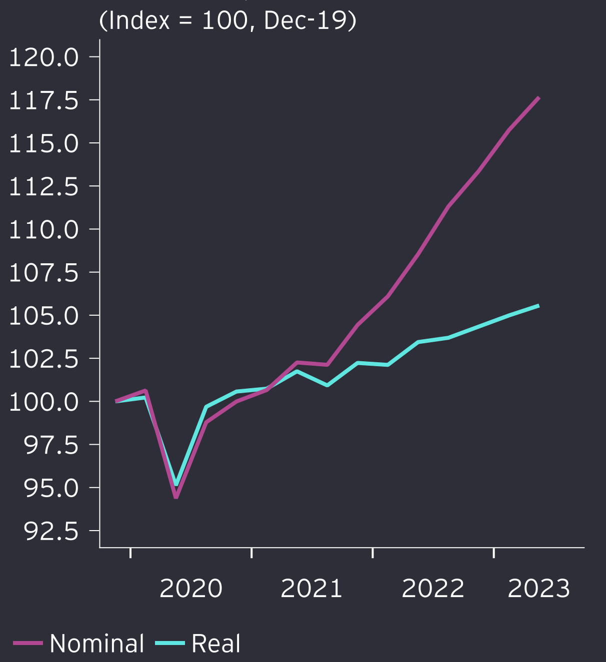
Household consumption and RBA tightening cycles



Source: ABS, Macrobond, EY

10. Inflation and higher interest repayments caused households to favour essentials over discretionary purchases

Essential Consumption



Source: ABS, Macrobond, EY

Discretionary Consumption

Source: ABS, Macrobond, EY

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