Australian National Accounts

Growth slows, inflation doesn't

March 2023 | 7 June

From the Chief Economist

The Reserve Bank's attempt to manufacture a slowdown in the economy is working, with GDP rising just 0.2 per cent in the March quarter. But it has not yet translated into a swift enough fall in inflation.

With mortgage repayments rising quickly, retail spending slowed as households reconsidered some of their discretionary purchases (especially those related to furnishing a house), while house and apartment building also contracted. But too many households have yet to slow their spending on services, such as restaurant meals and holidays, to make a big enough difference to the inflation dynamics in the economy. For many, the strong labour market has resulted in higher take-home pay, and household balance sheets remain sturdy with house prices rising again. Households also saved a little less this quarter than they have in recent years.

Adding to the price pressure is a higher wages bill across the economy. Not only are wages rising at a faster pace than they have in some years, but new entrants to the labour force are also lifting the cost of employment to businesses. With labour productivity growth falling sharply, employees are not – on average, across the economy – producing as much per hour worked. This is effectively an indirect cost to employers and inflationary. Some of this impact is temporary, as a result of the pandemic which saw big increases in the health and social assistance workforces (which tend to contribute less to productivity growth and are hard to measure). But some of the slowdown is the result of poorer productivity growth in the market sector, as it hires lots more workers but doesn't get an equivalent uplift in output.

Business investment remained relatively positive with commodity producers in mining and agriculture buying up equipment. Big infrastructure projects with both public and private components continued too, and there was more investment in renewable energy sources.

Cherelle Murphy | EY Oceania Chief Economist

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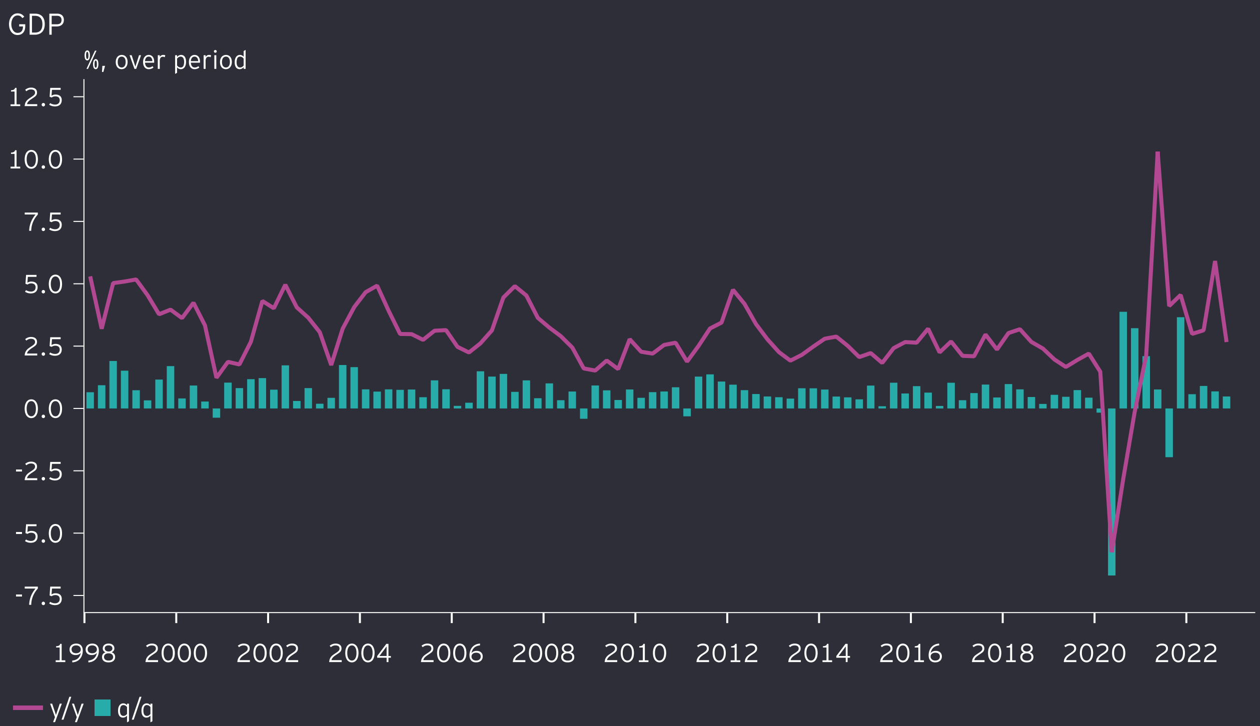
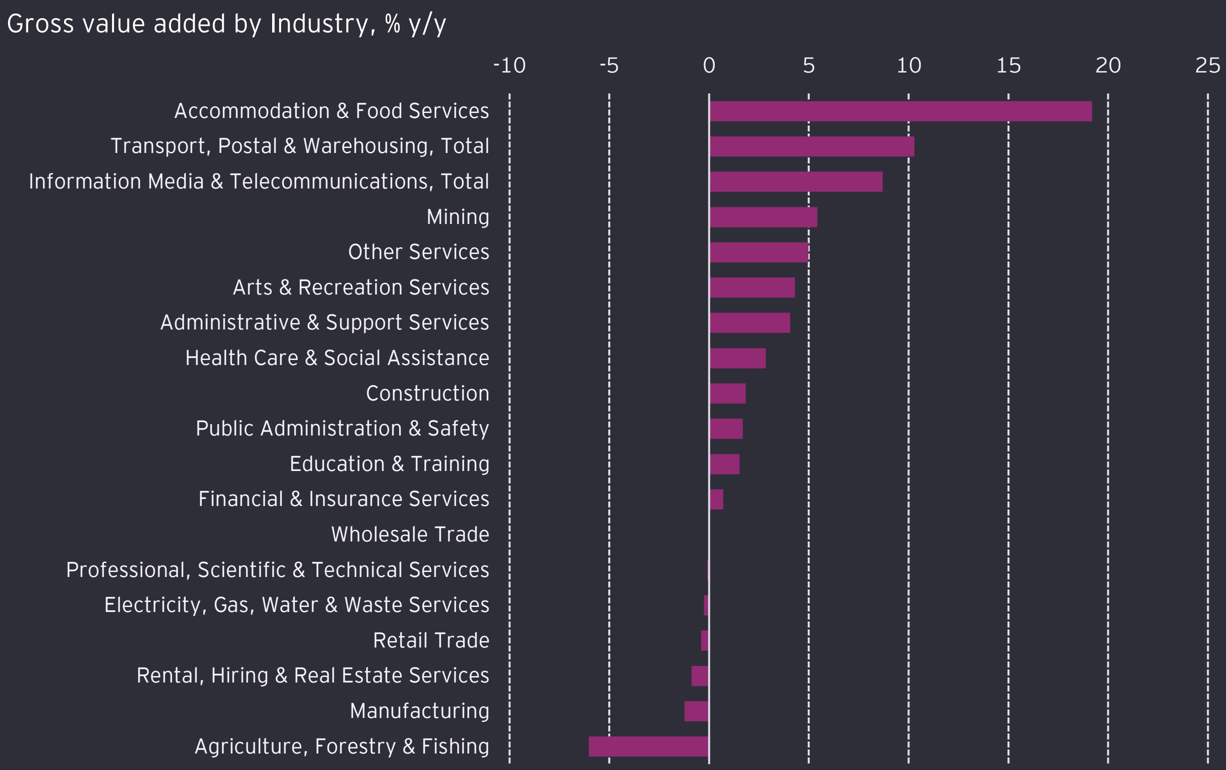
1. Slowest quarterly growth since lockdown-impacted Q3-21



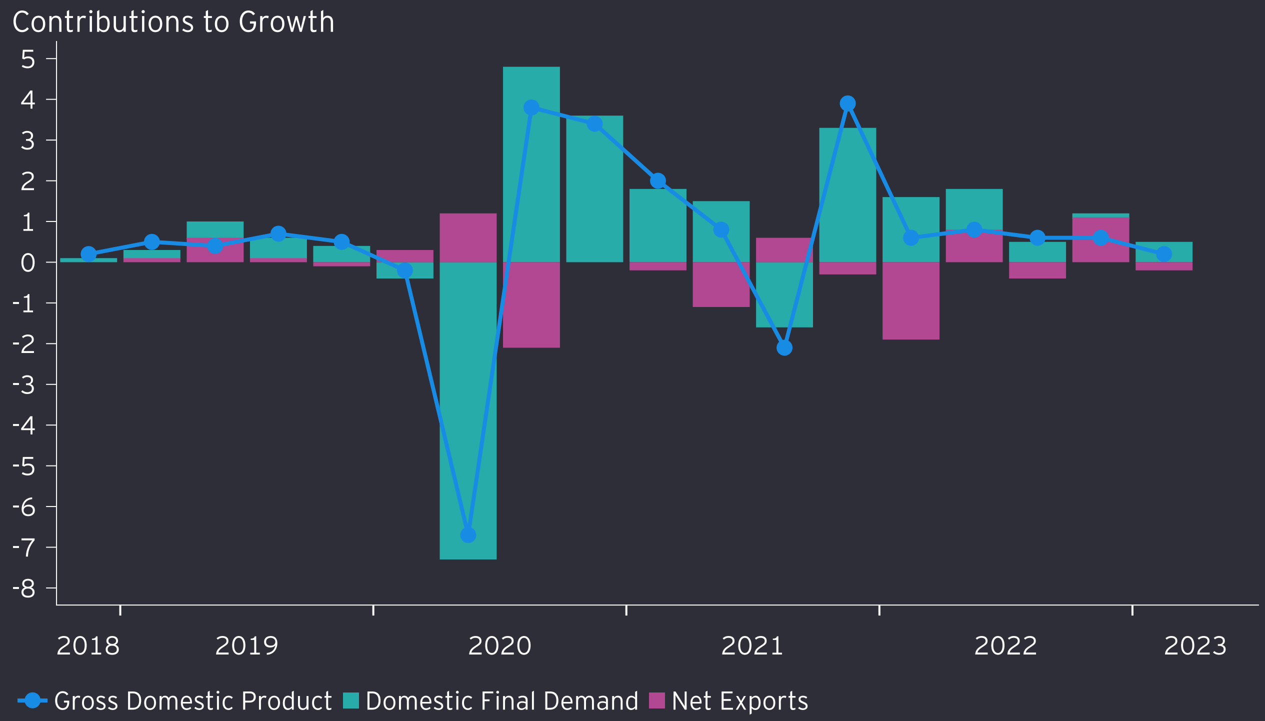
Source: ABS, Macrobond, EY

2. Accommodation, food services and travel, continue to remain strong, while consumers slow down their retail spend



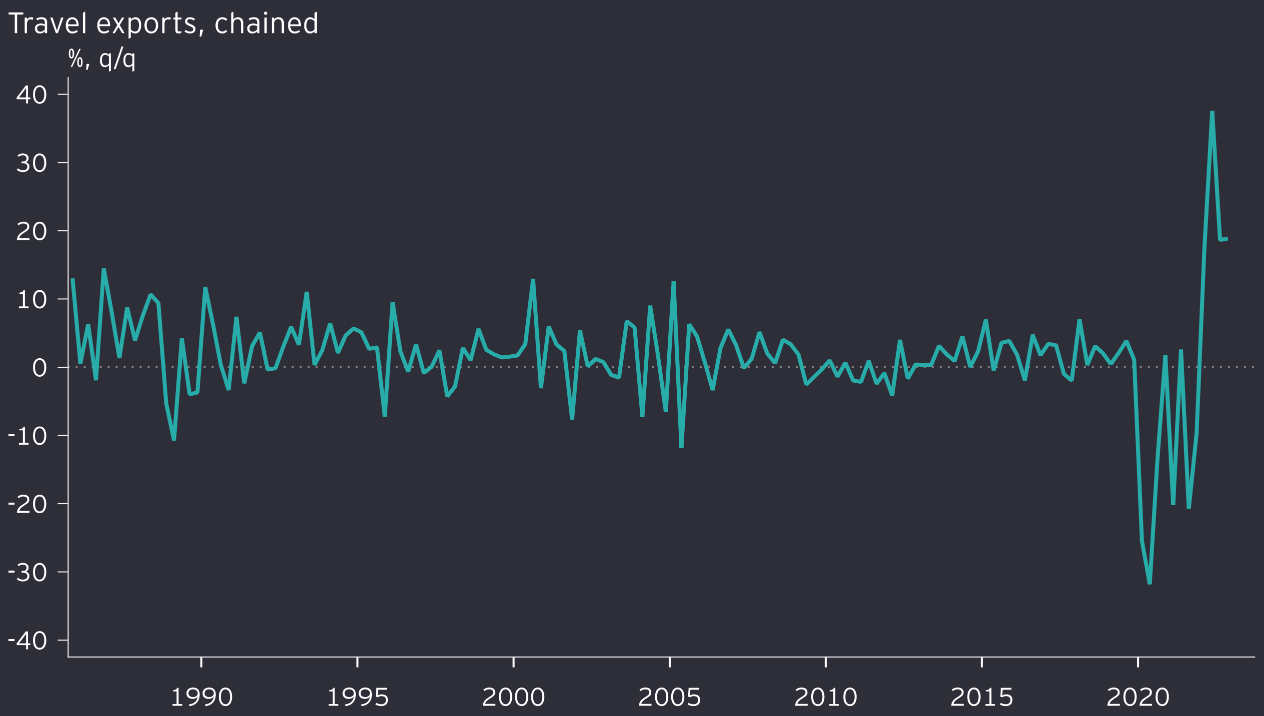
Source: EY, ABS

3. Imports (especially of cars and mobile phones) grew strongly and so net exports offset some domestic economic activity



Source: ABS, Macrobond, EY

4. Unit labour costs increased 7.9 per cent over the year as the labour market remains tight

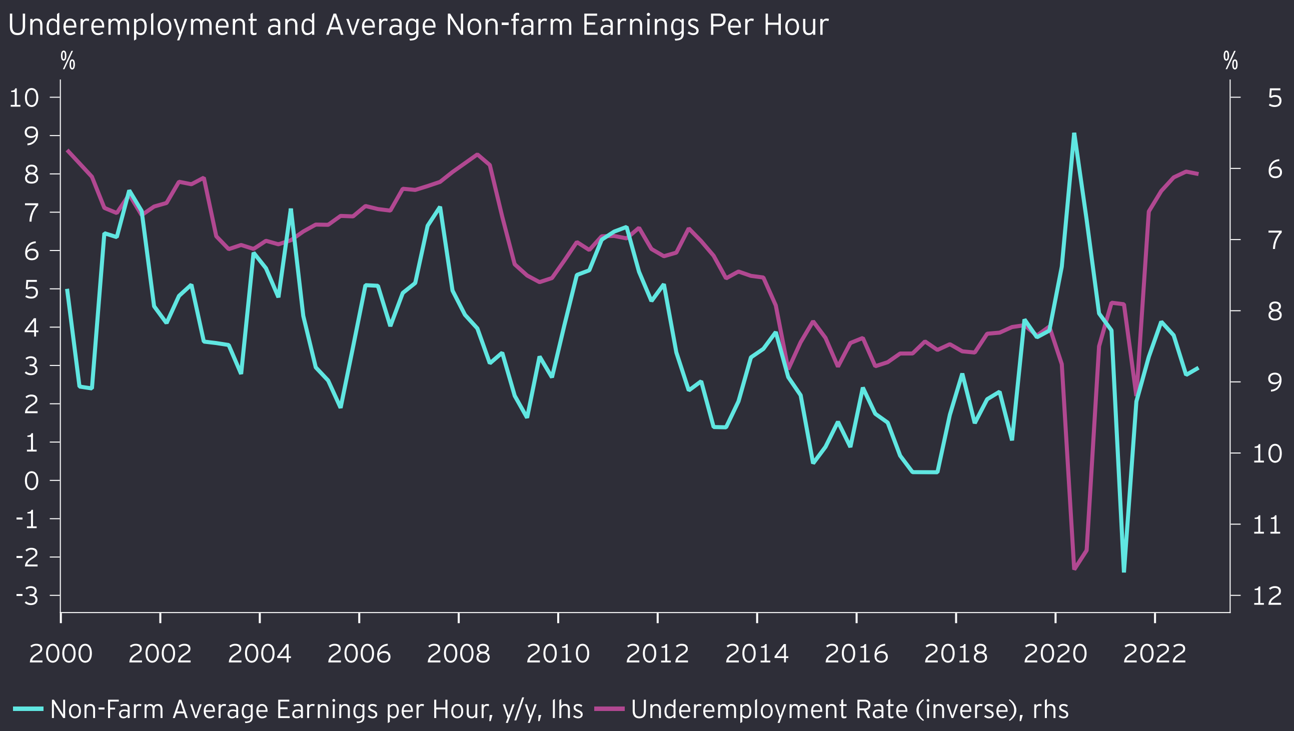


Source: ABS, Macrobond, EY

5. Productivity growth has slowed over the past 30 years and has tumbled in the past year (mainly for pandemic-related reasons)

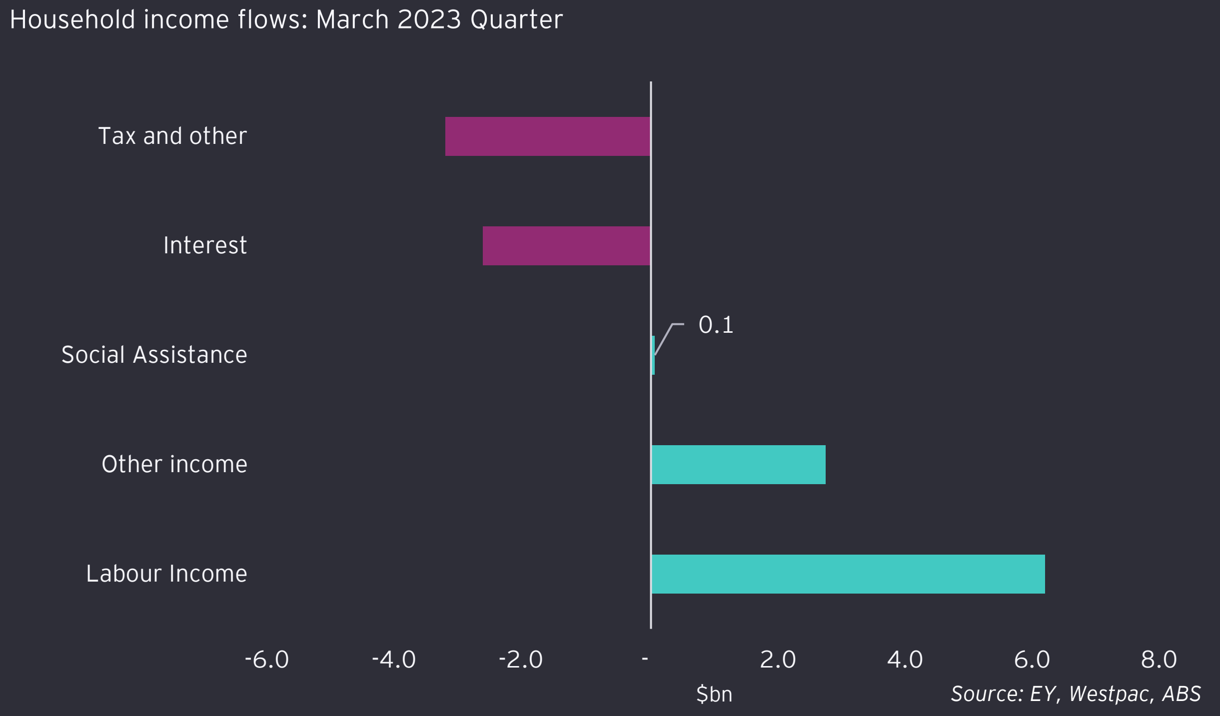
Source: ABS, e61, EY

6. Domestic inflation looks to have finally peaked, while overseas price growth continues to normalise

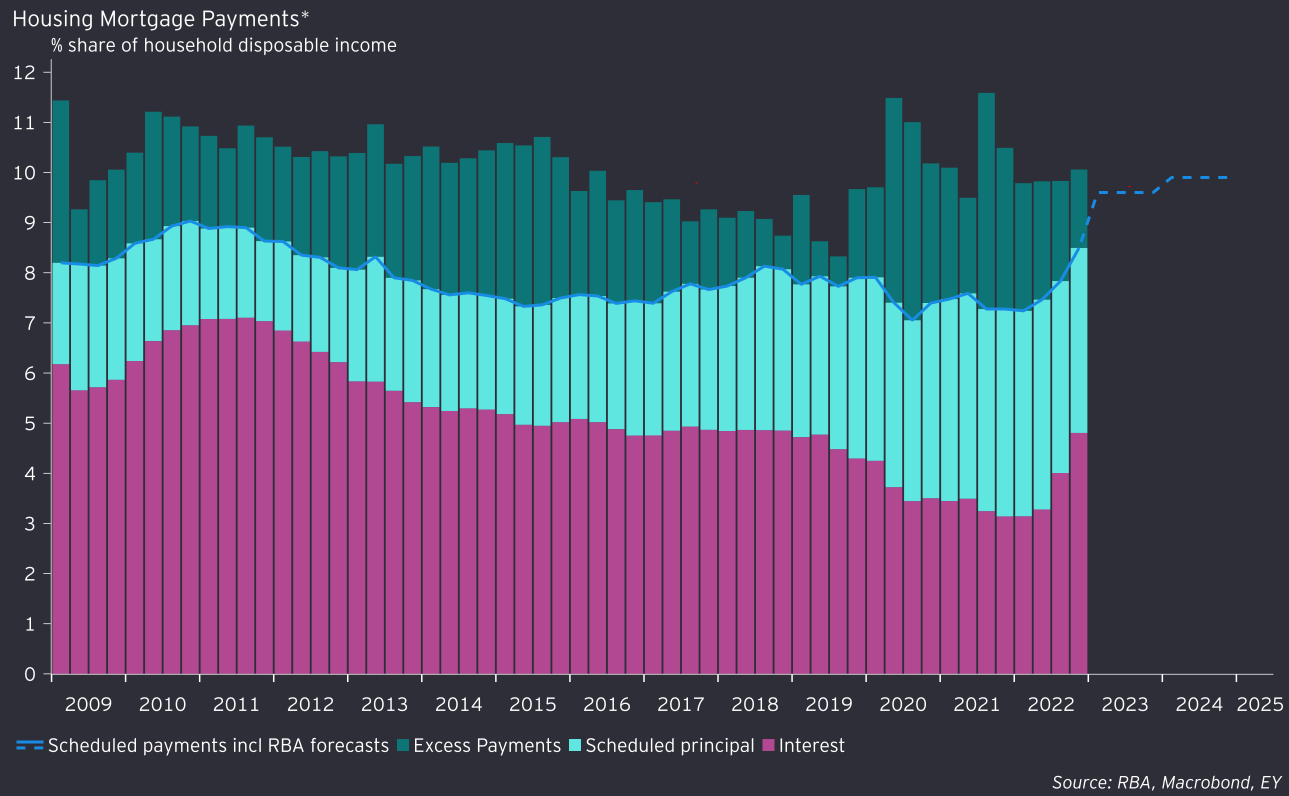


Source: ABS, Macrobond, EY

7. For households, labour and other income increased but taxes and interest payments were sharply higher

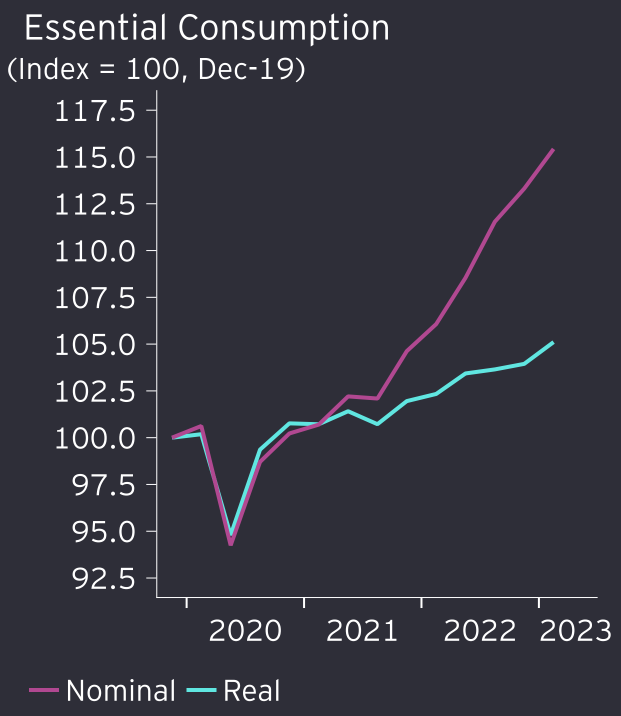


8. As interest payments on mortgages have risen, the ability for households to make excess payments has declined

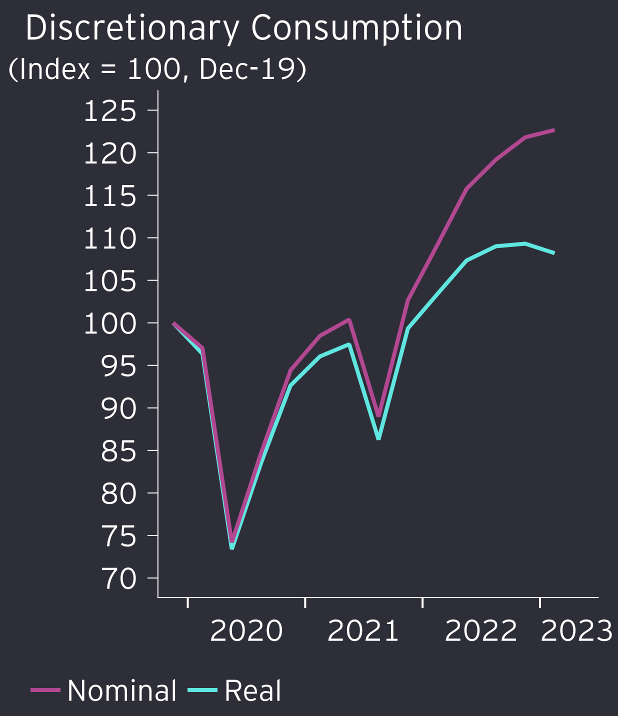


* *Based on a cash rate of 3.85 per cent*

9. Households are spending more but getting less for their dollar

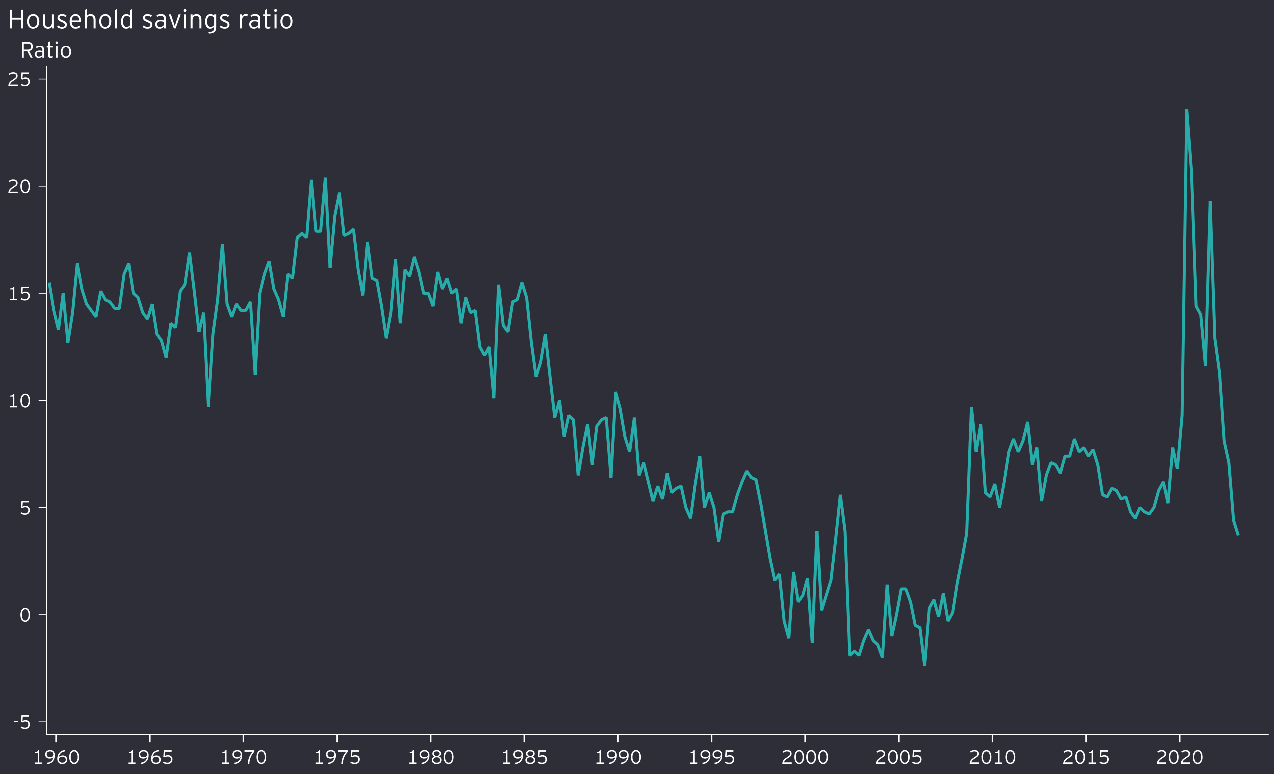


Source: ABS, Macrobond, EY



Source: ABS, Macrobond, EY

10. Households continue to save, but at a much slower pace compared to the start of the pandemic



Source: ABS, Macrobond, EY

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