



Australian National Accounts

Government supports GDP but falls short on long term business needs

September 2024 | 4 December

From the Chief Economist

The September quarter National Accounts clearly reveal that the public sector is underwriting the Australian economy. Government spending and investment climbed to a record high share, at 28 per cent of GDP in the quarter. Yet the economy managed just 0.3 per cent growth in the quarter and 0.8 per cent growth over the year.

Federal and state governments continue to spend big. It's hard to find a government in Australia that doesn't have a record high capital program over the next four years.

Ongoing spending pressures on governments continue, with an ageing population; strong demand for services; defence needs in a geopolitically uncertain world; and the energy transition. But, as we have consistently argued, this level of spending won't deliver macroeconomic stability and drive sustainable long-term growth.

Productivity growth and the terms of trade are falling, consumer prices are still rising too strongly, and interest rates remain high.

Private business investment is at a decent level but, with a new wave of uncertainty from President-elect Trump, rising regulation, fewer migrants and a government unwilling to kickstart much-needed reforms on tax, an investment freeze is within sight.

Business needs more from their governments than short-term fixes to today's problems. An agenda focused on driving GDP growth from the private sector is crucial - now more than ever.

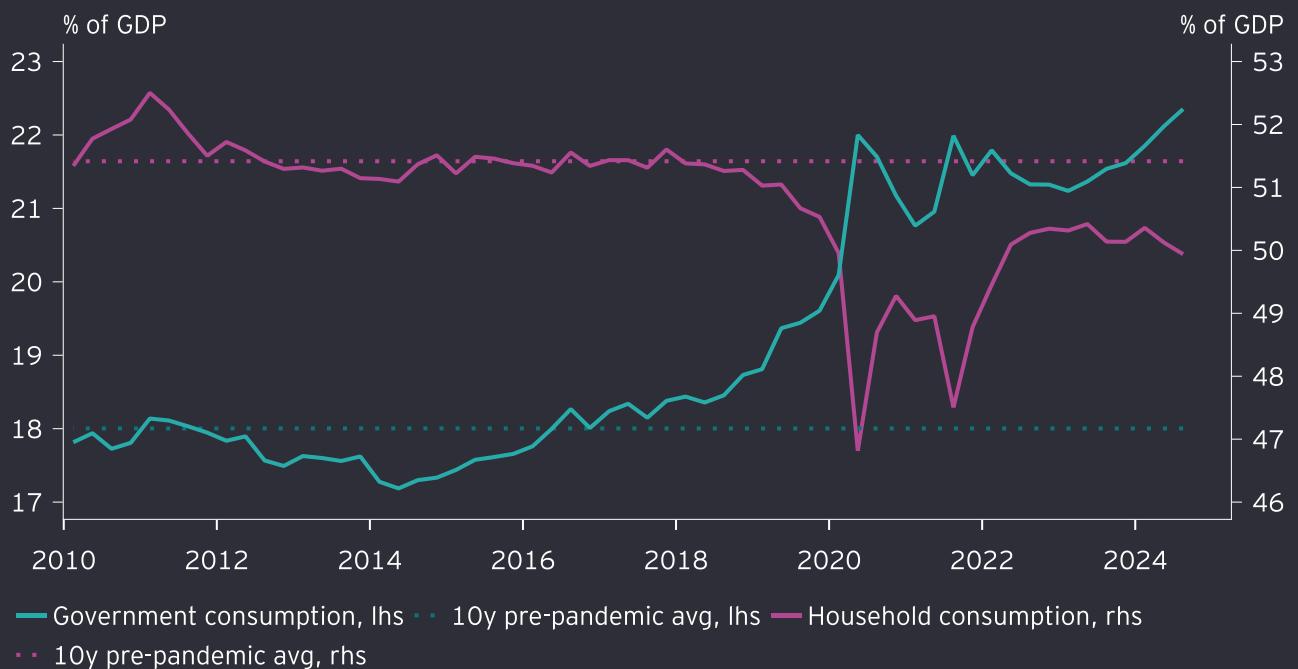
Cherelle Murphy | EY Regional Chief Economist, Oceania

1. GDP rose only 0.8 per cent over the year and GDP per capita fell 1.5 per cent



2. Governments provided substantial electricity bill rebates, which meant household consumption on energy was lower

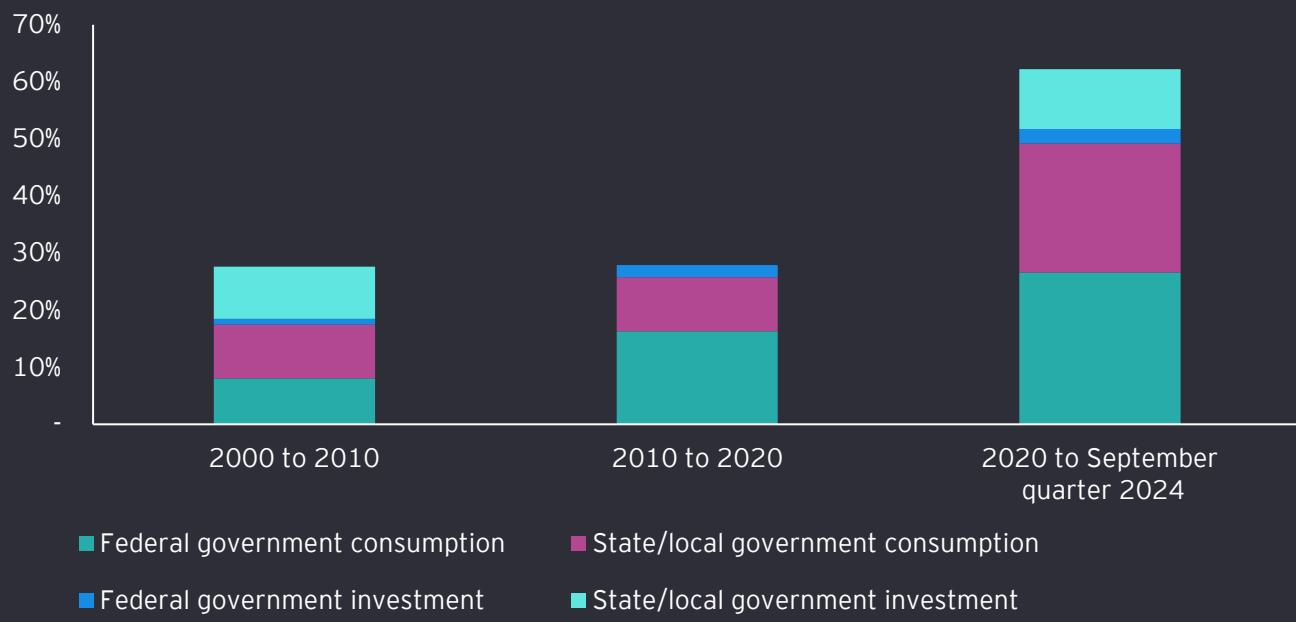
Household and government consumption



3. Public sector spending rose to become a record-high share of the economy, contributing much more to growth than usual

Government contribution to GDP growth

Proportion of total growth



Source: ABS, Macrobond, EY

4. Personal income tax cuts eased the tax burden, but it remained high as a proportion of gross disposable income

Income tax payable

% of gross disposable income



Source: ABS, Macrobond, EY

5. Household disposable income increased but household consumption was weak. The RBA expects a recovery in both.

Household consumption and real disposable income with RBA forecasts



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

6. Business investment remained relatively steady with machinery and equipment, and computer software strongest

Type of Business Investment
% of nominal GDP



Mining and non-mining investment
% of nominal GDP

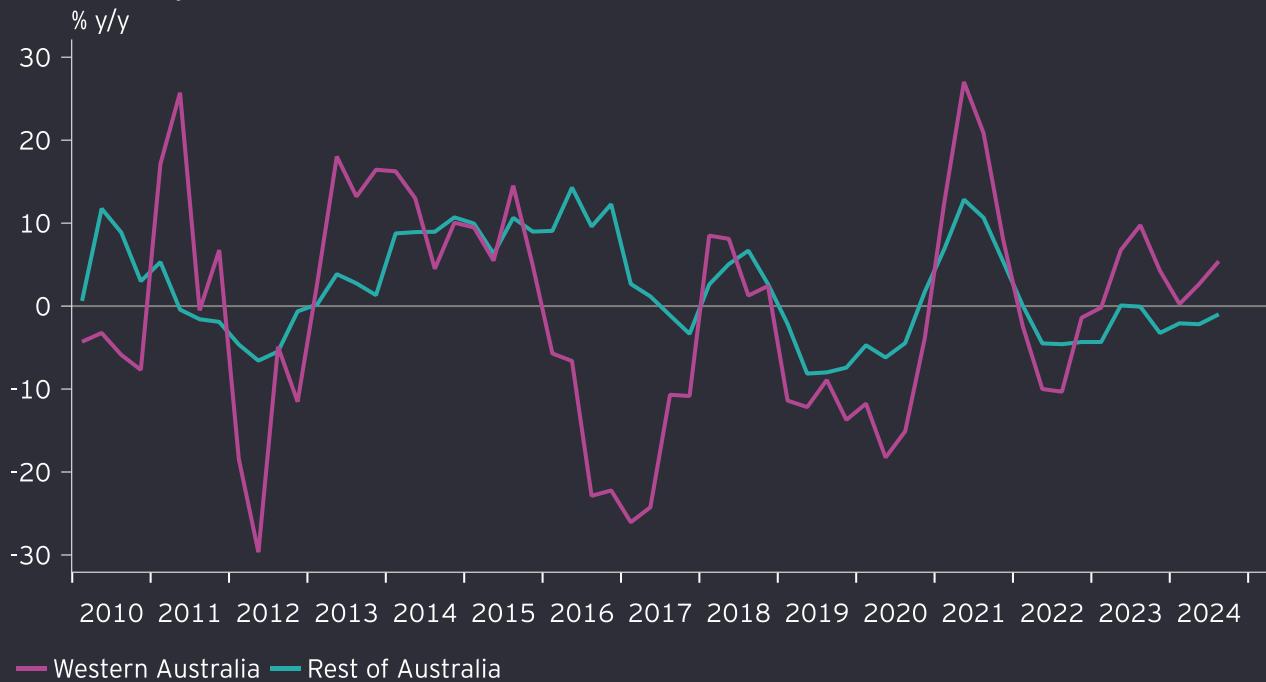


Source: ABS, Macrobond *adjusted for second hand transfers

Source: ABS, Macrobond

7. Building and renovation activity remained weak, except in Western Australia

New dwelling investment and alterations and additions



Source: ABS, Macrobond, EY

8. Total wages growth continued to expand at a healthy clip, despite national income continuing to fall

Net national income and compensation of employees



Source: ABS, Macrobond, EY

9. Australia's poor productivity performance contrasted with the US, where unit labour costs were more moderate

Australia labour productivity and unit labour costs



Source: ABS, Macrobond, EY

US labour productivity and unit labour costs



Source: ABS, Macrobond, EY

10. Growth in compensation of employees (total wage bill) was strong in the public sector but slowed in the private sector

Compensation of employees by sector



Source: ABS, Macrobond, EY

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