

Numbers tell a stronger story, says Treasurer

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Page 8 | Section: News Growth challenge

405cm on the page



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Opinion

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The Australian economy continues to perform well. At 5 per cent, the unemployment rate has fallen to a six-year low and over 1.1 million jobs have been created. Earlier this week, the Reserve Bank of Australia noted that business conditions are positive. Consumer confidence is above the long-run average. Australia's AAA credit rating has been reaffirmed and, next year, the Liberal and National Government will deliver the first budget surplus in more than a decade.

Wednesday's National Accounts for the September quarter show the Australian economy grew at 0.3 per cent and 2.8 per cent through-the-year, in part reflecting an increase in the terms of trade. Nominal GDP was up 1 per cent in the quarter and 5.2 per cent through-the-year. Australia's real GDP growth remains faster than the OECD average and all G7 nations except the United States, which is growing at 3 per cent. The budget forecast for growth in 2018-19 is 3 per cent, with broad-based growth expected to continue.

The main drivers of growth for the quarter were household consumption,

dwelling investment, net exports and public final demand reflecting higher infrastructure spending. At 0.3 per cent for the quarter and 2.5 per cent through-the-year, which is around the 10-year average, household consumption growth in the quarter was up in more than half of the 17 categories including food, health and transport services.

Households continue to benefit from strong employment growth and the personal income tax relief that has started to flow. The household saving ratio was at 2.4 per cent in the September quarter, down from a revised 2.8 per cent in the June quarter. The steady decline in the saving ratio reflects both historically low interest rates and the confidence of households to spend more of their income in an environment of ongoing jobs growth. New housing construction, including renovations, was up 1.0 per cent for the quarter to be 7.1 per cent through-the-year and is now at a record high level.

Exports were marginally up for the quarter and up 4.1 per cent through-the-year, driven by strong demand for tourism, education and financial services. Imports fell by 1.5 per cent in the quarter which, together with the rise in exports, contributed 0.3 percentage points to real GDP growth. Public final demand was up 1.4 per



Growth was driven by household consumption. PHOTO: PETER RAE

cent in the quarter and 4.6 per cent through-the-year which is well above the long-run average of 3.3 per cent. This reflects strong public investment at Commonwealth and state level and high public consumption including for disability support, childcare and residential aged care.

Business investment and changes in inventories did detract, however, from growth in the quarter. This was due in large part to a substantial fall of 7.5 per cent for the quarter in mining investment. This follows the completion of large LNG projects, including in the Northern Territory and Western Australia, with the

production phase now under way. Non-mining investment was broadly flat for the quarter, but is still 3.6 per cent higher through-the-year. The combination of movements in mining and non-mining investment has resulted in private business investment down 1.9 per cent in the quarter and 0.8 per cent through-the-year.

Australia's strong labour market – reflected in record jobs growth and rising participation rates, especially among women and seniors – has shown up in growth in the compensation of employees, which is up 1.0 per cent for the quarter and 4.3 per cent through-the-year. Growth in the total wage and salary bill across the economy has been consistently strong and sustained at a level last seen in 2012.

The National Accounts measure of average earnings increased by 0.2 per cent in the quarter to be 1.2 per cent higher through-the-year. This is lower than other measures of wages growth such as the Wage Price Index, which is up 2.3 per cent through-the-year, its fastest increase in three years.

Differences between the measures can be explained by factors including the composition of the workforce. As RBA Governor Philip Lowe has recently said, "The improvement in the economy should see some further lift in wages growth over time."

Real net national disposable income growth per capita is also up 1.3 per cent for the year, which is just below the 20-year average of 1.8 per cent. This indicator is also volatile as reflected in its sustained period in negative territory in the years following the Global Financial Crisis.

Company profits on the gross operating surplus measure rose by 1.9 per cent in the quarter and 7.1 per cent through-the-year. The Labor Party likes to criticise company profits, but commercially viable and successful businesses are vital to job creation and a healthy economy. In contrast to some other developed economies, like the United States, the wages and profit shares of income have remained largely stable for the past decade.

The strength of the Australian economy is no accident. It is the product of difficult and disciplined decision making over the last five years. The Government's plan is working, but there are international economic headwinds that we need to be conscious of. There is no room for complacency and this is why the Liberal National Government will continue to prosecute a low-tax and strong economic growth agenda.

Josh Frydenberg is the Australian Treasurer.