

A man in a wetsuit is holding a young child in the ocean. The child is holding colorful rings. The man is looking up at the child. The background is a bright blue sky and green water.

Australian National Accounts

Students and tourists boost GDP as locals face rates reality

December 2022 | 1 March

From the Chief Economist

Students and tourists flocked back to Australia in 2022 boosting GDP, while domestic spending slowed in response to the Reserve Bank's rate hikes.

Households - which are at the frontline of the Reserve Bank's manufactured slowdown - lifted their consumption by just 0.3 per cent in December quarter, much slower than in the previous four quarters. Returning students and holiday makers spent up on transport, hotels and restaurants. Exports of travel services were more than double levels of a year ago and the highest since March 2020, although still below pre-pandemic levels.

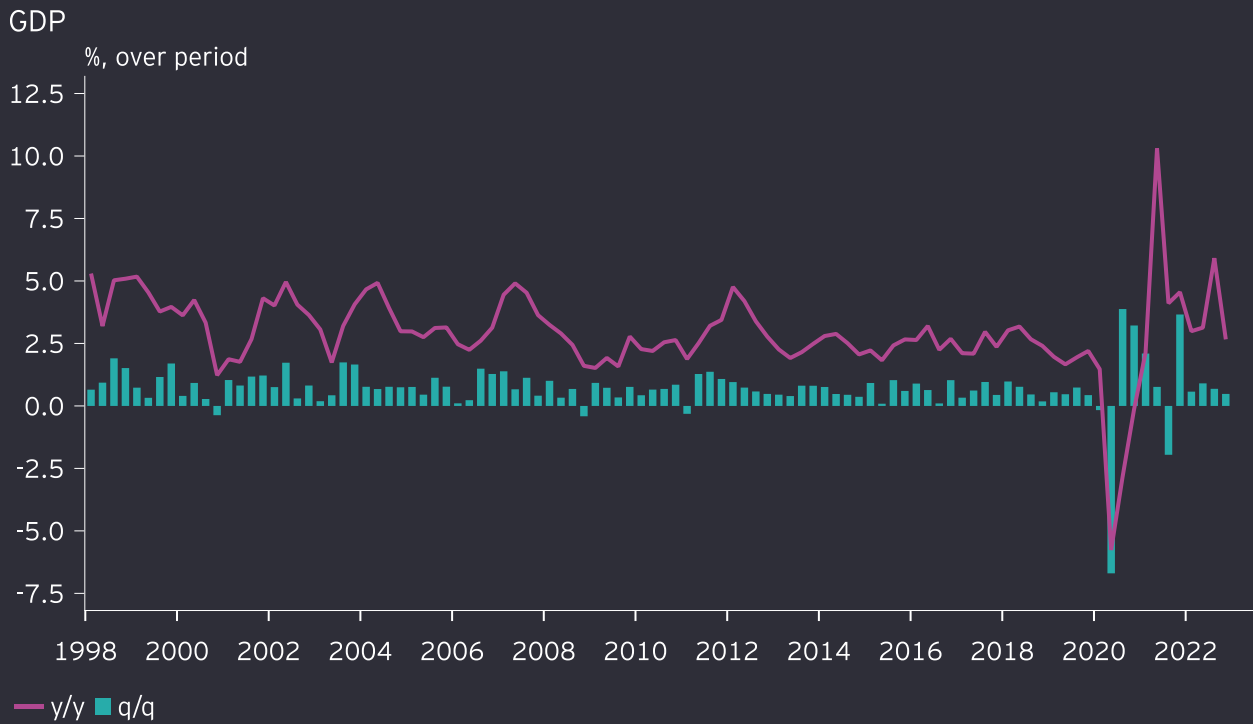
There was a pullback in purchases of clothing and footwear, and furnishings and household equipment, with home renovations proving to be 'so 2021'. But the rate of price increases in consumer purchases pushed higher, rising 6.7 per cent. This is the strongest rate of growth since 1990, and in line with the worryingly high Consumer Price Index (CPI) in the December quarter.

This means that even though the domestic economy slowed down in the December quarter, price and wage growth didn't. The Reserve Bank needs that slower growth to translate into disinflation, and until it does, rate hikes and the threat of more won't stop.

Exports were the hero of the quarter, with services exports rising 9.8 per cent. The resources sector benefited from stronger production and commodity prices, with this sector helping push the total profits share of factor income to a new high. Mining production - particularly iron ore mining - was by far the strongest, contributing 0.3 percentage points to the 0.5 per cent quarterly rate of growth of GDP. Oil and gas extraction also bounced back, after maintenance slowed down production in the September quarter.

Cherelle Murphy | EY Oceania Chief Economist

1. Growth has slowed as domestic spending softens



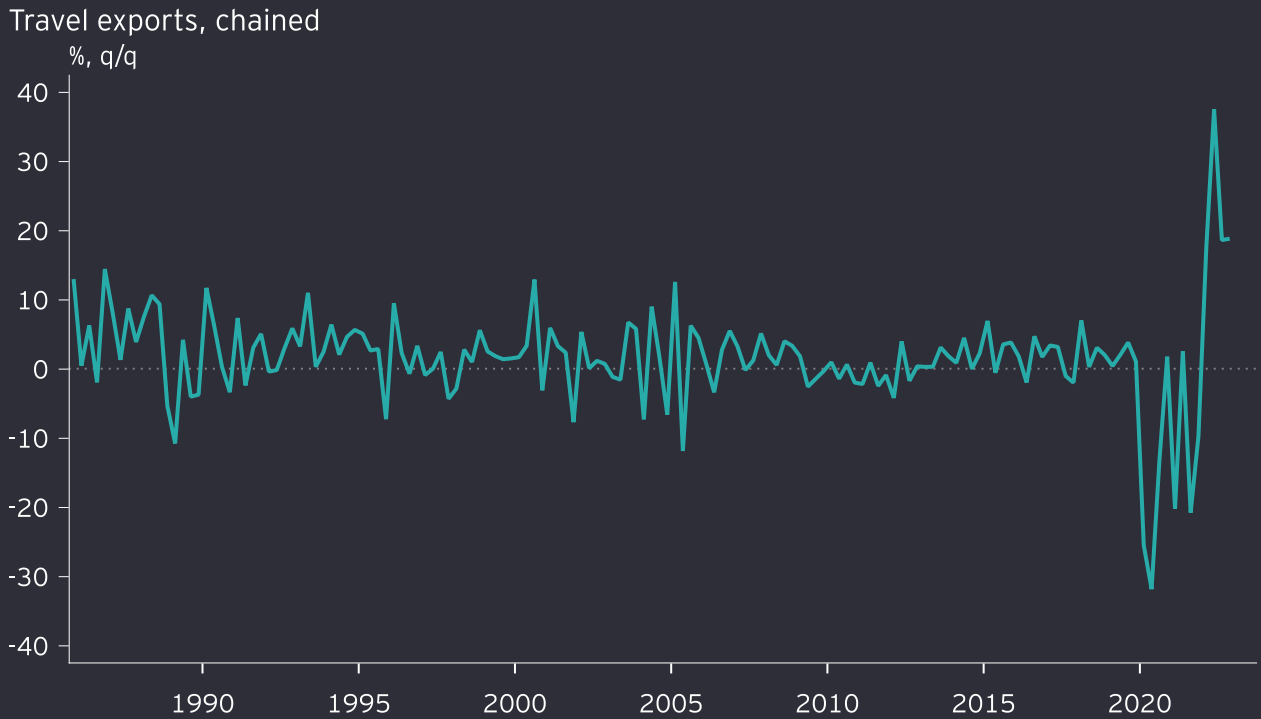
Source: ABS, Macrobond, EY

2. Net exports were the driver of growth in Q4 2022



Source: ABS, Macrobond, EY

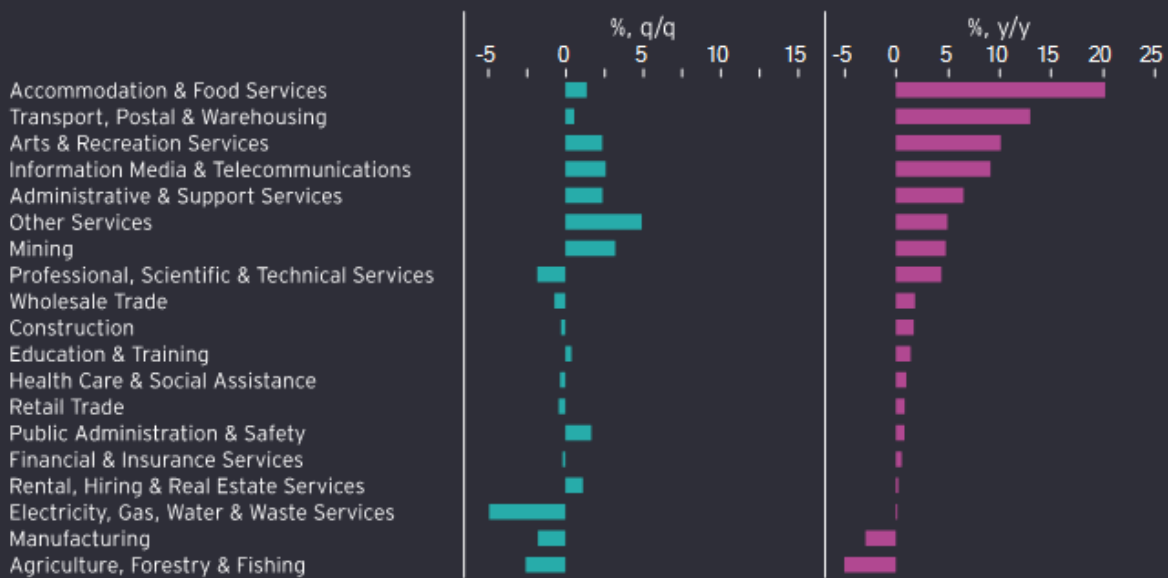
3. Service exports were particularly strong as travel gets closer to pre-pandemic levels



Source: ABS, Macrobond, EY

4. The accommodation and food services industry plus transport lifted growth, as visitor activity played a key role

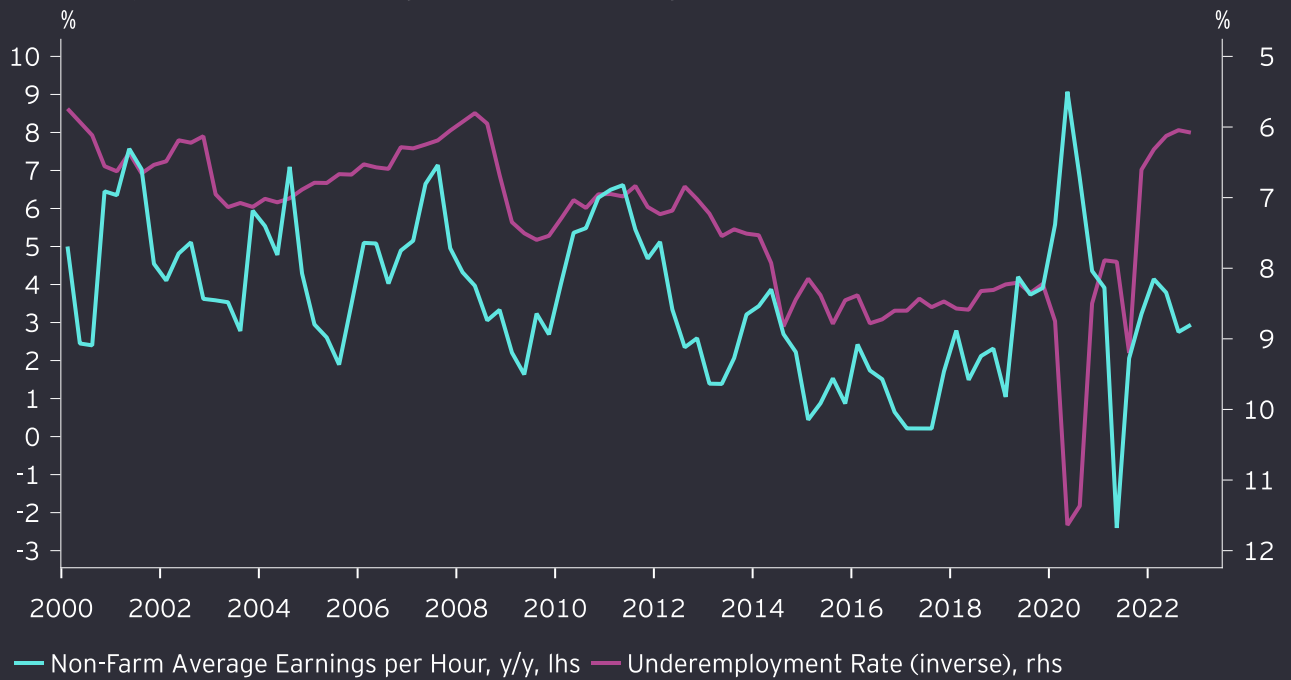
Gross Value Added by Industry



Source: ABS, Macrobond, EY

5. Wages rose less strongly than a tight labour market might suggest

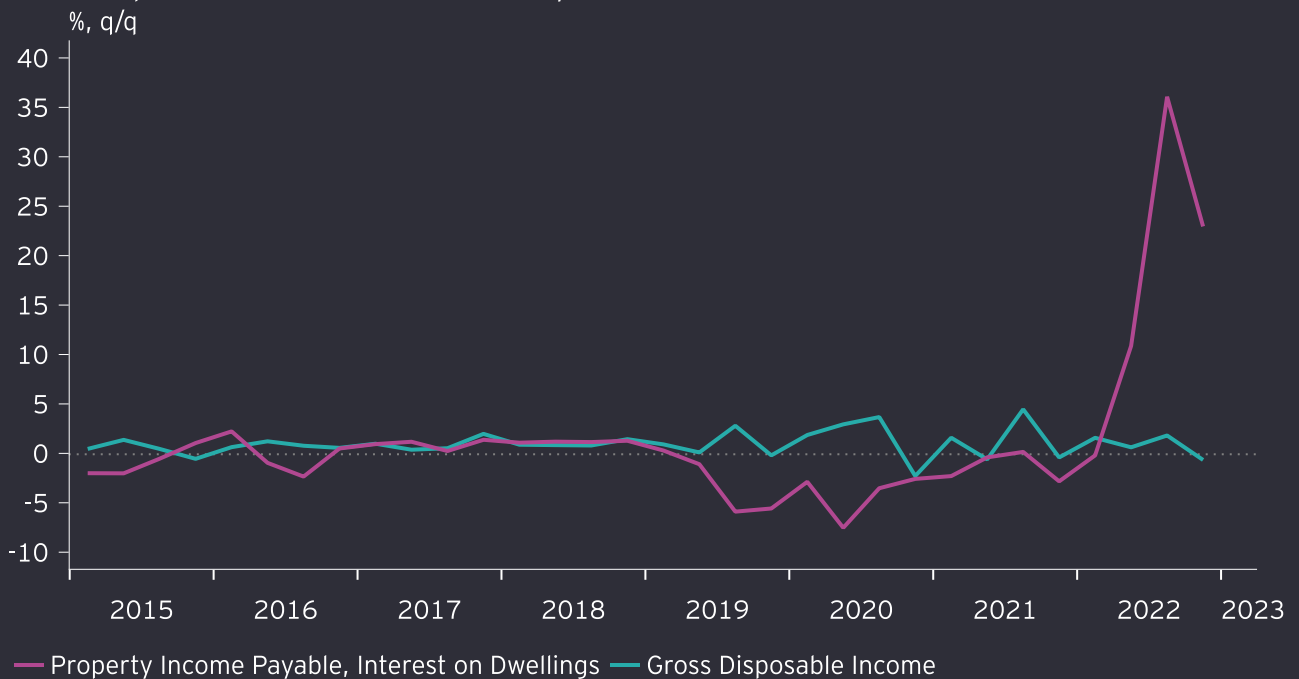
Underemployment and Average Non-farm Earnings Per Hour



Source: ABS, Macrobond, EY

6. Household interest payments have risen very sharply over the past two quarters

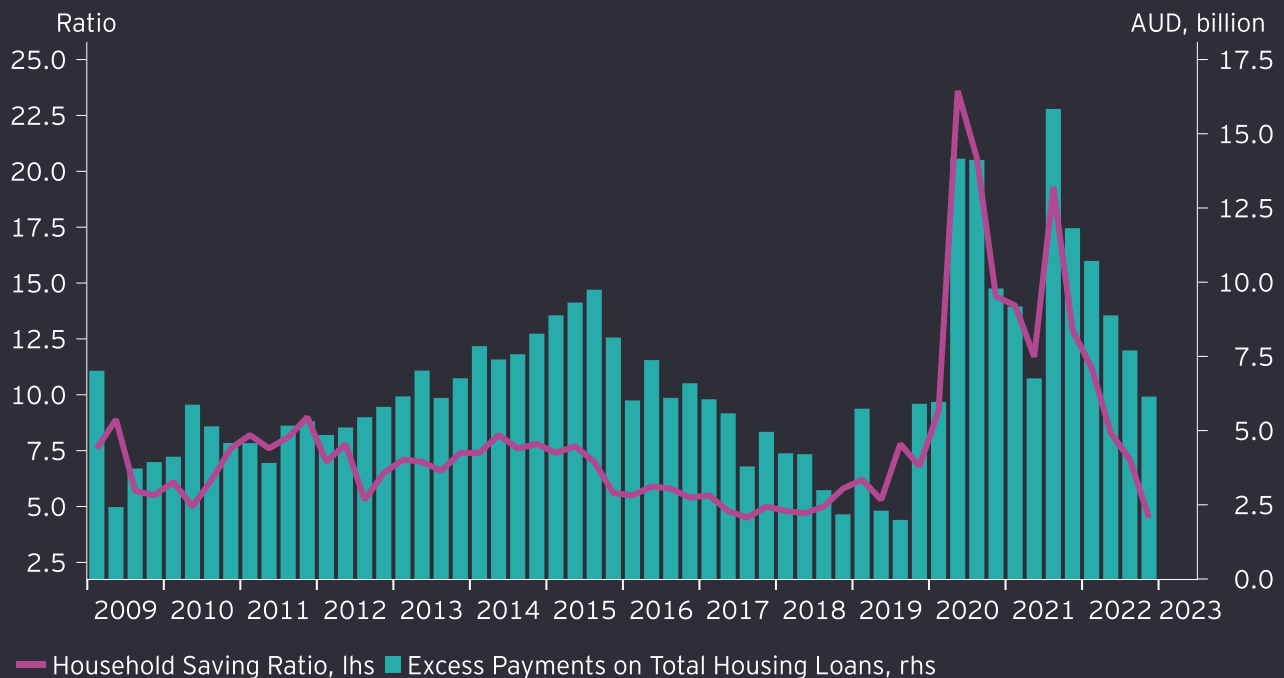
Gross Disposable Income and Interest Payable



Source: ABS, Macrobond, EY

7. Mortgage offset and redraw accounts get less of a top up, savings are back to pre-pandemic levels

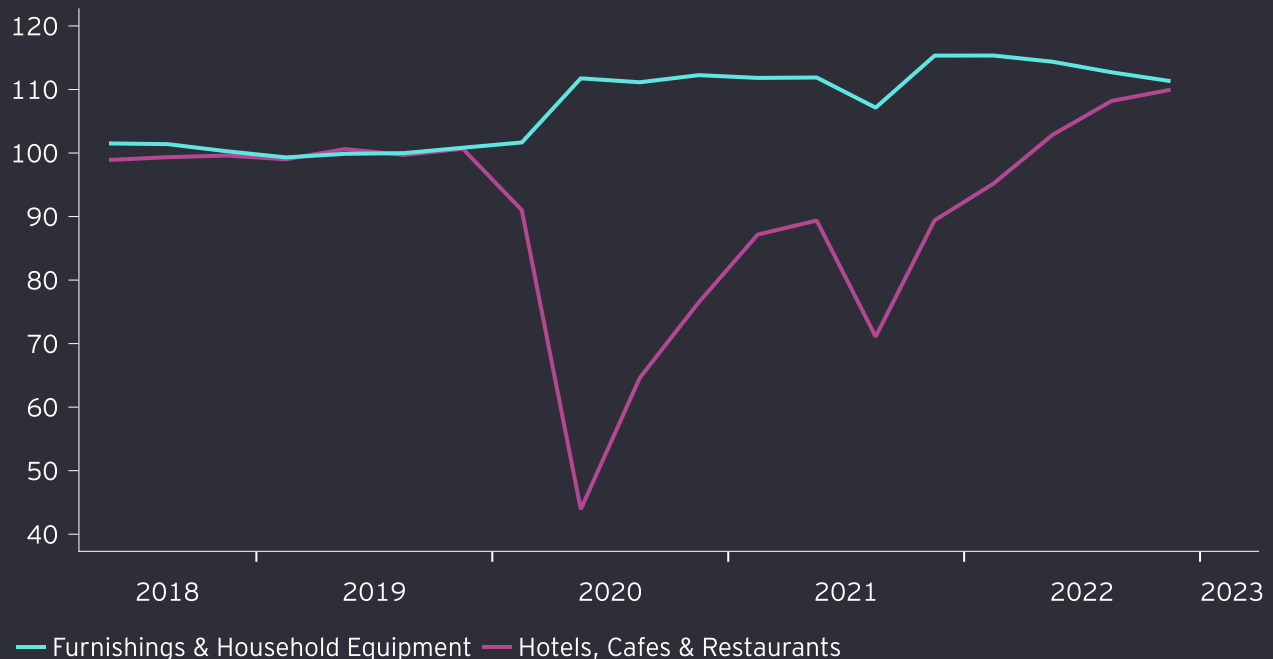
Household saving rate and excess mortgage repayments



Source: ABS, RBA, Macrobond

8. Consumers and tourists eat out, as Australia passes peak-cushion

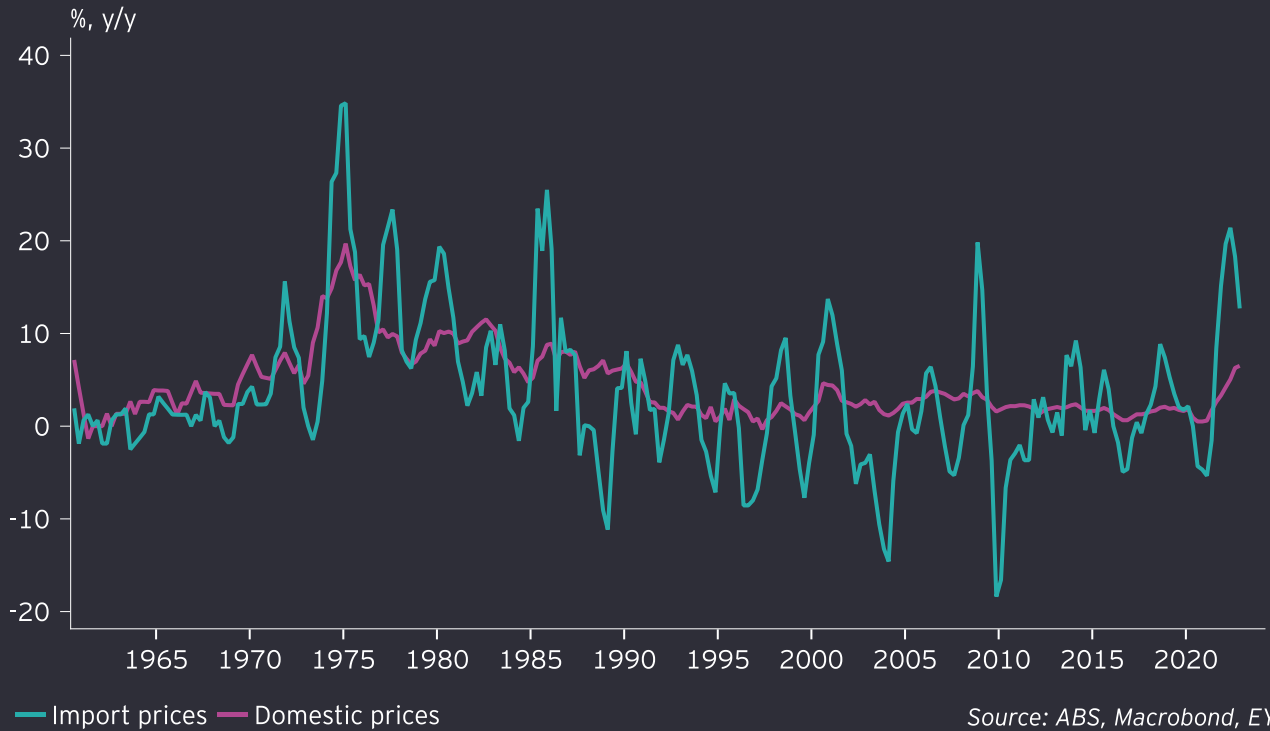
Final consumption expenditure by component
Index 2019=100



Source: ABS, Macrobond, EY

9. Uncomfortable inflationary pressure continues, with domestic prices rising faster and overseas price growth only slightly lower

Domestic and import prices



10. The terms of trade remained healthy and exports rose

Terms of Trade, RBA Commodity Price Index and Exports



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