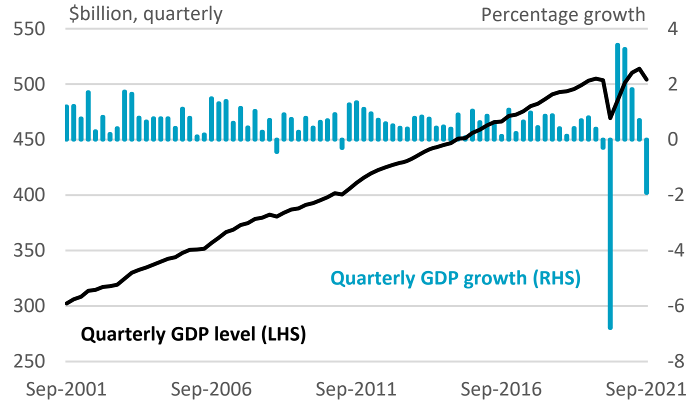
ASFA Economic Snapshot: week ending 3 December 2021

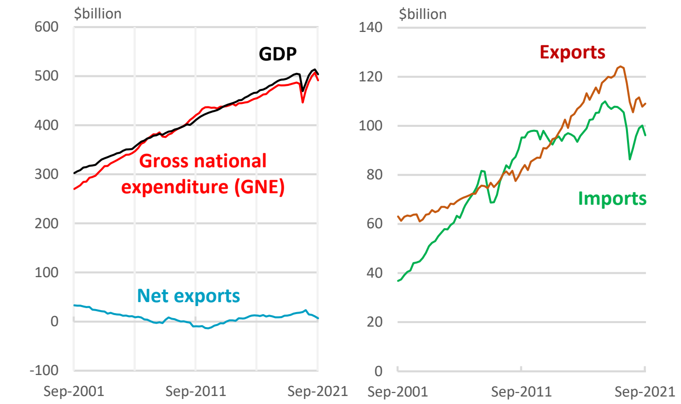
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

GDP fell in the September quarter …



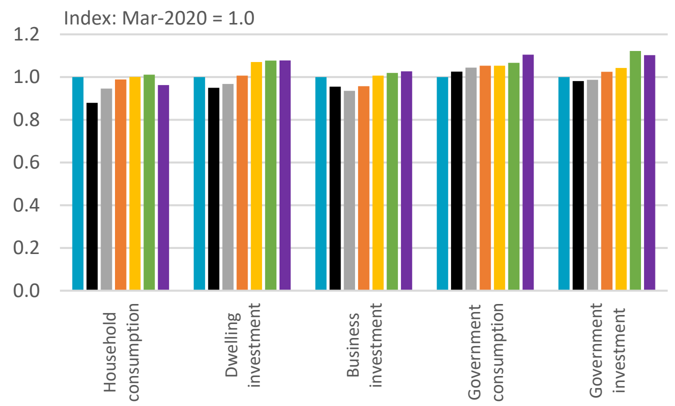
The Delta-COVID shock led to a 1.9% decrease in GDP in the September quarter, with the impact largely confined to the south-east (NSW, Victoria, ACT). The gradual easing of social restrictions in those areas throughout October, November and December will see GDP rebound strongly. Indeed, the latest RBA forecasts imply that the level of GDP at the end of 2021 will exceed the recent peak (in June quarter 2021).

… driven by lower domestic demand …



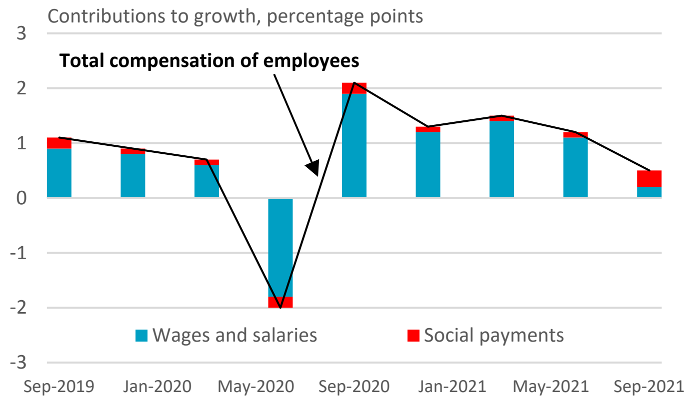
GDP is total *production* in the economy, while GNE is total *spending* (consumption and investment, by the private and public sectors). The fact that (current) production *exceeds* spending reflects the fact that Australia (currently) exports more than it imports (*net* exports are positive). The gap has narrowed recently with a pick-up in imports of capital goods (due to higher investment *spending* – see Panel 3).

… and household consumption in particular



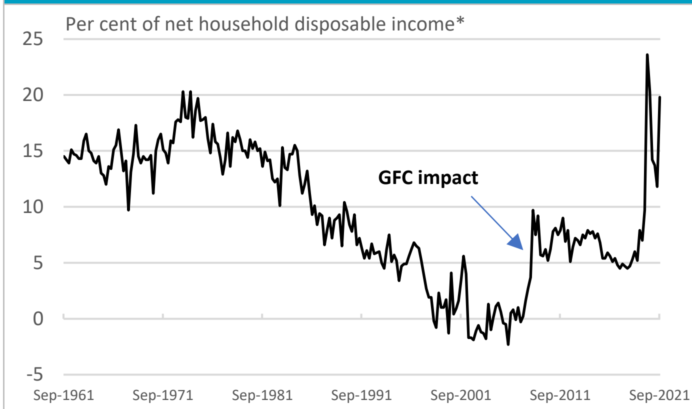
For the major components of GNE, this shows the levels over the last 7 quarters – that is, from March 2000 (blue) to September 2021 (purple). While private-sector investment fell during the 2020-COVID shock (black), it has since recovered. Household consumption has been the most affected component from both COVID shocks (black and purple respectively), but will rebound strongly in the south-east.

The rise in the SG rate boosts workers' compensation



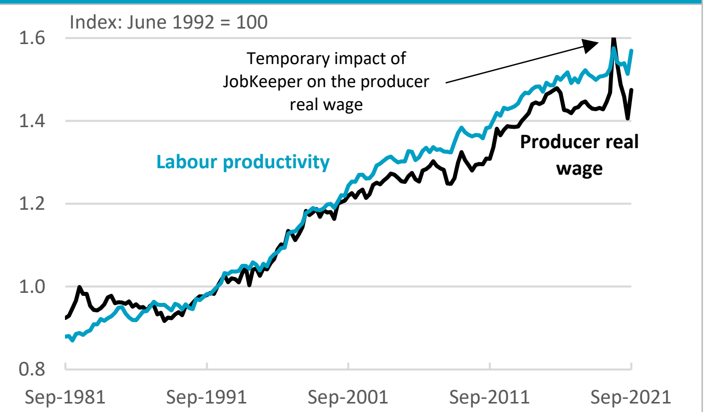
This chart shows the major contributors to growth in total employee compensation in the economy. In the September quarter, *wages and salaries* made a relatively small contribution to total compensation growth, with the number of employed people falling by 0.6% (the average wage rate actually rose by 0.6%). The large contribution from *social payments* mainly reflects the rise in the SG rate from 9.5 to 10%.

Households save more as they pull-back on consumption



The *household saving rate* is ratio of saving (income *less* consumption) to income.* The two COVID shocks have had a marked, albeit a largely temporary, impact on consumer behaviour. Notwithstanding the deleterious effect of the shocks on household income, the saving rate has risen sharply as households have reduced consumption (Panel 3).

Scope for future wage and SG rises for workers



Labour productivity is GDP per hour worked by employees, while the *producer real wage* is the real hourly cost of labour for firms (including SG contributions). Theoretically, the latter should track the former over long time periods. From an economy-wide perspective, the current wedge suggests there is scope for future wage and SG rises.

Sources for each panel: (1 to 6) ABS, *National Accounts,* September and ASFA calculations. * Income in this context is *net disposable household income* – which is household income from all sources *less* payments of interest, taxes and non-life insurance premia, and *less* depreciation of dwellings.