

GDP surprise is election-year gift for Turnbull

Comment

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Malcolm Turnbull has received an unexpected election-year gift with the national accounts showing the economy growing more strongly than previously thought.

The economy's new annual growth rate of 3 per cent is probably above its sustainable growth rate and will help reduce idle capacity.

It is certainly well above the Reserve Bank's forecast of 2.5 per cent and gives the economy additional momentum to weather a period of slowing global demand.

The unexpected growth has come mainly from a \$1.3 billion upward revision of the September quarter's gross domestic product. The revision, which was spread across the economy, added the best part of \$1 billion to consumer spending in the quarter. This lifted the annual growth of

household consumption back to its 10-year average of about 3 per cent.

Consumer spending represents more than half of aggregate demand, and has been called the giant, stabilising flywheel of the economy. If consumers are prepared to maintain the present rate of their spending growth, there is a reasonable chance that the economy can continue on a higher growth trajectory through the election year.

The strength in consumer spending clearly has been helped by the new sense of wealth created by rising property prices, something that is likely to feature in the political debate about negative gearing. This wealth effect seems to have encouraged households to cut their savings rates despite a slowdown in the annual growth of real household disposable income to just over 1 per cent.

The data revisions and accelerated growth bring the national accounts more into the line with the very strong employment numbers of the past few months. The non-farm economy, which accounts for most of the employment, is growing at an annual rate of 3.1 per cent.

While that may slightly overstate the underlying momentum of the economy (trend annual GDP growth is running at 2.8 per cent), the mystery surrounding the strength of the economy appears to be resolving in favour of the much criticised labour force survey.

This certainly reduces the pressure from the domestic economy for a near-term cut in the RBA's monetary policy official cash rate.

It also shaves back the likely shortfall in the 2015-16 budget outcome, with nominal GDP annual growth rate – an important driver of the revenue side of the federal budget – rising from 2.2 per cent to 2.4 per cent. The Treasury's mid-year forecast was for nominal GDP growth in 2015-16 of 2.75 per cent.

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