Today’s National Accounts showed growth in the Australian economy remained solid in June quarter 2018. Growth in the quarter was above market expectations and was led by stronger household and general government consumption.

Seasonally adjusted (sa) gross domestic product (GDP) rose 0.9% in June quarter 2018, moderating slightly from upwardly revised growth of 1.1% in March quarter 2018. Annual growth strengthened to a solid 3.4% in June quarter 2018 (Chart 1), above market expectations of a 2.8% rise.

Household consumption grew 0.7% in the June quarter, to be 3.0% higher over the year. With growth in real household disposable income remaining weak, the household savings ratio fell again in June quarter (to 1.0%) and is at its lowest rate in over a decade. Growth in household spending in the quarter reflected strong spending across a number of components including: food, rent, recreation and culture and insurance services.

Business investment fell 1.4% in the June quarter, following a rise in the March quarter, but was 11.5% higher over the year. The fall in the quarter was driven by machinery and equipment (down 1.6%), the volatile net purchase of second hand assets and, to a lesser extent, engineering construction (down 0.8%). Meanwhile, investment in non-residential buildings rose 1.0% in the quarter.

Dwelling investment rose 1.7% in the June quarter, to be 3.8% higher over the year. The rise in the quarter was driven by a further increase in new and used dwelling construction (up 3.6%), which more than offset a 2.1% decline in alterations and additions.

Public final demand rose 0.8% in the June quarter, driven by an increase in general government consumption. Meanwhile, public investment was flat in the quarter, with a rise in general government investment offset by a fall in public corporation investment.

Changes in inventories made no contribution to GDP growth in June quarter 2018, with a large drop-off in wholesale trade inventories offsetting pick-ups in retail trade and mining inventories.

The terms of trade fell 1.3% in the June quarter, but was 2.1% higher over the year. The terms of trade remain elevated despite a partial unwinding of the commodity price surge in 2016-17.

With exports rising at a faster pace than imports in the quarter, net exports contributed 0.1 percentage point to GDP growth. However, over the year, net exports detracted 0.7 percentage point from overall economic growth. Annual growth in exports has been driven by solid gains in metal ores and minerals (iron ore) and other mineral fuels (LNG). However, this was more than offset by a broad-based rise across import items.

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