Synergies
ECONOMIC CONSULTING

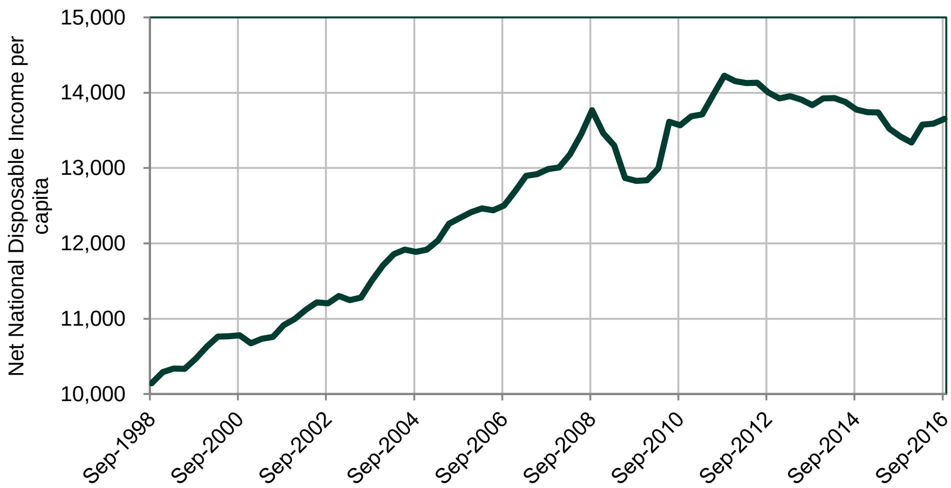
How the tables have turned...

At the beginning of 2016, headline figures suggested our economy was growing at a steady pace. Yet the income and wellbeing of Australians was far from rosy – we were in an income recession as deep as the one we experienced in the early 1990s recession. Almost twelve months on, the latest figures show that the Australian economy contracted in the September quarter whilst at the same time national income grew. This article examines what happened to income in the most recent quarter and why output growth does not necessarily add up to better wellbeing for Australians.

According to the latest figures released by the Australian Bureau of Statistics (ABS), the output of the Australian economy fell by 0.5% in the September quarter. While the impact of the end of the mining boom lingers, the contraction was driven largely by temporary factors, including bad weather impacting residential construction and disruptions to resources production. It is widely expected that the December quarter figures will show a return to growth.

In contrast to the decrease in output, income *increased* in the September quarter. For the first time in five years, we have seen a sustained increase in net national disposable income (NNDI) per capita. After increasing for three consecutive quarters, this income measure is now 1.7% higher than it was a year ago. Yet there is still a long way to go to reach the previous peak. After over a decade of strong growth prior to 2008, our current income is roughly on par with its level prior to the GFC and remains below the peak in 2011.

Figure 1 Net national disposable income per capita



Data source: ABS National Accounts, September quarter 2016

NNDI is important because it is a better measure of the wellbeing of Australian residents than the headline GDP measure. While the headline figure focuses on the volume of output produced in Australia, NNDI measures the income that Australian residents receive. It is what we are ultimately interested in when we

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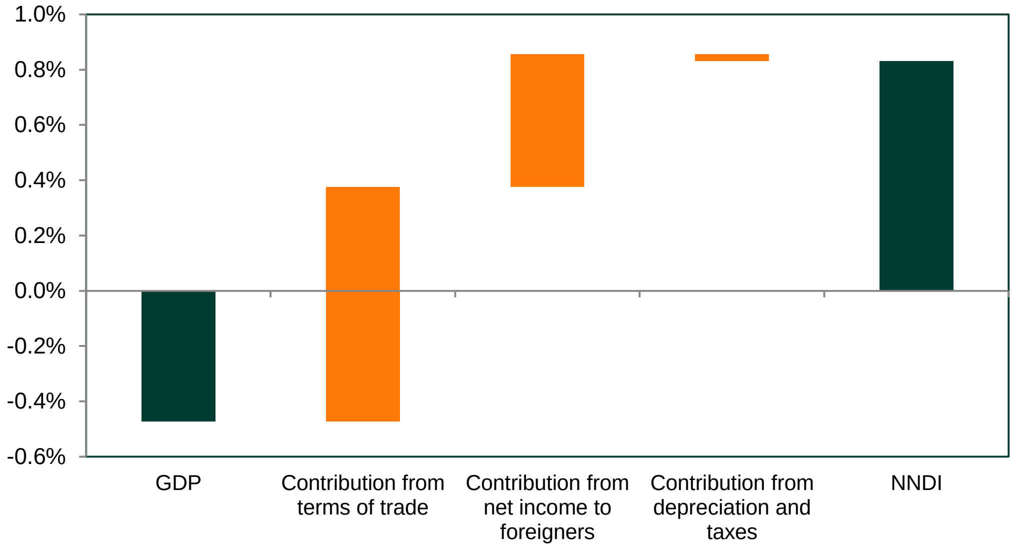
think about how much food, transport, education and housing people can buy.

Differences in the two measures arise mainly due to changes in the terms of trade (the price of exports relative to imports), the amount of income that is transferred overseas from Australia or to Australia from overseas (usually either sent by corporations to overseas shareholders or by workers to family members) and taxes and depreciation of investments.

The main reason income increased in September quarter is we were paid relatively more for the output we sold overseas (ie sugar, beef, natural gas, iron ore and coal) and this more than counteracted the impact of the fall in output. Export price increases resulted in an increase in Australia's terms of trade, which contributed more than half of the difference between GDP growth and NNDI. Net income to foreigners also contributed substantially, largely because income payments to overseas investors fell in the quarter. Finally, taxes and depreciation of assets subtracted marginally from income.

While the news hasn't all been good, the increase in income is a key positive for the economic wellbeing of Australians, and one which we hope to see repeated.

Figure 2 Factors contributing to the difference between quarterly GDP and income growth



Data source: ABS National Accounts, September quarter 2016

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