



# Economics Group

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## Net Exports Lift Q1 Australian GDP, but RBA Remains on Hold

*The Australian economy expanded in the first quarter, registering one of the fastest paces of growth in recent years. However, the RBA remains on hold, awaiting convincing signs of wage growth to materialize.*

### First Quarter Growth Led by Net Exports

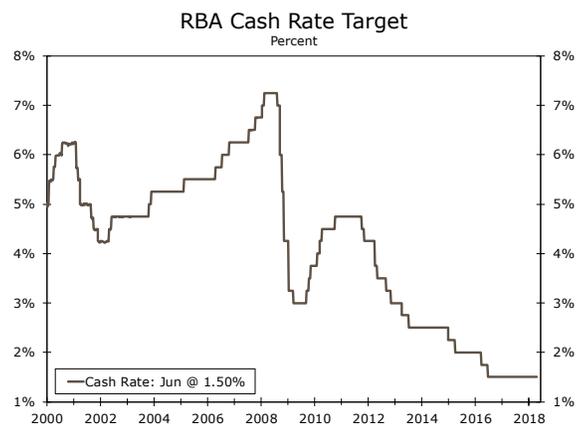
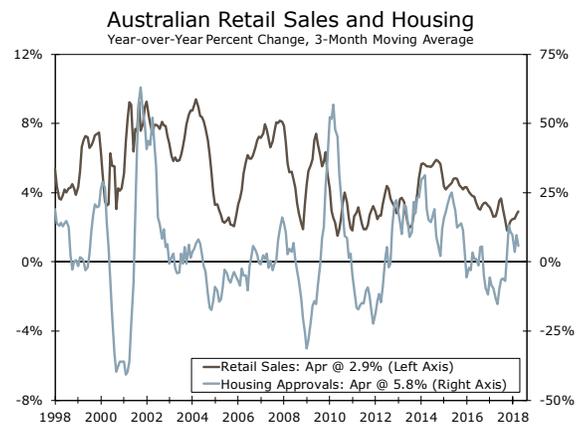
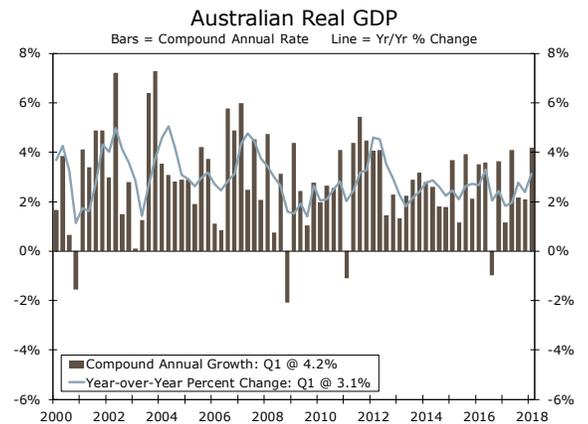
The Australian economy grew at an annualized rate of 4.2 percent in the first quarter, which is about as fast as the economy has expanded at any point in the past six years or so (top graph). On a year-over-year basis, real GDP is up 3.1 percent, which also rivals the fastest annual growth rate seen since 2012. Having said that, the contribution to growth was somewhat lopsided. Roughly half of the first quarter expansion can be attributed to a rebound in exports. In the final quarter of 2017, exports were down. In fact, looking back at 2017, trade was a drag on growth in three out of four quarters. A rebound in exports in the first quarter of 2018, with an only tepid increase in imports, resulted in a big boost from trade. To some extent, low base effects helped make the big trade contribution possible in Q1, a dynamic that will make an encore performance for this category somewhat more difficult in coming quarters.

A slight inventory build and increases in government spending nudged the headline GDP growth rate higher in the first quarter as well. Domestic demand was more reserved as consumer spending grew at a scant 1.4 percent pace and business investment—while not much better—grew at an annualized clip of just 2.1 percent.

The softer household spending is not altogether surprising given stubbornly low wage growth and signs of deterioration in the housing market. Soft wage growth is frustrating and somewhat inconsistent with a 5.6 percent unemployment rate, which, while higher than its recent low of 5.4 percent, is still about as low as it has been at any point in the past five years. While we remain concerned about elevated debt levels and still-high home prices, there are some signs of improvement. As the middle graph shows, residential construction activity has slowed on trend, even as retail sales have stabilized a bit, increasing in three of the past four months including a 0.4 percent pick-up in April to start the second quarter.

### Reserve Bank of Australia Continues to Await Wage Growth

The Reserve Bank of Australia (RBA) held its key lending rate unchanged at 1.50 percent (bottom graph). While there was little substantial change to the RBA's outlook disclosed in its monetary policy statement, we highlight the added perspective concerning credit conditions; "While there may be some further tightening of lending standards, the average mortgage interest rate on outstanding loans is continuing to decline." This new inclusion perhaps signals less worry on behalf of policymakers in regards to the deteriorating housing market, which remains a key area of concern for sustained economic growth. More broadly, the policy statement expressed continued confidence in Australian economic conditions. While we eventually expect the RBA to join in policy normalization, we believe that policymakers will continue to delay monetary policy tightening until gradual progress in inflation translates into higher wages.



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