

## 2. Domestic Economic Conditions

Labour market conditions remain tight but have eased over the course of this year as growth in labour demand has eased and labour supply has increased. The economy is experiencing a period of below-trend growth and GDP per capita has declined further. High inflation and the significant rise in interest rates are weighing on people's real incomes and household consumption growth is subdued, as is dwelling investment. At the same time, the ongoing rebound in international student and tourist numbers is supporting demand conditions for Australian businesses. Strong growth in public and private investment has also supported domestic activity, reflecting a large pipeline of work and an easing in supply constraints.

### Labour market conditions have eased since late 2022, but measures of spare capacity remain close to multi-decade lows

A range of measures suggest that the labour market remains tight, but conditions have eased over the course of this year as growth in labour demand has moderated while growth in the supply of labour has remained strong.

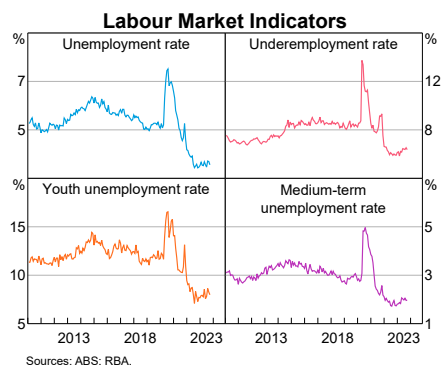
The unemployment rate was 3.6 per cent in September, a touch above its 50-year low of 3.4 per cent reached in late 2022 (Graph 2.1). Underemployment has also risen over that period, driven both by part-time workers preferring to work more hours and fewer part-time workers finding the hours of work that they would like. Increases in underemployment have been more pronounced among young people and those seeking to work an additional half to

one day. Broad measures of labour underutilisation have also risen.

The youth unemployment rate now sits roughly 1 percentage point above its July 2022 trough. Youth labour market outcomes tend to be more cyclical than aggregate measures and move contemporaneously with broader labour force indicators around turning points. The medium-term unemployment rate – a measure most representative of cyclical unemployment – has risen slightly in recent months.

The ratio of vacancies to unemployed persons has declined from its peak reached last year but remains well above its pre-pandemic level (Graph 2.2). Labour mobility indicators are mostly below their 2022 peaks, although the share of people voluntarily quitting their jobs remains above pre-pandemic levels. Business surveys, along with firms in the Bank's liaison program, have also reported an improvement in labour availability and a decline in turnover rates, though finding suitable workers continues to be difficult.

Graph 2.1



## Employment growth has slowed to be roughly consistent with strong population growth

Employment growth has slowed since last year but has kept up with strong growth in the working-age population (Graph 2.3). This has supported the employment-to-population ratio, which remained around historical highs in recent months. The number of employed persons has increased by over one million since February 2020. There has also been an increase in the proportion of employed persons holding multiple jobs, to a record high of 6.7 per cent.

Slower employment growth is consistent with the moderation in other indicators of labour demand since mid-2022. New job

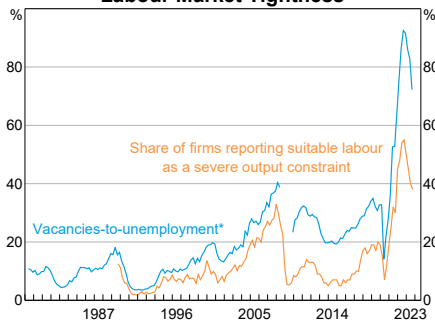
advertisements and hiring intentions from firms in the Bank's liaison program have declined from their highs reached last year.

Employment growth has increasingly been driven by part-time employment in recent months (Graph 2.4). This contrasts to patterns observed during the recovery from the pandemic, when full-time employment accounted for almost all employment growth. Relatedly, average hours worked have declined a little recently and are expected to remain a key margin of adjustment as labour demand eases further.

Labour supply has increased since the start of 2020 and helped to meet high levels of labour demand. The participation rate remains near historical highs. The increase in participation since the start of 2020 has been particularly prevalent among females and young people. Strong population growth, driven by strong net overseas migration, particularly the arrival of students and other temporary migrants, has also added to labour supply and helped relieve labour shortages in some industries, although migrants add to overall demand for goods and services and hence also increase the demand for labour. Australia's working age population rose by 2.8 per cent over the year to September; this was the strongest rate of working age

**Graph 2.2**

**Labour Market Tightness**



\* The ABS vacancies survey was suspended between May 2008 and November 2009.

Sources: ABS; NAB; RBA.

**Graph 2.3**

**Employment and Population Growth**

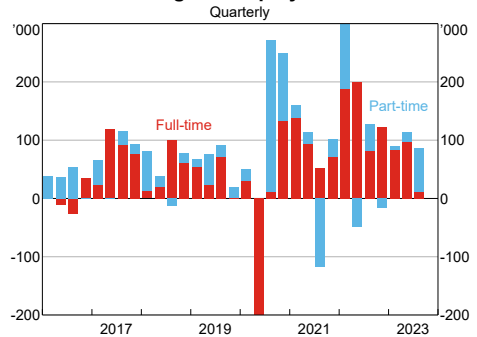


\* Trend measure; outliers during the COVID-19 pandemic were truncated.

Sources: ABS; RBA.

**Graph 2.4**

**Change in Employment\***



\* June quarter 2020 observation cut off.

Sources: ABS; RBA.

population growth since this series began in February 1979.

### The economy is experiencing a period of below-trend growth

Growth in the Australian economy has slowed over the first half of 2023 and GDP per capita has declined (Graph 2.5). The slowing in the economy was a little less pronounced than was expected a few months ago.

Growth in domestic final demand has remained around its pre-pandemic average over the first half of 2023 despite weak growth in household consumption (Graph 2.6). Business investment growth has been strong, reflecting a large pipeline of work and an unwinding of supply disruptions. Construction of government infrastructure projects has also contributed to the resilience in overall economic activity, with demand continuing to exceed available capacity in the sector (see Box A: Insights from Liaison). Timely indicators suggest that domestic activity will continue to grow moderately in the September quarter.

### Growth in household consumption remains subdued amid cost-of-living pressures and rising interest rates

Household consumption growth has been subdued in recent quarters and per capita

consumption has declined slightly. The slowdown in growth has been driven by discretionary categories, while growth in the consumption of essential goods and services has remained steady. Sales of new cars have continued to grow strongly, supported by the delivery of orders that were placed several months earlier as supply constraints have eased. Retail sales and other timely indicators suggest that household consumption growth remained subdued in the September quarter, although growth is expected to have picked up compared with the June quarter (Graph 2.7). Spending by Australian tourists abroad has also risen strongly in recent months, returning to around pre-pandemic levels in August in nominal terms (Graph 2.8).

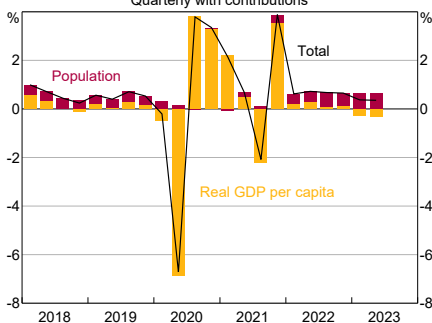
Falling real household incomes have been a key driver of the weakness in consumption growth over the past year. Real household disposable income has been declining since mid-2022 and was 3 per cent lower than a year ago in the June quarter. High inflation, strong growth in tax payments and higher net interest payments have more than offset robust growth in labour incomes (Graph 2.9).

The pressure on household budgets has seen the household saving ratio decline further below pre-pandemic levels. For households with a mortgage, extra mortgage payments (beyond

**Graph 2.5**

**GDP Growth**

Quarterly with contributions

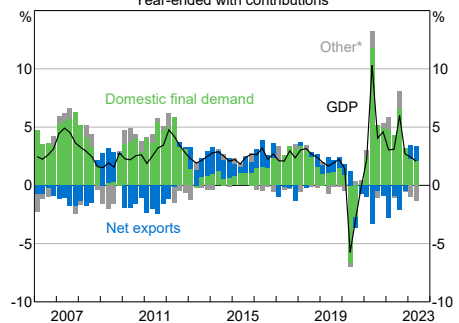


Sources: ABS; RBA.

**Graph 2.6**

**Domestic and External Growth**

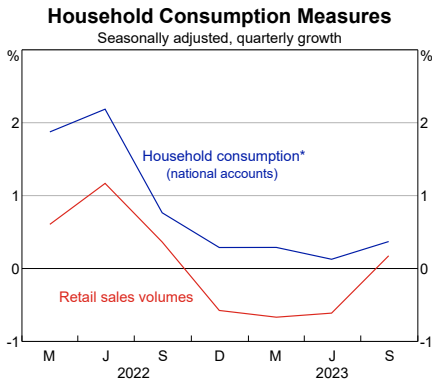
Year-ended with contributions



\* Changes in inventories and statistical discrepancy.  
Sources: ABS; RBA.

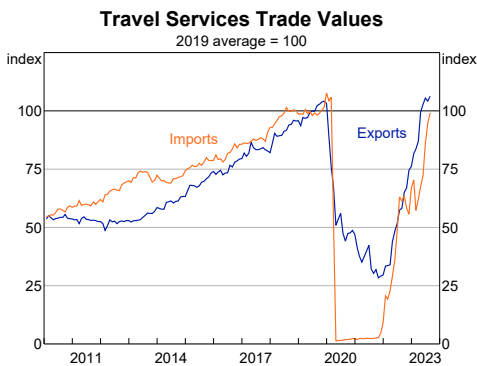
scheduled payments) in recent quarters have been slightly lower than the pre-pandemic

**Graph 2.7**



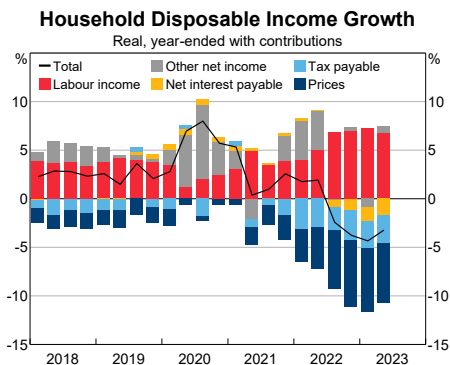
\* Includes September quarter 2023 estimate based on the 'Consumption Tracker' model; see Bishop, Boulter and Rosewall (2022).  
Sources: ABS; RBA.

**Graph 2.8**



Sources: ABS; RBA.

**Graph 2.9**



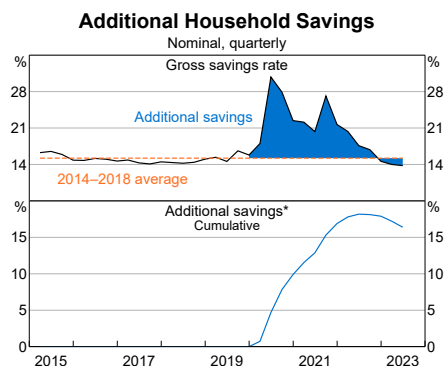
Sources: ABS; RBA.

average (see Chapter 3: Domestic Financial Conditions). More broadly, there has been a small drawing down of the additional savings accumulated during the pandemic in recent quarters, as measured by the deviation of the savings rate from its pre-pandemic average (Graph 2.10). The extent to which households draw down on their savings to smooth consumption remains a key uncertainty for the consumption outlook (see Chapter 5: Economic Outlook).

Despite the uneven effects of higher interest rates and high inflation on different households, data on spending by income and mortgagor status suggests that outcomes have been broadly comparable across most groups so far (Graph 2.11). Savings buffers are helping many mortgagor households manage the impact of higher interest rates, while stronger growth in incomes for lower income households and renters is likely to be supporting their ability to spend. That said, many households are facing a squeeze on their budgets and have had to make adjustments by reducing spending, dipping into savings (or at least saving less) and taking on extra hours of work in response to budgetary pressures.<sup>[1]</sup>

While the growth of consumption by permanent residents has been weak, growth of

**Graph 2.10**



\* Additional savings are relative to a pre-pandemic trend and as a proportion of household disposable income.  
Sources: ABS; RBA.

total consumer spending in Australia – which includes spending by temporary residents – remains around its pre-pandemic average (Graph 2.12). This has supported demand conditions for Australian businesses. In particular, total spending has been supported by strong growth in international students and tourists over the past year. This includes a large contribution from Chinese tourists and students since the start of 2023, despite a slowing economic recovery in China (see Chapter 1: The International Environment). Total spending, rather than consumption, determines the demand conditions that feed into the price-setting behaviour of consumer-facing firms. However, an increase in international students also supports the supply side of the economy as many students participate in the labour force.

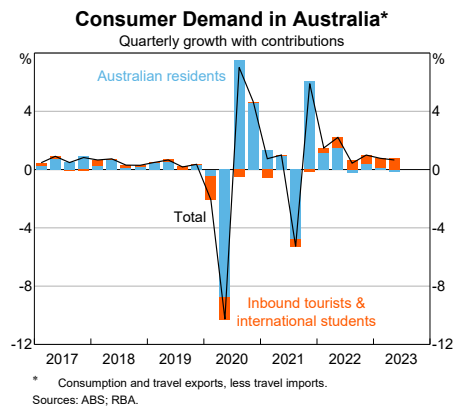
### Non-mining business investment has grown strongly, reflecting resilient business conditions and an unwinding of supply chain disruptions

Business investment has increased strongly over the past year, with broad-based growth across non-mining industries (Graph 2.13). Growth in non-mining business investment over the first half of 2023 was the strongest outcome since 2007, aside from the pandemic rebound. Investment in machinery and equipment as a

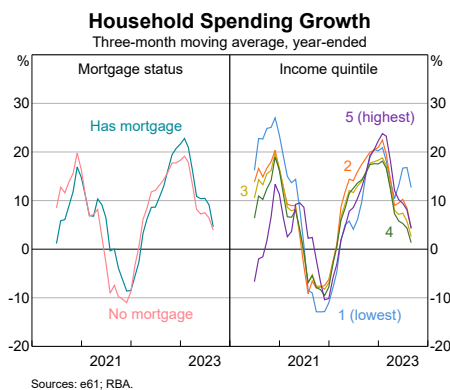
share of GDP has risen to its highest level in a decade, partly reflecting the boost to vehicle sales from an unwinding of supply chain disruptions. Non-residential construction has also increased strongly; very low vacancy rates and a large increase in rents for industrial property have led to a strong pick-up in industrial building activity.

Survey measures suggest that business investment will continue to grow, underpinned by strong population growth, a high level of capacity utilisation and measures of business conditions that remain around average levels. Increased investment should, over time, help to lift labour productivity. A large pipeline of building and engineering work should support

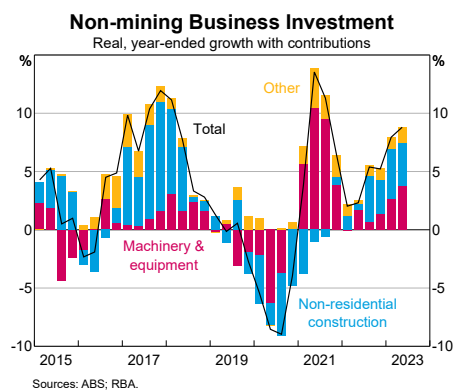
**Graph 2.12**



**Graph 2.11**



**Graph 2.13**



**Table 2.1: Growth in Housing Prices**

Per cent, seasonally adjusted

	October	September	August	Since April 2022	Year-ended	Since Feb 2020
Sydney	0.7	0.9	1.1	0	9.0	25
Melbourne	0.3	0.1	0.8	-3	2.4	11
Brisbane	1.4	1.4	1.6	2	7.9	48
Adelaide	1.3	1.9	1.3	9	6.5	50
Perth	1.6	1.5	1.5	12	10.8	42
Darwin	0.1	0.4	0.4	0	-1.7	26
Canberra	0.2	0.6	0.3	-6	-1.5	32
Hobart	0.7	0.0	0.5	-11	-4.9	31
Capital cities	0.8	0.9	1.1	1	6.8	27
Regional	0.7	0.7	0.8	-1	2.1	47
National	0.8	0.9	1.1	0	5.6	31

Sources: CoreLogic; RBA.

non-residential construction over the coming years, although the timing of work is uncertain given ongoing labour constraints. The ABS Capital Expenditure Survey showed that, in aggregate, non-mining firms have revised up their expectations for investment for the 2023/24 financial year and nominal investment intentions are a little above 2022/23 levels (Graph 2.14). Investment intentions reported by firms in the Bank's liaison program remain above their long-run average.

### The rebound in housing prices has continued and is supporting household wealth

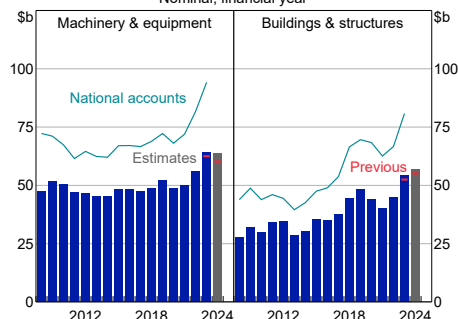
National housing prices have increased strongly over the past six months to be around their April 2022 peak (Graph 2.15; Table 2.1). Recent increases have been broadly based across capital cities and regional areas and have underpinned a rebound in household wealth. The rebound in housing prices reflects a combination of stronger demand for established housing, partly due to strong population growth, and ongoing limited supply of dwellings. Housing turnover and overall residential listings remain below long-run average levels.

A number of indicators suggest that national housing price growth may slow over coming months. Price growth has eased in markets that led the rebound in prices, particularly in the higher value segments of Sydney and Melbourne. This is consistent with the rise in new listings in these areas and a decline in auction clearance rates (Graph 2.16). Outside of Sydney and Melbourne, new listings generally

**Graph 2.14**

#### Non-mining Capital Expenditure\*

Nominal, financial year



\* Estimates are firms' expected capital expenditure, adjusted for past average differences between expected and realised spending.

Sources: ABS; RBA.

remain low and auction clearance rates are above historical averages.

### The rental market remains tight and the ongoing weakness in dwelling investment suggests this is unlikely to ease in the near term

Rental vacancy rates remain very low, particularly in smaller capital cities (Graph 2.17). Advertised rents (for new leases) are 30 per cent higher than pre-pandemic levels, but the pace of growth in advertised rents has slowed, particularly in regional areas (Graph 2.18). Despite the easing in advertised rents growth, inflation for the stock of rentals captured in the CPI (which covers capital cities but not regional areas) increased by almost 8 per cent over the

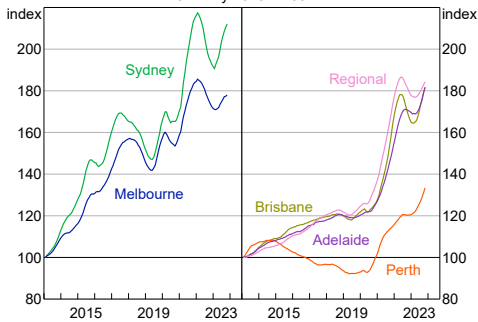
year to September and is expected to increase further (see Chapter 4: Inflation). Rents on new leases flow through to rent inflation in the CPI with a lag because only a small share of the stock of rental properties update leases in a given month.

Strong population growth has added to demand for rental properties, particularly in major cities, while supply takes some time to adjust. The shift in preferences during the pandemic towards more residential space per occupant led to lower average household size, which contributed to additional demand for housing. Average household size in capital cities has increased since the start of the year, which is likely a reflection of tight rental market

**Graph 2.15**

**Housing Prices**

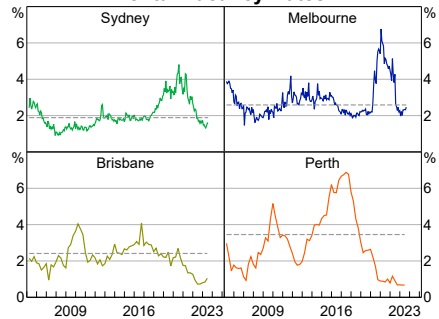
January 2013 = 100



Sources: CoreLogic; RBA.

**Graph 2.17**

**Rental Vacancy Rates\***

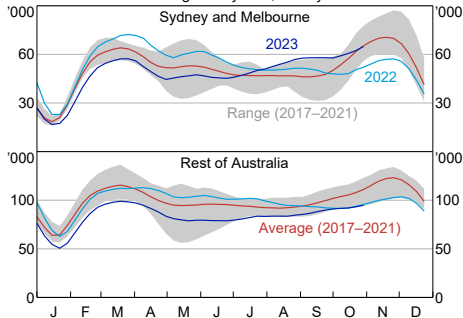


\* Data is monthly for Sydney and Melbourne, and quarterly for Brisbane and Perth; dashed lines represent historical (2005–2019) averages. Sources: RBA; REIA; REINSW; REIV.

**Graph 2.16**

**New Residential Property Listings**

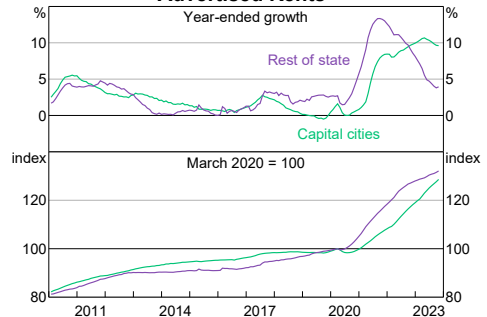
Rolling 28-day sum, weekly



Sources: CoreLogic; RBA.

**Graph 2.18**

**Advertised Rents\***



\* Hedonic; seasonally adjusted. Sources: CoreLogic; RBA.

conditions, but it remains well below pre-pandemic levels (Graph 2.19).

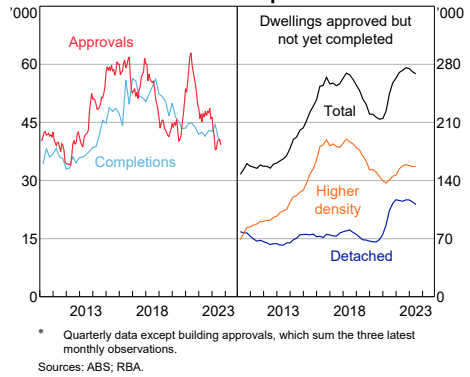
The supply of new dwellings has also been constrained. Dwelling investment has declined over the past year and is below levels that were typical prior to the pandemic. Capacity constraints have continued to limit the pace at which builders can work through the large pipeline of residential construction to be done, as labour shortages have remained acute at the latter stages of construction (Graph 2.20). Around 42,000 dwellings were completed in the June quarter, the lowest quarterly outcome in close to a decade.

Demand to purchase new dwellings has remained subdued as higher interest rates, elevated construction costs and longer building times have weighed on buyer sentiment. However, there are signs that the recent strength in the established market will translate to stronger demand for new dwellings in the period ahead. Sales of new detached housing

and greenfield land have increased a little in recent months after stabilising at a low level earlier in the year (Graph 2.21). Some firms in the Bank’s liaison program expect demand for new dwellings to increase over the next year, supported by inward migration and low rental vacancy rates. ↘

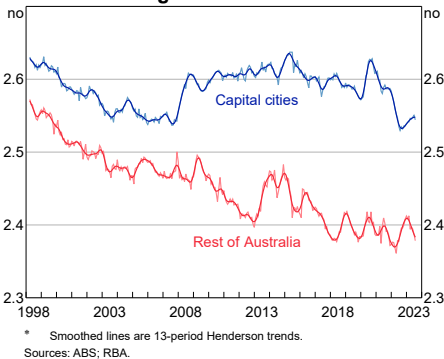
**Graph 2.20**

**Residential Pipeline\***



**Graph 2.19**

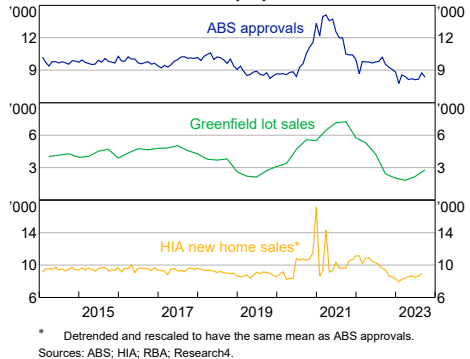
**Average Household Size\***



**Graph 2.21**

**Detached Housing Activity Indicators**

Seasonally adjusted



**Endnotes**

[1] See RBA (2023), '5.3 Focus Topic: Indicators of Household Financial Stress', *Financial Stability Review*, October.