Venn Brown
Investment Research & Advisory

Markets & Economics

GDP vs GDP per capita

A recession by another name

7th June 2024

ASX All Ordinaries

ASX:XAO

Sector	All
Num. constituents	494
Date	6-Jun-24
Value	8,074
52 week range	6,960 / 8,154
Market cap	$2,668b
Yield	3.5%

ASX Small Ordinaries

ASX:XSO

Sector	All
Num. constituents	197
Date	6-Jun-24
Value	3,015
52 week range	2,557 / 3,124
Market cap	$258b
Yield	2.5%

3-year Price Chart

Analysts

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Fourth consecutive quarter of negative GDP per capita

We update our review of GDP and GDP per capita following Wednesday's ABS release of the March national accounts.

The March quarter was Australia's fourth consecutive quarter of negative GDP per capita growth. Indeed, since September 2022, Australia has only recorded one quarter of positive GDP per capital growth.

Immigration: continues the GDP free kick, but for how long?

One major flaw in the GDP measure that especially affects Australia is the free kick provided by population growth, which, in Australia's case, means immigration.

Looking back 50 years to 1973 (when the per-capita series starts), population growth has provided 50% of the GDP growth, with GDP growing at a 3.0% compound average growth rate, compared to GDP per capita, which has averaged 1.5%.

Table 1: Population growth has delivered almost half the total GDP growth

Since 1973	GDP	GDP per capita
CAGR	3.0%	1.5%
Negative quarters	25	50
Recessions*	8	16

*Note: A recession is defined as two consecutive quarters of negative growth.
Source: ABS, Venn Brown

GDP per capita has had double the negative quarters

Table 1 shows a similar pattern regarding the number of negative quarters and recessions (defined as two consecutive quarters or negative growth). Since September 1973, GDP per capita has registered 50 negative quarters compared to GDP, which recorded only 25 over the same period.

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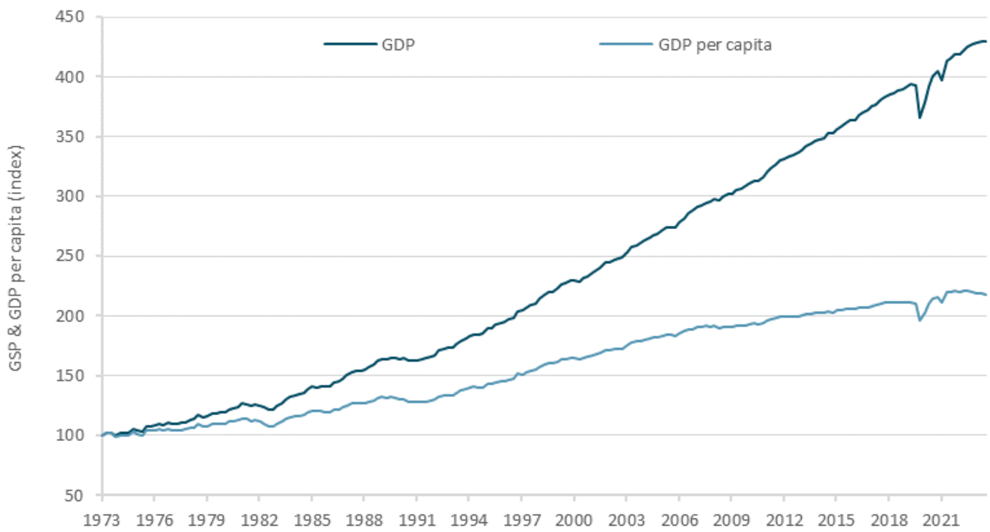
Immigration is the magic lever governments (of all colours) have become addicted to in order to boost GDP (and housing prices). If GDP looks to be slowing, just let a few more thousand people into the country and watch the GDP grow, although, with the growing discontent at the ongoing housing crisis and the increasingly weaker GDP, the party might be nearing an end with the March quarter GDP growth of 0.1% the lowest since December 2021.

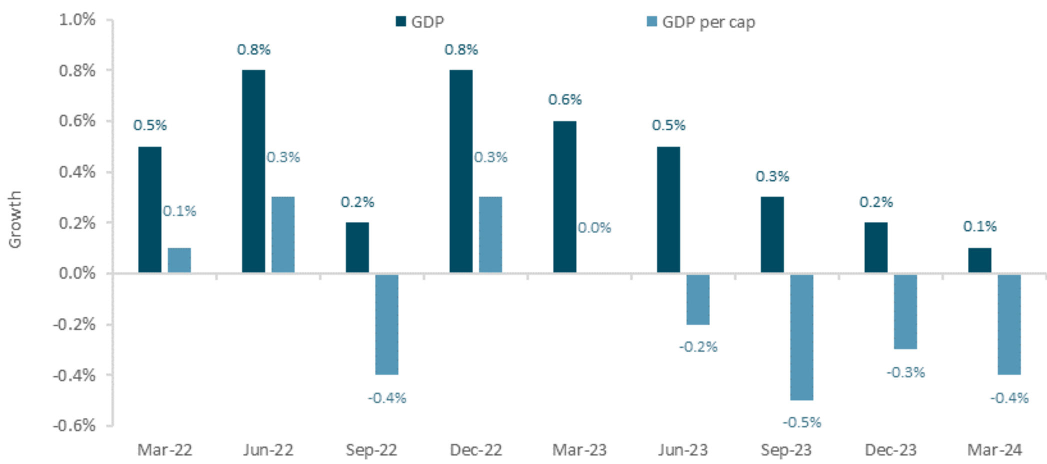
Figure 1: Population growth is responsible for almost half the total GDP growth



Source: ABS, Venn Brown

While all the talk is on cost of living and inflation pressure, it's worth noting that while the government has been proudly reporting unbroken economic growth, on a per capita basis, GDP has been flat or negative for six of the last seven quarters.

Figure 2: GDP per capita has been flat or negative for five of the last eight quarters



Source: ABS, Venn Brown

An interesting reference for the current period is the 1990/91 recession (see Figure 3), during which per capita GDP was negative for six of nine quarters, compared to GDP, which was negative for four of the nine.

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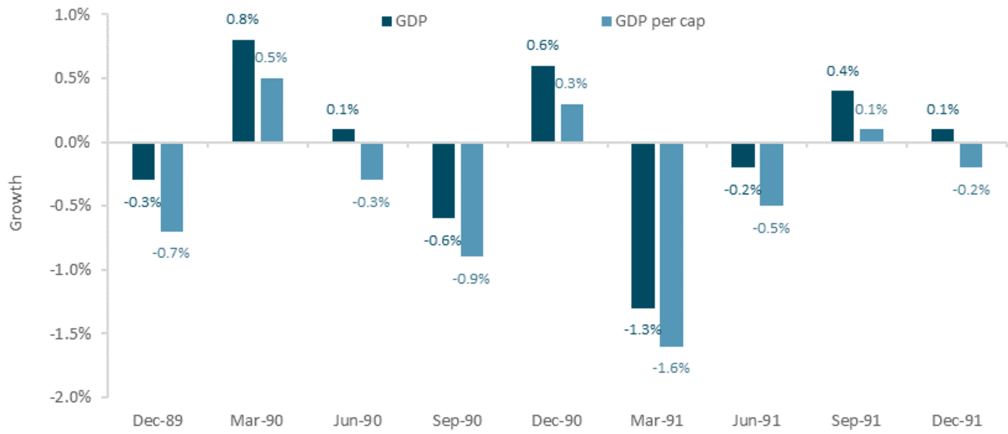
That's not to say we're even close to a similar economic downturn. Back in 1990/91, there were three key differences to our current environment, the most important of which is unemployment:

1) Unemployment[1] peaked at 11.2% in December 1992, compared to today's persistent, near-record low of 4.1% in April (albeit up from 3.5% in October – December 2022). See Figure 4;
2) Actual GDP was negative for three quarters, bottoming with a -1.3% contraction; and
3) At the bottom, the magnitude of the negative GDP per capita was double to triple the current levels.

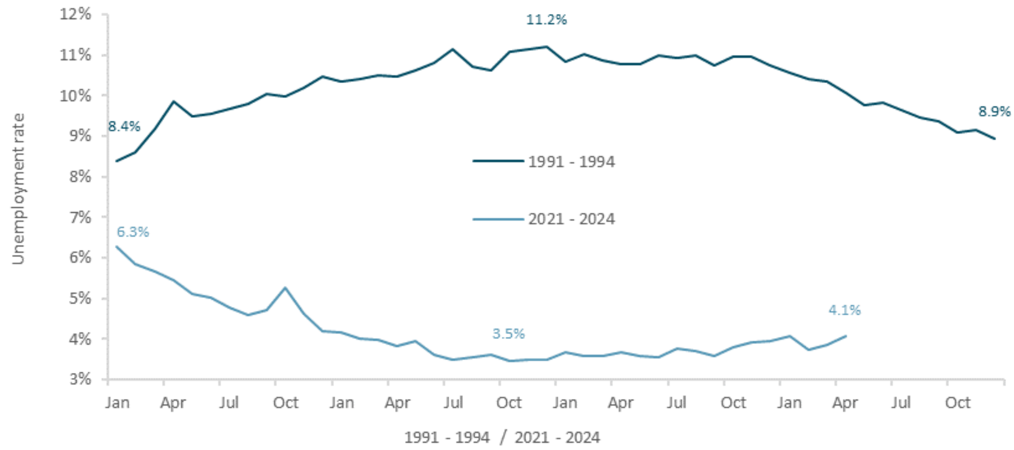
Figure 3: 1990/91 recession had six out of nine negative quarters of per capita GDP



Source: ABS, Venn Brown

While seasonally adjusted unemployment is up 0.6 percentage points, it remains near record lows and less than half the rate resulting from the 1991/1992 recession. Unemployment and credit defaults are the key indicators to watch as GDP continues to slow, interest rates remain moderate, and inflation continues to add to the cost of living pressure.

Figure 4: Unemployment in 1991 – 1994 was very different to current rates



Source: ABS, Venn Brown

[1] Seasonally adjusted

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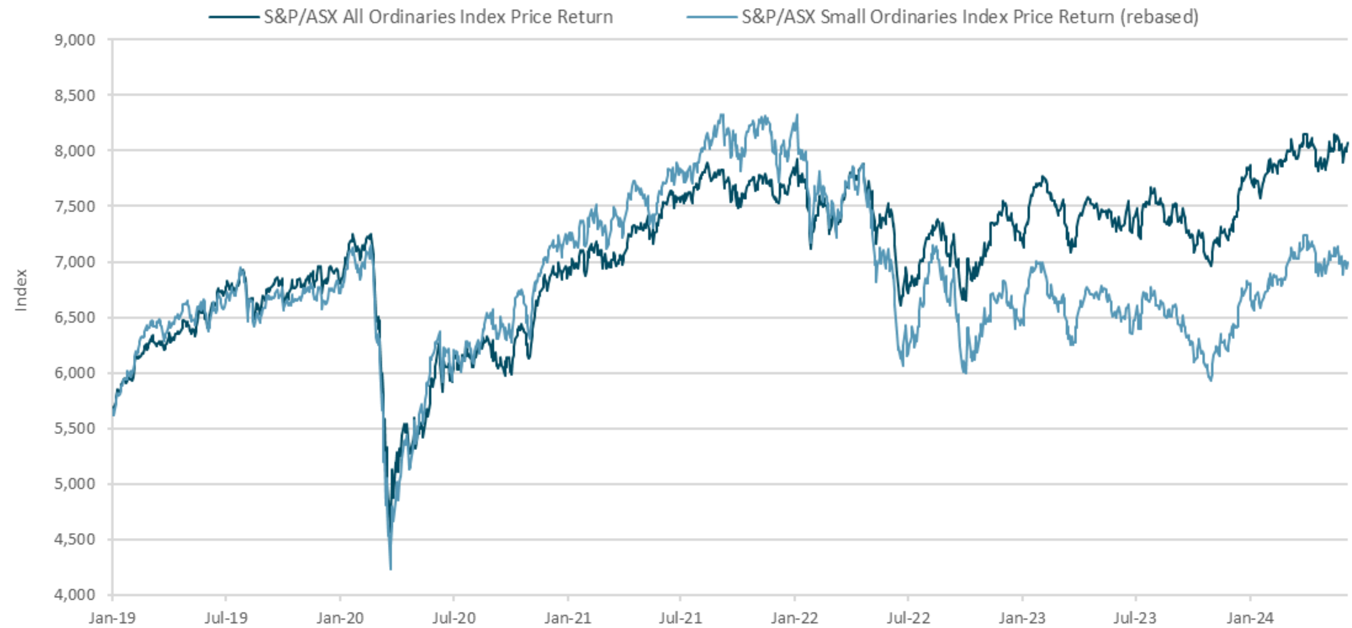
Index performance



Source: S&P Global

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