**[What do the latest GDP figures tell us? That the RBA is still getting it very wrong](https://www.theguardian.com/business/grogonomics/2024/dec/05/australia-gdp-figures-economy-september-quarter-abs)**

The Guardian - [Greg Jericho](https://www.theguardian.com/profile/greg-jericho) - 5 Dec 2024



It’s time the reserve started undoing the damage it’s done before even public spending can’t keep the economy growing

The [Australian economy](https://www.theguardian.com/business/australia-economy) is now so weak due to the Reserve Bank’s 13 interest rate hikes that were it not for commonwealth and state government spending and investment, we would now be in a recession and close to 100,000 more people would be out of work.

The trouble with GDP figures is actually trying to explain why they matter. Yes, they measure the size of the economy and we can then calculate how much it has grown, and if we want to be clever, how much it has grown when we exclude population growth. But so what?

We can say that GDP per capita has now fallen for eight out of the past nine quarters and that that is a record bad run.

But what does that mean, really?

GDP overall in the September quarter grew just 0.3% with an annual increase of 0.8%. That certainly is weak – well below the 1990-2020 average of 3%:

[If the graph does not display click here](https://www.datawrapper.de/_/zMqlU/)

But why should we care?

Isn’t it true, as [Robert F Kennedy said in 1968 at the University of Kansas](https://www.jfklibrary.org/learn/about-jfk/the-kennedy-family/robert-f-kennedy/robert-f-kennedy-speeches/remarks-at-the-university-of-kansas-march-18-1968), that GDP “measures everything in short, except that which makes life worthwhile”?

(Technically he was talking about GNP, but the same point stands.)

And if so, why should the government spend and invest in order to keep the GDP growing? Isn’t that just a waste of money, or as Peter Dutton suggests, “sugar coating the economy”?

While I have some sympathy with RFK’s line about the economy, the reality is that people’s lives in general are improved when GDP is rising rather than falling. There really are not many things that “make life worthwhile” which would be improved by the economy going backwards.

And this goes to the real reason I care about GDP – the link between GDP growth and unemployment.

[If the graph does not display click here](https://www.datawrapper.de/_/uUBaH/)

Over the past 44 years, when GDP has remained flat over the year, unemployment rises on average around 1.1% points.

So that government spending helped keep nearly 100,000 more people employed than otherwise would be – and also prevented the usual quickly rising unemployment that occurs when economies enter a recession.

Take away government spending and we would be in a very dangerous place:

[If the graph does not display click here](https://www.datawrapper.de/_/yUSxS/)

What these figures also tell us is how badly the RBA got it wrong.

In its latest [statement on monetary policy issued](https://www.rba.gov.au/publications/smp/2024/nov/outlook.html#section-35) just four weeks ago, the RBA estimated annual GDP growth would go from 1.0% in June to 1.5% in December. It was not predicting a drop to 0.8% along the way.

Similarly, it predicted household consumption would grow 1.0% in the year to December. And yet in the year to September it did not grow at all. Either we’re about to see a brilliant turnaround, or the RBA badly miscalculated.

But by now the RBA should be used to households not spending at the amount they think.

In its unending effort to kill off the non-existent “excess demand” in the economy, the RBA has raised rates even as overall household consumption fell below pre-pandemic trend levels – levels which, at the time, were considered so weak that the RBA *cut* interest rates to help improve things.

[If the graph does not display click here](https://www.datawrapper.de/_/XU8sU/)

So clearly households are doing it tough, but just how tough is better explained not by GDP but by household disposable income – because essentially that measures living standards.

The UK prime minister, Keir Starmer, [has recently suggested](https://www.ft.com/content/df8f78a5-940a-4f19-970b-89bf79d33f79) that disposable income and not GDP will be his government’s “milestone”.

Similarly, a number of conservative journalists have begun noticing (perhaps with assistance from the opposition) that household disposable income has fallen and they have been reporting on it with glee while also suggesting that they have discovered something new (and “exclusive”).

As someone who has been measuring and reporting on [household disposable income since 2017](https://www.theguardian.com/commentisfree/2017/sep/19/scott-morrisons-claim-that-living-standards-improve-will-be-met-with-a-hollow-laugh), I say: welcome to the party, what took you so long?

The treasurer, Jim Chalmers, unsurprisingly given the media attention, made a big point in his press conference that household disposable income per capita grew in the September quarter.

Alas, it remains well below where it should be – let alone at a place where people might feel better off than they were three years ago:

[If the graph does not display click here](https://www.datawrapper.de/_/ZFEx6/)

But again, here we need to not just look at the big number. The main reason household living standards have fallen over the past three years is higher mortgage repayments and the main reason living standards rose in the September quarter was the stage-three tax cuts came into force:

[If the graph does not display click here](https://www.datawrapper.de/_/tda9n/)

While government spending and investment is keeping the economy upright, it’s clear the actions of the RBA have been the cause of its weakness.

In the September quarter, mortgage repayments rose again – reaching a record level in real terms:

[If the graph does not display click here](https://www.datawrapper.de/_/zAGES/)

Nearly half of the fall in real household disposable income per capita since March 2022 is due to the rise in mortgage repayments.

That’s a hell of a lot of damage done by the RBA at a time when it has been expecting the economy to be performing stronger than it is.

It’s enough to make you think the RBA board should urgently reconsider their policy and start undoing the damage before things are such that even government spending can’t keep the economy growing.

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