The national accounts inkblot test

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In something as complex as an economy, outcomes often defy simple narratives. It is a little like those inkblot psychology tests one sometimes sees. Is it a rabbit or is it a lady? It depends on your perspective.

The national accounts for Q2 2026 were a case in point. A hawkish take would focus on GDP growth being above RBA expectations and not below its view of trend; a dovish take would focus on the loss of momentum more recently. Likewise a hawk could point to the outsized July CPI print, while the dove can remind you of the noise and uncertain seasonality in the monthly data. Both narratives inherently leave out contradicting signals.

The key issue here is to make sure that you are taking signal from all the available data, not just the things that fit the narrative. Labour market data deserve more consideration than some observers are giving them. Also important is remembering that the next quarter will always be thrown about by special factors, and what matters is where things are in a year or so's time.

In something as complex as an economy, there are always many things going on, not all pointing in the same direction. There will be headwinds and tailwinds. Most shocks and trends affect some industries and parts of the economy more than others. The overall impact is a complicated netting exercise that is hard to be precise about in the real world, where measurement is uncertain and things get revised. That complexity sits uncomfortably for a species that shapes its understanding through story. A simple cause-and-effect narrative fits the way our brains have evolved. Messy outcomes like this week's national accounts (and the domestic data flow more broadly) do not fit simple stories. It is tempting for people to extract one nonetheless. The process resembles one of those old psychology tricks where you can see a rabbit or a woman, a face or a vase, depending on your perspective, or the Rorschach inkblot where you can "see" what you want to see. We pattern-match, we see creatures in the clouds – and sometimes, we can be selective with data when we should not be, focusing only on what fits our narrative. I am not going to pretend to be above reproach on this front, being a member of the same narrative-seeking species as everyone else. That said, I cannot help noticing how easy it is to squint at the economic inkblot and see a hawk or a dove according to one's prior beliefs. Those seeing the hawk will point to (among other things) the 2.1%yr GDP growth being above the RBA's forecast and not below its estimate of potential output growth "speed limit", as the RBA is trying to engineer. They will note the tick-up in unit labour cost growth, resilient consumption, strong data centre investment and – beyond the national accounts – the outsized July CPI inflation data. Putting these together, a narrative forms that seemingly demands immediate further tightening of monetary policy. In doing so, though, one would need to leave a few things out. Among these are the fact that growth stepped down noticeably through the year, and that about half the upside surprise in year-ended growth was a revision to an earlier quarter, implying you got more growth for the same amount of inflation. Also downplayed in this narrative is the weak growth in average earnings per hour – a less-noisy input into unit labour costs – the increase in household saving and the roll-off in public sector investment making room for higher dwelling and data centre investment. And for those confidently expecting a September hike, it requires a belief that the RBA will go back on their previous statement that, in this initial phase, they will focus on the quarterly inflation data rather than a new monthly series with its short history and uncertain seasonality that is prone to revision. (And the RBA might well go back on that commitment, but one must explicitly believe it will.) The same exercise of leaving pieces out to make a neater story also permeates the dove case. One could highlight that the 2.1% year-ended GDP growth rate was comprised of two halves, with the most recent showing much weaker growth in domestic demand. One can point to the larger-than-expected downturn in the housing market, weak per capita growth, moderate consumption outside a few special factors such as EV purchases, and the likely run of monthly trimmed mean CPI prints from here being noticeably below the July figure. This narrative also requires leaving a few things out, though. As well as the components of the hawk case already noted, there is the issue that the data centre boom could well offset the receding public sector's release of construction resources. Part of the difficulty is that the narratives we seek can be so black-and-white binary. It is also embedded in the here and now, immediate data flow. We should ask ourselves whether we should really take so much signal from small surprises in the latest data. The crucial question is what these noisy outcomes mean for the underlying trends, and where growth and inflation will be in a year or so. We also note that much of the recent discussion has made relatively little of the labour market. It has been easing over much of the past year or so (contra the RBA's initial assessment earlier this year that it was re-tightening) and is noticeably softer than RBA expectations. Today's labour accounts confirm that more people have taken on secondary jobs to address cost-of-living pressures. Labour supply, both in terms of the number of people in the labour force and the number of hours they want to work, has been more resilient than many observers expected. The various measures of underemployment are pointing to emerging spare capacity that might not be widely recognised. What is the resolution, if any? Structured analysis including whole-economy models is one way through the difficulty, but it relies on the models being a decent representation of reality. Perhaps another, honouring the fact our brains evolved to want simple stories, is to emulate Charles Darwin and systematically note down any piece of evidence against your current theory. It might make it harder to tell a simple story, but it will mean you are less likely to miss something that later turns out to be important.

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