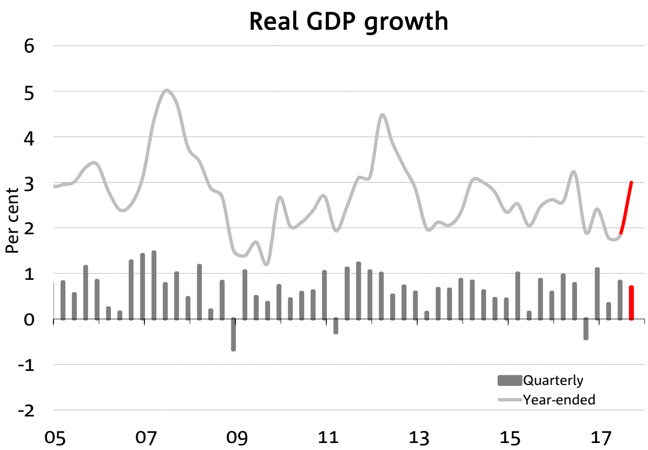
AUSTRALIAN GDP PREVIEW – Q3 2017

NAB Australian Economics

1 December 2017

Bottom line: The economy is likely to have grown at a solid clip in Q3. While some pieces of the growth puzzle are falling into place, the stark divergence between business and consumer spending remains despite jobs growth. Non-mining and infrastructure investment will be encouraging for the RBA, but higher wages growth is required.

- **Next Wednesday's GDP figures are forecast to show the economy growing at reasonable rate of 0.7% q/q, taking the year-ended rate of growth back up above 3% y/y.** As is often the case, the composition of the figures will be important, and will be mixed.
- **The data will paint a picture of an economy where momentum in non-business investment is taking hold, but with a glaring divide between business and household spending, despite strength in employment (see table below).** This will be consistent with solid corporate profitability (despite lower commodity prices weighing on mining profits in the quarter) but weak wages and household income growth.
- **LNG export growth (and a bounceback in coal exports following weather disruptions in Q2) will also flatter the figures in Q3**, a trend which will continue for the next few quarters and then dissipate. **More encouragingly, the data will show government investment at a high level,** despite a small dip in the quarter, with a further ramp up expected in NSW and Victoria. **This will have offset a small fall in dwelling construction this quarter** (on weaker renovations activity), although strong building approvals data suggest upside risk going forward.
- The industry composition of economic growth is likely to follow a similar pattern to that in the NAB Business Survey - that is, **increasingly broad-based growth outside of retail.**
- **Inflation and wages measures in the data will be watched closely for any improvement,** but no surprises or large pick up are anticipated. While there may be some pickup in the average earnings measure, this measure has been volatile, so the RBA will likely reserve judgement given the more stable WPI failed to improve in the quarter. Productivity growth meanwhile is likely to be up a little (and this may well continue until LNG peaks), actually pushing down unit labour costs.
- **The risk to our forecasts are tilted slightly to the upside at this stage**, particularly for engineering construction and to some extent household consumption – we will review following more partial data on Monday and Tuesday.
- **Monetary policy implications:** The RBA will welcome the stronger trends in investment from non-mining and government sources, particularly given the RBA's view that the dwelling construction cycle has peaked. While calls for the RBA to address the growing level of household debt are reaching fever pitch, slowing house prices (at least in Sydney) will be alleviating some concern. In the meantime, the RBA will remain somewhat concerned about the state of consumer spending and will be reluctant to raise rates until there are reliable signs that wages growth is moving in the right direction. At this stage and unless we receive evidence to the contrary, we retain our view that rates will start to rise in H2 2018.



Source: ABS, NAB

Real GDP (Expenditure) Forecasts

	q/q % ch		y/y % ch	Contribution to q/q % ch
	Jun-17	Sep-17	Sep-17	Sep-17
Household Consumption	0.7	0.3	2.6	0.1
Dwelling Investment	0.2	-1.7	-3.3	-0.1
Underlying Business Investment	0.8	1.2	5.6	0.1
Underlying Public Final Demand	1.8	0.3	3.8	0.1
Domestic Final Demand	**1.0**	**0.3**	**3.0**	**0.3**
Stocks (a)	-0.6	0.1	0.0	0.1
GNE	**0.4**	**0.4**	**2.8**	**0.4**
Net exports (a)	**0.3**	**0.3**	**0.0**	**0.3**
Exports	2.7	2.4	5.8	0.5
Imports	1.2	0.8	5.9	-0.2
GDP	**0.8**	**0.7**	**3.0**	**0.7**

(a) Contribution to GDP growth

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