

AUSTRALIAN GDP PREVIEW – Q4 2017

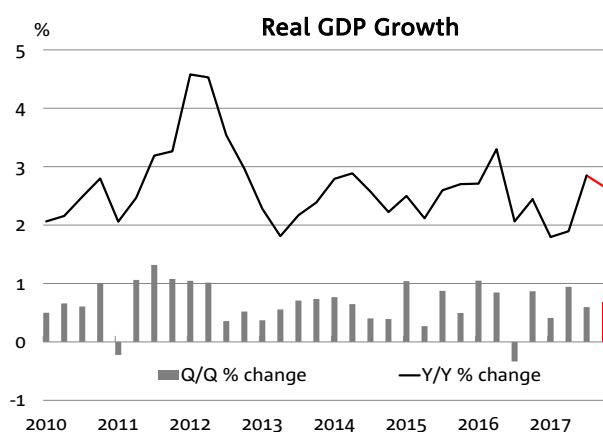


NAB Australian Economics

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Bottom line: The economy looks to have performed solidly in Q4, despite a large subtraction from net exports. The composition is likely to show a more balanced growth outcome across business and consumer spending, although with wages growth to remain weak, the pickup in consumer spending may be a once off. Infrastructure spending, further (albeit moderate) growth in non-mining investment and a broader pattern of growth across industries and states will be encouraging, but evidence of higher wages growth/inflation is required to drive a shift in monetary policy.

- **Next Wednesday's GDP figures are forecast to show the economy growing at reasonable rate of 0.7% q/q and 2.7% y/y**, which is marginally above where we estimate Australia's growth potential at present (~2.5%).
- **The data will paint a picture of an economy where infrastructure spending is supporting growth and momentum in non-business investment continues to take hold. Household consumption is likely to have bounced back in Q4**, although this follows a particularly weak Q3 (see table below). While employment remains strong (and may have supported labour income), the risk remains that consumer spending slows again without a stronger pickup in wages and household income growth. A small pickup in dwelling investment is anticipated following falls in the previous three quarters, although it is now clear that the dwelling construction cycle has turned. Meanwhile, net exports look to have subtracted a whopping 0.8ppt from growth, with exports weighed down by declines in rural exports and disappointing outcomes for exports of iron ore and metals, while imports were strong (particularly consumption and intermediate goods) which gels with strength in consumer spending.
- **We are expecting more balanced outcomes across the states**, with improvement in particular in SA, Qld and even WA as per the pattern in the NAB Business Survey. 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**.
- **Inflation and wages measures in the data will be watched closely for any improvement**, but no notable improvement is anticipated. While there may be some pickup in national accounts measure of average earnings, this has been volatile, so the RBA will likely reserve judgement given the more stable WPI improved only marginally in Q4 (and this was driven by public rather than private sector wages). **Productivity growth meanwhile is likely to be flat to down** (with employment outpacing GDP growth in the quarter).
- **The risk to our forecasts are tilted a little to the downside following mixed outcomes in the capex survey and the large subtraction from net exports** - we will review following more partial data on Monday/ Tuesday.
- **Monetary policy implications:** The RBA will welcome the stronger trends in domestic demand, but the outlook for monetary policy hinges more on whether wages/inflation picks up sufficiently, and whether current risks to household spending alleviate. NAB Economics released a Change of RBA View note on Wednesday in which we stated that weak wages growth and slow progress in reducing unemployment means it is now less likely that the RBA will raise rates twice in 2018 (our previous forecast). We now see the RBA raising rates only once in late 2018 – with November 2018 as the most likely start date for a gradual RBA rate hiking cycle. By late 2018 growth should be near 3% and the unemployment rate approaching 5%. That, together with increasing tightness in employers' ability to find suitable labour, may finally see private sector wages start to moderately edge up. Inflation by that time should also be approaching the bottom of the 2-3% target range. That said, much will still depend on the data flow – it is not impossible that the RBA stays on hold for all of 2018 and raises rates in early 2019.



Forecast detail

	Q/Q		Y/Y	Contribution to Q/Q
	Sep-17	Dec-17	Dec-17	Dec-17
Household Consumption	0.1	1.0	2.4	0.5
Dwelling Investment	-1.0	0.5	-4.4	0.0
Underlying Business Investment	2.6	1.4	7.6	0.2
Underlying Public Final Demand	1.5	0.9	4.8	0.2
Domestic Final Demand	0.6	1.0	3.1	1.0
Stocks (a)	0.2	0.2	0.0	0.2
GNE	0.7	1.1	3.1	n.a.
Net exports (a)	0.0	-0.8	-1.2	-0.8
Exports	1.9	-2.6	0.9	-0.5
Imports	1.9	1.2	6.4	-0.3
Real GDP	0.6	0.7	2.7	n.a.

(a) Contribution to GDP growth

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