

AUSTRALIAN GDP PREVIEW

GDP Q1 2018 – Solid start to the year

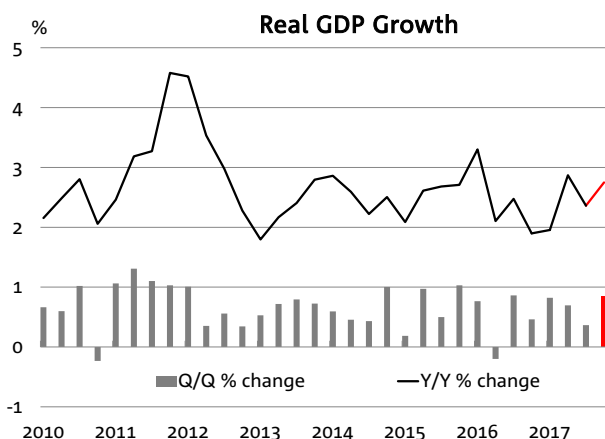


NAB Group Economics

1 June 2018

Bottom line: The economy looks to have performed solidly in Q1, following the weaker than expected outcome in the previous quarter. We expect growth across both the household and business sectors, with consumption growth making a significant contribution in addition to business investment, where the handover to the non-mining sector is set to continue. However, the contribution from consumption growth is likely to be short lived as it faces a number of headwinds such as the weakness in wages. Evidence of labour market tightening and a pick-up in wage growth (as well as inflation more generally) remains key to the outlook for monetary policy.

- **Next Wednesday's GDP figures are forecast to show the economy growing at reasonable rate of 0.8% q/q and 2.7% y/y.** This suggests a pick-up in growth from the subdued outcome in Q4 which was driven by weak net exports and private investment.
- **The quarterly outcome will be driven by domestic demand and overall the data will continue to paint a picture of an economy where infrastructure spending is supporting growth and momentum in non-mining business investment continues to build, along with some support from consumption in recent quarters.** Household consumption is likely to record another solid outcome in the quarter, though we think this is likely to be short lived/overstate the underlying pace of growth as consumers remain cautious in the face of higher electricity prices, low wages growth, stalling growth in housing wealth and high debt levels. The NAB Cashless Retail Sales indicator also suggests a soft start to the June quarter for consumer spending. A small fall in dwelling investment is expected as the turn in the construction cycle continues. Net exports look to have made a small 0.2ppt contribution to growth, after a large subtraction in the previous quarter.
- **The NAB Business Survey continues to suggest more balanced outcomes across states** with business conditions holding at above average levels in all states, albeit with WA having only improved recently. It is likely that broad-based growth across industries will become increasingly evident based on industry patterns in the survey.
- **While inflation and wages measures in the data will be watched closely,** we do not anticipate any significant signs of a pick-up in wage inflation. The volatile national accounts measure of average earnings will likely remain subdued, in line with wage growth as measured by the WPI.
- **The uncertainty around our forecasts** is largely centred on **consumption**, which despite facing a number of headwinds recorded a strong outcome in Q4 2017.
- **Monetary policy implications:** The bounce back in growth will see the economy moving closer towards the RBA's current forecasts for the year. Any extra information that can be gleaned from the national accounts measures of wages and inflation will likely be a focus following the continued weakness in the WPI in March. NAB Economics released a Change of RBA View note in May, suggesting that with the unemployment rate having held at around 5½% since August last year and little further evidence in the data of a significant pick-up in wage growth to date, it is unlikely that wage growth will reach a rate consistent with inflation around the mid-point of the RBA's target in 2018. However, with growth continuing to rise over 2018 we expect a decline in the unemployment rate, and wage growth to accelerate to around 2½% by mid next year, giving the RBA confidence that inflation will move back towards the target band so that it can begin the gradual process of lifting rates from the current low levels. This is expected around the middle of next year.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Dec-17	Mar-18	Mar-18	Mar-18
Household Consumption	1.0	0.8	3.2	0.4
Dwelling Investment	-1.3	-0.4	-3.2	0.0
Underlying Business Investment	-1.2	0.6	3.6	0.1
Underlying Public Final Demand	1.1	0.8	4.7	0.2
Domestic Final Demand	0.6	0.7	3.1	0.7
Stocks (a)	0.0	0.0	-0.3	0.0
GNE	0.6	0.6	2.6	n.a.
Net exports (a)	-0.5	0.2	-0.1	0.2
Exports	-1.8	2.1	4.6	0.4
Imports	0.5	1.1	4.7	-0.2
Real GDP	0.4	0.8	2.7	n.a.

(a) Contribution to GDP growth

Contacts: Gareth Spence Senior Economist +61 (0) 436 606 175; Tony Kelly Senior Economist +(61 3) 9208 5049

© National Australia Bank Limited ABN 12 004 044 937 AFSL and Australian Credit Licence 230686

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Dean Pearson
Head of Economics
+(61 3) 8634 2331

Australian Economics and Commodities

Gareth Spence
Senior Economist
+61 (0) 436 606 175

Tony Kelly
Senior Economist
+(61 3) 9208 5049

Phin Ziebell
Economist – Agribusiness
+61 (0) 475 940 662

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural &
Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Behavioural &
Industry Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural &
Industry Economics
+(613) 9208 2929

International Economics

Gerard Burg
Senior Economist – International
+(61 3) 8634 2788

John Sharma
Economist
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.