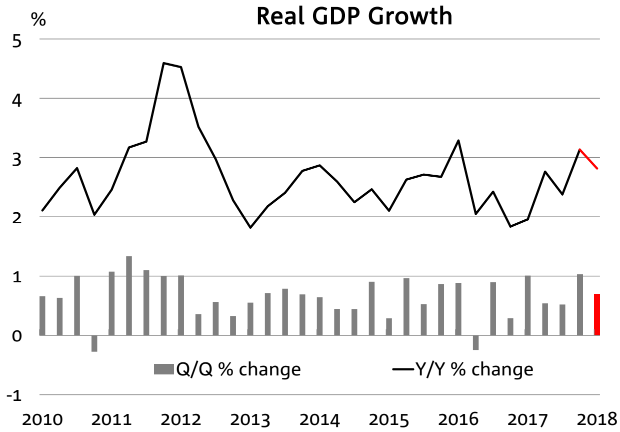
AUSTRALIAN GDP PREVIEW

Q2 2018 – Reasonable growth

NAB Group Economics 31 August 2018

<u>Bottom line</u>: The economy looks to have recorded another reasonable quarter of growth in Q2 (+0.7% q/q), although there is slight downside risk to this forecast from a weak Q2 Capex print. That said, next week's partials may be stronger than expected, so we'll stick with 0.7% for now. Growth will be driven by public sector infrastructure investment, non-mining business investment, household consumption and dwelling investment. Net exports are expected to make little-to-no contribution to growth this quarter, with a rise in imports offsetting continued growth in LNG and other commodity exports. Beyond Q2, we expect exports growth to continue to support GDP, albeit with a drag from rural exports due to the east coast drought, while the handover from the mining sector to non-mining continues. For the household sector, we expect only moderate growth in consumption until wage growth picks up, with tax cuts only coming into play in Q3 2019. Dwelling investment is expected to be strong this quarter (likely reflecting the unusually dry weather on the east coast), but medium-term will ease back slightly.

- **Next Wednesday's GDP figures are forecast to show the economy growing at a still quite reasonable rate of 0.7% q/q and 2.8% y/y.** While slowing a little in quarterly terms, it shows the economy has continued to perform relatively well through the middle of 2018 with year-ended growth continuing to track at just below 3.0%. Quarterly growth will be supported by a lift in consumption, ongoing strong public sector infrastructure investment and a strengthening in non-mining business investment. While we expect dwelling investment to ease over the next two years, it will likely also contribute to growth in the quarter. Net exports are expected to make little contribution to growth in the quarter.
- We expect national accounts measures of **wages** and **inflation** to continue to record only modest outcomes, with both Q2 WPI and CPI measures suggesting that there was only a very marginal increase in inflation pressures in Q2. Average earnings growth and an update on household income growth will provide further insight into current household income and expenditure dynamics, although we expect recent trends to persist this quarter.
- The **uncertainty around our forecasts** is largely centred on **consumption,** which looks to have recorded a strong outcome in Q2. We expect a raft of headwinds to continue to restrain the consumer over the next couple of years (including high debt levels, slow wage growth and to a lesser extent slower growth in household wealth). Indeed, the NAB consumer anxiety survey showed a strong rise in consumer anxiety in Q2 (from a low Q1 print).
- **Monetary policy implications**: The updated forecasts in the latest statement on monetary policy imply a relatively strong GDP outcome is expected by the RBA in Q2 (+0.9% q/q). The RBA sees the momentum in the economy as strong enough to see continued growth in employment and a gradual easing in the unemployment rate – with commensurate increase in the pace of wage growth. Compared to the RBA, while we expect a slightly weaker outcome for Q2, and we are forecasting slightly lower growth in year-average terms over the forecast period, we expect the labour market to tighten at a slightly faster pace, with unemployment falling to around 5.0% by mid-next year. Overall, this release should provide comfort to the RBA that growth is picking up, and that the non-mining sector continues to lift, while the drag from mining fades. Continued growth will gradually reduce spare capacity in the economy and lead to some lift in inflation and wages, though it is expected to only occur gradually. Interest rates are likely to remain on hold until there is this progress on reducing unemployment and greater evidence of a lift in wage and inflation pressures. We still expect enough of a tightening for this to occur around mid-next year but there is a risk this is delayed by a more gradual pickup in wage growth and inflation.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Mar-18	Jun-18	Jun-18	Jun-18
Household Consumption	0.3	0.7	2.7	0.3
Dwelling Investment	0.9	2.3	0.9	0.1
Underlying Business Investment	-0.1	1.5	4.6	0.2
Underlying Public Final Demand	1.5	0.8	4.9	0.2
Domestic Final Demand	**0.6**	**0.9**	**3.2**	**0.9**
Stocks (a)	0.2	-0.2	-0.1	-0.2
GNE	**0.8**	**0.8**	**3.4**	**n.a.**
Net exports (a)	**0.3**	**0.0**	**-0.8**	**0.0**
Exports	2.4	0.9	2.5	0.2
Imports	0.5	0.9	5.8	-0.2
Real GDP	**1.0**	**0.7**	**2.8**	**n.a.**

(a) Contribution to GDP growth

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