

AUSTRALIAN GDP PREVIEW

Q3 2019 – Consumption growth remains weak

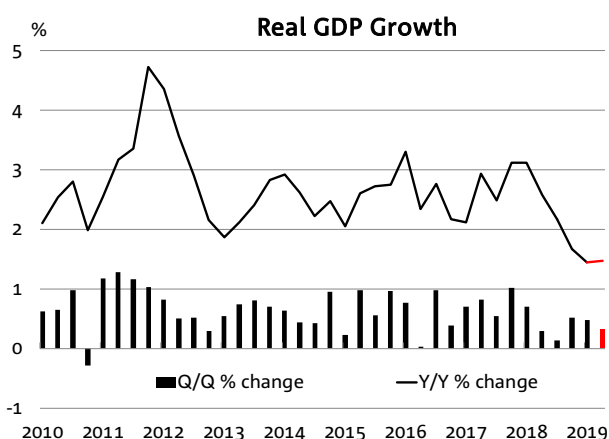


NAB Economics

29 November 2019

Bottom line: We expect GDP growth of 0.3% q/q in Q3 (1.5% y/y) – slowing marginally from the growth rates seen in the last two quarters and a continuation of the weakness seen over the past year. Private demand remains weak, driven by slow consumption growth and falling dwelling investment, although that has been partially offset by growth in net exports and public spending. Weak growth could see the RBA reassess its view that the “economy is at a gentle turning point” given its latest staff forecasts imply solid growth of 0.6 to 0.7% in each of the next two quarters. With growth remaining well below trend, it is likely that employment growth will slow further and that the unemployment rate will edge higher. While the RBA stayed on hold in November while it assessed the impact of easier policy on the economy, current conditions already suggest the need to act further. Indeed, NAB’s expectation is that the RBA will ease rates by a further 25bp in February, with the risk that it will ease further to 0.25% and announce unconventional policy should a material fiscal stimulus fail to materialise – though the timeframe for this is narrowing.

- **Wednesday’s GDP figures are forecast to show a small slowing in growth from last quarter, with growth printing at 0.3% q/q and annual growth slowing to 1.5% y/y.** Overall, we see a similar pattern of growth to previous quarters, with weakness in private sector demand partially offset by a rise in net exports and a lift in public spending. The weakness in domestic demand continues to be a household story, with consumption growth remaining weak (goods retailing fell in September and internal modelling suggests services spending has slowed) and the decline in dwelling investment ongoing. Business investment is expected to decline in the quarter with Capex data showing a significant fall in spending on machinery & equipment in the quarter. Again, some of this weakness will be partially offset by a rise in net exports and an increase in government spending.
- **Looking forward,** we expect the same pattern of growth to continue, notwithstanding, a small improvement in overall growth as the impact of declining dwelling investment fades and consumption lifts slightly. We also expect ongoing strength in public sector spending and modest lift in business investment. Overall, this should see growth lift to 2.1% in 2020 before reaching 2.5% in 2021. While this is an improvement from current rates of growth, it suggests that there will be no improvement in the labour market and that inflation will remain weak with growth tracking below potential.
- **The key risks for our forecasts in quarterly terms lie around business investment.** The Capex survey suggests that machinery & equipment spending alone will subtract 0.2ppt from GDP in the quarter while we have only factored in a 0.1ppt decline for business investment overall. Our optimism on public spending further out presents a downside risk to our forecasts in 2020 and 2021. While the pipeline of infrastructure work is likely to remain high, we do not see significant growth and at some point spending on the NDIS will plateau, seeing government consumption level out.
- **Monetary policy implications:** A slowing in quarterly growth will likely see further reassessment by the RBA of its own forecasts and its optimism that the economy is at a ‘gentle turning point’. Our view is that consumption growth is unlikely to see a significant recovery given the constraints of low income growth and high debt levels. We remain less optimistic than the RBA that growth will return to trend and that there will be an improvement in the unemployment rate. Consequently, we see the RBA cutting the cash rate by a further 25bps in February, with the risk of further cuts and a move to unconventional policy by mid-year should a material fiscal stimulus fail to materialise.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Jun-19	Sep-19	Sep-19	Sep-19
Household Consumption	0.4	0.3	1.4	0.1
Dwelling Investment	-4.4	-2.5	-11.5	-0.1
Underlying Business Investment	-0.6	-1.2	-1.9	-0.1
Underlying Public Final Demand	1.4	0.4	3.8	0.1
Domestic Final Demand	0.3	0.1	0.7	0.1
Stocks (a)	-0.5	0.0	-0.3	0.0
GNE	-0.2	0.1	0.3	n.a.
Net exports (a)	0.6	0.2	1.1	0.2
Exports	1.4	1.5	4.1	0.3
Imports	-1.3	0.5	-0.9	-0.1
Real GDP	0.5	0.3	1.5	n.a.

(a) Contribution to GDP growth

Contacts: Alan Oster Chief Economist +61 3 8634 2927; Gareth Spence Senior Economist +61 (0) 436 606 175

© 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

Ivan Colhoun
Global Head of Research
+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.