

AUSTRALIAN GDP PREVIEW



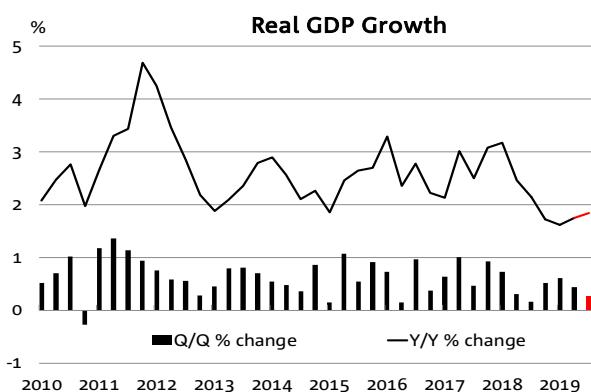
Q4 2019 – A weak result ahead of the virus outbreak

NAB Economics

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Bottom line: We expect GDP growth of 0.3% q/q in Q4 (1.8% y/y) – a similar pace to the previous quarter. While the economy continues its record run of uninterrupted growth, a year-ended print of 1.8% is notably below trend and points to growing spare capacity in the economy. This is in line with unemployment well above the NAIRU and relatively low rates of inflation. The quarterly outcome will likely reflect the broader trends over the past year or so. We expect weak private domestic demand led by falls in dwelling investment and business investment and only modest growth in household consumption. Q4 is expected to see a boost from trade and ongoing strength in public spending. This outcome would confirm that the tax cuts mid last year have done little to provide a sustained boost to the economy, and that the impact of three cash rate cuts is yet to be fully felt, largely as expected. While the current focus of policy-makers has turned to the impact of the Coronavirus outbreak, a soft end to 2019 will confirm the underlying weakness in the economy, such that higher unemployment lies ahead. Indeed, we think unemployment will increase to around 5.5% in 2020, with the RBA cutting rates as soon as April, with the fall-out from the virus adding to the case for easier policy. It is still our view that we will see a second cut this year, with the risk of unconventional policy should the unemployment rate rise by more than we expect.

- **Wednesday's GDP figures are forecast to show ongoing below-trend growth, printing at 0.3% q/q and 1.8% y/y.** The quarterly outcome is again expected to reflect ongoing weakness in private domestic demand. The household sector is likely to see dwelling investment falling further and modest consumption growth, while business investment looks to have declined in the quarter. Offsetting this weakness will be a solid contribution from net exports. We also expect the public sector to continue to support growth in the quarter.
- **Looking forward,** we expect a very weak outcome for GDP in Q1 2020 before a gradual improvement in subsequent quarters assuming the virus is contained and China can return to more normal growth. Overall, we expect growth of 1.3% in 2020 and 2.7% in 2021. We expect household consumption growth to remain weak with subdued household incomes persisting on the back of slow wage growth. Dwelling investment will continue to decline in the near term on the back of the weakness in approvals, but is then expected to recover reflecting lagged boost from lower mortgage rates. Business investment is expected to remain weak, before also seeing a modest improvement over time. Exports are expected to plateau with the LNG production reaching capacity.
- **The key risks for our forecasts in quarterly terms relate to household consumption and public final demand.** Internal modelling based on transactions data suggests a stronger outcome than 0.4% in the quarter is possible, likely reflecting a delayed impact of tax cuts. However, given the underlying weakness in incomes and subdued consumer confidence, we have been conservative in our estimate. The magnitude and the duration of the impact from the Coronavirus is the biggest risk going forward. For now, we have factored in a significant impact to Q1 2020 but then see a gradual improvement in consumption and business investment from there. Prolonged and/or more pronounced fall-out from the spread of the Coronavirus could see a downgrade to our forecasts as further information comes to hand.
- **Monetary policy implications:** The Q4 outcome is unlikely to have a material impact on the timing of the next rate move, with much of the likely focus by policy makers on the subsequent impact in Q1 2020 on growth from the bushfires and Coronavirus. However, it confirms an underlying weakness in the economy and that the RBA may again revise down its growth forecasts. A key implication of ongoing sub-par growth is that the recent strength in the labour market will fade, seeing the unemployment rate rise and wage growth remain soft on the back of further spare capacity. We expect a rate cut in April, followed up by a second 25bp reduction around mid-year.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Sep-19	Dec-19	Dec-19	Dec-19
Household Consumption	0.1	0.4	1.2	0.2
Dwelling Investment	-1.7	-3.7	-10.3	-0.2
Underlying Business Investment	-2.9	-2.3	-5.4	-0.2
Underlying Public Final Demand	1.7	0.8	5.4	0.2
Domestic Final Demand	0.2	0.0	0.8	0.0
Stocks (a)	0.1	-0.1	-0.3	-0.1
GNE	0.3	0.0	0.4	n.a.
Net exports (a)	0.2	0.3	1.5	0.3
Exports	0.7	1.3	5.1	0.3
Imports	-0.2	-0.2	-1.6	0.0
Real GDP	0.4	0.3	1.8	n.a.

(a) Contribution to GDP growth

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