AUSTRALIAN GDP PREVIEW

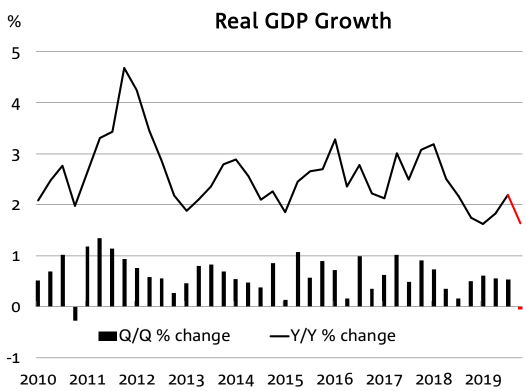
Q1 2020 – the calm before the storm

NAB Economics

29 May 2020

Bottom line: We expect GDP fell slightly in Q1 by 0.1% with downside risks centred on spending on services and the extent to which stocks were run down. This would be the first quarterly fall since Q1 2011, but will be dwarfed by a large fall in Q2 suggested by more timely indicators. The coronavirus pandemic clearly weighed on activity at the end of Q1, although below-trend annual growth of 1.6% in Q1 also reflects weak private-sector demand over the past year, which is consistent with softer wage and price growth leading into the crisis. With the RBA and Government having already undertaken unprecedented policy steps late in Q1, labour market indicators are likely to be a focus of policy going forward. We continue to expect a large fall in GDP in Q2 of around 8.5% before a small rise in Q3 and stronger growth in Q4. However, we only expect the level of GDP to recover to pre-crisis levels in mid-2022. As such, we expect only a partial recovery in the unemployment rate and for it to remain high at 7.3% by the end of 2021.

- **We expect next week's GDP print for Q1 to show a small fall** in output with the major impact of coronavirus containment measures occurring late in the quarter. The key partials released to date suggest a small contribution from net exports, a small subtraction from business investment and a flat contribution from dwelling investment. Based on retail sales data and internal modelling of the services component of consumption we see a small contribution from consumption with the strength in retail offset by a fall in stocks. Overall, this will see year-ended growth continue at a well-below trend rate leading into Q2.
- **Looking forward**, we expect a large fall in output in Q2 of around 8.5% followed by return to growth in Q3 and a more substantial rebound in activity in Q4. We think it is unlikely that the level of activity will fully recover to pre-COVID levels before mid-2022. In year-average terms, this sees GDP decline by 4.3% this year before rising by over 4% in 2021. With GDP data relatively lagged, more timely indicators already suggest Australia has entered a downturn of unprecedented speed and magnitude, seen most clearly in the labour market. We expect that the unemployment rate will rise to over 10% by year's end and then partially recover in 2021, remaining above 7% reflecting the delayed recovery in the level of activity.
- The **key risks for our forecasts** in the quarter relate to household consumption where retail sales appear to have been a key support with considerable uncertainty around how much of this surge was met by a run-down in existing stocks. Further out we see two key risks to our forecast recovery. We implicitly assume containment measures do not need to be reimposed domestically (although that is a clear risk globally), and therefore any second wave of infection would trigger revisions to our forecast recovery. Secondly, while the 'enemy is known' the large hits to both business and consumer confidence may have ongoing impacts on activity. Should confidence remain depressed, it is likely that the recovery could be more protracted. Against that, the unprecedented, front-loaded support by policy-makers will assist both households and business to recover more quickly than in previous downturns. Structurally, slowing population growth based on a fall in migration presents a risk to both the demand and supply side of the economy as well.
- **Policy implications**: The outcome for Q1 is unlikely to have any policy impact, with unprecedented action by both fiscal and monetary authorities in March. However, we expect ongoing support from both arms of policy. The cash rate is unlikely to rise for an extended period, with inflation remaining well below target and other central banks also likely to keep rates low. The cash rate is also unlikely to see further reductions with negative rates ruled out by Governor Lowe and the RBA focus now firmly on end-user rates via the yield curve target, as well as ensuring sufficient liquidity in bond markets and the free flow of credit to households and business. We think that fiscal policy-makers will have to do more as current schemes wind down to provide support in the recovery phase.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Dec-19	Mar-20	Mar-20	Mar-20
Household Consumption	0.4	0.3	1.2	0.1
Dwelling Investment	-3.4	-0.7	-8.6	0.0
Underlying Business Investment	-1.5	-1.8	-5.3	-0.2
Underlying Public Final Demand	0.1	0.7	4.7	0.2
Domestic Final Demand	**0.1**	**0.2**	**1.2**	**0.2**
Stocks (a)	0.2	-0.3	-0.3	-0.3
GNE	**0.3**	**-0.1**	**0.9**	**n.a.**
Net exports (a)	**0.1**	**0.4**	**1.0**	**0.4**
Exports	0.0	1.4	2.9	0.3
Imports	-0.5	-0.4	-1.9	0.1
Real GDP	**0.5**	**-0.1**	**1.6**	**n.a.**

(a) Contribution to GDP growth

Contacts: **Alan Oster Chief Economist +61 (0) 414 444 652; 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 (0) 477 746 237

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.