

AUSTRALIAN GDP PREVIEW

Q3 2020 – Large rebound from COVID impacted Q2



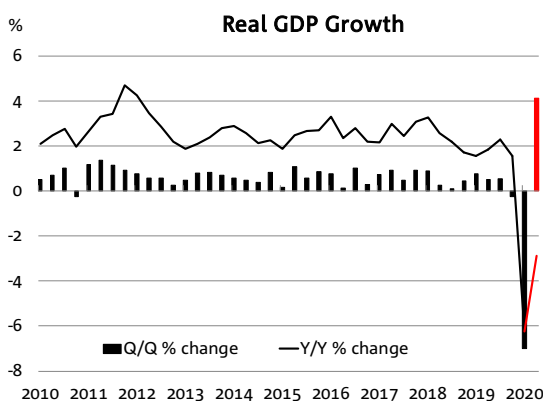
NAB Economics

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Bottom line: NAB forecasts GDP to rise sharply by 4.1% in Q3, following the 7.0% pandemic-driven collapse in Q2. In the quarter, household consumption should drive the increase, offsetting drags from business investment and net exports. This outcome would confirm that the economy has passed through the trough in activity, rebounding sharply amid significant policy support and the general easing in COVID-19 restrictions.

Going forward, we expect another solid increase in the December quarter before growth moderates over 2021. This sees the level of GDP fully recovered by end 2021, but a more delayed recovery in the labour market, with the unemployment rate still around 6.5% by end 2021. In our view, it is likely that the recovery will continue to be uneven across sectors. Varying degrees of restrictions across states as well as both local and domestic border closures will also drive uneven impacts. We expect state borders to have opened by the start of next year, but international borders to remain closed until around late 2021. Both business and consumer confidence will remain key to how quickly the economy recovers beyond the initial rebound. Risks remain around private sector activity in the long term as stimulus is withdrawn, where activity was weak even prior to the onset of the pandemic.

- **GDP is expected to rebound by 4.1% (-3.9% y/y) in the Q3 national accounts.** We expect the rebound in activity to be led by a partial recovery in household consumption (over 50% of GDP) which fell by a large 12% in Q2. Retail spending should contribute 1.2pp based on partials data, though we expect the turnaround in services spending to be more pronounced after collapsing 18% in Q2 amid widespread restrictions. We expect business investment to fall slightly, while dwelling investment is likely to make little contribution to growth in the quarter. Net exports should subtract 1.7ppt from growth. While overall activity is likely to increase strongly, the impact across states and industries (which all saw a significant deterioration in Q2) is likely to be uneven. Some sectors are still impacted by restrictions on activity, while some states are more impacted by reduced movement due to international and domestic border closures.
- **Looking forward,** we expect another sizeable increase in the December quarter (around 2.0%) before the pace of growth moderates early next year. We expect the level of GDP to be fully recovered by late-2021 – which would be a very rapid recovery from the unprecedented fall in Q2. The labour market is also expected to recover over 2021, with the unemployment rate peaking in late 2020 and falling to around 6.5% by end 2021 and 5.7% by end 2022.
- The **key risks for our forecasts** for the quarter are around services consumption. This component is likely to see a large turnaround from last quarter where it fell by 18%. There are few advance indicators for services consumption but our internal spending data suggest that there has been a significant bounce in spending as restrictions have been removed in each state. Further out there remains heightened uncertainty around the economic outlook. The economy has bounced back relatively strongly to date, but had been tracking at a weak pace pre-COVID. Weak income growth is likely to remain a constraint for households, while the rebound in business confidence has yet to be reflected in a pick-up in investment.
- **Policy implications:** Q3 GDP data should confirm a sharp rebound in the quarter, already widely expected by policymakers and market economists. Nonetheless, we expect fiscal policy will continue to play a key role in supporting the economy during the recovery phase. Indeed, the labour market has seen a less substantial hit than initially feared (and a fairly rapid rebound) likely owing to the huge support provided by the government. This release will also have little impact on the outlook for monetary policy, which we expect to remain extremely accommodative for the next few years.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Jun-20	Sep-20	Sep-20	Sep-20
Household Consumption	-12.1	7.5	-6.3	3.9
Dwelling Investment	-6.8	0.3	-10.0	0.0
Underlying Business Investment	-3.1	-4.1	-8.6	-0.4
Underlying Public Final Demand	2.1	2.5	7.2	0.7
Domestic Final Demand	-7.4	4.5	-3.2	4.4
Stocks (a)	-0.6	1.6	0.0	1.6
GNE	-8.0	6.1	-2.4	n.a.
Net exports (a)	1.0	-1.7	-0.3	-1.7
Real GDP	-7.0	4.1	-2.9	n.a.

(a) Contribution to GDP growth

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