AUSTRALIAN GDP PREVIEW

Q4 2020 – The rebound continues

NAB Economics

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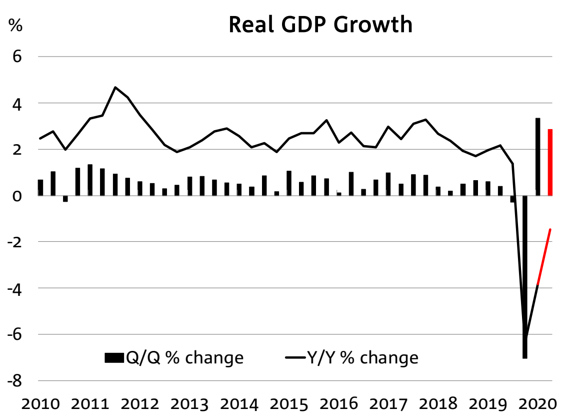
<u>Bottom line</u>: NAB expects GDP rose by 2.9% in Q4, continuing to rebound strongly from the pandemic-driven collapse in Q2. Household consumption – particularly services - should again drive the quarterly outcome, with household consumption patterns normalising following the removal of pandemic-related restrictions. Other partials also show that strong retail spending (up 4.2% q/q) and residential construction activity (up 3% q/q) will support an overall solid print. Investment is expected to make a small contribution, with strength in equipment spending offset by weakness in construction. By industry, accommodation & food services as well as transport (and to a lesser extent health services) are likely to show the most significant increases. By state, Victoria should drive the increase, where unwinding of stage 4 lockdown will see a boost to growth.

Overall, these data are likely to show the recovery is off to a very strong start, supported by the positive health outlook, large fiscal support and extraordinarily stimulatory monetary policy. The level of GDP will remain around 2% lower than pre-COVID levels, but this comes after the sharpest deterioration since WWII. NAB forecasts GDP to fully recover pre-virus levels by mid 2021, albeit unevenly. Going forward, growth is likely to moderate over 2021 as the initial kickstart to the recovery fades and fiscal stimulus tapers. As stimulus is withdrawn, the risk remains that private sector growth will slow significantly as underlying income growth remains weak, lifting further gains in consumer spending, and investment stays sluggish – as was the case pre-virus.

- **GDP is expected to rebound by 2.9% (-1.5% y/y) in the Q4 national accounts.** Further gains in household consumption (over 50% of GDP) should lead the way, where we expect a large 3.6% q/q rise. The end of Melbourne's lockdown and further restrictions easing elsewhere should see a strong rebound in services spending, although retail spending has also been very strong – partials data suggests an 0.5pp contribution to growth. Other partial data so far shows that dwelling investment contributed 0.2pp, while business investment added 0.1pp. The public sector should post another solid contribution to growth while net exports should subtract 0.2pp from growth.
- **Looking forward**, the pace of growth is likely to be more moderate through 2021 as the initial momentum from the ending of lockdowns fade. We expect the level of GDP to be fully recovered by mid 2021 – marking a rapid v-shaped recovery from the pandemic-driven collapse in the first half of 2020. As such, the labour market should also make further gains through 2021 to end the year at 5.9% (or marginally lower).
- **The key risks for our forecasts** for the quarter are again around services consumption, which we expect to see another large rise. Our internal data support this view, but given the size of the rebound it's possible the rise in spending could be larger or smaller than we expect. Beyond Q4, risks remain elevated. In particular, 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. As such, it's possible that as fiscal stimulus tapers the underlying pace of private sector activity growth is much weaker than we had anticipated.
- **Policy implications**: Q4 GDP data should confirm the widespread view that the economic recovery has solid momentum at the end of 2020. This will support the view of policymakers that rapid substantial stimulus deployed at the start of the pandemic has been effective. More important for policy will be activity indicators in the first half of 2021. We expect growth will slow, although the economy should continue to improve. Fiscal contraction may prove to be more of a headwind than anticipated, such that in the near-term we expect that monetary policy will remain highly stimulatory.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Sep-20	Dec-20	Dec-20	Dec-20
Household Consumption	7.9	3.6	-3.4	1.9
Dwelling Investment	0.6	3.1	-2.2	0.2
Underlying Business Investment	-5.6	1.5	-8.2	0.1
Underlying Public Final Demand	1.8	2.0	7.5	0.5
Domestic Final Demand	**4.5**	**2.9**	**-1.0**	**2.9**
Stocks (a)	0.8	0.3	-0.1	0.3
GNE	**5.4**	**3.2**	**-0.7**	**n.a.**
Net exports (a)	**-1.9**	**-0.3**	**-1.0**	**-0.3**
Exports	-3.2	3.9	-23.9	0.7
Imports	6.5	6.2	-19.0	-1.0
Real GDP	**3.3**	**2.9**	**-1.5**	**n.a.**

(a) Contribution to GDP growth

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