# AUSTRALIAN ECONOMIC UPDATE

## GDP Q4 2020 – Rebound continues as Victoria ends lockdown

National Australia Bank

3 March 2021

**Bottom line: Q4 GDP beat expectations, rising by a strong 3.1% q/q to be down just 1.1% below pre-COVID levels. A continued rebound in household consumption drove the result, where the end of Melbourne's strict lockdown saw Victoria record a sharp 10% rise in spending. Outside of Victoria, spending continues to recover, rising by a large 2.3% following the 11% jump in Q3 and total consumption is down just 2.7% y/y. Investment activity was also strong, up 4.1% q/q, with strength across dwellings (up 4.1%) and equipment (up 8.9%). By industry, while most industries recorded gains, agriculture, forestry and fishing was a standout, rising 27% on the back of a bumper crop. That said, tourism-related industries continue to suffer, with activity in transport, hospitality, admin and entertainment services well below levels seen a year ago. Overall, these data show the economy continuing to rebound from the pandemic, at a relatively quick pace, as well as reflecting impact of changes to consumption patterns – and the importance of the substitution between services and goods spending. The strength of private sector activity is particularly encouraging as government support began tapering in the quarter. Going forward, NAB expects GDP will reach pre-virus levels by mid 2021, but growth will ease into 2022 such that it will take at least until 2024 for spare capacity to be fully eroded. As such, unemployment will remain above full employment and inflation below target for the medium term – where this remains a headwind to the private sector recovery.**

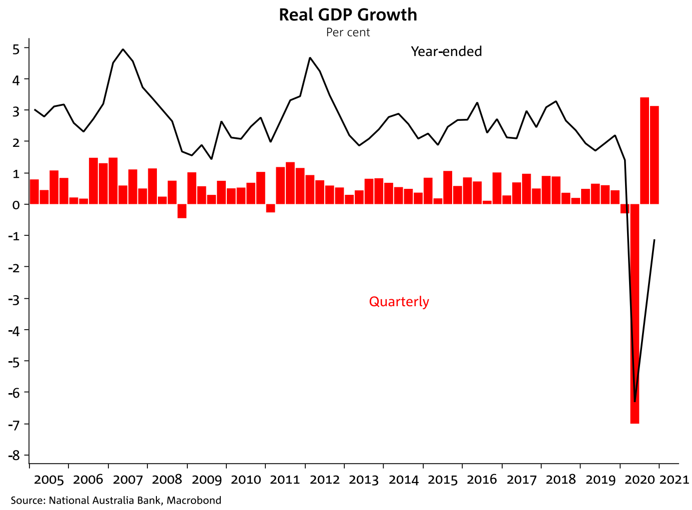
**Today's result was driven by the continued rebound in consumer spending,** which rose 4.3% and added 2.3pp to GDP. Victorian spending rose 10% in Q4, after falling for two quarters amid strict lockdowns. Outside of Victoria spending rose 2.3% in Q4, after the initial 11% post-lockdown jump in Q3. Total spending is now down just 2.7% from a year ago, an impressive outcome given the 13.5% collapse in the first half of 2020. That said, services spending continues to be weighed upon by the pandemic, while spending on goods has benefited from some substitution.

Investment activity was also strong. Machinery and equipment investment rose 8.9%, led by NSW (+18%) and Victoria (+16%) and likely supported by the government's temporary asset write off scheme. Elsewhere, dwelling investment rose by a strong 4.1%, supported by the government's Homebuilder program, and the continued sharp rise in housing sales saw residential transfer costs add a substantial 0.2pp to GDP. These factors more than offset slight drags from net exports (subtracting 0.1pp from growth) and stocks (-0.1pp). Elsewhere, the public sector remains strong, up 1% in Q4, as restrictions on health services continue to ease and infrastructure spending picks up.

**Looking forward,** growth to slow in Q1 2021 as the initial rebound from ending of lockdowns fades. Over 2021, we expect a solid recovery such that the economy reaches its pre-virus level in mid 2021. However, even then there will remain spare capacity in the economy such that unemployment will remain elevated. This spare capacity will take at least until 2024 to work through and, therefore, we expect inflation to remain weak for an extended period. From a policy perspective this outlook warrants ongoing support and the need to use targeted fiscal measures to support industries that will see ongoing impacts from the pandemic in addition to the significant ongoing stimulus provided by lower rates. As such, we continue to argue for additional fiscal support, targeted at industries heavily impacted by the pandemic such as the tourism-related and international education sectors. On the RBA, these data do not change our outlook for the cash rate to remain on hold until 2024 and announce another $100bn round of QE late this year. We also think the RBA will announce its exit strategy for YCC at the April 2024 bond.

**Key figures**

| Key aggregates | q/q % ch | | y/y % ch |
|---|---|---|---|
| | Sep-20 | Dec-20 | Dec-20 |
| GDP (A) | 3.4 | 3.1 | -1.1 |
| GDP (E) | 3.4 | 3.0 | -1.1 |
| GDP (I) | 3.4 | 3.3 | -1.3 |
| GDP (P) | 3.4 | 3.1 | -1.0 |
| – Non-Farm GDP | 3.5 | 2.6 | -1.5 |
| – Farm GDP | -2.2 | 33.3 | 22.6 |
| Nominal GDP | 4.0 | 4.2 | 0.6 |
| Real gross domestic income | 3.7 | 4.2 | 0.5 |
| Real net national disposable income per capita | 5.2 | 4.7 | 1.4 |
| Terms of trade | 1.3 | 4.8 | 7.3 |



# HIGHLIGHTS

- **Household consumption** increased by a strong 4.3% in Q4 but remains 2.7% lower than the previous year. As expected, the increase in household spending was driven by an ongoing sharp rebound in services spending – with restrictions having eased in the quarter. However, goods spending continued to grow strongly. By component, hotels, cafes & restaurants (up 17.5%) and recreation & culture (up 9.1%) drove the increase. Despite the relatively strong rebound in services spending to date, transport and accommodation services remain 78.1% and 60.3% below their levels in late 2019. Spending on sport, recreation and entertainment services saw ongoing disruptions and remains around 30% below its pre-COVID level. In contrast, goods categories have generally risen very strongly over the year. Spending on vehicles saw a record rise and is now 25% higher than a year ago while household goods are up strongly, and food has also seen sharp increase. This pattern likely reflects a significant degree of substitution between some services (such as travel and entertainment) to goods spending.
- **Underlying business investment** bounced back in Q4, rising 2.6% q/q, following large falls in the prior two quarters; compared to a year ago business investment is still down 5.1% y/y. The main driver of Q4 growth was machinery and equipment investment (up 8.1% q/q, underlying basis), with transport equipment appearing to playing a key role in this. There were also increases in new engineering construction, as well as in many of the smaller categories (research & development, software and mining exploration). However, new building construction continued to fall (-2.6% q/q) and was down by more than 10% over the year.
- **Dwelling investment** recorded a strong 4.1% increase in the quarter (and only its second increase since mid-2018) likely reflecting the support from the government's homebuilder program. The quarter also marks a turning point in new dwelling investment which rose 3.4% - its first rise since early 2018. That said, alterations & additions spending continues to increase strongly, up 5.2% in the quarter. There was an increase in dwelling investment across all states, led by a 9.6% rise in QLD and 8.9% increase in WA, though all states saw gains.
- **Government demand** growth was again solid (1.0% q/q on an underlying basis) but down from the around 1¾% growth rates seen in the prior three quarters. Government consumption growth moderated to 0.8% q/q as national defence spending again fell and Federal non-defence spending came off the boil. Underlying public investment growth also slowed but was a still a robust 1.8% q/q (29.9% in Q3) driven by state/local government spending.
- **Net exports** detracted 0.1ppts from quarterly GDP growth. Both export and import volumes posted gains in Q4, although they remain well down on their pre-COVID-19 level. Exports grew by 3.8% q/q, but are still 11.7% down on Q4 last year, with services (travel and transport) the worst hit (-42% y/y) while rural exports are only down 1.0% y/y helped by the improvement in agricultural conditions. Imports rebounded (4.9% q/q) but were still 9.6% lower than a year ago; however, goods exports are above their pre-COVID-19 level (+5.3%) consistent with the shift in spending towards goods and away from services, while service imports languish (-56% y/y).
- **State final demand** (SFD)rebounded strongly in Victoria (up 6.8%) as COVID-19 related restrictions on activity were eased starting in late September. SFD growth in the other jurisdictions was also generally strong (by normal standards), with the weakest growth recorded in South Australia (0.6% q/q). The ABS measure of the stringency of state and territory governments' responses to COVID-19 increased in South Australia (due to a short-lived lockdown) although a large fall in private engineering and building construction investment suggests this was not the only factor. The only other state to record a (small) increase in the stringency of COVID polices in the quarter was Queensland, while the NSW indicator fell (despite a lift at the end of the quarter due to the Northern Beaches lockdown). Compared to a year ago, SFD was at or above its pre-COVID-19 level in all jurisdictions (with NT the strongest at 4.8% y/y) except in NSW (-0.7% y/y) and NSW (-3.4% y/y).
- The production side of the accounts showed **gains across most industries**. Of the non-agri industries, professional & scientific and admin & support saw the largest contributions, though most other industries made contributions of 0.1-0.2ppts including industries such as accommodation & food services (with accommodation reflecting a rise in domestic travel and food & beverage services reflecting the ongoing easing in restrictions), transport, postal & warehousing (impacted by the strong grain harvest as well as courier services) as well has healthcare which are continuing to recover from the hit in Q2 more gradually given ongoing restrictions in some areas. Construction made no contribution to growth in the quarter despite the strength in dwelling investment. Taxes less subsidies made a solid contribution with Job keeper payments continuing to flow in the quarter.
- Australian agriculture had a massive result in the December quarter. Agriculture, forestry and fishing production surged 27% q/q on the back of a record grain harvest. ABARES' latest estimates point to a record 33.3mmt of wheat produced this season, more than double the paltry 15.2mmt last season. For reference the long run average Australian wheat harvest is in the order of 24mmt. Seasonal conditions across many growing regions have been the best in living memory, and even areas with below average rainfall, such as the WA wheatbelt, produced big crops. Agriculture, forestry and fishing was the equal biggest points contributor to GDP growth in the quarter. Looking ahead, it seems unlikely that the incredible 2020-21 season will be matched (let alone beaten), so some downside over the coming year is likely.

# SUMMARY CHARTS AND TABLES:

## GDP (E) by component

| GDP Expenditure Components | q/q % ch | | y/y % ch | Contribution to q/q % ch |
|---|---|---|---|---|
| | Sep-20 | Dec-20 | Dec-20 | Dec-20 |
| Household Consumption | 7.9 | 4.3 | -2.7 | 2.3 |
| Dwelling Investment | 1.6 | 4.1 | 0.6 | 0.2 |
| Underlying Business Investment^ | -3.1 | 2.6 | -5.1 | 0.3 |
| Machinery & equipment | -2.6 | 8.1 | -4.8 | 0.3 |
| Non-dwelling construction | -5.7 | -0.9 | -5.9 | 0.0 |
| New building | -6.2 | -2.6 | -11.9 | -0.1 |
| New engineering | -5.2 | 0.7 | 0.2 | 0.0 |
| Underlying Public Final Demand | 1.7 | 1.0 | 6.5 | 0.3 |
| **Domestic Demand** | **4.6** | **3.3** | **-0.3** | **3.2** |
| Stocks (a) | 1.0 | -0.1 | 0.0 | -0.1 |
| **GNE** | **5.7** | **3.2** | **-0.3** | **3.1** |
| **Net exports (a)** | **-2.0** | **-0.1** | **-0.8** | **-0.1** |
| Exports | -4.0 | 3.8 | -11.7 | 0.8 |
| Imports | 5.9 | 4.9 | -9.6 | -0.9 |
| **GDP** | **3.4** | **3.1** | **-1.1** | **3.1** |

(a) Contribution to GDP growth ^ Excluding transfers between the private and public sector

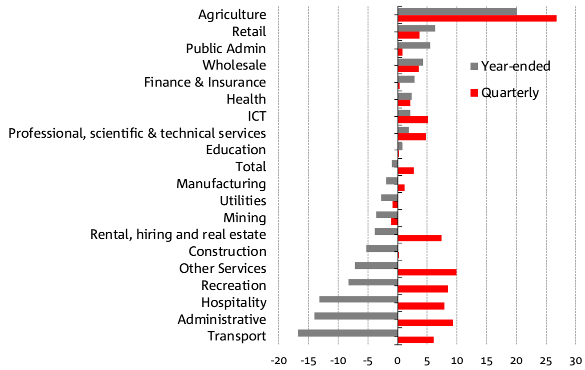
## INCOME MEASURES

| Income measures | q/q % ch | | y/y % ch |
|---|---|---|---|
| | Sep-20 | Dec-20 | Dec-20 |
| Real GDI | 3.7 | 4.2 | 0.5 |
| Real net disposable income per capita | 5.2 | 4.7 | 1.4 |
| Compensation of employees | 2.4 | 1.5 | 2.0 |
| Average compensation of employees (average earnings) | 0.4 | -0.5 | 2.6 |
| Corporate GOS | 3.3 | -5.4 | 9.8 |
| Non-financial corporations | 3.8 | -6.9 | 11.9 |
| Financial corporations | 1.0 | 0.9 | 2.1 |
| General government GOS | 1.5 | 1.4 | 5.7 |
| **Productivity & unit labour cost** | | | |
| GDP per hour worked | -1.4 | 0.0 | 2.5 |
| GVA per hour worked mkt sector | -2.2 | 0.1 | 2.8 |
| Non-farm nominal unit labour cost | -0.5 | 8.8 | -2.2 |
| Non-farm real unit labour cost | -1.0 | 7.4 | -4.0 |

## State final demand

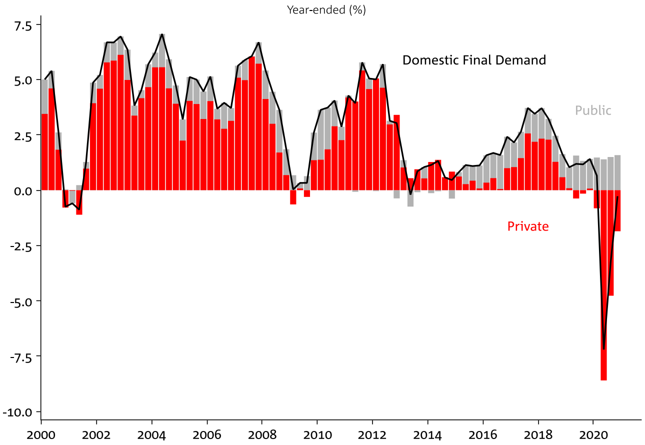
| State/ Territory | Q/Q | | Y/Y |
|---|---|---|---|
| | Sep-20 | Dec-20 | Dec-20 |
| NT | 6.8 | 4.1 | 4.8 |
| ACT | 2.4 | 1.3 | 4.4 |
| QLD | 7.0 | 2.0 | 2.4 |
| TAS | 5.6 | 3.3 | 1.5 |
| WA | 5.5 | 1.5 | 1.2 |
| SA | 6.8 | 0.6 | 0.0 |
| NSW | 6.8 | 2.9 | -0.7 |
| VIC | -0.9 | 6.8 | -3.4 |

### Industry GVA Growth




### Domestic Final Demand Growth

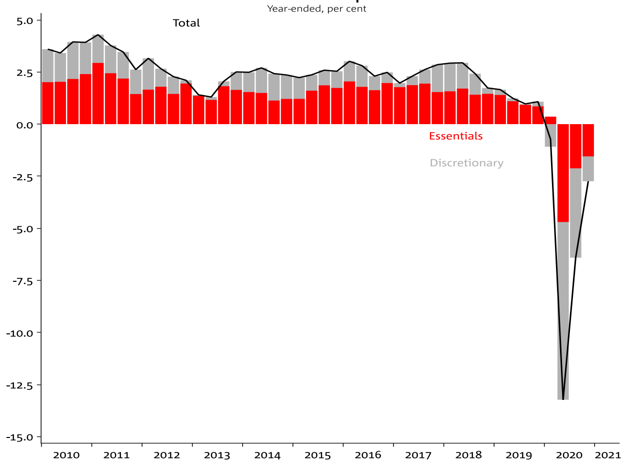
Year-ended (%)




Source: National Australia Bank, Macrobond

### Real Household Consumption Growth

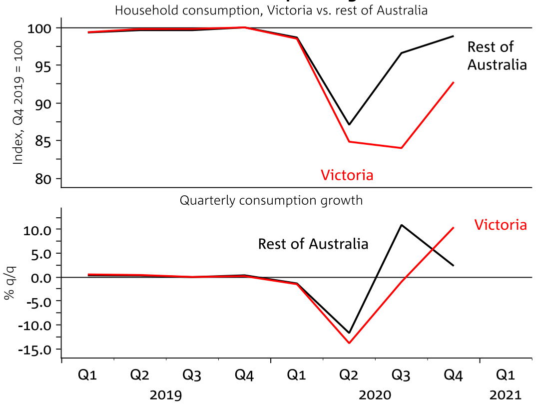
Year-ended, per cent




Source: National Australia Bank, Macrobond

### Consumer spending

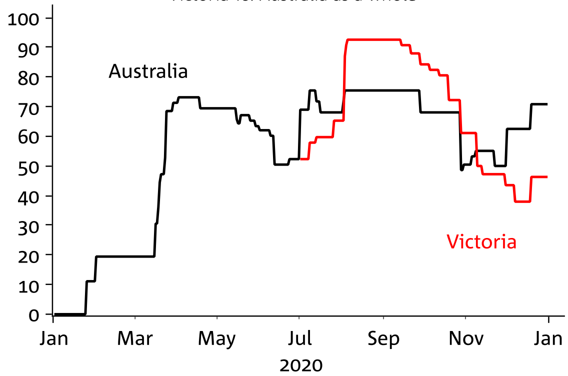
Household consumption, Victoria vs. rest of Australia




Source: National Australia Bank, ABS

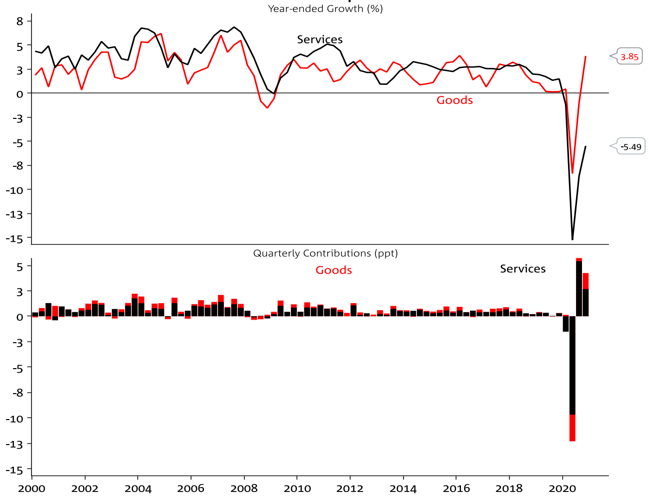
### Stringency of COVID-19 measures

Victoria vs. Australia as a whole



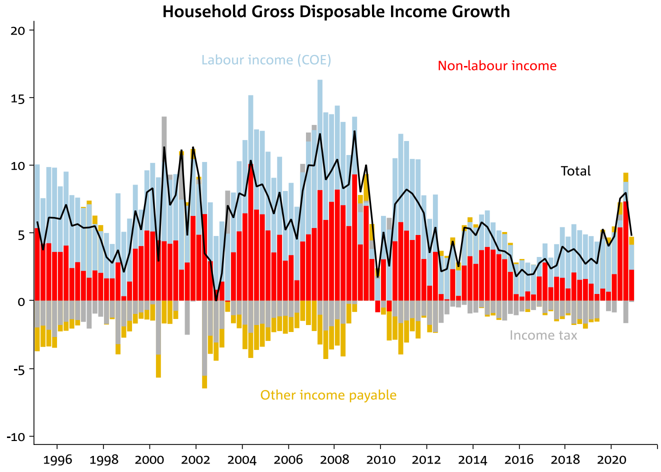

Source: National Australia Bank, ABS

**Household Consumption Growth**



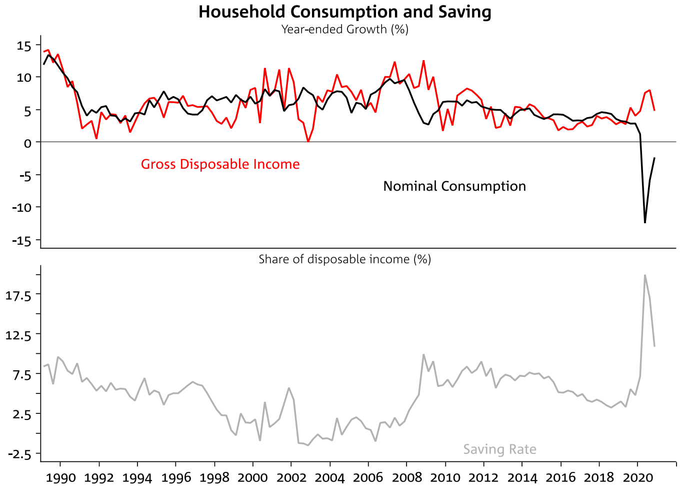

Source: National Australia Bank, Macrobond

**Household Gross Disposable Income Growth**



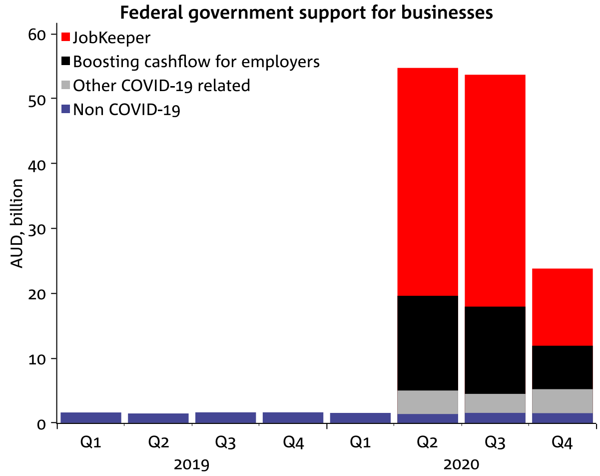

Source: National Australia Bank, Macrobond

**Household Consumption and Saving**



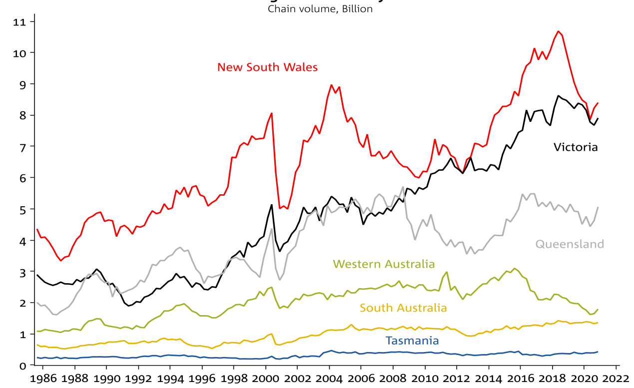

Source: National Australia Bank, Macrobond

**Federal government support for businesses**



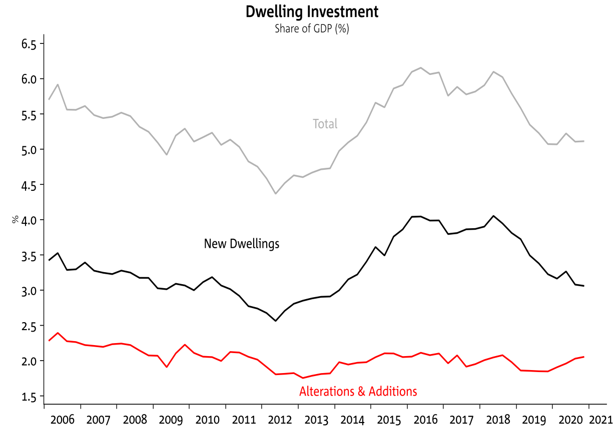

Source: National Australia Bank, ABS

**Dwelling Investment by State**



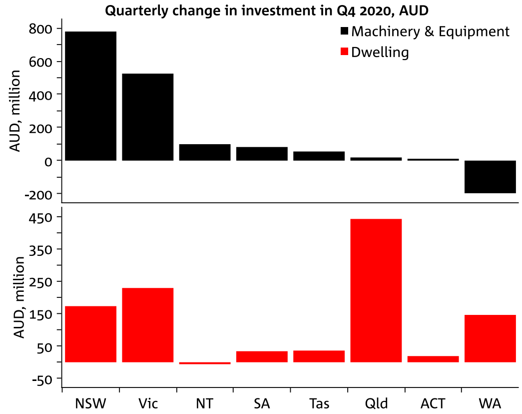

Source: National Australia Bank, Macrobond

**Dwelling Investment**



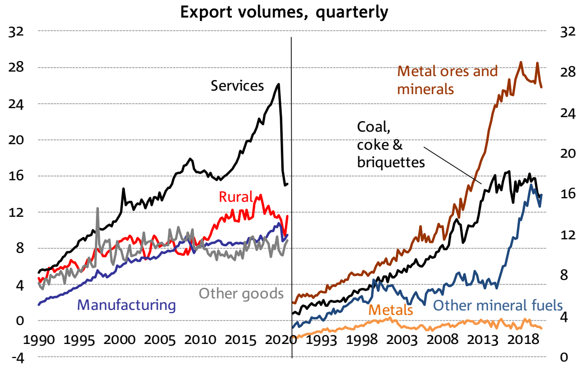

Source: National Australia Bank, Macrobond

**Quarterly change in investment in Q4 2020, AUD**




Source: National Australia Bank, Australian Bureau of Statistics

**Export volumes, quarterly**



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