AUSTRALIAN GDP PREVIEW

Q1 2021 – GDP continues to recover

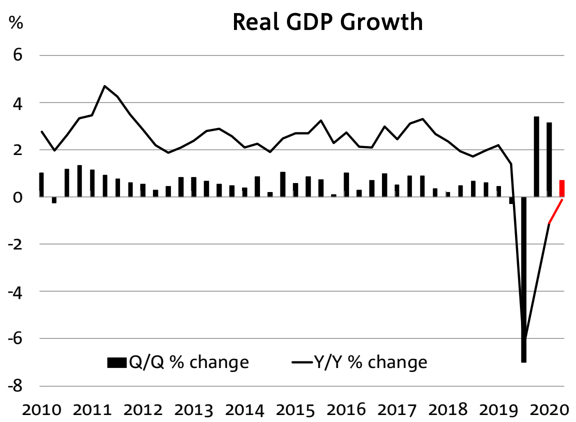
NAB Economics

28 May 2021

<u>Bottom line</u>: NAB expects GDP rose by 0.7% in Q1 (-0.1% y/y) – a slower pace of growth than the previous two quarters. Nonetheless, this would see the level of GDP just 0.4% below pre-COVID levels. Consumption is expected to see smaller gains in the quarter, with weakness in goods spending growth partially offsetting gains on the services side. Other partials point to a strong rise in dwelling investment, on the back of the government's HomeBuilder program which has boosted renovation activity and detached house construction, and business investment which has also seen fiscal support. By industry, we expect further gains in most areas based on the broad-based strength in business conditions in Q1 – but a general slowing in growth. Accommodation & food services as well as transport (and to a lesser extent health services) are likely to show the most significant improvements given a weaker starting point. By state, we expect gains to be made everywhere, with only relatively contained periods of lockdowns in the quarter.

Overall, these data will likely reflect the fact that the economy is transitioning beyond the rebound phase in activity to a more normal rate of growth, but that support is still coming from both fiscal and monetary policy. It will also likely show that there is still some unevenness in the recovery with factors such as ongoing border closures and impacts on CBDs from a shift to work from home continuing to play out. On policy, there will be little direct implication, though the accounts will provide greater insight into the dynamics behind the recovery to date – including the saving position of households and how quickly consumption patterns are normalising.

- **GDP is expected to rebound by 0.7% (-0.1% y/y) in the Q1 national accounts.** The pace of growth in consumption is expected to slow significantly, with prior impacts of reopening the economy fading. The gain in consumption will be driven by further recovery in services spending with goods consumption falling in the quarter. Dwelling investment is expected to record another large gain, on the back of a significant pick-up in renovation activity. Business investment is expected to be mixed – with equipment spending seeing a significant boost (possibly helped along by tax incentives to bring forward business investment), while non-residential building is expected to remain weak. Monthly trade data point to a 1.2ppt subtraction from net exports in the quarter. By industry, we expect gains to be broad based even as some sectors like transport are still seeing the impact of COVID-19.
- **Looking forward**, we expect the softer pace of growth to continue, with the easy gains in the rebound phase now over. That said, we expect strength in dwelling and business investment to continue in coming quarters with the bring forward of work in both sectors then seeing a hole later in the forecast horizon. We expect consumption patterns to continue to normalise but the rebalancing back towards services spending is likely to be gradual which may see some volatility in the consumption numbers going forward.
- **The key risks for our forecasts** for the quarter again lie around services consumption. Partials suggest that goods spending may have pulled back (from a high level), weighing on consumption. The pace of the ongoing recovery in services is more uncertain. With spending on hotels, cafes & restaurants still 30% below pre-COVID levels at the end of Q4, there is significant scope for an ongoing rebound. However, with borders remaining closed and domestic travel still impacted, the pace of this recovery remains highly uncertain as will the pace of normalisation in spending on goods.
- **Policy implications**: There is little direct implication for policy as a result of these data, even if our expectation of a slowing in headline growth is realised. Partial indicators confirm that the impact of fiscal policy continues to flow through the economy – particularly for dwelling investment and business investment – but also highlights that there may be some bumps as consumption rebalances. We see the RBA maintaining an exceptionally easily stance but expect the better than expected recovery to date will see un-conventional policy components tweaked in July, with the YCC target to be capped at the Apr-23 bond and for the QE program to be tapered.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Dec-20	Mar-21	Mar-21	Mar-21
Household Consumption	4.3	0.6	-0.8	0.3
Dwelling Investment	4.1	7.1	7.8	0.4
Underlying Business Investment	2.9	3.0	-1.8	0.3
Underlying Public Final Demand	1.0	1.6	6.3	0.4
Domestic Final Demand	**3.3**	**1.6**	**1.8**	**1.6**
Stocks (a)	-0.1	0.1	0.1	0.1
GNE	**3.2**	**1.7**	**2.2**	**n.a.**
Net exports (a)	**-0.1**	**-1.2**	**-2.7**	**-1.2**
Real GDP	**3.1**	**0.7**	**-0.1**	**n.a.**

(a) Contribution to GDP growth

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