

AUSTRALIAN GDP PREVIEW

Q4 2021 – Rebound sets the stage for a strong 2022

NAB Economics

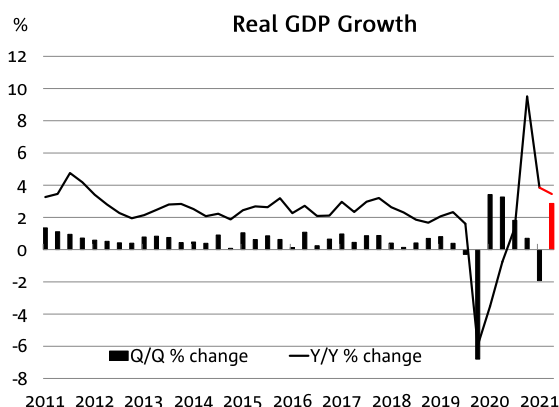
25 February 2022



Bottom line: NAB expects a strong GDP rebound of 2.9% q/q (3.4% y/y) in Q4 2021, with activity more than recovering the fall in Q3. Household consumption is expected to have rapidly returned to around pre-lockdown levels as major states lifted health-related restrictions, again driving the overall GDP result. We expect some support from public demand, but both private business and dwelling investment are likely to have detracted. Net exports should also have weighed on growth in the quarter. By industry, it is likely that accommodation & food services, retail as well as other industries highly exposed to the household sector will see healthy rebounds.

The GDP rebound in Q4 sets the stage for a strong 2022. While Omicron will have affected consumption in January – we see a softer Q1 growth rate of around 0.5% q/q (2.1% y/y) as a result – high frequency data suggests the impact has quickly passed. The labour market continues to strengthen and with international borders reopening, the year ahead should be one of normalising activity with both international trade and domestic services spending likely to recover while goods spending may slow. With activity likely to remain strong in the near-term, attention will be focused on the nominal side, as largely transitory factors see Q4's above-target headline inflation carry into 2022 while wages begin to strengthen as the labour market tightens. The broader national accounts measures of prices and wages will likely gain more attention, though they will remain volatile in the near term as the impact of lockdowns on the accounts wanes.

- **GDP is expected to have risen by 2.9% in Q4 (up 3.4% y/y).** Retail trade surged to record levels in November and December – matched by record employment growth – and high-frequency consumption indicators also jumped, signalling a rapid return to around pre-lockdown consumption levels after a fall of almost 5% in Q3. Partial indicators suggest dwelling investment detracted from GDP as the effects of HomeBuilder continued to fade and labour and materials shortages took a toll, with business investment also edging down. Strengthening imports should also see net exports weigh on growth in the quarter. Average earnings will also be of interest, with rebounding hours, job changes, and elevated bonuses and other payments all likely to drive a strong print for the national accounts measure of wages.
- **Looking forward,** we expect disruptions due to the Omicron outbreak will have weighed on consumption in January, but high-frequency data suggests the impact has quickly passed as the virus wave has eased in February. As a result, we see Q1 growth of around 0.5% (2.1% y/y) before growth strengthens through the middle of the year as borders reopen and activity normalises, with growth of around 3.5%-4% for 2022 overall. That should be accompanied by continued strength in the labour market and steadily strengthening wage growth which, alongside ongoing strong inflation prints, will see the RBA in a position to raise interest rates for the first time in the second half of the year.
- **The key risks** for our forecasts for Q4 are again centred on consumption, with the scale of the rebound difficult to pinpoint given the mix of easing restrictions, pent-up demand, ongoing changes to consumption patterns, and the spread of Omicron in December. Likewise, it is possible the impacts of Omicron in Q1 will be more or less evident than currently assumed. Further out, the pace at which consumption patterns, trade, and international travel normalise also remains uncertain. Continued out-performance of the labour market and further increases in inflation could also prompt a more rapid normalisation of monetary policy settings, tempering consumption and investment. The impact of the conflict in Ukraine is also hard to predict, with the potential for sharp trade and commodity price adjustments.
- **Policy implications:** The GDP data will confirm that a strong rebound occurred in Q4, once again demonstrating the economy's resilience through the pandemic and supporting the RBA's decision to move towards normalising policy by ending the QE program in February. Focus will now turn to the nominal side of the economy, with measures of average earnings and unit labour costs growth to provide some signal on how the labour market strength is beginning to flow through to wages (though these measures are volatile on a quarterly basis). However, the RBA has continued to reiterate that it will wait for evidence that inflation is sustainably within the target band, which is likely to require further data on the path of inflation and wages into 2022. We expect inflation to remain elevated through the first half of the year as supply chain issues linger and retailers pass on higher costs to consumers, while wages should gradually strengthen as the labour market tightens further, with rates to begin to normalise in the second half of the year.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Sep-21	Dec-21	Dec-21	Dec-21
Household Consumption	-4.8	5.7	2.9	2.9
Dwelling Investment	0.1	-4.3	2.5	-0.2
Underlying Business Investment	-1.4	-2.1	3.9	-0.2
Underlying Public Final Demand	3.3	0.8	6.7	0.2
Domestic Final Demand	-1.8	2.8	4.5	2.8
Stocks (a)	-1.3	1.1	0.5	1.1
GNE	-3.1	3.9	4.8	n.a.
Net exports (a)	1.0	-1.2	-1.5	-1.2
Real GDP	-1.9	2.9	3.4	n.a.

(a) Contribution to GDP growth

Group Economics

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

Jacqui Brand
Executive Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Behavioural &
Industry Economics
+(61 0) 457 517 342

Australian Economics and Commodities

Gareth Spence
Senior Economist
+(61 0) 436 606 175

Brody Viney
Senior Economist
+(61 0) 452 673 400

Phin Ziebell
Senior Economist
+(61 0) 475 940 662

Behavioural & Industry Economics

Robert De Iure
Senior Economist –
Behavioural & Industry
Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist –
Behavioural & Industry
Economics
+(61 0) 455 052 520

Steven Wu
Senior Economist –
Behavioural & Industry
Economics
+(61 0) 472 808 952

International Economics

Tony Kelly
Senior Economist
+(61 0) 477 746 237

Gerard Burg
Senior Economist –
International
+(61 0) 477 723 768

Global Markets Research

Ivan Colhoun
Global Head of Research
+(61 2) 9293 7168

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.