AUSTRALIAN GDP PREVIEW

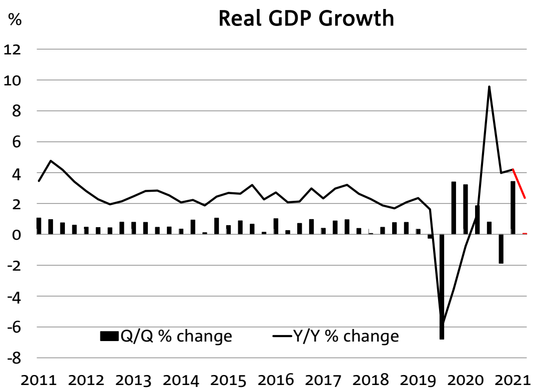
Q1 2022 – Imports to weigh on growth despite strong consumption

NAB Economics 27 May 2022

Bottom line: **NAB expects a soft 0.1% q/q (2.4% y/y) GDP print for Q1 2022, with imports weighing on growth despite ongoing strength in consumption. Household consumption is expected to rise – though at a more modest rate than the strong Q4 outturn – with services demand picking up despite impacts from Omicron and flooding. However, both dwelling and business investment are likely to be flat with capacity constraints weighing. More importantly, we expect a significant detraction from GDP from net exports after a surge in imports in the quarter, although sharp price movements leave some uncertainty around volumes. A larger-than-expected impact could temporarily push GDP into negative territory, despite the sound domestic fundamentals.**

Regardless of the soft quarterly result, the near-term outlook for Australia remains strong. Consumption should lift further in the coming quarter as Omicron and flood disruptions pass, before beginning to normalise later in the year. The labour market is tight and indicators of labour demand remain elevated, while business conditions and confidence remain above average and should support a pickup in business investment when constraints allow. That said, high inflation is likely to persist in the near term and households and businesses will also need to adjust to rising interest rates, while risks to global growth continue to build.

- **GDP is expected to have risen by 0.1% in Q1 (up 2.4% y/y).** Retail trade volumes increased by a strong 1.2% in the quarter and despite impacts from Omicron and flooding, high frequency indicators suggest services consumption also recovered further. That should see consumption rise, though at a more modest rate than the massive 6% outturn in Q4 after the lifting of the Delta lockdowns. On the other hand, partial indicators suggest that dwelling and business investment were both largely flat as capacity constraints including labour and materials shortages affected activity. We expect a significant detraction from GDP from net exports after the quarter saw imports surge higher. Broader measures of wage pressures contained in the accounts will also be of interest but remain volatile.
- **Looking forward**, consumption should lift further in the coming quarter as Omicron and flood disruptions pass before beginning to normalise later in the year. As a result, we see strong Q2 growth of around 1.5% (3.1% y/y), easing somewhat through the second half of the year as consumption and trade patterns normalise to give growth of 3.4% y/y for 2022 overall. We expect continued strength in the labour market and a gradual pickup in wage growth which, alongside elevated inflation, should see the RBA pursue a series of interest rate rises over coming months.
- **The key risks** for our forecasts for Q1 centre on both consumption and trade. All indications point to another strong consumption result but the scale of the effects of Omicron and flooding remain uncertain. More importantly, with large increases in both import and export prices, it is difficult to get a clear read on trade volumes. A larger-than-expected impact could temporarily push GDP into negative territory, despite the sound domestic fundamentals. Further out, the responsiveness of demand to rising interest rates is uncertain and there is a risk activity slows more quickly as monetary policy normalises. Risks to global growth also continue to build, with China's GDP expected to decline in the quarter on the back of COVID-related lockdowns and risks around growth in the US, UK and Europe.
- **Policy implications**: The soft quarterly GDP result is unlikely to alter the RBA's plans to normalise monetary policy, with 25bp interest rate increases expected in June, July, August and November to take the cash rate to around 1.35% by year's end. Average earnings and unit labour costs will be looked at closely for signs of wage growth, but these measures are volatile and the RBA has already signalled that its desire to see rising wages has been satisfied through business liaison. The path of unemployment – currently at 3.9% - and inflation over coming months will be more important in shaping whether the path of monetary policy moves faster or slower than currently expected.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Dec-21	Mar-22	Mar-22	Mar-22
Household Consumption	6.3	1.9	4.2	1.0
Dwelling Investment	-2.2	0.0	-1.4	0.0
Underlying Business Investment	-1.1	0.0	-0.3	0.0
Underlying Public Final Demand	-0.4	0.8	5.8	0.2
Domestic Final Demand	**2.9**	**1.3**	**4.1**	**1.3**
Stocks (a)	0.9	0.0	0.1	0.0
GNE	**3.8**	**1.3**	**3.6**	**n.a.**
Net exports (a)	**-0.2**	**-1.5**	**-1.8**	**-1.5**
Real GDP	**3.4**	**0.1**	**2.4**	**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
Chief Economist
Corporate & Institutional Banking
+(61 2) 9293 7168

Skye Masters
Head of Markets Strategy
Markets, Corporate & Institutional Banking
+(61 2) 9295 1196