AUSTRALIAN GDP PREVIEW

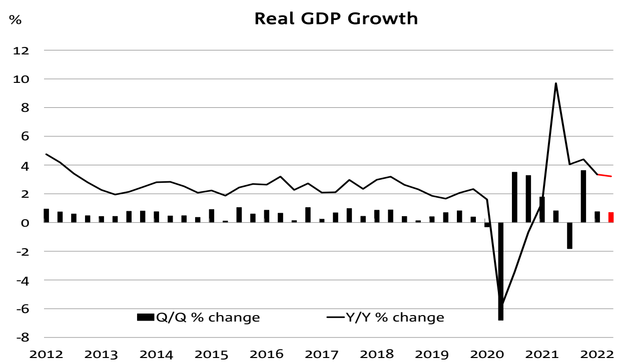
Q2 2022 – A solid outcome ahead of a slower H2 2022

NAB Economics 2 September 2022

Bottom line: **NAB expects a moderate 0.7% q/q (3.2% y/y) GDP print for Q2 2022, driven by household consumption and a rebound in net exports. That would see quarterly GDP around 5% above its pre-pandemic level – reflecting a very rapid rebound in activity from the lockdowns over the past 2 years. It will also confirm that household consumption remained robust, with goods demand remaining elevated ahead of greater challenges from higher interest rates and high inflation to come in H2 2022. Indeed, these data are lagged and unlikely to reflect much impact from higher rates which began rising in May with the impact likely to take some time to flow through. Nonetheless, the accounts will provide another marker on the recovery in services consumption and trade which were heavily impacted by the pandemic and provide further insights to household finances – before the higher rates begin to weigh on disposable income. It is likely the savings rate will normalise further but remain above its pre-pandemic level. The impact of prices pressures will also likely be reflected through the consumption and investment deflators which saw their largest rises since the early 2000s in Q1.**

Overall, this print will continue to show a healthy economy, notwithstanding the impacts of supply and weather disruptions on construction and accelerating price pressures. Indeed, high frequency data such as the labour force release suggest the economy has continued to perform beyond Q2 with further gains in employment and the lowest unemployment rate in around 50 years. Going forward, however, growth is likely to slow as the rebound effect fades, inflation and interest rates begin to weigh, and global growth slows. We expect below trend growth of around 1.75% in each of the next two years.

- **GDP is expected to have risen by 0.7% in Q2 (3.2% y/y).** We see a solid outcome for household consumption, in part driven by a rebound from a COVID impacted Q1, while retail sales volumes rose by a healthy 1.4% in the quarter. Partials on the investment side point to a notable fall in dwelling investment, likely the result of weather and supply-related disruptions. For business investment, buildings & structures spending looks to have fallen slightly while investment in machinery & equipment made a small gain. Overall, we expect private sector investment to detract around 0.3ppt from growth. Net exports are expected to make a solid contribution after strong growth in imports weighed in Q1 while government spending is expected to remain solid.
- **The key risks** for our forecasts for Q2 again lie with household consumption and trade. Monthly trade data show a record widening in the trade surplus in nominal terms, but this mostly reflects the very strong increase in commodity prices (particularly thermal coal), though there will likely be an unwind from the strong run up in imports in Q1 and a small increase in export volumes. The pace of recovery in services consumption also remains uncertain with few partials available ahead of the national accounts.
- **Looking forward**, we expect growth to moderate driven by a slowing in household consumption growth – with higher rates, prices and negative wealth effects weighing. There is also likely to be some ongoing rebalancing of goods and services spending in the near-term as the impact of the pandemic wanes. Dwelling construction is expected to remain elevated but likely volatile, and we expect business investment to see modest gains. Taken together with a slowing in global growth, we expect below trend growth of around 1.75% in each of the next two years.
- **Policy implications**: The national accounts price measures will likely confirm broad-based price pressures in the economy through the consumption and investment deflators but, coming the day after the RBA's next meeting (where we expect a 50bp hike), have no near-term implications for monetary policy. In the medium term, the RBA will also remain focused on normalising rates (and moving to a moderately restrictive stance) while keeping an eye on how supply-side inflation pressures resolve. Domestic factors will increase in importance as global disruptions resolve over the coming period.



Real GDP Forecasts

	Q/Q		Y/Y	Contribution to Q/Q
	Mar-22	Jun-22	Jun-22	Jun-22
Household Consumption	1.5	1.7	4.6	0.8
Dwelling Investment	-1.0	-5.3	-7.5	-0.3
Underlying Business Investment	1.4	-0.2	-0.4	0.0
Underlying Public Final Demand	2.6	0.8	6.5	0.2
Domestic Final Demand	**1.6**	**0.9**	**3.9**	**0.9**
Stocks (a)	1.0	-1.1	0.0	-1.1
GNE	**2.6**	**-0.2**	**3.6**	**n.a.**
Net exports (a)	**-1.7**	**0.9**	**-0.4**	**0.9**
Real GDP	**0.8**	**0.7**	**3.2**	**n.a.**

(a) Contribution to GDP growth

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