# Australian GDP Preview Q4 2022

## A solid outcome to round out 2022

## NAB Group Economics

## Overview

NAB sees a 0.8% q/q (2.8% y/y) GDP print for Q4 2022. Household spending looks to have remained resilient to rising rates and inflation. In part, this reflects the ongoing recovery in services spending. Elsewhere, investment looks to have fallen slightly, while net exports will provide a large boost, partially offset by the stock cycle. We expect the production and income sides of the accounts to reflect the broader trends unfolding in the economy, with services industries seeing gains, while goods industries generally remain resilient. Labour cost measures will see strong prints reflecting the ongoing tightness in the labour market. This release will be unlikely to shift the dial for policy with the RBA squarely focused on managing the risk of broadening inflationary pressure amidst the strength in domestic demand. Indeed, these accounts will show that the economy has remained more resilient than expected.

## Details

- **GDP is expected to have risen by 0.8% in Q3 (2.8% y/y).** Retail sales declined by 0.2% in Q4, though our internal transactions data suggests that services spending offset the softness, with overall consumption up around 0.6%. Partials for dwelling investment point to a small gain in new building but a large pull-back in renovations. Business investment looks to have fallen at face value with a weak outcome for non-res building and engineering construction. However, the capex numbers for buildings & structures suggest a stronger outcome. While the work done numbers typically map through to the national accounts measure of investment the Capex survey may be more reflective of trends at the smaller end of the scale which are not captured in the building activity survey.
- **The price and wage measures of the accounts will again garner more focus than usual.** Average earnings per hour will provide a clearer signal on labour cost pressures than the narrow WPI print earlier this week, while the nominal unit labour costs measure will also provide some insight into the inflationary pressure from wages growth in a tight labour market. The domestic demand and consumption deflators, which have reflected the broad-based strength in prices recent quarters, are expected to remain high. The terms of trade will also likely see some volatility due to movements in commodity prices but remain high – and is important for assessing the broader income boost at play in the economy in addition to the strength in employment and wage growth.
- **The stocks and trade contributions are key sources of uncertainty.** Stocks have been volatile over recent quarters as supply chain impacts have driven strong cycles in inventories while there was also a large run up in mining inventories in Q3 which could well be unwound. That said, there is also likely some offsetting support from the ongoing rebuild in inventories which were run down amidst strong demand through the pandemic. Similarly, large movements in key commodity prices leads to greater uncertainty on real trade volumes estimated from the nominal monthly trade data.
- **Looking forward**, we expect growth to slow sharply from here, driven by flat to negative outcomes for consumption in H2 2023 as the full impact of higher rates and inflation flows through. Goods spending is expected to moderate, though there may be some ongoing recovery in services spending. Dwelling investment and business investment are expected to weaken, though we expect a small positive offset from net exports. With ongoing volatility in the trade numbers, a focus on domestic demand will be important for policy – particularly for consumption but as the volatility fades there, trends in the smaller components of GDP will become more important for overall growth. The magnitude of the expected decline in dwelling investment, the direction of business investment amidst greater uncertainty but still-high capacity utilisation, and the strength of government spending will all be important swing factors.

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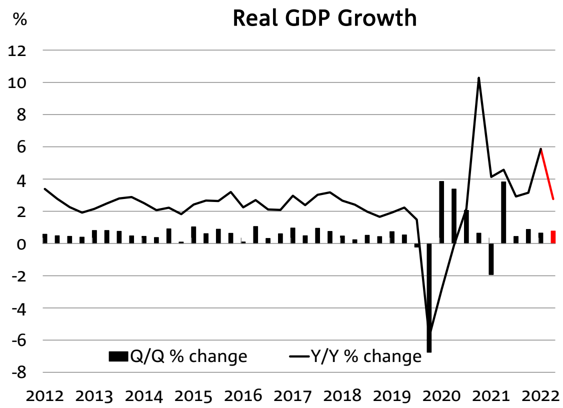
- **This release is unlikely to impact the path of monetary policy in the near term** with the RBA having already signalled further increases in coming months. Indeed, the national accounts prices and wages measures will likely confirm the broad-based inflationary pressure in the economy. Labour costs measures will likely provide more evidence of the pressures on wages than this week's WPI print. Ultimately, the RBA has signalled that there will be further increases in coming months based on a forward looking reaction function and their latest set of forecasts. That said, slowing growth will likely be the first signal the economy is cooling in response to rate rises alongside the moderation in global inflation. Therefore, activity partials – particularly for consumer spending – will be important in assessing the flow through in policy over coming months. NAB continues to see the RBA hiking rates by 25bps in March, April and May, taking the RBA cash rate to 4.10%.




**Real GDP Forecasts**

| | Q/Q | | Y/Y | Contribution t Q/Q |
|---|---|---|---|---|
| | Sep-22 | Dec-22 | Dec-22 | Dec-22 |
| Household Consumption | 1.1 | 0.6 | 5.7 | 0.3 |
| Dwelling Investment | 1.0 | -0.9 | -3.4 | 0.0 |
| Underlying Business Investment | 0.8 | -0.9 | 3.0 | -0.1 |
| Underlying Public Final Demand | 0.2 | 0.7 | 3.3 | 0.2 |
| **Domestic Final Demand** | **0.6** | **0.3** | **3.7** | **0.3** |
| Stocks (a) | 0.2 | -0.6 | 0.3 | -0.6 |
| **GNE** | **0.8** | **-0.3** | **3.0** | **n.a.** |
| **Net exports (a)** | **-0.2** | **1.3** | **-0.3** | **1.3** |
| **Real GDP** | **0.6** | **0.8** | **2.8** | **n.a.** |

(a) Contribution to GDP growth

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