Australian Economic Update

GDP Q4 2022 – Growth slows as consumption softens

NAB Group Economics

Overview

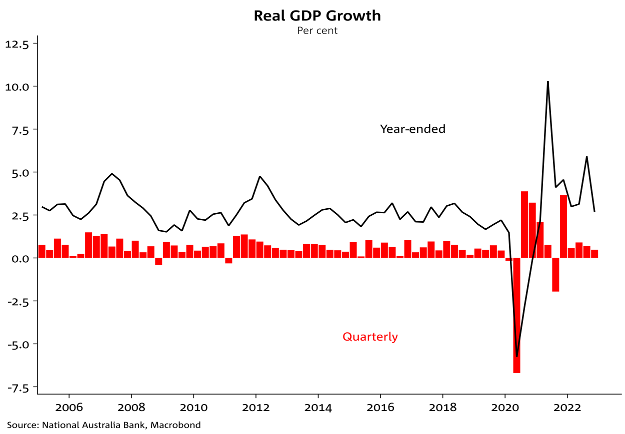
GDP rose by 0.5% q/q (2.7% y/y) and is now 7.2% above its pre-COVID level. The activity side of the accounts shows that the economy has remained fairly resilient to the interest rate and price pressures through Q4 but that price and cost growth remains elevated and broad-based. The rebalancing of goods versus services spending is now well underway, with the level of goods consumption normalising. Overall, today's numbers don't change our view of the economy. From here we expect consumption growth to stall, as the impact of higher rates continues to flow through. There are few implications for the near-term path of monetary policy with the RBA already signalling further increases in coming months. We continue to see the cash rate reaching 4.1% by May, though the strength of Q1 CPI and resilience of high frequency measures of consumer spending will be key.

Key points

- **The real side of the accounts continue reflect an economy that has rebounded strongly from the pandemic** with ongoing resilience of consumer demand. Consumption growth was slightly lower than we had expected with goods spending declining in the quarter (down 1%) as consumption continued to rebalance towards services. Overall, both discretionary and non-discretionary spending continued to rise, suggesting the impact of higher rates has yet to really show through in consumption behaviour.
- **The savings rate fell further in the quarter, now around 2ppt below pre pandemic levels at 4.5%**, with interest payable continuing to rise sharply in the quarter. The Q4 interest burden does not yet fully reflect the impact of rate rises to date (or those to come). We expect this to be more fully reflected in H1 2023, in line with our view consumption will be flat to negative in 2023.
- **Other expenditure components were broadly in line with the partials** and suggest that both dwelling and business investment are already responding to higher rates, with both easing despite a large pipeline of work in dwellings and high capacity utilisation in the business sector. Government spending also remains high but made little contribution.
- **Broader wage and labour cost growth measures remain high but eased slightly in the quarter**. They continue to track at a higher rate than the narrower wage price index measure of wage costs, reflecting the cyclical pressures in the labour market.
- **Growth in both the domestic final demand and consumption deflators eased in the quarter** but remained high. This is in line with other data sources that suggest we may be past the peak in inflationary pressure. How quickly this pressure moderates will be important for the peak and persistence in interest rates. The ongoing recovery in supply chains amidst slower demand growth in H2 2023 will likely see price pressures ease more significantly.

Key figures

Key aggregates	q/q % ch		y/y % ch
	Sep-22	Dec-22	Dec-22
GDP (A)	0.7	0.5	2.7
GDP (E)	0.7	0.6	2.6
GDP (I)	0.6	0.5	2.6
GDP (P)	0.7	0.4	2.7
– Non-Farm GDP	0.7	0.6	3.0
– Farm GDP	-1.9	-2.7	-9.3
Nominal GDP	1.2	2.1	12.0
Real gross domestic income	-0.7	0.6	4.4
Real net national disposable income per capita	-1.5	1.1	2.2
Terms of trade	-5.9	0.5	7.2



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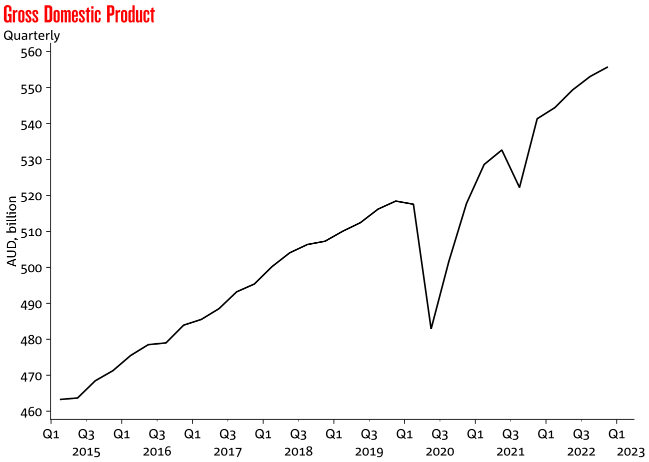
Details

- **Household consumption** rose 0.3% q/q (5.4% y/y), the weakest quarterly outcome since the end of lockdowns. Still, both discretionary and non-discretionary spending rose in real terms, with the easing in growth largely reflecting the rebalancing of goods and services consumption. Goods consumption fell 1% in the quarter – from a high level – led by falls in discretionary items like clothing & footwear (down 2.7%) and household goods (down 1.2%). At the same time, services continued to recover, up 1.2% with growth in discretionary categories like hotels, cafes & restaurants (up 1.6%) and transport (up 5.7%), though recreation & culture consumption eased (down 1.4%). Overall, household consumption contributed 0.2ppt to GDP growth.
- **Business investment** fell by 0.8% q/q (underlying basis), reflecting a fall in non-mining sector investment. The ABS attributed the fall to the completion of major projects. By type of investment, the weakness largely reflected non-dwelling construction (-2.2% q/q on an underlying basis) with both new building and new engineering construction down. Underlying machinery & equipment investment also fell, as it did in Q3, but only marginally (-0.2%). These declines were partially offset by increases in research & development and software. Compared to a year ago, underlying business investment was up 3.1%.
- **Dwelling investment** fell 0.9%, more than reversing the increase in Q3; to be 3.7% down on its year ago level. The fall in Q4 was entirely due to alterations & additions (-4.2% q/q); this category saw the biggest boost during the pandemic from government support and is now reversing at a rapid pace as interest rates weigh on housing turnover and upgrades. In contrast, new dwelling investment rose for the second quarter in a row (1.4% q/q), supported by an improved supply of materials.
- Underlying **public demand** rose 0.2% q/q, unchanged from Q3. The growth was largely accounted for by Federal non-defence expenditure, as Federal defence and state & local government consumption, as well as, public investment, declined. The increased in national consumption appears to largely reflect increased social benefits to households relating to aged care and pharmaceuticals.
- **Net exports** added a large 1.1 ppts to quarterly GDP growth. Exports increased 1.1% q/q mainly due to a 2.5% increase in resources exports (after Q3 was affected by port disruptions) and travel credits (tourism, overseas students). The latter increased 18.9% q/q but remains 40% below its pre-COVID level. There was a large fall in non-monetary gold exports but the impact of this looks to have been partially offset by a resulting rise in public inventories. The 4.3% q/q fall in imports was broad based. This included a 6.2% q/q fall in travel debits – which the ABS attributed to a preference for cheaper, short-haul destinations, ending a run of very large increases and it is almost 50% below its pre-COVID level.
- **State final demand (SFD)** was modest or negative across the states. There were small positives in Vic (0.2%) and WA (0.1%), but Tas was flat and there were small falls in NSW (-0.1%), SA (-0.2%), Qld (-0.3). Household consumption grew modestly in most cases while investment fell across the board, although Qld and WA saw a lift in dwelling investment as supply constraints eased. ACT grew 0.3% while NT fell 0.5%, both reflecting swings in government expenditure.
- On the **production side** of the accounts, there was a significant fall in agricultural production (down 2.6%), partly reflecting flooding impacts. Utilities output was down 4.9%, due to milder weather, and manufacturing output declined 1.8%. At the same time, there was a strong 3.2% increase in mining production, contributing 0.3ppts to growth. Recovering services consumption supported growth in accommodation & food (1.4%), arts & recreation (2.4%) and other services (4.9%).
- **Household disposable income** declined 0.7% q/q as continued wage income growth was outweighed by rising interest payments. Total compensation of employees rose 2.1%, but average compensation per employee rose by 1% (down from 2.5% in Q3) and hourly compensation rose just 0.4%. Interest payments rose 22% to reach 5.9% of disposable income (up from 4.8% in Q3). In real terms, the fall in disposable income was more significant, declining 2.1% q/q (using the consumption deflator). With income constrained and consumption still rising, the savings rate fell to 4.5% – around 2ppts below the pre-pandemic average.
- The **nominal side** of the accounts continued to reflect strong inflation dynamics, with the household consumption deflator up 1.5% q/q (6.8% y/y) and domestic demand deflator similar. There was also a small rise in the terms of trade, up 0.6%, further supporting nominal GDP which rose 2.1% q/q (12.0% y/y).

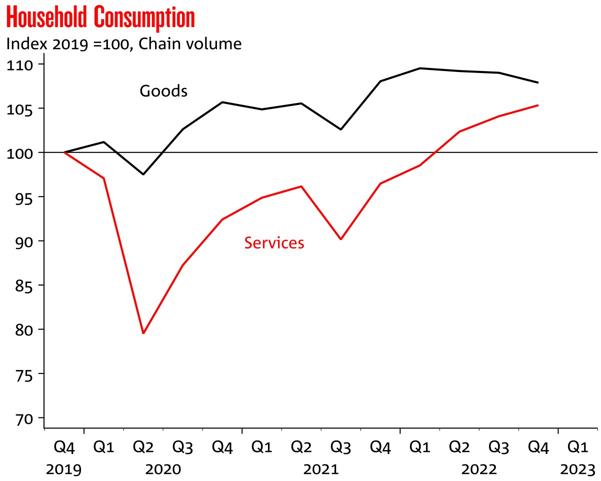
Key Charts

GDP is now 7.2% above pre-COVID levels



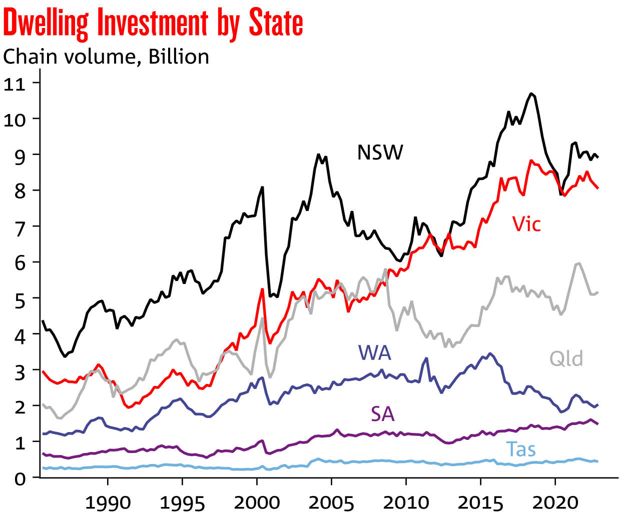
Source: National Australia Bank, Australian Bureau of Statistics

Services consumption continues to normalise



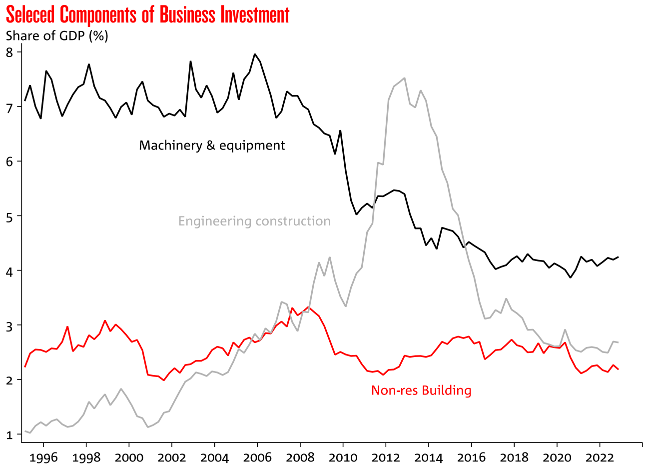
Source: National Australia Bank, Australian Bureau of Statistics

Dwelling investment fell in Q4 but was uneven across states



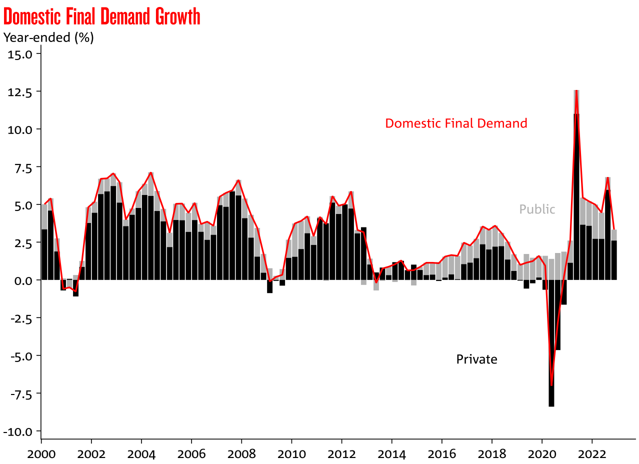
Source: National Australia Bank, Australian Bureau of Statistics

Business investment showing little momentum



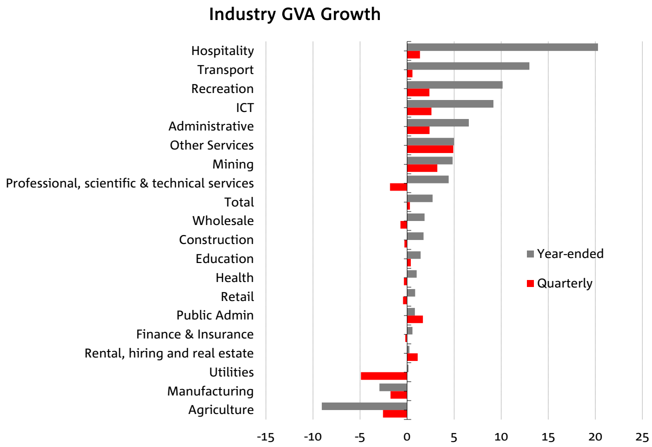
Source: National Australia Bank, Australian Bureau of Statistics

Private sector demand solid over last year but weak in Q4

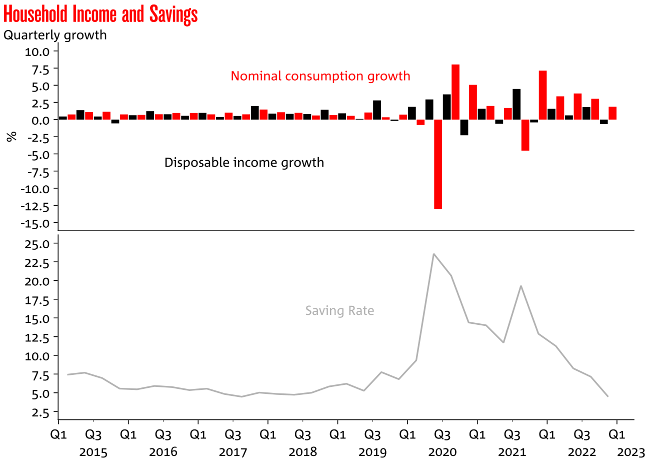


Source: National Australia Bank, Australian Bureau of Statistics

Still seeing outperformance in COVID affected sectors

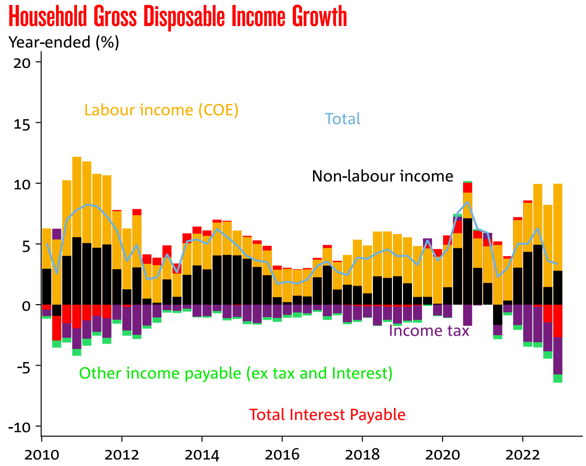


The savings rate continues to fall



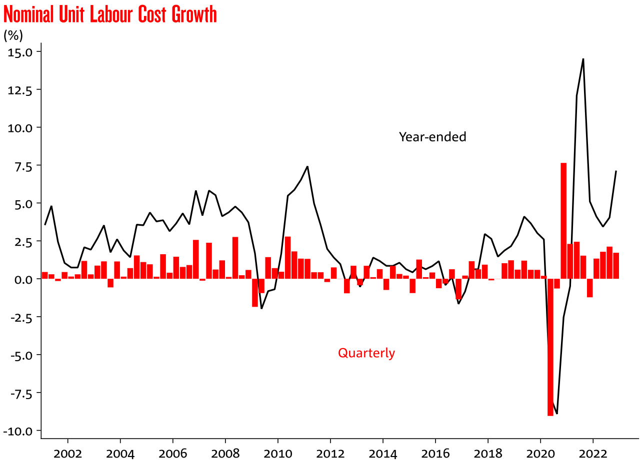
Source: National Australia Bank, Australian Bureau of Statistics

Building rates impact on disposable income



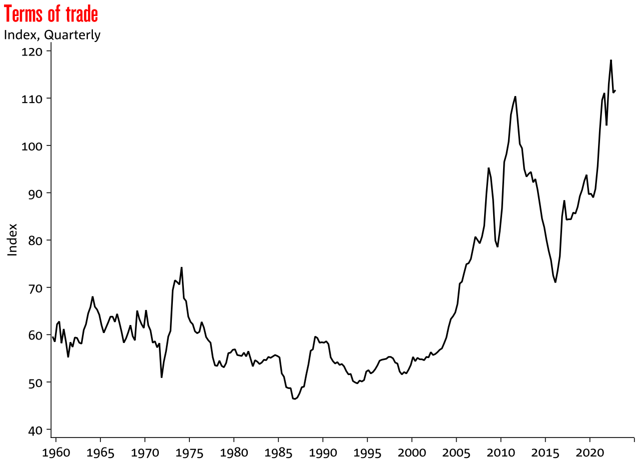
Source: National Australia Bank, Australian Bureau of Statistics

Nominal unit labour cost growth stabilising at a high level



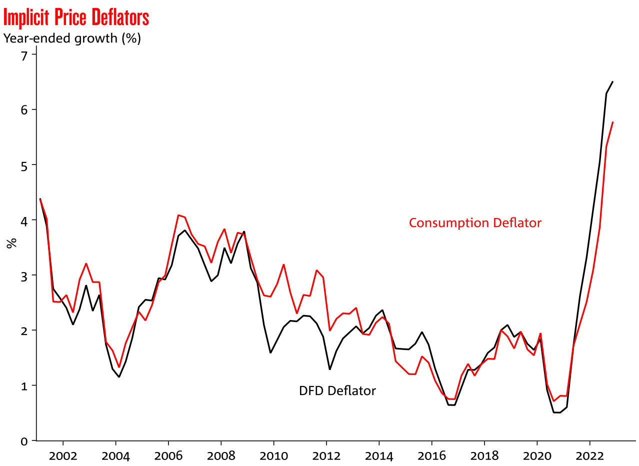
Source: National Australia Bank, Australian Bureau of Statistics

The terms of trade little changed – still high



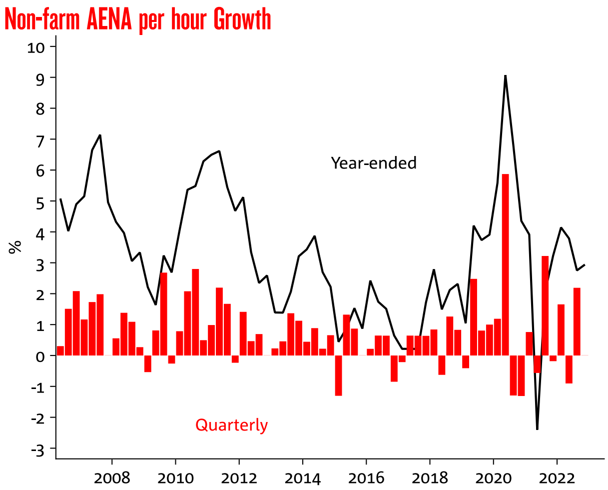
Source: National Australia Bank, Australian Bureau of Statistics

Annual price deflator growth again higher, but quarterly rate decelerated



Source: National Australia Bank, Australian Bureau of Statistics

Year-ended AENA growth moderated ticked up



Source: National Australia Bank

Summary Tables

Key variables

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Sep-22	Dec-22	Dec-22	Dec-22
Household Consumption	1.0	0.3	5.4	0.2
Dwelling Investment	0.7	-0.9	-3.7	0.0
Underlying Business Investment^	1.5	-0.8	3.1	-0.1
Machinery & equipment	-2.5	-0.2	4.8	0.0
Non-dwelling construction	5.8	-2.2	2.5	-0.1
New building	4.9	-3.8	-0.5	-0.1
New engineering	6.6	-0.8	5.1	0.0
Underlying Public Final Demand	0.2	0.2	2.5	0.0
Domestic Demand	**0.6**	**0.0**	**3.3**	**0.0**
Stocks (a)	0.4	-0.5	-0.1	-0.5
GNE	**1.0**	**-0.5**	**3.2**	**-0.5**
Net exports (a)	**-0.2**	**1.1**	**-0.5**	**1.1**
Exports	2.5	1.1	7.7	0.2
Imports	4.0	-4.3	12.1	0.9
GDP	**0.7**	**0.5**	**2.7**	**0.5**

(a) Contribution to GDP growth ^ Excluding transfers between the private and public sector

Income measures

Income measures	q/q % ch		y/y % ch
	Sep-22	Dec-22	Dec-22
Real GDI	-0.7	0.6	4.4
Real net disposable income per capita	-1.5	1.1	2.2
Compensation of employees	3.2	2.1	10.4
Average compensation of employees (average earnings)	2.2	1.0	4.4
Corporate GOS	-2.8	3.2	18.9
Non-financial corporations	-4.2	3.7	20.9
Financial corporations	5.1	0.5	8.4
General government GOS	1.1	1.3	5.5
Productivity & unit labour cost			
GDP per hour worked	0.2	-1.4	-3.5
GVA per hour worked mkt sector	0.7	-2.4	-5.2
Non-farm nominal unit labour cost	2.2	1.6	7.0
Non-farm real unit labour cost	1.5	-0.3	-2.2

State final demand

State/ Territory	Q/Q		Y/Y
	Sep-22	Dec-22	Dec-22
VIC	0.0	0.2	4.1
ACT	0.7	0.3	3.9
NSW	0.6	-0.1	3.4
NT	2.7	-0.5	3.3
WA	1.1	0.1	3.2
SA	0.2	-0.2	3.2
QLD	0.9	-0.3	2.4
TAS	1.6	0.0	1.1

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