Australian Economic Update

GDP Q1 2023 – A soft start to 2023

NAB Group Economics

Overview

GDP rose by 0.2% q/q (2.3% y/y) – in line with our expectations and a touch softer than market and RBA forecasts (consensus 0.3%). The expenditure side was in line with partials and continues to paint a picture of soft consumption growth and weakening housing construction, with increasing evidence that higher rates and inflation are weighing on spending. The nominal side of the accounts reflected the pattern we have seen in other price data, with the pace of inflation easing in quarterly terms but remaining very high. Broader wage and labour cost measures also continue to track strongly reflecting the tightness in the labour market with the Statistician noting “higher than usual end of year bonuses and incentives paid to workers”.

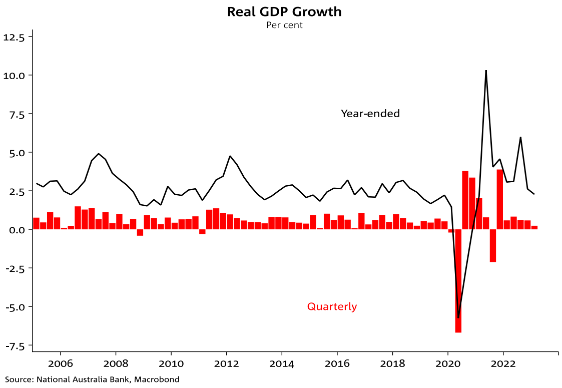
Today’s release doesn’t change our view that growth will slow sharply through mid-2023 and indeed shows signs that rates are flowing through to softer household spending. We continue to see weak growth through mid-2023 with annual growth of just 0.7% over 2023 and 1.2% over 2024. For the RBA, the national accounts continue to reflect broad based price pressure through strong deflator growth albeit at a slightly softer pace. While volatile on a quarterly basis, nominal unit labour costs continued to grow strongly up 2% q/q and are now tracking near 8% y/y. The evolution of these cost pressures will continue to be important as the RBA seeks to return inflation to target as global pressures fade, but domestic pressures (in services) continue.

Key points

- **The activity side of the accounts show that activity is continuing to slow,** as we move further beyond the rebound phase and interest rates begin to weigh. Household consumption growth edged lower but managed to eke out 0.2% in real terms – supported by spending on essentials, with discretionary falling in the quarter. Both business and government investment were key supports in the quarter while dwelling investment (and ownership transfer costs) continued to fall as higher rates weigh on the housing market.
- **The nominal side of the accounts continued to reflect the broad-based inflation pressures in the economy,** though both the consumption and DFD deflators continue to ease in quarterly terms. That said, they remain strong at 1.1% and 1.0% q/q, respectively and over 6% y/y. The terms of trade ticked up and remains elevated.
- **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. Importantly for the RBA outlook, unit labour cost growth strengthened in the quarter, up 2% and while volatile is now up 7.9% over the year reflecting weak productivity growth and strong growth in labour costs.
- **The savings rate fell further in the quarter, now around 3ppt below pre pandemic levels at 3.7%**. Disposable income growth ticked up with labour income growth strengthening and a slightly smaller subtraction from rising interest payments than Q4 (owing to lower rate rises). Nonetheless, the rising interest burden has subtracted around 3.3ppts from disposable income growth over the year.

Key figures

Key aggregates	q/q % ch		y/y % ch
	Dec-22	Mar-23	Mar-23
GDP (A)	0.6	0.2	2.3
GDP (E)	0.7	0.3	2.6
GDP (I)	0.5	0.2	2.1
GDP (P)	0.5	0.2	2.1
– Non-Farm GDP	0.6	0.2	2.5
– Farm GDP	0.9	-0.1	-5.6
Nominal GDP	2.2	2.1	9.2
Real gross domestic income	0.7	0.9	2.5
Real net national disposable income per capita	1.0	0.4	0.2
Terms of trade	0.3	2.8	0.1



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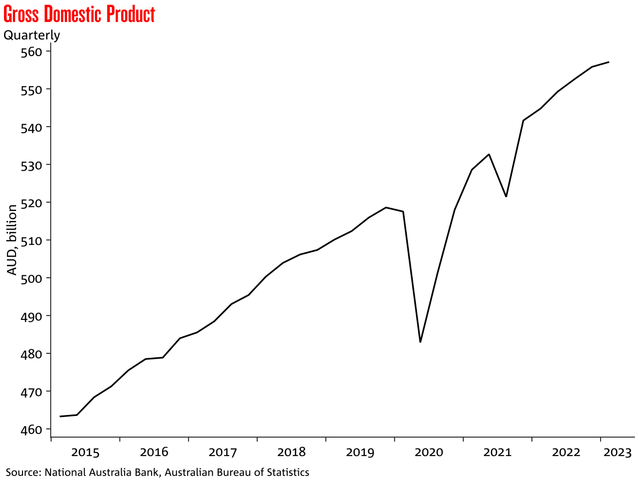
Details

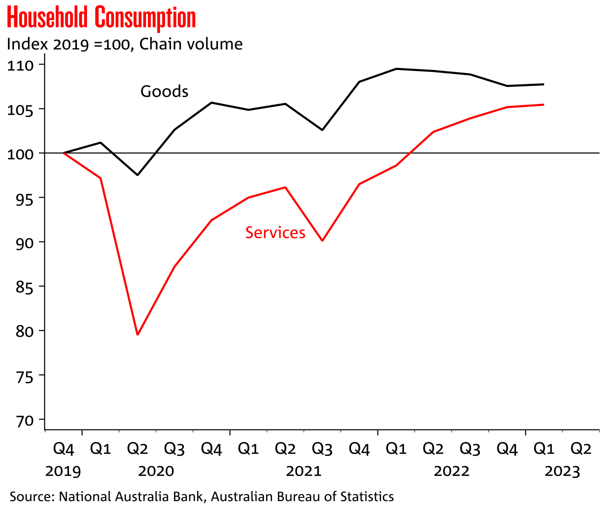
- **Household consumption** growth edged lower to 0.2% q/q (3.5% y/y), though both goods and services spending rose in the quarter. However discretionary spending fell 1.0% q/q increasingly reflecting the impact of higher rates and inflation. This was offset by a 1.1% rise in spending on essentials. Spending on utilities rose most strongly up 5.2% in the quarter, while transport services continue to recover, up 4% q/q (but still down 25% on pre-Covid levels). Household goods fell 2.5% q/q.
- **Business investment** rose by 2.9% q/q (underlying basis), the fastest quarterly pace since early 2021. Machinery & equipment investment was particularly strong (up 4.9%, underlying basis, with the ABS citing vehicle, agricultural equipment and automation as the drivers) while non-dwelling construction increased (2.3% q/q) with the ABS noting higher investment in renewable and electricity infrastructure. By sector, mining investment rose 1.0% q/q and non-mining 4.2%. Mining sector investment is up almost 30% since its Q1 2019 trough – likely a response to high commodity prices albeit a subdued one by historical standards.
- **Dwelling investment** fell 1.2% after declining 0.8% in Q4. Both new & used dwelling investment and alterations & additions declined in the quarter. Dwelling investment is now down 6.2% from its peak in mid-2021 (which saw a significant boost from government support at the height of the pandemic). By state, Vic and Qld led the declines, (falling 2.4% and 1.3% respectively) while NSW edged lower. WA, SA and Tas all rose.
- Underlying **public demand** rose 0.8% q/q, a pick-up in the pace from recent quarters, reflecting stronger public investment (up 4.0% q/q, after -2.3% q/q in Q4). Public consumption was only slightly higher, with an increase in Federal government non-defence spending – at least in part driven by Aged and Home Care spending - largely offset by lower defence and state/local government consumption.
- **Net exports** subtracted 0.2 ppts from quarterly GDP growth, as imports grew (3.2% q/q) faster than exports (1.8% q/q). Goods exports were up 0.7% q/q but were held back by a decline in resource export volumes (mainly coal). Travel credits were up 17% q/q (137% over the year) as the normalisation in travel continued, including education related, with international student numbers at 94% of their pre-COVID level. The increase in imports was driven by consumption and capital goods (each around 5% q/q) and a rebound in service debits (3.1% q/q) after the Q4 decline, reflecting increased travel and other services debits. Intermediate goods imports fell (-1.1% q/q).
- **State final demand (SFD)** growth was generally positive although there were declines in Tasmania (-0.2% q/q) and the NT (-0.4% q/q). Growth was strongest in WA (0.8% q/q) and Victoria (0.7% q/q). WA's performance reflected a lift in public consumption – driven by flood related expenses – and public investment. Victoria's SFD growth was driven by relatively strong public and business investment. Growth in SFD was moderate in NSW and Queensland (0.4%) and the ACT (0.5%) and subdued in South Australia (0.1% q/q).
- On the **production side** of the accounts, results were very mixed. Of the 19 industry categories, eight saw falls, while eleven saw an increase. The largest falls were in real estate (-1.6% q/q), reflecting the slowing property market, admin & support services (-1.4%) and professional/technical services (-1.2% q/q). Of note, the ABS attributed the decline in admin GVA to lower demand for labour recruitment and hiring services. In contrast, manufacturing rose 2.4% q/q (helped by a recovery in food production from weather related impacts and global demand for non-monetary gold (metal product manufacturing)). Utility production (1.5%) rose due to increased electricity usage from warmer weather while information & telecoms again grew strongly (1.7%). Of note, growth in two sectors that bounced strongly as COVID restrictions (and concerns) eased – hospitality and transport – have seen a notable deceleration in growth (but are still seeing above average growth).
- **Household disposable income** rose 0.8% q/q after falling 0.7% last quarter – with compensation of employees rising 2.3% strongly, while net interest payments rose by less in Q1 owing to smaller interest rate increases in the quarter with the RBA on hold in January. Nonetheless, nominal consumption growth continued to outpace growth in income, which saw the savings rate fall further to 3.8% in the quarter.
- The **nominal side** of the accounts continued to reflect strong inflation but with a slight easing in pressure as q/q run rate generally continued to slow. The consumption deflator rose 1.1% still strong, but well down on its peak around 2% q/q. Broader DFD deflator also eased q/q to 1.0%. That said, both remain well over 6% y/y.

Key Charts

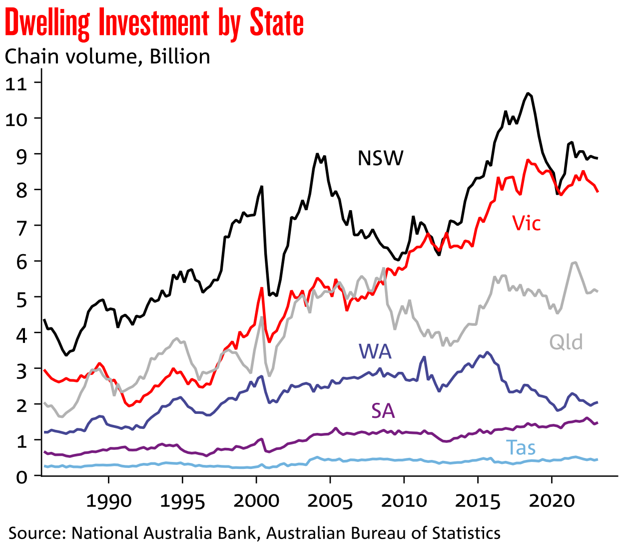
While GDP is slowing, it is now 7.4% above pre-COVID levels



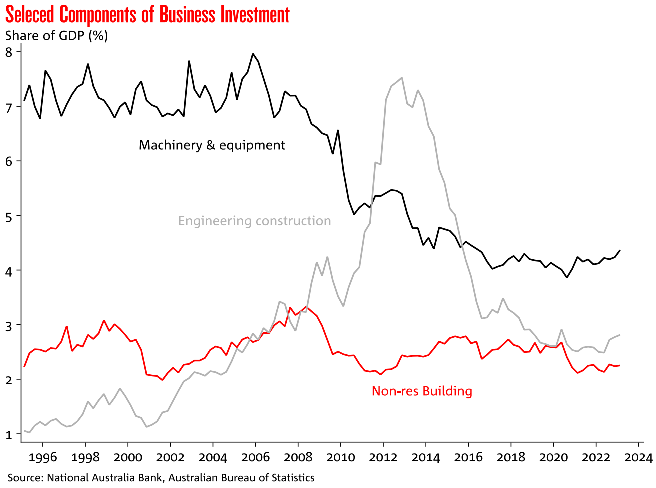
Services consumption continues to normalise



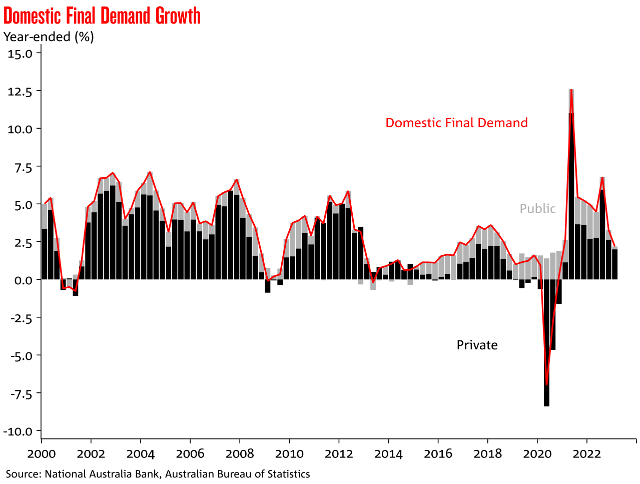
Broad based fall in dwelling investment over last year or so



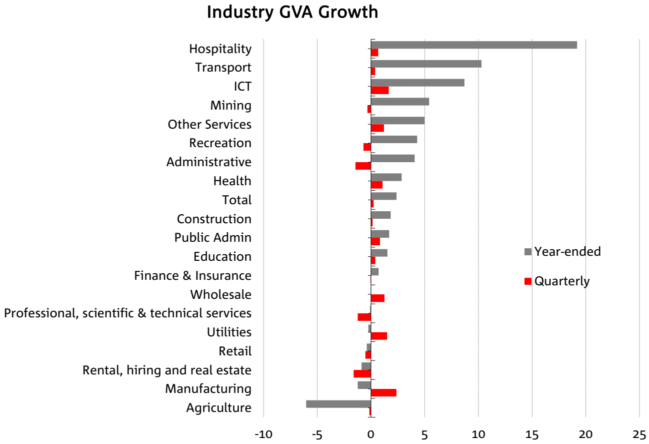
Business investment showing signs of life



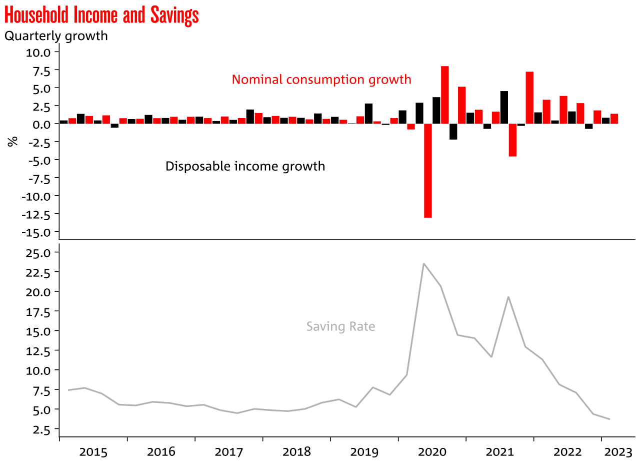
Domestic demand held up in Q1, but the trend is down



Mixed story at industry level

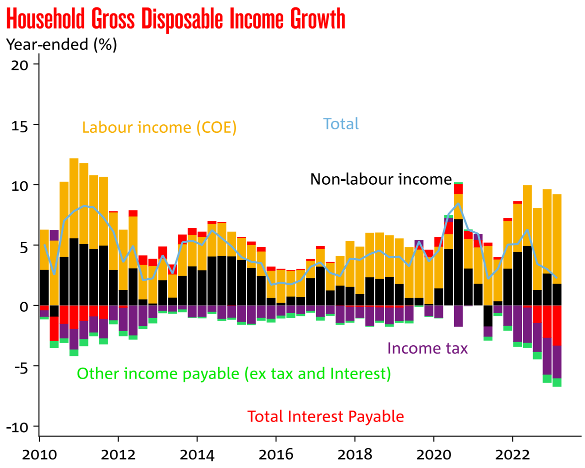


The savings rate continues to fall



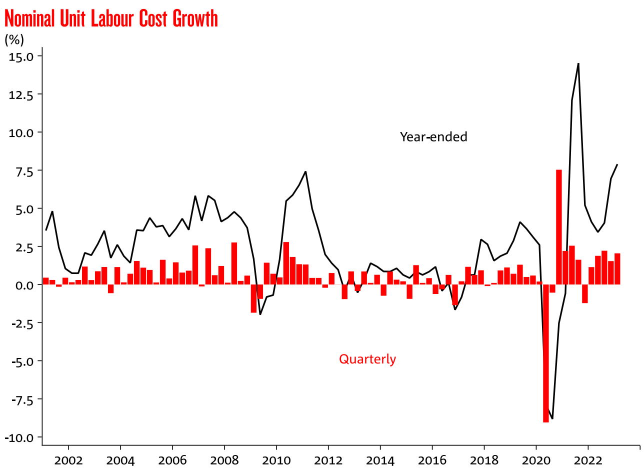
Source: National Australia Bank, Australian Bureau of Statistics

Building rates impact on disposable income



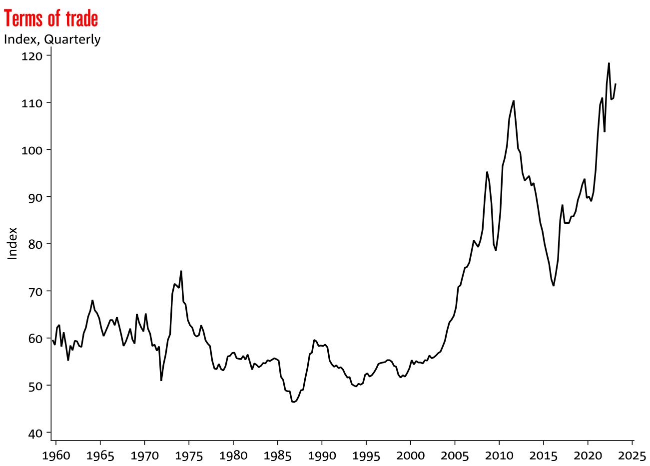
Source: National Australia Bank, Australian Bureau of Statistics

Nominal unit labour cost growth stabilising at a high level



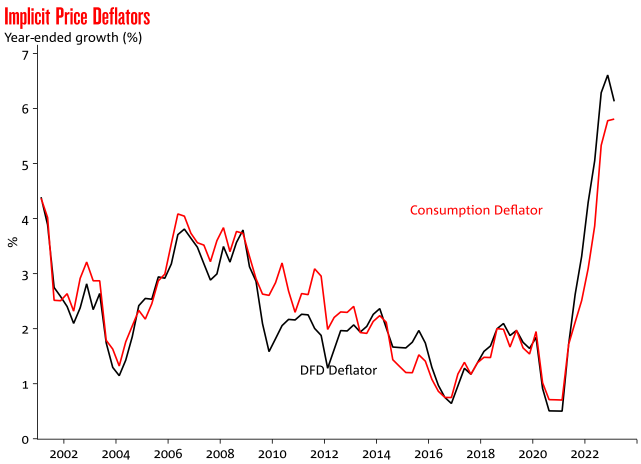
Source: National Australia Bank, Australian Bureau of Statistics

The terms of trade little changed – still high



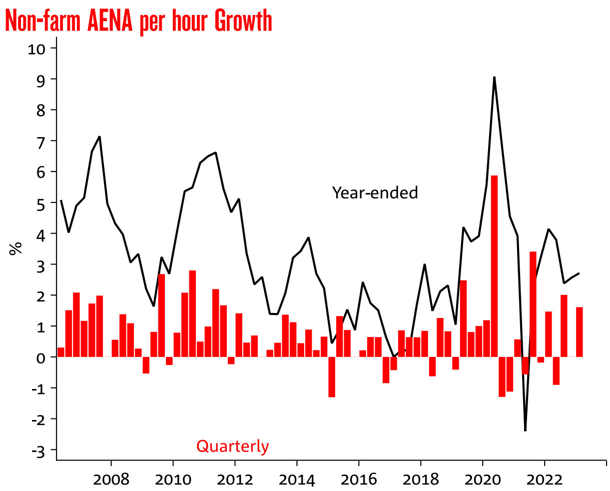
Source: National Australia Bank, Australian Bureau of Statistics

Annual domestic demand price deflator turns the corner, as quarterly rate decelerates again



Source: National Australia Bank, Australian Bureau of Statistics

Year-ended AENA growth rose



Source: National Australia Bank

Summary Tables

Key variables

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Dec-22	Mar-23	Mar-23	Mar-23
Household Consumption	0.3	0.2	3.5	0.1
Dwelling Investment	-0.8	-1.2	-4.4	-0.1
Underlying Business Investment^	0.2	2.9	6.6	0.3
Machinery & equipment	-0.5	4.9	6.6	0.2
Non-dwelling construction	0.3	2.3	8.9	0.1
New building	-1.5	1.3	4.7	0.0
New engineering	1.9	3.1	12.6	0.1
Underlying Public Final Demand	0.1	0.8	0.7	0.2
Domestic Demand	**0.1**	**0.6**	**2.2**	**0.5**
Stocks (a)	-0.5	0.0	-0.8	0.0
GNE	**-0.4**	**0.6**	**1.4**	**0.5**
Net exports (a)	**1.1**	**-0.2**	**1.3**	**-0.2**
Exports	1.4	1.8	10.8	0.4
Imports	-4.0	3.2	5.1	-0.6
GDP	**0.6**	**0.2**	**2.3**	**0.2**

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

State final demand			
	Q/Q		Y/Y
State/ Territory	Sep-22	Dec-22	Dec-22
WA	0.5	0.8	2.8
QLD	0.0	0.4	2.3
NSW	-0.1	0.4	2.2
SA	-0.3	0.1	2.1
ACT	0.4	0.5	1.9
VIC	0.1	0.7	1.9
TAS	-0.4	-0.2	1.8
NT	0.4	-0.4	1.3

Income measures

Income measures	q/q % ch		y/y % ch
	Dec-22	Mar-23	Mar-23
Real GDI	0.7	0.9	2.5
Real net disposable income per capita	1.0	0.4	0.2
Compensation of employees	2.0	2.4	10.8
Average compensation of employees (average earnings)	0.9	2.3	6.9
Corporate GOS	3.4	3.2	12.7
Non-financial corporations	3.9	3.8	13.5
Financial corporations	0.6	-0.2	8.3
General government GOS	1.3	1.3	5.2
Productivity & unit labour cost			
GDP per hour worked	-1.4	-0.2	-4.5
GVA per hour worked mkt sector	-1.9	0.8	-4.3
Non-farm nominal unit labour cost	1.5	2.0	7.9
Non-farm real unit labour cost	-0.5	-0.3	0.0

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