Australian GDP Preview Q2 2023

Trade to support growth amidst flat consumption

NAB Group Economics

Overview

NAB sees a +0.5% q/q (1.9% y/y) GDP print for Q2 2023 which will confirm the slowing in domestic demand we have seen across other indicators. Both ABS retail sales data and our own transactions data points to a flat outcome for consumption following 0.2% growth in Q1. Business investment will provide some support to domestic demand, though the key driver of overall GDP growth this quarter looks to be a solid positive contribution from trade. Over the next two quarters we expect this pattern to persist with household consumption growth to dip slightly as real incomes continue to be squeezed. Elsewhere the accounts will provide a more comprehensive picture of the underlying dynamics in the economy, with the evolution of disposable income growth and the savings rate to provide useful insight into household cash flows and greater services spending information than is available in quarterly retail sales.

There will likely be few direct implications for policy in the near-term based on this release. We continue to see one final interest rate rise in November, although recent data and communication have increased the likelihood that interest rates have peaked - with the strength of services inflation in coming months critical. Further out, the outlook for growth will be increasingly important with rates in restrictive territory, inflation already moderating and the well-known lags between rates, activity and inflation still playing out. On our forecasts, we see the RBA beginning to ease in the second half of 2024 – taking the cash rate back towards a more neutral level of around 3% by early 2025.

Details

- **We see a GDP print of +0.5% q/q (1.9% y/y) for Q2.** Based on real retail sales for Q2 and services spending in our transaction data we see a flat outcome for household consumption after a modest 0.2% rise in Q1. Still, of the level of consumption for some goods and services remains well above pre-pandemic trend levels. Dwelling investment is expected to make a small subtraction (-0.1%), continuing a run of weakness despite an elevated pipeline of construction work. Partials for business investment point to small gains in non-residential and engineering construction, while machinery & equipment is expected to see a healthy outturn based on yesterday's capex data. The contribution from trade (net exports) will likely be a key support in the quarter offsetting the weakness in household consumption – although there is significant uncertainty around our estimate of a 0.5ppt contribution given the degree of difficulty mapping monthly trade data to the quarterly BOP release amidst large swings in commodity prices over recent quarters.
- **National accounts measures of price pressures are likely to remain elevated.** The pace of growth in both the consumption and DFD deflators eased in Q1 but both were still strong tracking around 1%/q/q. Some further easing is likely, in line with CPI measures of inflation though there are important conceptual differences between these measures including how they account for housing consumption.
- Outside of the headline GDP and deflator measures, **the accounts will provide an updated picture of household income and saving dynamics.** The household savings rate declined to 3.7% in Q1, its lowest level since 2007, as nominal consumption growth outpaced disposable income growth. Two further rate hikes in Q2 and the ongoing passthrough of previous increases will see interest payments, in addition to tax payments, weigh further on disposable income growth.
- **Looking forward**, and abstracting from the volatility in the trade numbers, we expect domestic demand growth to remain soft over H2 2023 with household consumption to dip slightly. The pipeline of investment work for both dwellings and buildings & structures should provide some support to construction work done though we expect some softness in dwelling investment given the trend lower in dwelling approvals. With these countervailing forces, some quarterly volatility is likely. Public spending should continue to make a small contribution to growth going forward – with a large pipeline of infrastructure a key support.

Date: 1 September 2023. Gareth Spence (Senior Economist) +(61 0) 422 081 046
Alt: Brody Viney (Senior Economist) +(61 0) 452 673 400

- **There are likely to be few direct implications for policy as a result of this release.** While providing more granularity and a comprehensive snapshot of the economy, it is unlikely to have significant implications for interest rates in the near term. More timely data suggests that consumption has remained modest going into Q3 but has not fallen away, consistent with above average business conditions and high capacity utilisation in the NAB business survey. For now, we continue to see one further increase in the cash rate but ultimately the debate is now shifting to how long rates will be held in restrictive territory. This will depend on how slowing activity growth (from a high level) flows through to labour demand, as well as the direct impact of slowing demand on prices.

Chart 1: Real GDP Growth Forecasts (%)

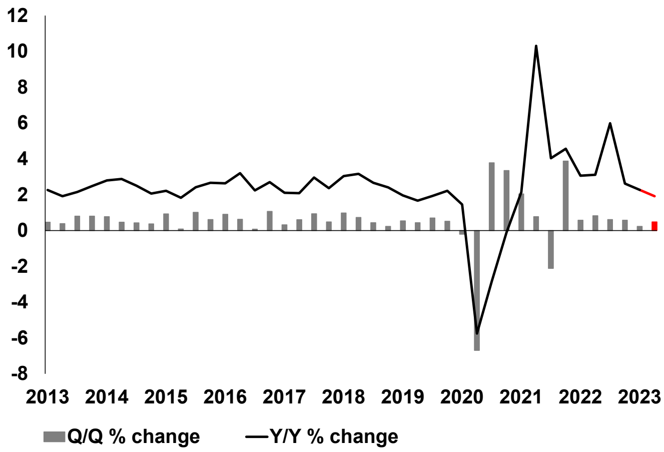

Table 1: Real GDP Growth Forecasts (%)

	Q/Q		Y/Y	Contribution to Q/Q
	Mar-23	Jun-23	Jun-23	Jun-23
Household Consumption	0.2	0.0	1.3	0.0
Dwelling Investment	-1.2	-1.4	-2.6	-0.1
Underlying Business Investment	3.5	1.5	7.0	0.1
Underlying Public Final Demand	0.8	0.0	1.1	0.0
Domestic Final Demand	**0.6**	**0.2**	**1.3**	**0.2**
Stocks (a)	0.0	-0.3	0.1	-0.3
GNE	**0.6**	**-0.1**	**1.2**	**n.a.**
Net exports (a)	**-0.2**	**0.5**	**1.0**	**0.5**
Real GDP	**0.2**	**0.5**	**1.9**	**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) 422 081 046

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

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

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