Australian GDP Preview Q3 2023

Below trend growth to continue

NAB Group Economics

Key points:

- NAB sees a +0.5% q/q (1.9% y/y) GDP print for Q3 2023. Consumption growth looks to have remained soft in Q3 (though was likely a touch higher than the 0.1% q/q outcome in Q2). Dwelling investment looks to have made a small contribution while the business investment partials point to an overall neutral impact on GDP. Both net exports and inventories have been volatile in recent quarters, but we expect trade to subtract 0.1ppts from growth, offset by a 0.2ppt contribution from inventories. Government spending is expected to make a small contribution to growth.
- For the RBA, such an outcome would confirm the economy is tracking through a period of below trend growth but has avoided major contraction. The support to activity from rapid population growth will be evident with per capita GDP likely falling further – reflecting a larger ongoing adjustment to pressures in the household sector at the individual level.
- That said, price pressures will continue to be reflected through ongoing strong growth in price deflators. It is likely the consumption deflator will track at around a similar pace in q/q terms, though there may be some easing on the investment deflators.
- Further, though typically volatile on a quarterly basis, the evolution of unit labour costs will also be important. Some of the unusually weak productivity outcomes over the past year may begin to unwind, leading to some easing in unit labour cost growth though average earnings growth per hour (which has remained relatively contained to date) is likely to accelerate further.
- Looking forward we continue to see below trend growth over the rest of 2023 and 2024. Overall, we see GDP growth of 1.5% over 2023 and 1.7% in 2024 before the pressure on households begins to ease and dwelling investment recovers. The pipeline of business investment and public infrastructure work remains elevated and will provide some support, while government spending will likely remain high.

Details

- **We see a GDP print of +0.5% q/q (1.9% y/y) for Q3.** Household consumption growth looks to have remained resilient in aggregate rising by 0.3% on the quarter (based on real retail sales for Q3 and services spending in our transaction data). Dwelling investment is expected to make around a 0.1ppt contribution to growth following a rebound in renovation activity and further recovery in new building construction. The investment partials were mixed, with a decline in engineering and non-residential building work offset by a further increase in equipment spending, seeing an overall flat contribution. Both the trade and inventory contributions are uncertain, but we see around a 0.1ppt subtraction from net exports and a 0.2ppt contribution from inventories.
- **Measures of price and cost growth will likely continue to ease in annual terms but remain high.** That said, the growth in the household consumption deflator likely remained strong, in line with the CPI measure of inflation. The DFD deflator is expected to continue to ease with growth in the investment deflators for both business and housing investment likely declining further alongside the ongoing recovery in supply chains. The terms of trade will likely continue to ease on the back of further moderation in commodity prices in the quarter.
- **The household savings ratio – which fell to 3.2% in Q2 – will again garner attention** given the pressures on disposable incomes. Savings buffers built up during the pandemic have likely played an important role in supporting overall consumption and while these buffers have likely seen greater erosion at the low end, we expect the overall savings rate to remain positive.

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- **Looking forward**, we expect growth to remain well below trend in Q4 and through 2024. However, we expect that Australia will avoid a recession with growth of 1.5% and 1.7% over 2023 and 2024, respectively. Growth is likely to improve to around trend in 2025 as the pressure on households eases with inflation falling significantly from current high levels and rates beginning to come down. Further, though we expect the unemployment rate to rise somewhat over the next year or so, generally healthy labour market conditions and nominal wage growth will continue to support households as headwinds fade.
- **The pipeline of investment** across both private buildings & structures as well as public infrastructure work remains elevated which will likely provide some support to growth, as will a recovery in dwelling investment given the strong housing demand backdrop. Machinery & equipment investment growth will likely wane after picking up over recent years (supported by policy measures), though spill-overs from the construction pipeline may also continue to provide some support here. Public spending will also likely remain high with a large pipeline of infrastructure work at both the state and federal level.
- **As always, the information on growth will likely have few immediate implications for policy** with the RBA expecting a period of below trend growth and higher frequency data having already confirmed this. However, the national accounts remain the most comprehensive overview of the composition of household consumption and will also provide an updated picture of household income dynamics. Though volatile and difficult to measure in real time, productivity growth will matter over time should stronger nominal wage growth persist. While it is unlikely nominal unit labour costs will continue to grow at the pace seen over the past year, wage growth of around 4% would likely be unsustainable should productivity growth remain very weak.

Chart 1: Real GDP Growth Forecasts (%)

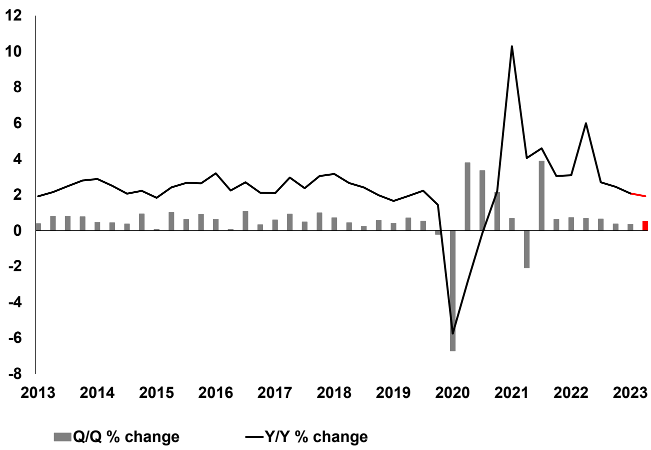

Table 1: Real GDP Growth Forecasts (%)

	Q/Q		Y/Y	Contribution to Q/Q
	Jun-23	Sep-23	Sep-23	Sep-23
Household Consumption	0.1	0.3	1.0	0.1
Dwelling Investment	-0.2	2.3	0.3	0.1
Underlying Business Investment	2.1	-0.5	5.8	0.0
Underlying Public Final Demand	1.2	0.3	2.8	0.1
Domestic Final Demand	**0.7**	**0.4**	**1.9**	**0.3**
Stocks (a)	-1.1	0.2	-0.7	0.2
GNE	**-0.4**	**0.6**	**0.7**	**n.a.**
Net exports (a)	**0.8**	**-0.1**	**1.5**	**-0.1**
Real GDP	**0.4**	**0.5**	**1.9**	**n.a.**

(a) Contribution to GDP growth

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