Australian Economic Update

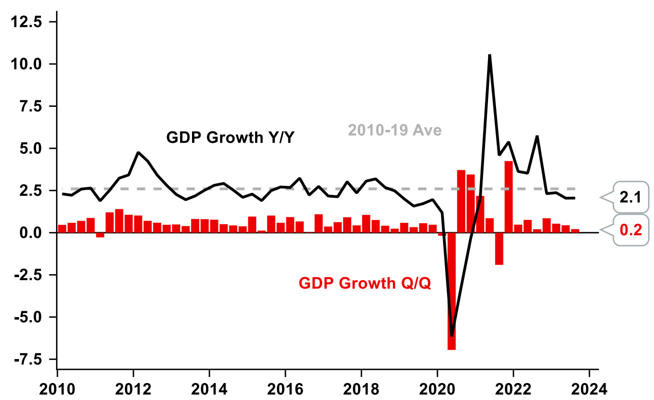
GDP Q3 2023 – A further slowing in growth

NAB Group Economics

Key Points

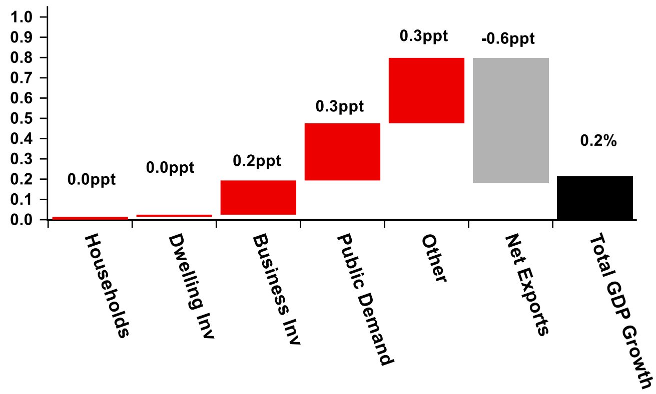
- GDP rose by a weaker-than-expected 0.2% q/q (2.1% y/y). On the activity side, revisions, volatility and one-offs muddy the read at the component level, though a clear further slowing in both domestic final demand and GDP growth is evident.
- Household consumption was flat in the quarter with subsidies on electricity and childcare subtracting from measured growth, though easing supply issues saw a boost to spending on vehicles. On net, these "one-off" factors are broadly offsetting and their impact on growth will wane next quarter.
- That said, household consumption looks to have remained somewhat resilient despite the very significant headwinds to disposable income growth from higher rates, taxes and inflation. A key adjustment continues to come through a lower savings rate which fell to 1.1% in the quarter.
- Price and labour costs growth remains very strong. Consumption deflator growth accelerated to 1.5% q/q while the broader DFD deflator also edged higher. That said, both continued to moderate in annual terms, tracking at 5.3%, broadly around CPI inflation.
- Average earnings per hour grew strongly in the quarter, with a fall in average hours but strength in CoE. Nonetheless, it is only tracking at around the pace of the WPI in annual terms.
- Productivity rebounded somewhat in the quarter, but doesn't paint a picture of strength, still well short of the RBA's assumed 1% trend rate per year. Rather it suggests that the weakness in productivity over recent quarters has been overstated.
- Nominal unit labour costs growth accelerated in quarterly terms given the strong outcome in AENA which was only partially offset by the rebound in productivity and remain high in annual terms.
- We see little sign of a rebound in growth in Q4 based on higher-frequency data, still expecting annual growth over 2023 of around 1.5% and for below trend growth to continue in 2024.
- Overall, today's result will have little impact for the RBA given these data lag and were largely expected.
- We continue to see the RBA lifting rates to 4.6% in February before remaining on hold until late 2024.

Chart 1: GDP Growth (%)



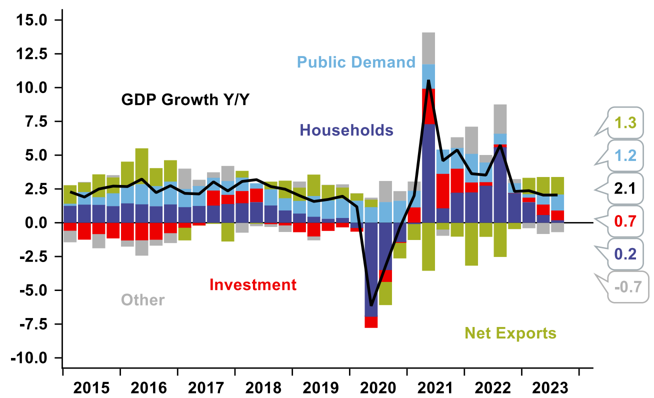
Source: Macrobond, NAB Economics

Chart 2: Contributions to Q/Q GDP Growth (%)



Source: Macrobond, NAB Economics

Chart 3: Contributions to Y/Y GDP Growth (%)



Source: Macrobond, NAB Economics

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Household Consumption, Income & Savings

Real household consumption was flat in the quarter, seeing annual growth slow to just 0.4% y/y. However, measured consumption was significantly impacted by government subsidies in energy and childcare, which saw consumption in these categories decline for households (offset by a rise in government consumption). The impact of subsidies was evident in a 0.4% q/q fall in essential consumption.

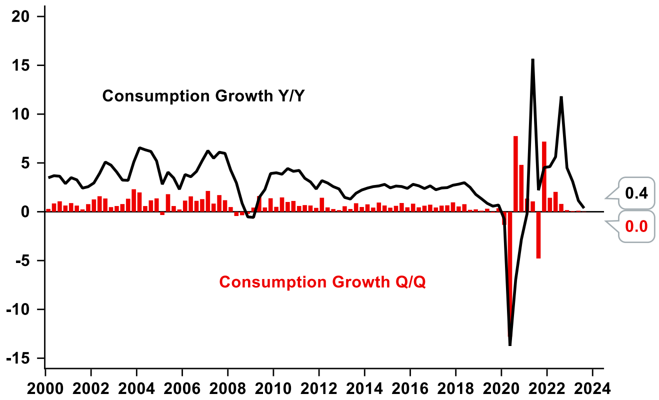
This was offset by a 0.7% q/q rise in discretionary consumption. The quarter saw a 13% rise in purchases of vehicles – likely reflecting easing supply chain issues – and smaller rises of 1.6% in furnishings and household equipment and 1% in clothing and footwear. Transport services consumption rose 3.9% and hotels, cafes & restaurants rose 0.9% with the ABS pointing to the FIFA Women's World Cup as a factor supporting spending.

Excluding electricity, gas & water and "other services" (including childcare), household consumption grew by a more robust 0.6% q/q and 0.9% y/y – but further excluding vehicles would take consumption growth back to 0.2% q/q suggesting a soft underlying trend.

In terms of **household incomes**, wage income continued to rise, with total wages (CoE) growing 2.5% q/q (8.1% y/y). However, significant pressures from high inflation and rates continue to weight on household cash flows, with nominal disposable income growing just 0.1% q/q (1% y/y), and continuing to contract when adjusted for inflation. Interest payments continued to rise sharply in the quarter, reaching 8.5% of gross income (6.1% of disposable income), around 2012 levels.

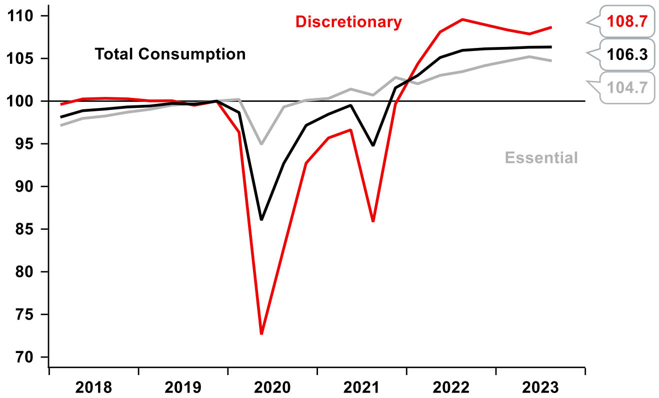
The fall in real income has continued to squeeze **savings**, with the average savings rate declining to 1.1% - well below the pre-COVID average. Notably, however, this headline ratio nets off the depreciation of household assets, with the gross savings ratio (excluding depreciation) at 12.8%.

Chart 4: Real Household Consumption Growth (%)



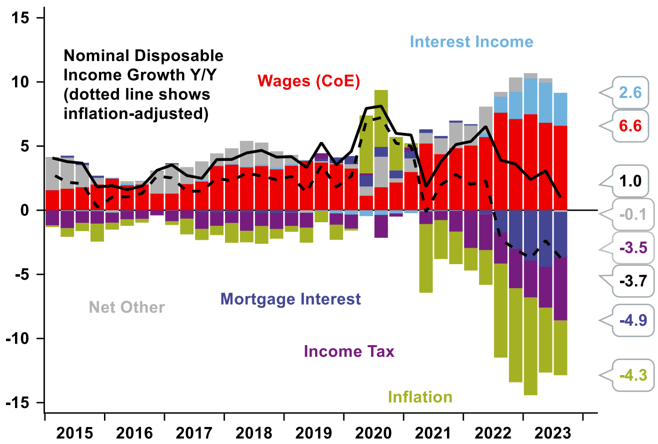
Source: Macrobond, NAB Economics

Chart 5: Essential vs Discretionary Consumption (Index, Q4 2019 = 100)



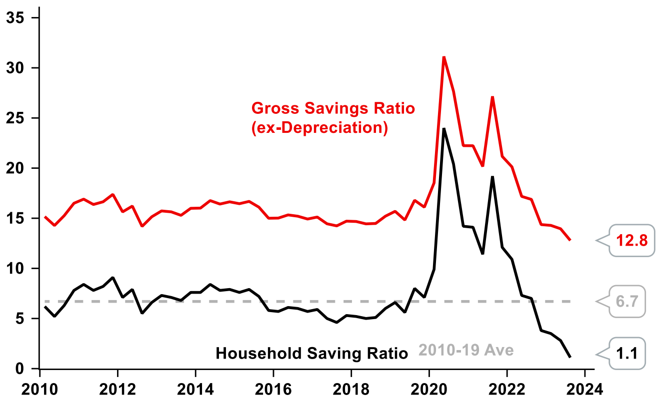
Source: Macrobond, NAB Economics

Chart 6: Contributions to Y/Y Growth in Real Household Disposable Income (%)



Source: Macrobond, NAB Economics

Chart 7: Headline Household Savings Ratio and Gross Savings Ratio (ex-Depreciation) (%)



Source: Macrobond, NAB Economics

Dwellings, Business Investment & Trade

Dwelling investment rose by 0.2% with a small fall in new dwelling construction offset by a 1% increase in alterations & additions. This was weaker than implied by the building activity partial which showed a significantly larger rebound in renovation activity – likely owing to coverage issues – implying smaller scale alts & adds were weaker. Overall, dwelling construction growth remains weak with renovation activity down 4% y/y, offset by 2.5% increase in new construction.

Business investment increased 0.6% q/q (underlying basis). While this was the equal lowest quarterly growth rate seen since Q4 2021, looking over the last year growth was pretty solid (7.6% y/y). Growth in Q3 was driven by the mining sector – where investment was up 9.6% q/q – while non-mining investment declined 1.0%.

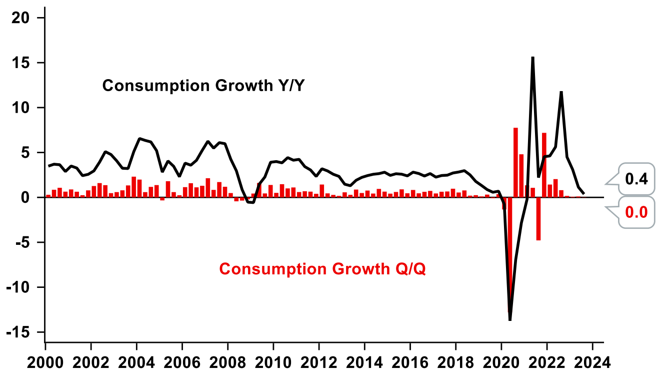
Consistent with the strength in mining investment, the strongest growth was recorded in new engineering construction (2.3% q/q) and mining exploration (3.8%), while machinery & equipment only managed to eke out a 0.2% q/q increase (underlying basis) and new building investment fell 1.5%. Software investment grew 2.2% q/q but this is the softest growth since the initial COVID lockdown (and it has decelerated in each of the last five quarters).

Net exports detracted 0.6ppts from quarterly GDP growth. Export volumes fell 0.7% q/q, driven by a 4.7% fall in resource exports. In contrast, rural export volumes jumped 12% q/q and travel services (tourism, students) were up 4.4% q/q. The growth in travel services, while still rapid, was the softest since borders were re-opened.

In contrast, with the recovery in outbound travel far less advanced, growth in travel debits growth has accelerated in each of the last three quarters and in Q3 it was 19.4% q/q.

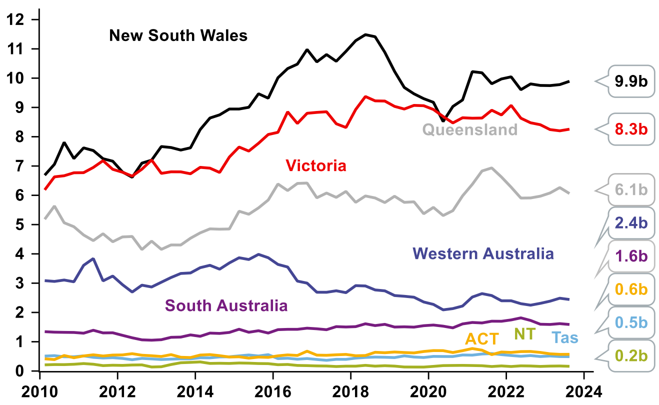
Goods imports also grew, but only by a modest 0.5% q/q, with capital goods rebounding from last quarter's fall (3.4%) and offsetting declines in consumption and intermediate goods imports.

Chart 8: Dwelling Investment & OTCs ($b, CVM)



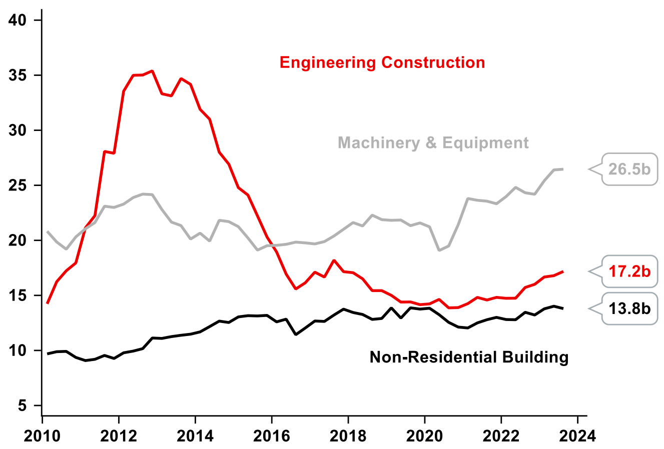
Source: Macrobond, NAB Economics

Chart 9: Dwelling Investment by State ($b, CVM)



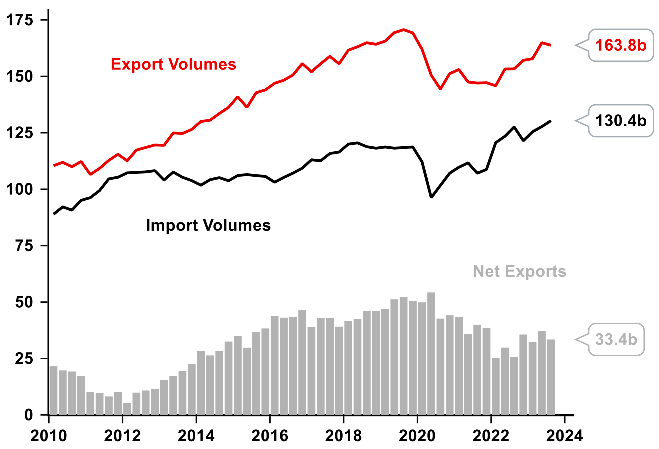
Source: Macrobond, NAB Economics

Chart 10: New Business Investment, Selected Components ($b, CVM)



Source: Macrobond, NAB Economics

Chart 11: Volume of Imports, Exports & Net Exports ($b, CVM)



Source: Macrobond, NAB Economics

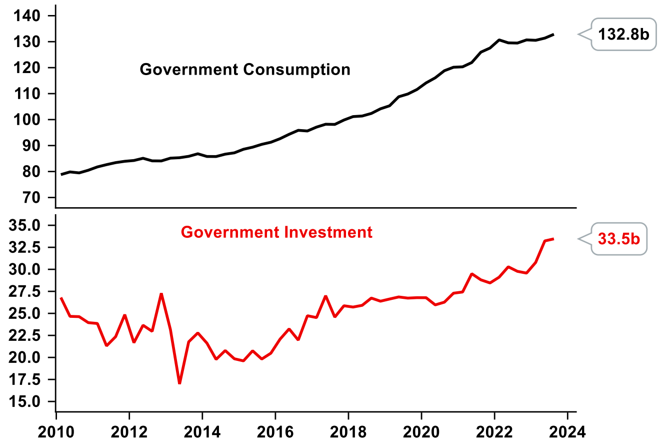
Public Demand

Public final demand grew by 1.1% q/q to be up 2.6% over the year. Government consumption increased 1.1% q/q. Federal consumption rose 1.1% q/q including 4.7% q/q for defence (driven by training exercises), while state & local government consumption (1.2%) grew at a similar pace.

Various government subsidies -both Federal and state – intended to provide cost-of-living relief (including for energy and childcare) boosted public consumption at the expense of private consumption.

Fixed investment growth was a bit more modest at 0.7% q/q, but comes after 12% growth over the first half of the year. In this light, the Q3 result confirms that there has been a material shift up in the level of public investment.

Chart 12: Public Demand Components ($b, CVM)



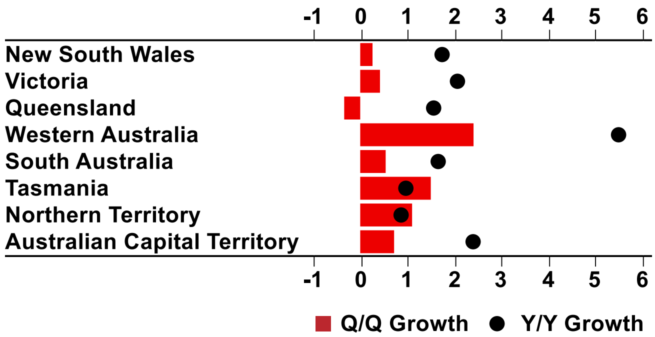
Source: Macrobond, NAB Economics

State Economic Growth

State final demand (SFD) growth was mixed with strong growth in W.A (2.4% q/q) and Tasmania (1.5%) but fell in Queensland (-0.3% q/q). Public demand growth was stronger than private demand across all states and territories. The weakness in Queensland SFD partly reflected a 4.0% fall in public investment; this followed some strong quarters leaving public investment up 15.5% over the year.

The national strength in mining investment was evident in W.A (private investment up 7.0%). Over the last year, SFD for the mainland states has been broadly similar (1.6 to 2.1% y/y) with WA the notable exception – up 5.4% due to very strong public and private investment growth.

Chart 13: State Final Demand Growth (%)



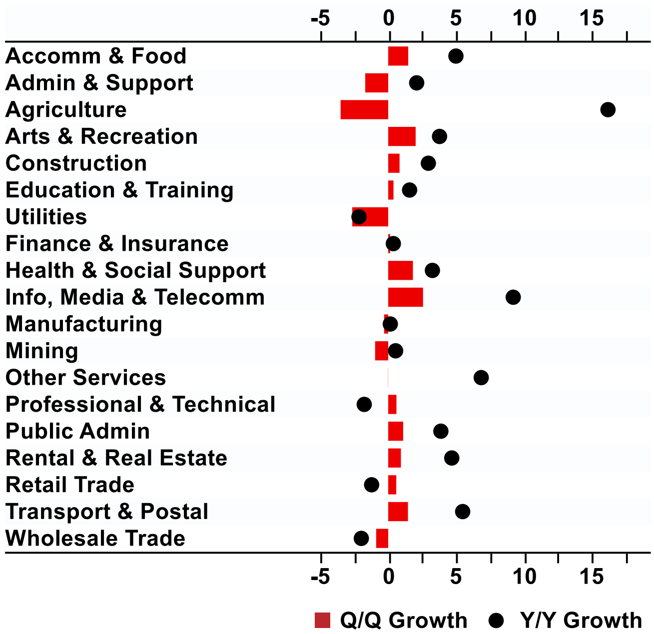
Source: Macrobond, NAB Economics

Industry Production

On the **production side** of the accounts, growth was quite mixed. with seven of the 19 industry sectors declining. The largest fall was in agriculture (-3.5%) although it remained well above year ago levels (16% y/y). Mining fell 1.0% partly due to maintenance, while utilities declined 2.6% with warmer than normal winter weather a factor.

The strongest growth was in information, media and communications (2.6%), arts and recreation (2.0%), and health care (1.8%). Both transport/warehousing and accommodation/food services grew by around 1.5% with the ABS citing increased tourism activity as a support.

Chart 14: Industry GVA Growth (%)



Source: Macrobond, NAB Economics

Nominal GDP, Inflation & Productivity

Nominal measures in the accounts showed some signs of the easing seen in other price measures, but remained very elevated overall. The domestic demand deflator grew 1.3% q/q to be up 4.8% y/y – down from the highs seen in 2022 but nonetheless well above average.

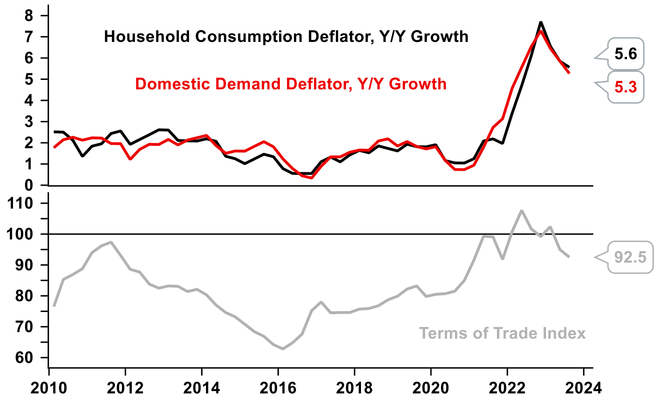
The strength in domestic prices was offset by a further fall in the terms of trade, declining 2.6% on the back of both softer export prices for coal and LNG and a rise in import prices. On balance, the GDP deflator grew 1% q/q and overall nominal GDP grew 1.2% q/q to be 4.5% higher y/y.

Broader **wage and labour cost growth measures** continued to strengthen. Total wage income per employee (AENA) grew 1.9% q/q to be 5.2% higher year on year, and AENA per hour grew by a significant 3% q/q (4% y/y). These measures capture compositional changes in the labour market as well as underlying wage growth and can be volatile, but are now running in line with the hourly Wage Price Index (WPI) on an annual basis.

The strength of nominal wage growth measures, as well as subdued economic growth, saw **nominal unit labour costs** growth lift to 2.2% q/q (6.4% y/y).

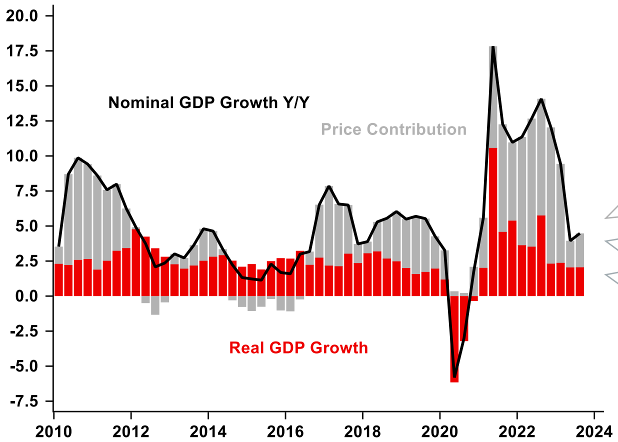
In terms of **productivity**, a softening in hours worked in the quarter led to a rebound in measured GDP per hour worked, rising 0.8% q/q (though the measure remains 2.1% lower in y/y terms). While productivity is difficult to measure in real time, the fall in GDP per hour worked as hours have risen over the past year has been a point of concern for the RBA, with the improvement in Q3 likely to be taken as a welcome (if only tentative) sign of improvement.

Chart 15: Y/Y Domestic Price Growth (%) & Terms of Trade (Index)



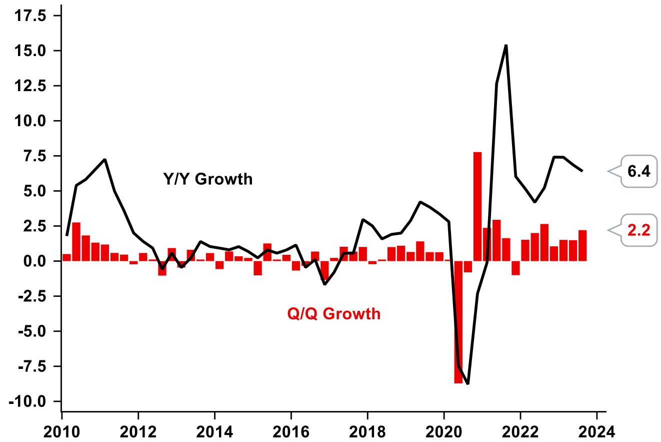
Source: Macrobond, NAB Economics

Chart 16: Contributions to Y/Y Nominal GDP Growth (%)



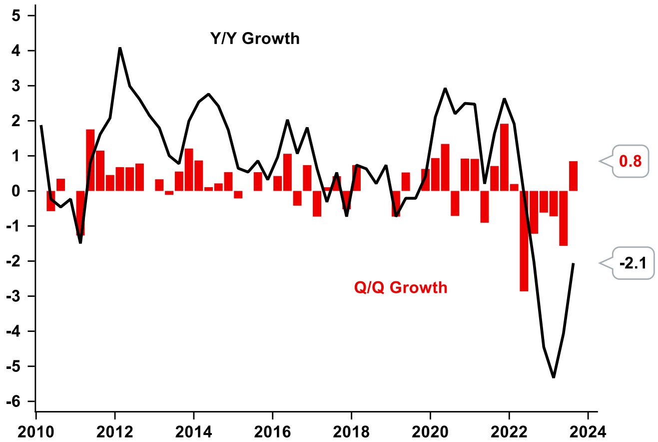
Source: Macrobond, NAB Economics

Chart 17: Nominal Unit Labour Cost Growth (%)



Source: Macrobond, NAB Economics

Chart 18: Growth in GDP per Hour Worked (%)



Source: Macrobond, NAB Economics

Summary Tables

Key variables

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Jun-23	Sep-23	Sep-23	Sep-23
Household Consumption	0.1	0.0	0.4	0.0
Dwelling Investment	0.5	0.2	-0.3	0.0
Underlying Business Investment^	2.5	0.6	8.0	0.1
Machinery & equipment	3.9	0.2	8.8	0.0
Non-dwelling construction	1.2	0.6	6.1	0.0
New building	1.7	-1.5	2.5	0.0
New engineering	0.7	2.3	9.3	0.1
Public Final Demand	2.0	1.0	4.4	0.3
Domestic Demand	**0.9**	**0.5**	**2.2**	**0.5**
Stocks (a)	-1.2	0.4	-1.1	0.4
GNE	**-0.4**	**0.9**	**1.0**	**0.9**
Net exports (a)	**0.8**	**-0.6**	**1.3**	**-0.6**
Exports	4.5	-0.7	6.8	-0.2
Imports	1.8	2.1	2.2	-0.4
GDP	**0.4**	**0.2**	**2.1**	**0.2**

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

Income measures

Income measures	q/q % ch		y/y % ch
	Jun-23	Sep-23	Sep-23
Real GDI	-1.5	-0.5	-0.4
Real net disposable income per capita	-1.7	-1.3	-1.5
Compensation of employees	1.6	2.6	8.4
Average compensation of employees (average earnings)	0.9	1.9	5.2
Corporate GOS	-5.9	-3.2	-3.7
Non-financial corporations	-7.2	-4.2	-5.5
Financial corporations	1.5	2.1	6.4
General government GOS	2.6	2.3	10.9
Productivity & unit labour cost			
GDP per hour worked	-1.6	0.8	-2.1
GVA per hour worked mkt sector	-1.1	0.5	-0.9
Non-farm nominal unit labour cost	1.6	2.2	6.9
Non-farm real unit labour cost	2.9	1.1	3.5

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