Australian GDP Preview Q4 2023

A slow end to 2023

NAB Economics

Key points:

- NAB sees a +0.2% q/q (1.4% y/y) GDP print for Q3 2023 - outside of the pandemic, this would be the lowest annual growth rate since 2000.
- This outcome would be slightly weaker than the RBA had expected in February but will have little immediate policy implications with the focus squarely on the pace of inflation moderation.
- We see ongoing softness in growth in H1 2024, driven by still soft household consumption growth, but we expect growth to pick up in H2 2024 as the pressures on real disposable incomes wane (and support from Stage 3 tax cuts and likely further cost of living relief in the budget) and dwelling construction turns a corner.

Details:

- **We see a GDP print of +0.2% q/q (1.4% y/y) for Q4,** maintaining a similar pace of growth to Q3. Household consumption will again be the key reason for slow growth, (we expect just 0.1% q/q). That said, partial information this week suggests dwelling investment will also weigh. Offsetting some of this weakness is a relatively positive outcome for business investment which looks to have been boosted by a solid rise in non-res building, while M&E (which was supported by easing supply chains for cars in Q3) looks to have held its ground. Both trade and inventories have been volatile over recent quarters, and we have pencilled in a broadly offsetting impact in Q4.
- The accounts will also provide a more comprehensive **update on how household balance sheets fared in late 2023** following a decline in real disposable income of 4.0% over the year to Q3 and the savings rate falling to 1.1%. The drag from rising interest rates will likely ease with a slowing in pace of rate rises in Q4, though with nominal wage growth still strong, the increasing tax burden will have persisted. In real terms, the ongoing easing in inflation will also see an easing in the drag on purchasing power.
- **Measures of price and cost growth will likely continue to ease** in line with what we have seen in CPI inflation as well as both input and labour costs in our Business Survey. The consumption deflator will continue to moderate in annual terms while the broader domestic final demand deflator – and the investment deflators – will provide further insight into cost pressures in the non-consumer facing sectors. They will likely remain high despite some ongoing easing.
- **Productivity will again garner attention** and likely show an ongoing rebound following the 0.8% rise in Q3. However, we caution reading too much into quarterly movements in productivity due to volatility in both the numerator (GDP) and denominator (hours). Over the longer term, we see the RBA's assumption for labour productivity growth of over 1% y/y as ambitious with growth of around 0.5% likely to be more realistic.
- Relatedly, **unit labour costs growth will likely remain elevated** with average earnings growth well outpacing the quarterly improvement in productivity.
- Overall, while **key components remain volatile**, in part still driven by pandemic related disruptions or related support measures, our current assessment is that **underlying growth remains weak** and that the period through late 2023 and early 2024 is likely to be the low point for growth with some of the pressure on real incomes easing up through mid-2024.
- **For the RBA, 0.2% q/q is broadly in line with their expectation** for Q4 of around 0.3% but the outlook for 2024 and 2025 will be increasingly important with policy in restrictive territory and the Bank still hoping to hold onto as much of the labour market gains over recent years as possible. While the strength in inflation

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remains an ongoing risk to inflation expectations, the RBA also notes the balancing risk that persistent weakness in consumption growth could see a faster-than-expected decline in inflation.

- **Looking forward**, we expect growth to remain below trend through 2024 with consumption growth remaining depressed in H1 and some small further declines in dwelling construction. The outlook for business investment remains mixed, with confidence weak and business condition softening, but a large pipeline of outstanding engineering and building work (which will also have spill overs to M&E). Public sector infrastructure spending will also likely remain a key support.

Chart 1: Real GDP Growth Forecasts (%)

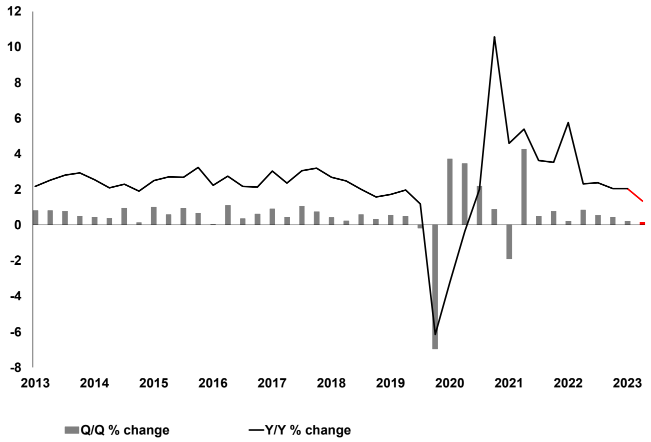

Table 1: Real GDP Growth Forecasts (%)

	Q/Q		Y/Y	Contribution to Q/Q
	Sep-23	Dec-23	Dec-23	Dec-23
Household Consumption	0.0	0.1	0.3	0.0
Dwelling Investment	0.2	-6.1	-5.6	-0.3
Underlying Business Investment	0.4	1.6	9.3	0.2
Underlying Public Final Demand	1.4	0.5	4.2	0.1
Domestic Final Demand	**0.5**	**0.1**	**2.1**	**0.1**
Stocks (a)	0.4	-0.2	-0.8	-0.2
GNE	**0.9**	**-0.1**	**1.5**	**n.a.**
Net exports (a)	**-0.6**	**0.2**	**-0.2**	**0.2**
Real GDP	**0.2**	**0.2**	**1.4**	**n.a.**

(a) Contribution to GDP growth