Australian Economic Update

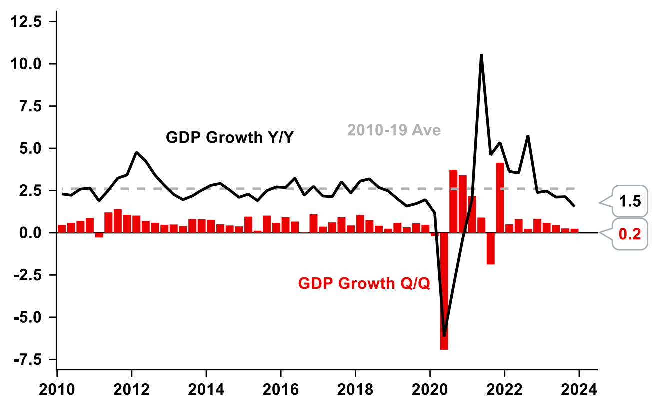
GDP Q4 2023 – Growth slows in line with NAB's forecast

NAB Group Economics

Key Points

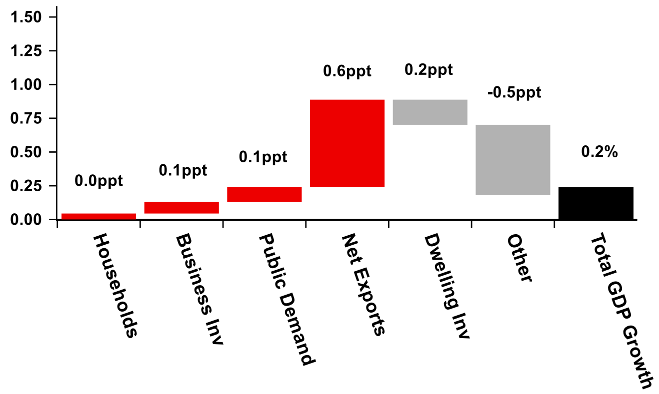
- GDP rose by 0.2% q/q (1.5% y/y). Private domestic demand growth remained weak, while public sector spending helped to keep overall domestic final demand growth over the last year at a reasonable level.
- Today's result does not have large implications for the RBA and NAB continues to see the RBA on hold until November. While growth is below trend and progress is being made on reducing excess demand, household income outcomes suggest the RBA should be less concerned about downside risks to consumption.
- The key story remains the weakness in household consumption, which rose just 0.1% q/q and 0.1% for 2023 as a whole – the slowest annual growth in almost 40 years outside of COVID and the GFC. That said, real disposable income growth turned positive in the quarter as the drag from interest rates faded and tax collections declined (the latter due to timing changes).
- The other key private demand components were mixed. Dwelling investment fell significantly (albeit by slightly less than expected), while business investment held up despite the headwinds to aggregate demand. Public sector spending remains an important support.
- The set of price measures included in the accounts eased by less than CPI measures. They continue to show ongoing moderation in annual terms, but remained elevated.
- Productivity continued to rebound in the quarter with hours worked declining. We caution reading much into the productivity measures on a quarterly basis, beyond taking comfort that output per hour worked is no longer declining. How strong the underlying pace of productivity growth is remains uncertain.
- Encouragingly, nominal unit labour costs growth slowed with the improvement in productivity though this measure remains very high at face value.
- We see ongoing softness in Q1 2024 based on our internal transaction data and business survey. That said, we may be around the low point for quarterly growth with the pressures on household budgets likely to ease – especially in the second half of 2024.

Chart 1: GDP Growth (%)



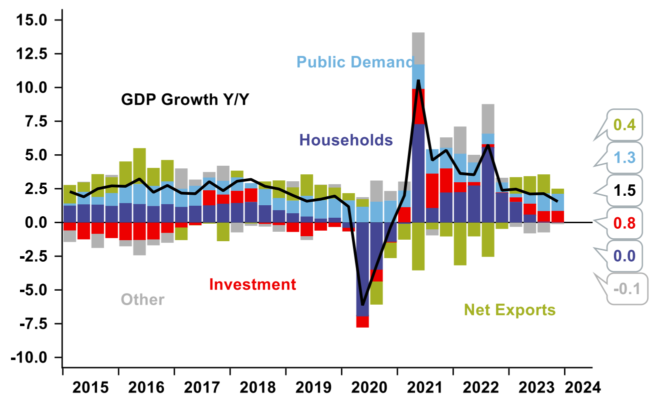
Source: Macrobond, NAB Economics

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 rose 0.1% in the quarter, leaving consumption growth at just 0.1% y/y for 2023. This is the slowest year-ended growth household consumption in almost 40 years outside of COVID and the GFC, reflecting the significant pressures on households.

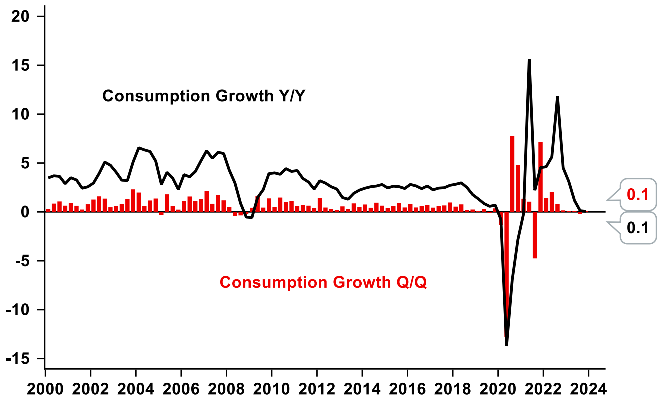
The quarter saw consumption of **essentials** rise 0.7% q/q, including a 6.9% rise in electricity, gas and fuel, a 0.4% rise in rent and other dwelling services, a 0.9% rise in food consumption and a 0.9% rise in health. Offsetting this was a 0.9% fall in **discretionary consumption**, led by a 2.8% fall in hotels, cafes & restaurants and a 3.6% fall in vehicles. It was also a mixed result for retail components with furnishings and household equipment rising 1.1% but clothing and footwear down 2.5%.

While consumption was subdued in real terms, there was a material pickup in **household disposable incomes** which rose 2.3% q/q to be up 5% y/y. Growth in wage incomes remained robust, rising 1.4% q/q with underlying hourly wages up 1.5% (national accounts basis). Interest income also lifted in the quarter and rose more quickly than interest payments, though interest payments reached 7.9% of disposable income. The was also a 3.3% q/q fall in income tax paid in the quarter after the timing of some payments was brought forward into Q3.

Adjusting for inflation, **real disposable income growth** turned positive in the quarter with the net improvement in nominal incomes further supported by an easing drag from inflation. In year-ended terms, real disposable income growth was 1.0% for 2023 as a whole, ending a protracted period of declining real incomes that had been underway since mid-2022.

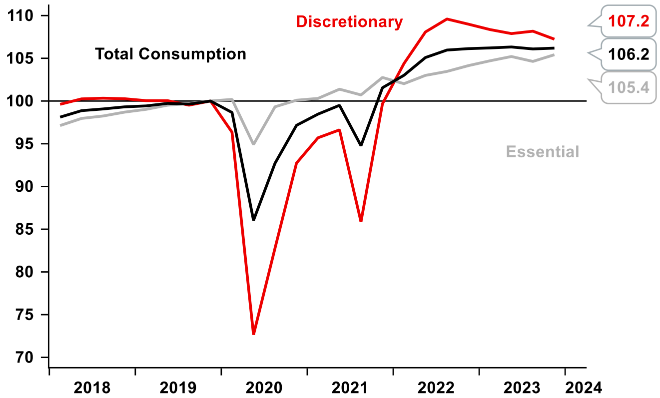
The improvement in nominal incomes, subdued consumption and easing inflation all played a role in seeing a pickup in aggregate savings in the quarter. As a result, the household **net savings ratio** rose to 3.2% (from a revised-up 1.9%), ending a period of declining savings rates that had prevailed since the end of lockdowns in Q4 2022.

Chart 4: Real Household Consumption Growth (%)



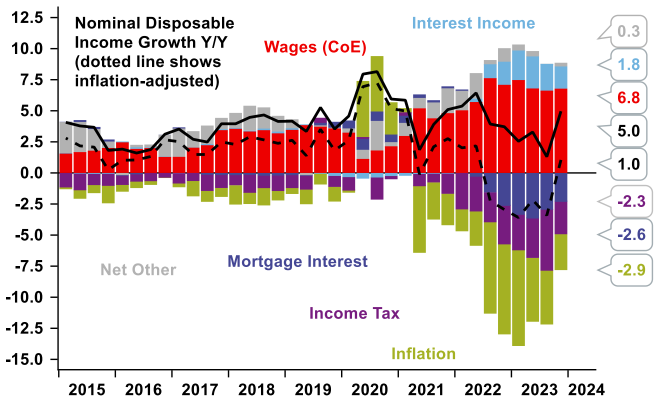
Source: Macrobond, NAB Economics

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



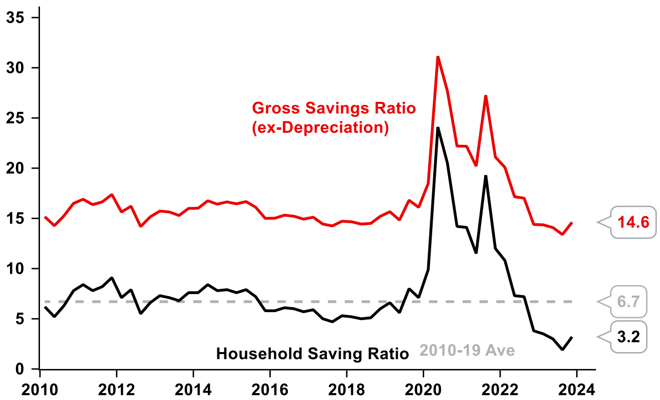
Source: Macrobond, NAB Economics

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 declined 3.8% q/q to be down 3.1% for 2023 as a whole. There were declines across both new dwellings and alterations & additions, with the latter now well down from COVID-era peaks. Capacity constraints continue to be a factor for the construction sector but the downturn in Q4 suggests additional disruptions. Ownership transfer costs, which generally reflect turnover in the housing market, continued to rise in the quarter.

Business investment increased 0.7% q/q (underlying basis). Growth was strong over the year (8.3% y/y) but concentrated in H1. New machinery and equipment investment fell (down 1.3% q/q) on lower agricultural equipment and transport equipment spending, but investment on data centres and warehouses drove a rise in new non-dwelling construction (up 2.5% q/q).

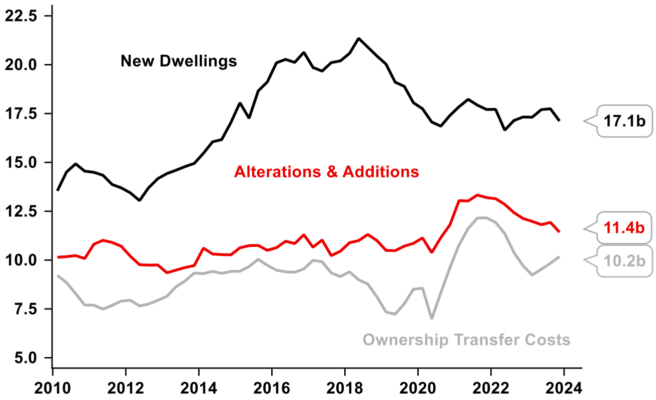
By sector, growth was driven by the non-mining sector (2.8% q/q). Non-mining sector investment has trended up over the last few years consistent with elevated capacity constraints. Mining investment has also trended up, but given the strength of prices, it has been a muted investment cycle.

There has been a clear deceleration in the cost of investment. The business investment implicit price deflator grew by 2.9% y/y to Q4 2023, down from over 8% y/y in 2022.

Net exports added 0.6ppts to quarterly GDP growth. Export volumes fell 0.3% q/q, even with a partial rebound in resource exports (up 1.1% q/q after a 5.2% fall in Q3), in part due to a large fall in non-monetary gold exports (broadly mirroring the increase in public inventories). Service credits rose 0.5%, well down on the pace of growth seen since the international border re-opened, as the rebound in tourism (including students) reaches its conclusion.

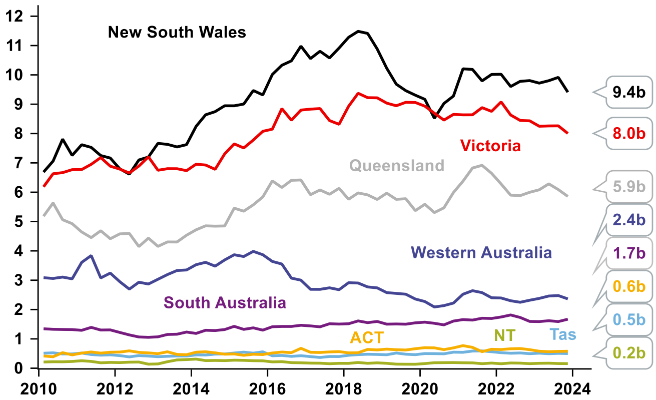
The fall in exports was exceeded by a 3.4% q/q decline in imports, with falls in consumption and capital goods. There was also a large decline in travel debits from outbound tourism (-9%), leaving them well below their pre-COVID level (down 32%).

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



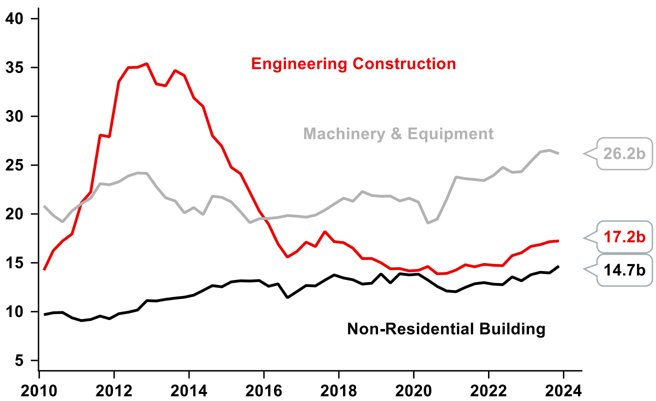
Source: Macrobond, NAB Economics

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



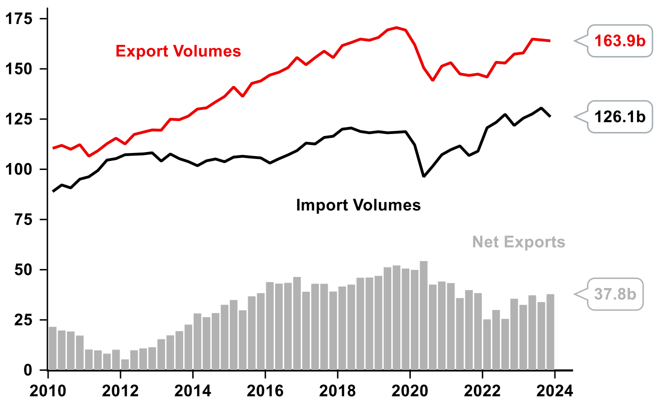
Source: Macrobond, NAB Economics

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



Source: Macrobond, NAB Economics

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



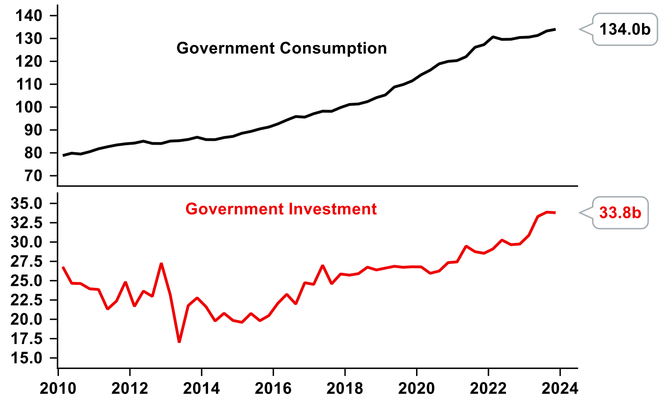
Source: Macrobond, NAB Economics

Public Demand

Public final demand grew by 0.4% q/q to be up 4.8% over the year. Government consumption increased 0.6% q/q. This is a solid growth rate but was well down on the previous quarter (1.5% in Q3). While the ABS reports that there was a boost to Federal consumption from health programs and extra staffing for the Voice referendum, state and local consumption was close to flat and defence spending fell back after Q3 was boosted by training exercises.

Public fixed investment declined marginally by 0.2% q/q. However, this comes after a period of very strong growth – compared to a year ago it is up by more than 13% and the level is elevated.

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



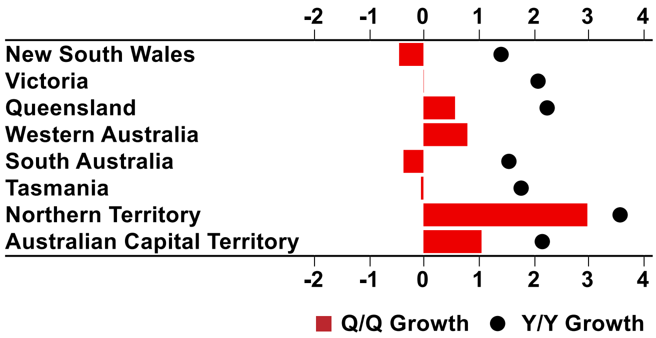
Source: Macrobond, NAB Economics

State Economic Growth

State final demand (SFD) growth was mixed with the strongest growth recorded in the NT (3.0% q/q) and the ACT (1.1%) but falls in New South Wales (-0.4%) and South Australia (-0.4% q/q). The strong result in the NT reflected strong mining investment with private investment up 15.0% in the quarter.

Household consumption expenditure rose 0.9% in WA but was subdued or negative across other jurisdictions. Public investment declined notably in NSW, Vic, and the ACT, but grew strongly elsewhere supporting overall public demand growth.

Chart 13: State Final Demand Growth (%)



Source: Macrobond, NAB Economics

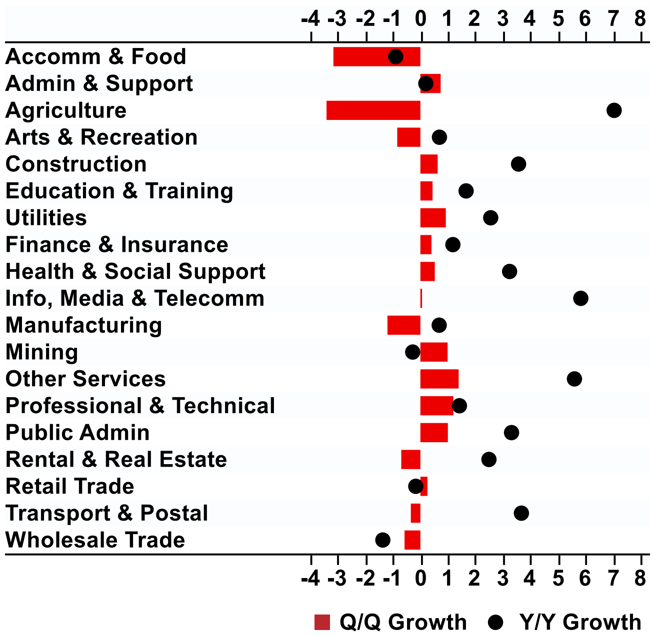
Industry Production

Growth was also mixed on the **production side** of the accounts with seven of the 19 industry sectors recording declines in GVA growth.

The largest fall was in agriculture (-3.4%) as dry conditions associated with El Nino impacted grain yields. Accommodation and food services also recorded a sizeable decline in the quarter (-3.2% q/q) due to weakness in spend on cafes, restaurants, pubs and clubs, as well as weaker demand for domestic tourism.

The strongest growth was recorded in professional, scientific and technical services (1.2%q/q) due to increased demand for engineering services. Mining also grew (1.0% q/q), driven by reduced maintenance work for iron ore mining and an increase in metallurgical coal production.

Chart 14: Industry GVA Growth (%)



Source: Macrobond, NAB Economics

Nominal GDP, Inflation & Productivity

The key domestic price deflators in the accounts showed less of a moderation than the key CPI inflation measures in Q4 (following an uptick in Q3), but they continued to show an easing in annual terms. However, both the DFD and consumption deflators remain elevated – and above the CPI.

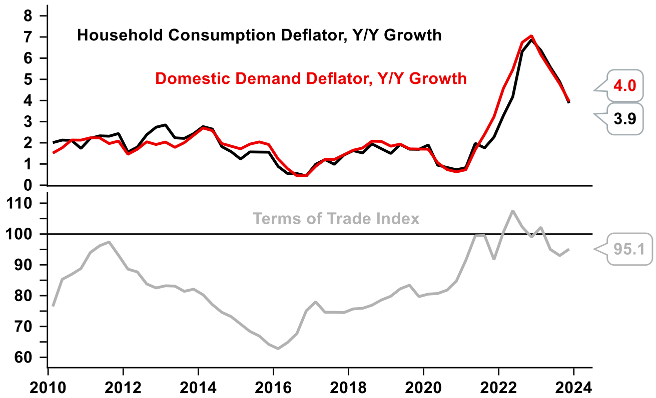
The terms of trade remains elevated and rose by 2.2%with a rise in global iron ore and coal prices seeing the exports deflator outpace the rise in import prices (driven by a weaker exchange rate).

Wage and labour cost growth measures generally eased. Total COE growth slowed to 1.4% q/q and both average earnings per employee and per hour also moderated. That said, both total and average earnings measures have risen strongly over the year. Over the past year, AENA per hour rose faster than WPI, which itself is tracking at its highest rate in a decade. The AENA measure is procyclical and we would expect the additional compositional impacts to fade as the labour market continues to ease.

The level of **productivity** continued to rebound. Falling hours worked saw a 0.5% rise in GDP per hour worked and a 0.6% rise in GVA per hour worked. Nonetheless, productivity remains broadly flat over the year. On a quarterly basis these numbers should be approached with caution but today's result is a nod in the right direction and supports the assessment that declining productivity won't persist. We see an improvement in productivity growth over time though are less optimistic than the RBA's assumption of over 1% annual growth in coming years.

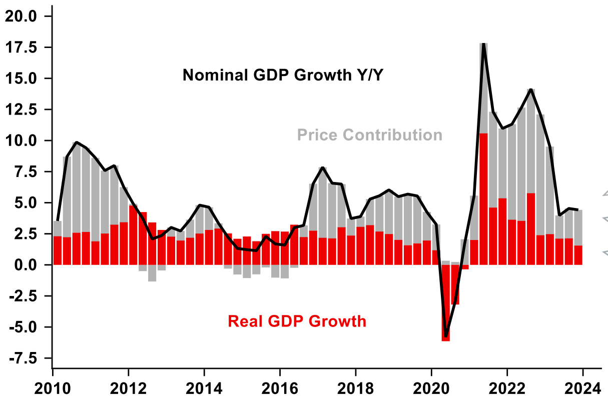
Encouragingly, q/q growth in **nominal unit labour costs** slowed to 1.3% q/q but remains high at 6.6% y/y. Non-farm nominal unit labour also eased a little. While better recent productivity outcomes have supported some moderation in ULC growth, they remain elevated amid still strong earnings growth outcomes.

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



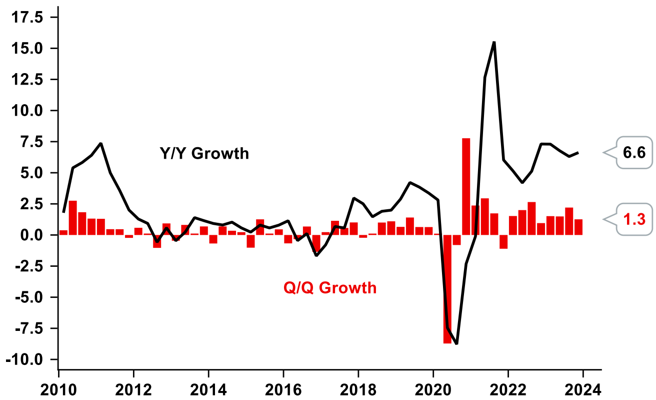
Source: Macrobond, NAB Economics

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



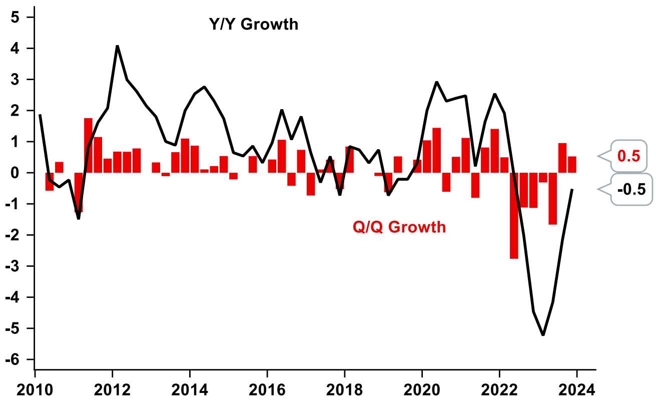
Source: Macrobond, NAB Economics

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
	Sep-23	Dec-23	Dec-23	Dec-23
Household Consumption	-0.2	0.1	0.1	0.0
Dwelling Investment	0.6	-3.8	-3.1	-0.2
Underlying Business Investment^	0.8	0.7	8.3	0.1
Machinery & equipment	0.6	-1.3	7.6	-0.1
Non-dwelling construction	0.8	2.5	9.3	0.1
New building	-0.4	5.0	11.5	0.1
New engineering	1.8	0.4	7.5	0.0
Public Final Demand	1.5	0.4	4.8	0.1
Domestic Demand	**0.6**	**0.1**	**2.3**	**0.1**
Stocks (a)	0.3	-0.3	-0.9	-0.3
GNE	**1.0**	**-0.2**	**1.3**	**-0.2**
Net exports (a)	**-0.6**	**0.6**	**0.4**	**0.6**
Exports	-0.2	-0.3	4.2	-0.1
Imports	2.3	-3.4	3.5	0.7
GDP	**0.3**	**0.2**	**1.5**	**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
	Sep-23	Dec-23	Dec-23
Real GDI	-0.3	0.8	0.5
Real net disposable income per capita	-1.2	0.8	-0.9
Compensation of employees	2.8	1.4	8.4
Average compensation of employees (average earnings)	2.0	0.4	5.0
Corporate GOS	-2.7	2.5	-2.3
Non-financial corporations	-3.7	2.7	-3.8
Financial corporations	2.2	1.6	6.3
General government GOS	2.3	2.5	10.5
Productivity & unit labour cost			
GDP per hour worked	1.0	0.5	-0.5
GVA per hour worked mkt sector	0.8	0.6	1.3
Non-farm nominal unit labour cost	2.3	1.0	6.9
Non-farm real unit labour cost	1.1	-0.3	3.2

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