Australian GDP Preview Q1 2024

Following a slow end to 2023, a slow start to 2024

NAB Economics

Key points:

- NAB sees a +0.0% q/q (1.0% y/y) GDP print for Q1 2024
- Another quarter of very soft growth, with consumption and business investment broadly flat, dwelling investment slightly lower and volatile outcomes for inventories and trade.
- Confirmation of ongoing weakness in growth is likely to see the RBA remain on hold, despite a still strong CPI read in April.
- We expect soft growth to persist in Q2, before easing pressures on household income support growth in H2 – though just how much remains uncertain and will be key.

Implications

- While the data are dated, they remain the most important/comprehensive accounting of growth dynamics, provide broader wage and price measures as well as insight into each sector within the economy.
- The Q1 national accounts data will likely **confirm that growth remained very weak** in early 2024 and provide greater insight into the composition of growth within consumer spending and across the other sectors of the economy. A weak quarterly read will follow a material slowing in the economy in H2 2023 and see annual growth fall to just 1.0% While hard to assess in real time, our view is that the recent period of slow growth is rapidly closing the output gap.
- They will likely confirm price pressures were still elevated but eased slightly and point to a further easing in pressures on household disposable income.
- **For the RBA**, ongoing weakness in growth will reinforce the challenge of bringing inflation back to target while aiming to limit the rise in the unemployment rate. While the labour market has remained broadly resilient, it is likely that ongoing slow growth in H1 2024 will see the unemployment rate rise further – seeing the cash rate remain on hold, despite inflation remaining too high.

Details:

- **We see a flat outcome for GDP in Q1 2024 (0% q/q, 1.0% y/y).** Household consumption looks to have seen a small rise, with weakness in goods spending offset by services spending and another rise in cars. Based on building activity and capex data released this week, business investment looks to have remained broadly flat, with a large fall in non-residential construction broadly offset by a gain in spending on machinery & equipment. Dwelling investment looks to have recorded a small fall.
- **The outcome for the other expenditure components –** trade, inventories and public demand (all released on Tuesday) remains uncertain and potentially volatile. We see a positive contribution from inventories broadly offsetting the subtraction from net exports. We expect only a modest contribution from public investment and consumption.
- Again, the **household income account will garner attention**. While an imperfect conceptual measure of cash flows, further insight into the dynamics underlying household income will be important. With, interest rates having stabilised and inflation continuing to moderate, real disposable income growth will likely have picked up further, ahead additional support to come in H2 2024 from tax cuts, further easing in inflation eventually, rate cuts.
- **Measures of price and cost growth will likely continue to ease** but at a slower pace than in recent quarters. The consumption deflator (4.9% y/y in Q4) will continue to moderate in annual terms while the broader domestic final demand deflator (4.6% y/y in Q4) will provide further insight into cost pressures in the non-consumer sectors. They will likely remain elevated.

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- **Productivity will also be a focus (though it is more relevant over the medium term).** GDP per hour worked is likely to be flat to marginally lower in the quarter, after a small gain in Q4 and a larger increase in Q3. This comes after a period of notable falls in productivity through 2022.
- Relatedly, **unit labour costs growth** (which eased in Q4 but remained very high in annual terms at 7.3%) will highlight how the balance of wage pressure versus output gains continues to play out.
- **Looking forward**, we expect growth to remain soft in Q2 before the quarterly pace improves somewhat in Q3 & Q4. That would see another year of around 1.5% growth (well below trend). Household consumption will remain the key dynamic – and with the pressures on the income side easing more materially in H2 we see consumption growth improving. Dwelling construction will likely remain muted in the near-term, while business investment growth will likely slow from the relatively strong outcomes over recent years.
- **For the RBA, a flat outcome would be slightly weaker** than their implied average quarterly growth rate in H1 2024 (of around 0.3% q/q), highlighting their risk around growth which could see inflation return to target more quickly. The broader price measures across non-consumer sectors and wider household income measures should show an ongoing modest easing but for the Board, the focus will remain on the key CPI measures. For now, the weakness on the activity side is likely to see the RBA hold off on any further increases in the cash rate as it looks forward to the downstream impacts of slower growth and balances the risk of a faster deterioration in the labour market. That said, with a high bar for further hikes, still high inflation points to the risk of a longer period of stability in rates.

Chart 1: Real GDP Growth Forecasts (%)

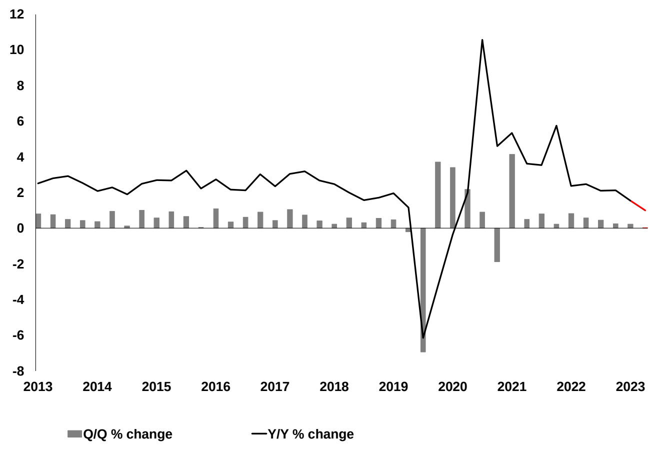

Table 1: Real GDP Growth Forecasts (%)

	Q/Q		Y/Y	Contribution to Q/Q
	Dec-23	Mar-24	Mar-24	Mar-24
Household Consumption	0.1	0.2	0.1	0.0
Dwelling Investment	-3.8	-1.8	-4.3	-0.1
Underlying Business Investment	0.7	-0.5	3.5	0.0
Underlying Public Final Demand	0.4	0.5	4.3	0.1
Domestic Final Demand	**0.1**	**0.1**	**1.7**	**0.1**
Stocks (a)	-0.3	0.5	-1.0	0.5
GNE	**-0.2**	**0.6**	**1.0**	**n.a.**
Net exports (a)	**0.6**	**-0.7**	**0.2**	**-0.7**
Real GDP	**0.2**	**0.0**	**1.0**	**n.a.**

(a) Contribution to GDP growth

Important notice