Australian Economic Update

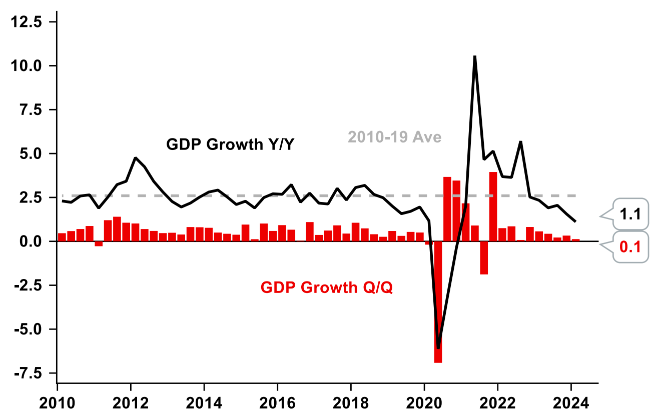
GDP Q1 2024 – Consumption up but growth still slow

NAB Group Economics

Key Points

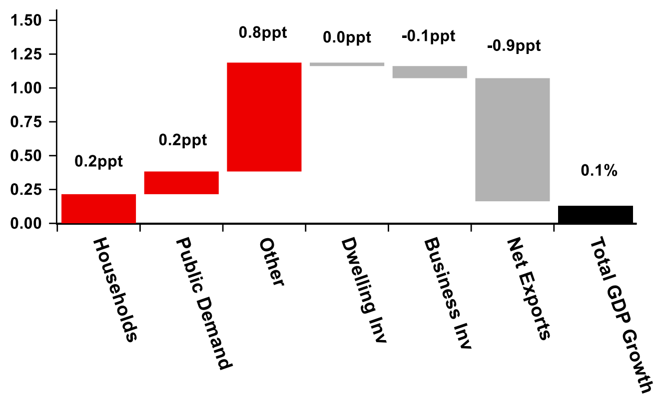
- GDP rose by 0.1% q/q (1.1% y/y) in line with our expectation and slightly weaker than consensus and the RBA's average quarterly expectation for H1. The outcome was supported by household consumption and public demand while business investment was a small drag. Volatility in trade and net exports were largely offsetting while dwelling investment made a flat contribution.
- Overall, aggregate GDP growth continued to soften in both annual and quarterly terms (and is still falling in per capita terms), but the picture of the underlying dynamics has shifted slightly with large upward revisions to household consumption as well as a quarterly outcome that showed more resilient outcomes for household spending.
- Relatedly, the household saving rate was revised down and, abstracting from changing seasonality in tax payments, has been flat for around 3 quarters at a low level (around 1.0%). Still, the easing in pressures on household disposable incomes as inflation slows is becoming more evident.
- The broader price and wage measures contained in this release paint a similar picture to the CPI. Q1 saw some further moderation in price pressure but progress has slowed and pressures still remain elevated. Encouragingly, however, both productivity and unit labour costs growth point to some moderation in consumer price pressure – though these can be volatile on a quarterly basis.
- Today's data doesn't change our view of the economy. We expect Q2 to remain soft overall but see a pickup in H2 driven by easing pressures on households and a rebound in consumption growth. That sees below trend growth of around 1.5% this year (or possibly lower), but closer to trend growth in 2025.
- In our view, the continued pattern of subdued growth will give the RBA comfort that the output gap is closing and inflationary pressures will continue to ease – despite the recent upside surprises on the CPI. That sees the RBA on hold rather than a near-term hike, with a first cut likely to come late in the year – though we acknowledge the risk this may be slightly later. The path of inflation moderation is set to remain gradual and uneven, while the evolution of consumption behaviour and the labour market remain key factors.

Chart 1: GDP Growth (%)



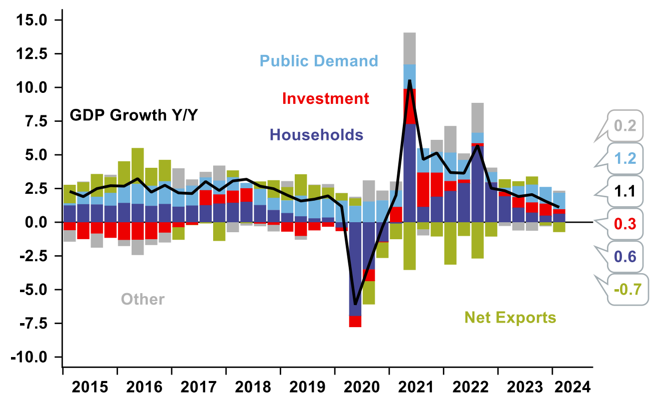
Source: Macrobond, NAB Economics

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 0.4% in the quarter and, alongside substantial upward revisions related to higher estimated overseas travel by households, this leaves through-the-year consumption growth at 1.3%.

The historical revisions arise from the ABS implementing a new data source to estimate overseas travel and go as far back as September 2022. The revised level of consumption is around 1.8% in real terms as of the end of 2023. As shown in Chart 5, the revisions are concentrated in discretionary consumption components with aggregate discretionary consumption now appearing to have been broadly steady over the past two years (at an elevated level relative to pre-COVID). Importantly, the revisions also increase imports so have no significant implications for total GDP. Nonetheless, they suggest households may have performed better through the recent period than was previously thought to be the case.

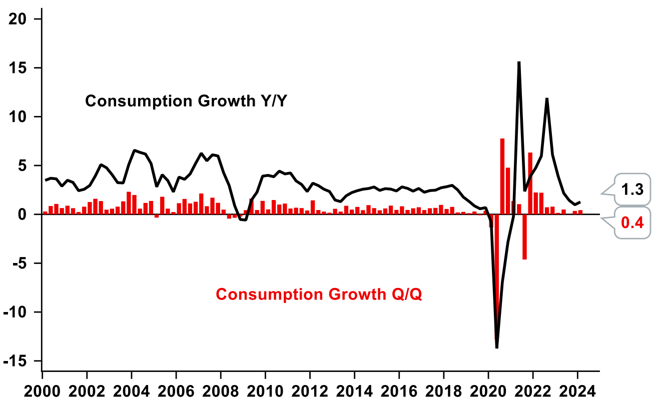
In terms of Q1, consumption of **essentials** rose 0.5% q/q, including a 4.9% rise in electricity, gas and fuel, a 1.2% rise in health, a 0.4% rise in rent & other dwelling services, and a 0.4% rise in food consumption. There was a smaller but still positive rise in **discretionary consumption**, led by a 3.3% increase in transport as well as a 0.6% increase in recreation & culture and a 0.3% increase in hotels, cafes & restaurants. A 2.4% fall in purchases of vehicles weighed on the result.

Overall, even with the upward revisions the broad picture remains of subdued consumption through a period of significant adjustment. Still, the quarter saw another pickup in **household disposable incomes** which rose 1.1% q/q to be up 5.2% y/y. Growth in wage incomes remained robust, rising 0.9% q/q with underlying hourly wages up 0.5% (national accounts basis). Interest income again rose more quickly than interest payments, though interest payments edged up to 8.1% of disposable income. The was also another fall in income tax paid in the quarter, possibly reflecting continued volatility in the timing of tax payments.

Adjusting for inflation, **real disposable income growth** was 0.5% y/y with easing inflation the key driver of the turnaround from negative real income growth in mid-2023.

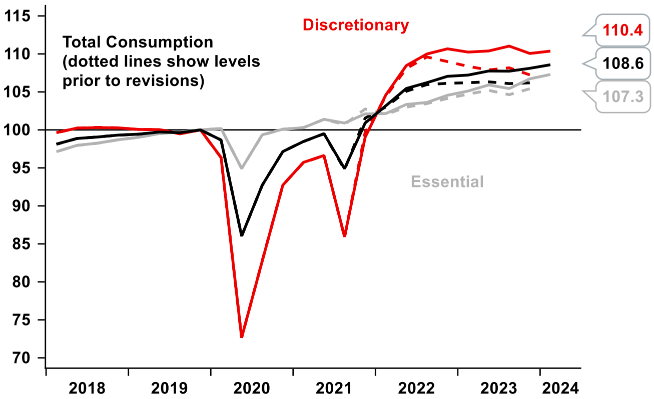
A biproduct of the revision to consumption has been a downward revision to the household **net savings ratio**. With a further small fall in Q1, the ratio is now estimated to be 0.9%, down from 1.6% in Q4 (previously estimated at 3.2%). This is well below the rates that prevailed prior to COVID, likely reflecting a mix of factors including the pressures on household incomes, high inflation, and the relatively high levels of household net wealth.

Chart 4: Real Household Consumption Growth (%)



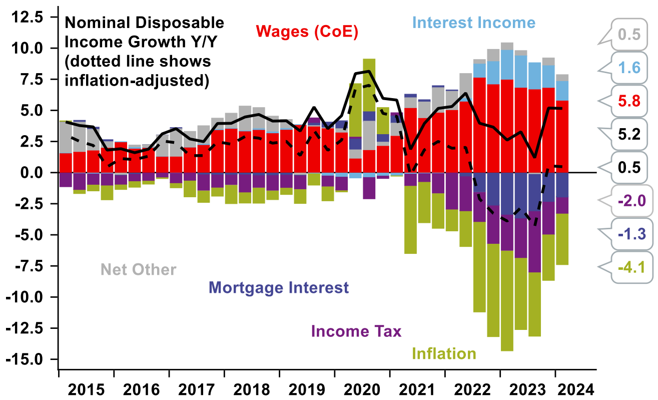
Source: Macrobond, NAB Economics

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



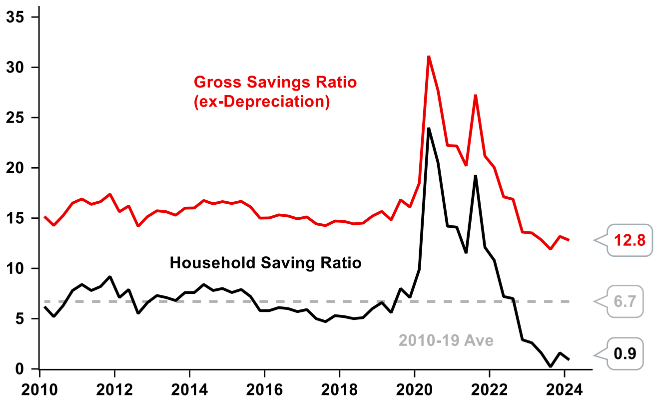
Source: Macrobond, NAB Economics

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 0.5% q/q, following a 3.6% fall in 2023 Q4, leaving it 3.4% lower than a year ago. There were similar declines across both new dwellings and alterations & additions, but there was considerable variation by state with NSW and Vic seeing an increase (1.0% q/q), but a 4.3% fall in Qld weighed heavily on the overall result. **Ownership transfer costs**, which generally reflect turnover in the housing market fell 2.2% q/q, the first decline in a year.

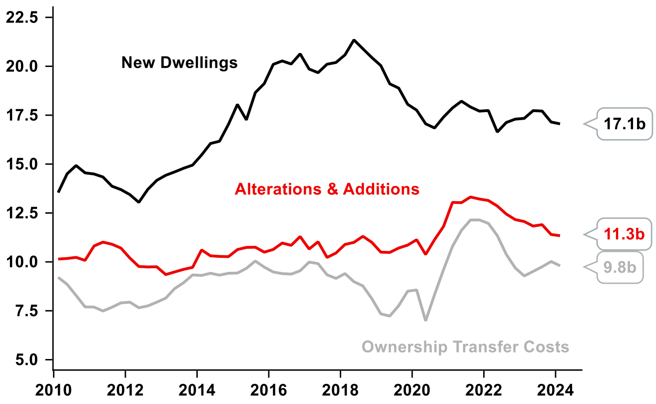
Business investment declined 0.7% q/q (underlying basis). This was the first fall since Q3 2020, with investment in both the mining and non-mining sectors easing. New machinery and equipment investment rose 2.0% q/q with the ABS citing warehouse and data centre fit-outs and vehicle purchases as contributing factors. Non-dwelling construction fell 4.3% partly attributable to reduced work on oil and gas projects. Intellectual property product investment continues to grow strongly (2.1% q/q, 7.7% y/y), particularly software (up over 10% y/y) while last quarter's large fall in mining exploration was more than reversed.

The deceleration in the cost of investment that occurred last year has been sustained, with the business investment implicit price deflator up 0.7% q/q, similar toQ4 (0.6%). That said, cost growth is still elevated in some areas, particularly new building construction (1.8% q/q, 6.2 y/y) and, if anything, it is rising again.

Net exports detracted 0.9ppts from Q1 GDP growth; reflecting strong goods import volume growth (6.5%), which can be seen in the lift in inventories. Export volumes rose 0.7% q/q reflecting higher mineral fuels (LNG), manufacturing and non-monetary gold exports, offsetting a fall in rural and services exports. Over the last year, growth in goods exports has been modest (1.4% q/q), while service exports have declined in the past two quarters, consistent with weak global demand and domestic capacity constraints.

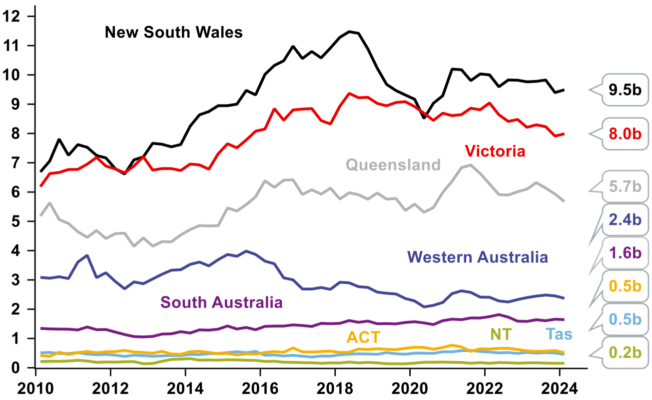
Goods imports growth was driven by broad-based strength in consumer goods (overall up 9.5%/q/q) and intermediate goods (+6.8%) with a more modest rise in capital goods (+2.7%). Service imports also rose 0.7% q/q, mainly due to a 10% increase in passenger transport debits despite the second consecutive fall outbound tourism. As reported in yesterdays Balance of Payments release revisions have turned the tourism story upside down – last quarter outbound tourism volumes were around 30% below their pre-Covid level whereas now they are estimated to be a bit above; in contrast inbound tourism is around 8% below its pre-pandemic level.

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



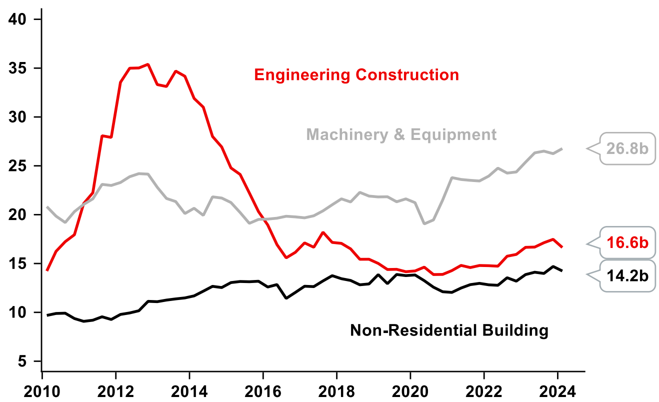
Source: Macrobond, NAB Economics

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



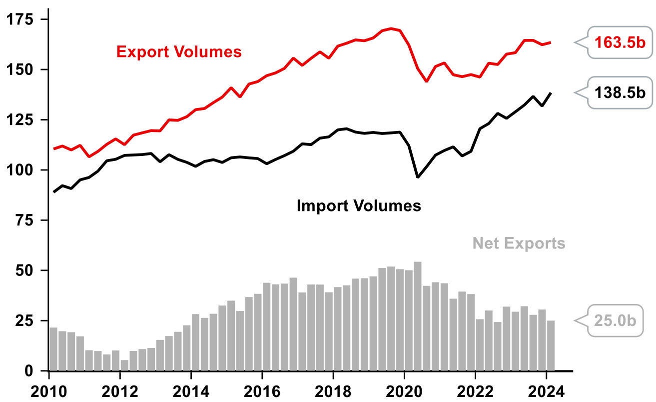
Source: Macrobond, NAB Economics

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



Source: Macrobond, NAB Economics

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



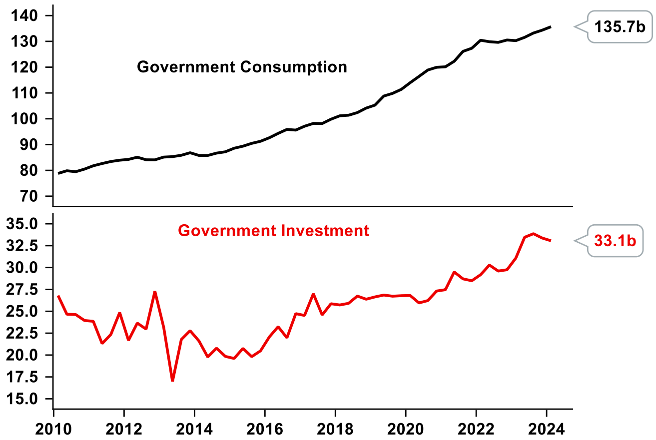
Source: Macrobond, NAB Economics

Public Demand

Public final demand remains a key support to domestic demand – it grew by 0.6% q/q to be up 4.5% over the year. The main driver was again government consumption which increased 1.0% q/q. Solid growth was at reported both the Federal and state/local levels, with the ABS indicating support came from Commonwealth health programs and energy price relief schemes put in place by some state governments.

In contrast, public fixed investment declined by 0.9% q/q, the second consecutive fall, due to another fall in state and local government investment. While public fixed investment was still up 5.4% on a year ago, the slowdown implied by the recent quarterly numbers is likely a sign of things to come, with state government projections pointing to a peak in infrastructure investment (in nominal terms) in 2023-24.

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



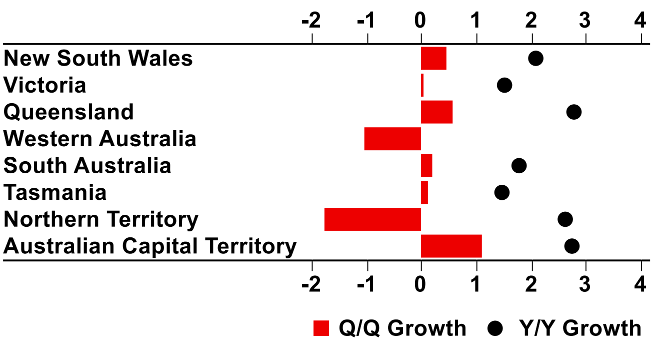
Source: Macrobond, NAB Economics

State Economic Growth

State final demand (SFD) growth was again mixed with notable falls in the NT (-1.8% q/q) and WA (-1.0%). Both results were driven by large falls in mining investment activity (though there were increases in mineral and petroleum exploration).

Other jurisdictions saw positive growth overall, particularly Qld (0.6% q/q) and NSW (0.5%). There was a common story of positive growth in both household and government consumption, with general government social benefit programs a consistent contributor. Investment activity was more mixed, with NSW and Vic both seeing increased dwelling investment while others saw falls.

Chart 13: State Final Demand Growth (%)



Source: Macrobond, NAB Economics

Industry Production

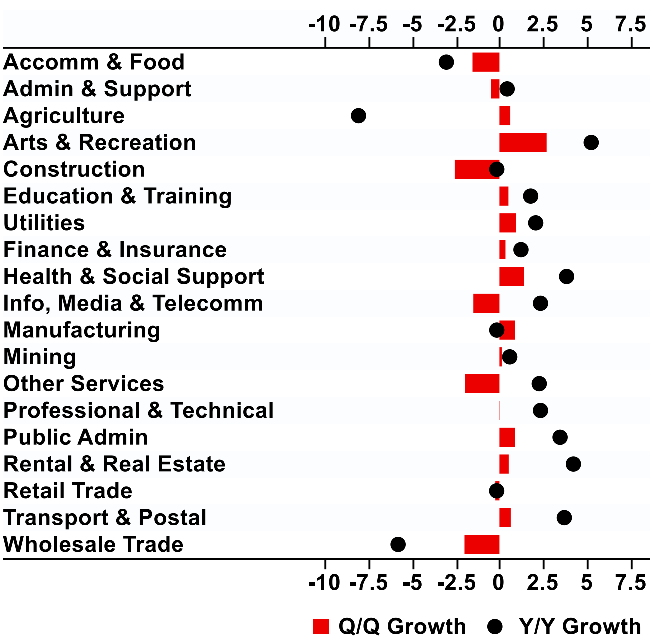
Growth was also mixed on the **production side** of the accounts with most of the 19 industry sectors recording positive GVA growth but certain sectors seeing material declines.

There was strong growth in arts & recreation (2.7% q/q) as well as healthcare & social assistance (1.4%) while manufacturing also rose (0.9%). Agriculture saw a 0.6% rise while mining GVA was little changed, up 0.1% q/q.

Consistent with falls in residential and non-residential building activity seen elsewhere in the accounts, construction GVA fell 2.6% q/q, subtracting around 0.2ppts from GDP.

Wholesale also fell materially (-2.0%) though there was less of an impact in retail (-0.2%). Other sectors with notable falls were accommodation & food services and information, media & telecommunication (both -1.5%).

Chart 14: Industry GVA Growth (%)



Source: Macrobond, NAB Economics

Nominal GDP, Inflation & Productivity

The key domestic price deflators saw little further easing in quarterly terms and remain high in annual terms. The household consumption deflation rose another 1% q/q, with a similar outcome for the broader domestic demand deflator. In annual terms, both continue to moderate but remain high (and higher than the CPI) at 4.8% and 4.5%, respectively. Like CPI based measures of inflation they show that the moderation in price pressures has slowed.

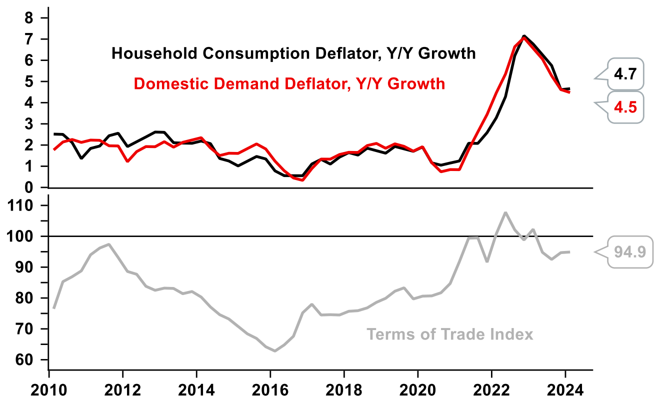
The terms of trade rose 0.2% but is down around 7% over the year reflecting the broader movements in key commodity prices.

Wage and labour cost growth measures generally eased. Total COE growth slowed to 1.0% q/q (but remains up 7.1% y/y) and average earnings per hour (which has been volatile) slowed sharply in the quarter. AENA per hour eased in annual terms but continues to track more strongly than the WPI. That said, the volatility in hours worked and broader pressure in the labour market which we know is easing have muddied the read. For now, our assessment continues to be that wage pressures have peaked and are beginning to ease more broadly.

The level of **productivity** continued to recover, albeit more gradually. GDP per hour worked rose by 0.1% and is up 0.1% y/y after large declines through the pandemic. Market sector productivity (GVA per hour worked) rose 0.4% and is up 0.8% over the year. That marks three successive gains after the large falls in productivity through the pandemic.

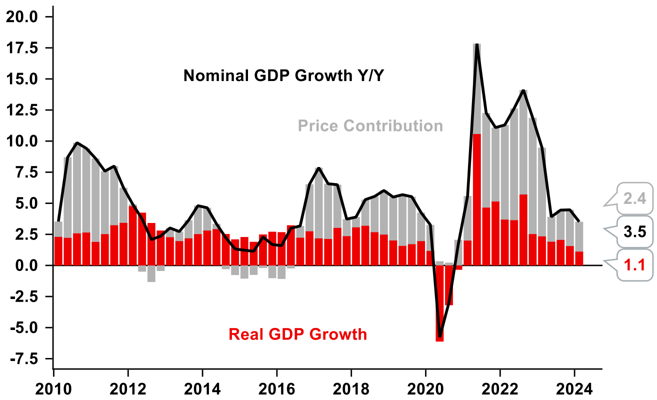
Relatedly, non-farm **nominal unit labour costs** growth slowed further, rising 0.4% q/q but remain high at 5.8% y/y. Non-farm nominal unit labour costs growth eased slightly less but continues to show a similar pattern. Overall, while volatile on a quarterly basis, nominal unit labour costs growth will need to continue to ease further to see inflation return sustainably to target. Both the moderation in nominal wage growth and ongoing recovery in the level of productivity should help.

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



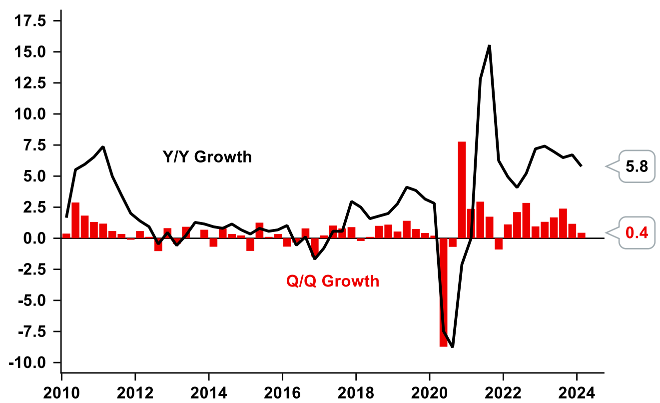
Source: Macrobond, NAB Economics

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



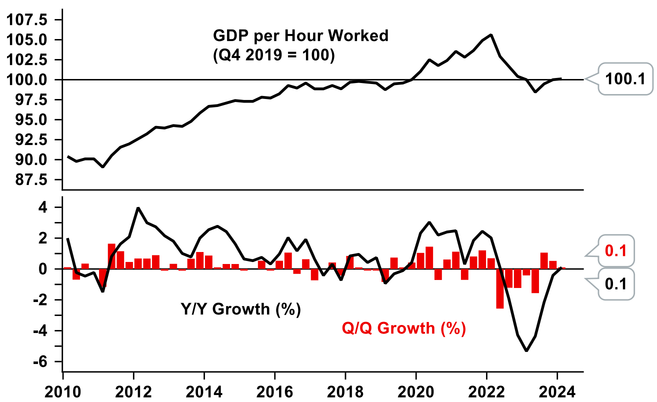
Source: Macrobond, NAB Economics

Chart 17: Nominal Unit Labour Cost Growth (%)



Source: Macrobond, NAB Economics

Chart 18: GDP per Hour Worked Index and Growth



Source: Macrobond, NAB Economics

Summary Tables

Table 1: Key Expenditure Components

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Dec-23	Mar-24	Mar-24	Mar-24
Household Consumption	0.3	0.4	1.3	0.2
Dwelling Investment	-3.6	-0.5	-3.4	0.0
Underlying Business Investment^	1.2	-0.7	3.9	-0.1
Machinery & equipment	-1.0	2.0	5.5	0.1
Non-dwelling construction	3.4	-4.0	1.2	-0.2
New building	5.1	-3.1	2.7	-0.1
New engineering	2.0	-4.8	-0.1	-0.1
Public Final Demand	0.4	0.6	4.6	0.2
Domestic Demand	**0.3**	**0.2**	**2.3**	**0.2**
Stocks (a)	-0.3	0.7	-0.2	0.7
GNE	**0.0**	**1.0**	**2.1**	**1.0**
Net exports (a)	**0.4**	**-0.9**	**-0.7**	**-0.9**
Exports	-1.3	0.7	3.2	0.2
Imports	-3.5	5.1	7.4	-1.1
GDP	**0.3**	**0.1**	**1.1**	**0.1**

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

Table 2: Income Measures

Income measures	q/q % ch		y/y % ch
	Dec-23	Mar-24	Mar-24
Real GDI	1.0	0.2	-0.9
Real net disposable income per capita	0.9	-0.7	-2.8
Compensation of employees	1.5	1.0	7.1
Average compensation of employees (average earnings)	0.4	0.6	4.1
Corporate GOS	2.4	2.1	-4.7
Non-financial corporations	2.6	2.3	-6.6
Financial corporations	1.7	1.3	6.9
General government GOS	2.5	2.5	10.3
Productivity & unit labour cost			
GDP per hour worked	0.5	0.1	0.1
GVA per hour worked mkt sector	0.7	0.4	0.8
Non-farm nominal unit labour cost	0.9	0.5	5.7
Non-farm real unit labour cost	-0.3	-0.9	3.0

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