

Australian GDP Preview Q2 2024



Yet another quarter of weak growth

NAB Economics

Key points:

- NAB expects GDP growth will be +0.1% q/q in Q2 2024. This would represent another quarter of weak growth. Year ended growth would be 0.8% y/y which, outside of the 2020 COVID lockdowns, would be the weakest annual growth since the early 1990s.
- We expect another quarter of soft consumption growth, and further declines in underlying business and dwelling investment, but public demand to remain a support.
- Such a GDP growth outcome would have few direct implications for the RBA, as it would be only marginally weaker than they had expected. It would confirm growth remains weak – implying a narrowing of the output gap – but also that inflation remains elevated and productivity growth is still a concern.
- We expect that GDP growth will improve over the second half of 2024, in part supported by fading headwinds on household budgets and a boost from income tax cuts.

Details:

- We expect household **consumption** growth of 0.3% q/q, a tenth below the Q1 outcome and again below the rate of population growth. The decline in retail sales volumes in Q2 was slightly smaller than in Q1, but NAB transaction data indicates total consumer spending growth was weaker. Real **household disposable income** has improved since Q3 2023, and strong employment growth suggests this continued into Q2.
- Based on building activity and capex data released this week, **underlying business investment** declined in Q2 - with both non-residential construction and machinery & equipment investment down - although we expect a smaller fall than in Q1. However, intellectual property investment likely continued to rise, and ownership transfer costs are also set to record a small increase. **Dwelling investment** looks to have again declined, driven by a reduction in apartment work done.
- **For the other main expenditure components** – we are factoring in a small, combined, negative net contribution from inventories and net exports (similar to Q1). Public consumption and investment is also expected to increase at a similar pace to the previous quarter. Further details will be published Monday/Tuesday by the ABS on these components.
- **Measures of price and cost growth will likely ease** but remain elevated. The private consumption deflator, which was 4.7% y/y in Q1 will likely moderate, although broader indicators of cost pressures may be more mixed. This week's building activity and capex data suggest the downshift in machinery and equipment price inflation was sustained into Q2, but construction cost inflation remains high.
- Also in focus will be updates on **employee compensation and unit labour costs growth**. The latter has eased but was a still high 5.8% over the year to Q1. Relatedly, productivity (GDP per hour), is likely to decline in the quarter given the 1.5% increase in hours worked in Q2 – the data are volatile, however, (hours worked were flat in Q1), which make it difficult to draw a strong signal from quarterly moves.
- **For the RBA, growth of 0.1% q/q would be only slightly weaker** than their (implied) quarterly growth rate for Q2 2024 of around 0.2% q/q. On the surface, it suggests that demand and supply are becoming more balanced, although given the difficulties in measuring output gaps in real-time the RBA will likely need to see more progress on inflation and capacity indicators to build comfort in the inflation outlook. The RBA has been concerned for a while now about lacklustre productivity (and its implications for unit labour costs), and the Q2 accounts are unlikely to offer any reassurance on this front. The need to balance growth (and flow through to the labour market) and inflation risks means the RBA is unlikely to hike rates, but rather stay on hold for an extended period. We have May 2025 pencilled in for the first cut but see all the meetings in H1 2025 as live.

Chart 1: Real GDP Growth Forecasts (%)

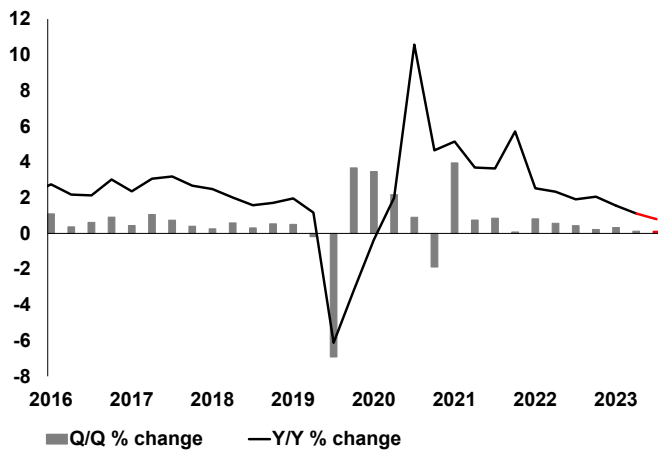


Table 1: Real GDP Growth Forecasts (%)

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	Q/Q		Y/Y	Contribution to Q/Q
	Mar-24	Jun-24	Jun-24	Jun-24
Household Consumption	0.4	0.3	1.0	0.1
Dwelling Investment	-0.5	-0.3	-4.2	0.0
Underlying Business Investment (a)	-1.3	-0.1	0.8	0.0
Underlying Public Final Demand	0.6	0.5	3.2	0.1
Domestic Final Demand	0.2	0.3	1.5	0.3
Stocks (b)	0.7	-0.3	-0.4	-0.3
GNE	1.0	0.0	2.0	n.a.
Net exports (b)	-0.9	0.1	-1.1	0.1
Real GDP	0.1	0.1	0.8	n.a.

(a) New machinery & equipment and non-dwelling construction
 (b) Contribution to GDP growth

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