Australian Economic Update

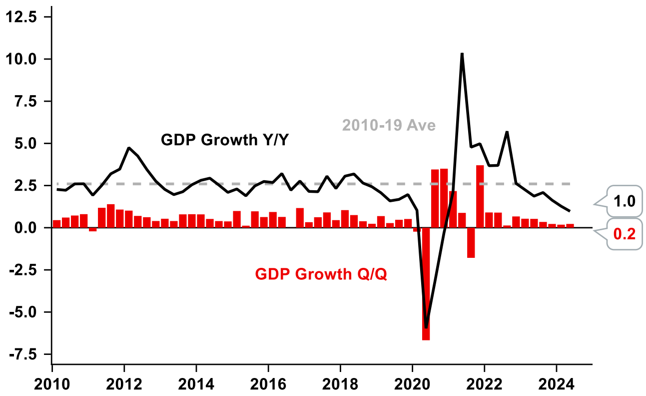
GDP Q2 2024 – A weak quarter for the private sector

NAB Group Economics

Key Points

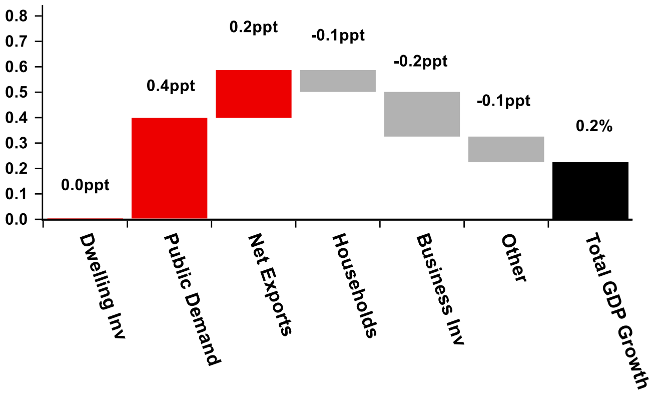
- GDP rose by 0.2% q/q (1.0% y/y) marginally weaker than we expected (and in line with consensus). Consumption was weaker than expected, while the other components were largely in line with the partials – business and dwelling investment made no contribution while net exports and public demand were key supports.
- Overall, today's data show that economic growth remains very weak, and a larger adjustment in per capita terms (now having fallen for 6 quarters) continues to be masked by strong population growth. It also shows that the public sector has been an important support with private sector components very weak.
- The broader set of price pressures continues to gradually ease though progress has been much more gradual over H1 2024 – painting a similar picture to the key CPI measures. That said, the weak productivity backdrop sees unit labour costs growth remain elevated.
- Productivity fell in the quarter, leaving the recent trend very soft. Productivity has been weighed by weak mining output and strong public sector employment growth.
- We continue to assess that soft growth through H1 will be the trough in growth and look for improving but still below trend growth in H2 – contingent on the response to tax cuts and ongoing easing in inflation for household consumption. Overall, we continue to see growth of around 1% this year (RBA: 1.7%).
- For the RBA, growth is likely to be weaker this year than they expected at the time of the August SMP. The output gap is continuing to close but the RBA will need to see evidence that is translating into further easing in inflation pressures. NAB continues to expect the conditions for a cut will not be in place this year. We expect the first cut in May, though acknowledge the risk skews to an earlier cut.

Chart 1: GDP Growth (%)



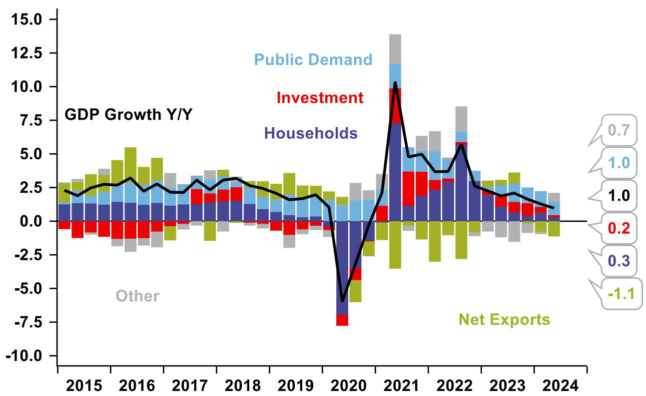
Source: Macrobond, NAB Economics

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 fell 0.2% in the quarter, leaving year-ended consumption growth very weak at just 0.5%. The result marked the first quarterly fall in consumption since Q3 2023 (when several government subsidies took effect) and the slowest annual rate of growth since the GFC outside of COVID lockdowns.

There were small falls in consumption of both goods (down 0.1% q/q) and services (down 0.2% q/q). The decline was driven by a substantial 1.1% q/q fall in **discretionary** categories including transport services (down 4.4%) clothing & footwear (down 1.6%), and hotels, cafes & restaurants (down 1.5%). Purchases of vehicles also declined 2.6% q/q, though furnishings & household equipment rose 4.0% q/q. Partly offsetting the discretionary consumption decline was a 0.5% q/q rise in **essential** consumption, led by a 2.4% rise in electricity, gas & household fuels as some government subsidies unwound.

A bigger-picture view of the patterns of essential and discretionary spending shows that the level of aggregate discretionary consumption has remained broadly steady since its peak in early 2022, reflecting a period in which households have gradually rebalanced their consumption behaviours back towards essentials after the initial post-pandemic rebound, and as inflation and interest rates have eroded buying power.

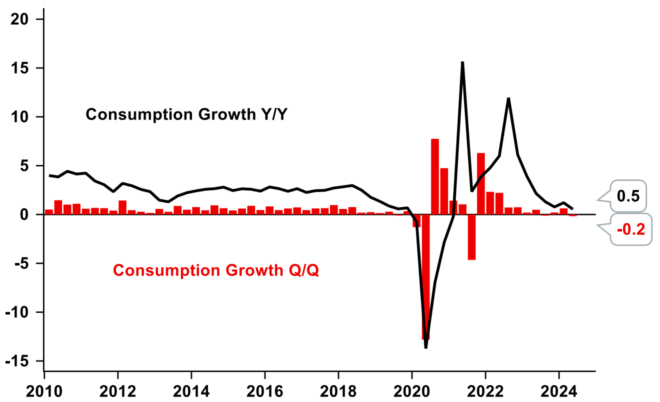
Those pressures remain significant but the most acute period of adjustment may be passing. The quarter saw another rise in **household disposable incomes** which rose 0.9% q/q to be up 4.9% y/y. Growth in wage incomes remained positive, rising 1.0% q/q, though underlying hourly wages rose just 0.3% (national accounts basis) and average earnings per employee rose 0.2%.

Both interest income and payments rose in the quarter, though the pace of increase has slowed as rates have remained on hold. Income tax payments also ticked up in the quarter, to 16.4% of gross income, ahead of an expected decline as tax cuts take effect in Q3.

With nominal incomes rising, rates on hold and inflation slowing, **real disposable income** appears to have stabilised, rising 0.1% q/q to be 0.4% higher through the year. Approximating this measure per capita suggests households' individual buying power is still under pressure but the trend is less negative than was the case in 2023.

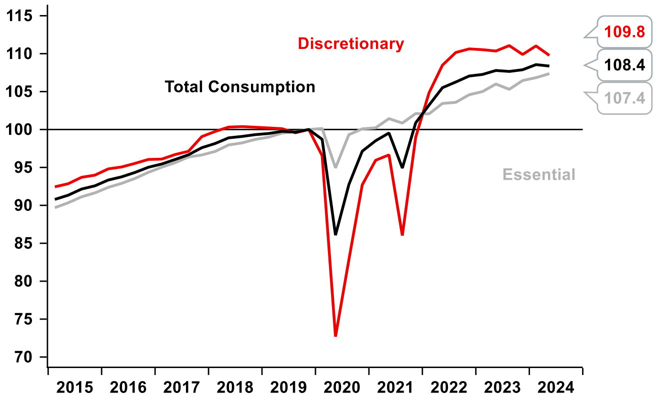
The **savings rate** also remained steady in the quarter, albeit it remains low by recent standards at 0.6%. The gross savings ratio (excluding depreciation of household assets) was 12.8%.

Chart 4: Real Household Consumption Growth (%)



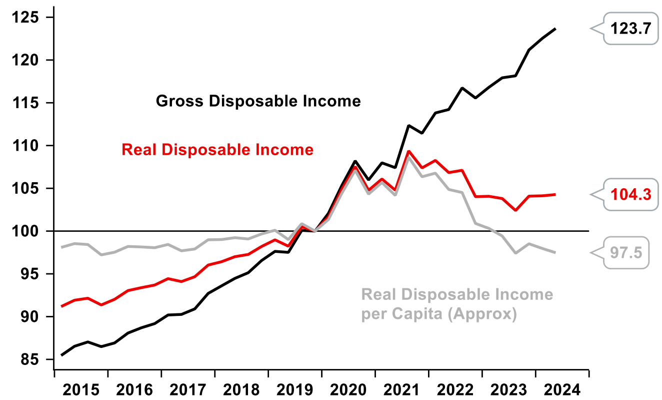
Source: Macrobond, NAB Economics

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



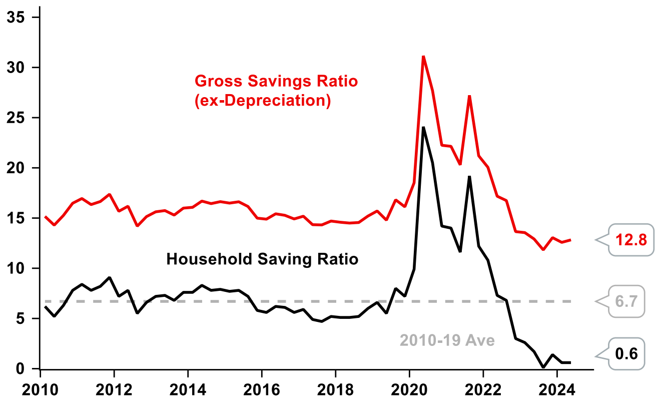
Source: Macrobond, NAB Economics

Chart 6: Levels of Household Disposable Income (Index, Q4 2019 = 100)



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 was slightly higher – up 0.1% q/q (as in Q1), although it was 3.0% below its year ago level. The increase in the quarter reflected new dwelling investment (+0.6% q/q) with alterations & additions declining 0.8% (reversing the pattern seen in Q1). There were large differences by state, including falls in NSW (-4.1% q/q) and Tasmania (-2.4%) but with increases elsewhere (including 4%+ growth in Queensland and W.A.). **Ownership transfer costs**, were up 3.7% q/q (8.6% y/y) reflecting more activity (sales) in the property market.

The headline decline in investment (-1.5% q/q) reflects asset transfers, and on an underlying basis **business investment** edged up 0.1% q/q. As expected, new machinery and equipment investment declined (-2.4% q/q) with new building construction (+0.5 q/q), new engineering construction (1.4% q/q) and intellectual property products (+1.6% q/q) providing offsets. On a year-ended basis, underlying business investment only grew 2.2% y/y - the softest it has been since 2020.

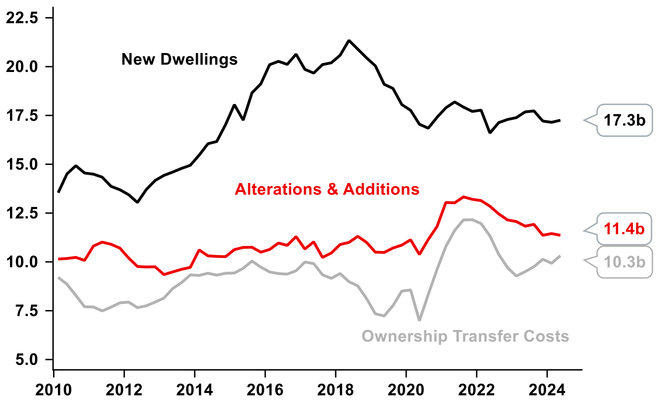
Investment cost inflation again fell – the business investment deflator was 2.2% y/y in Q2, the lowest it has been since mid-2021. However, on a quarterly basis it has tracked sideways since Q3 2023, suggesting little further downward impetus. In particular, new building construction inflation remains elevated and has picked up in recent quarters.

Net exports added 0.2ppts to Q2 GDP growth.

Exports were up by 0.5% q/q, largely reflecting an increase in service credits – as travel (+9.9% q/q) bounced back after falls in the previous two quarters and is now even closer to its pre-COVID level. In contrast, there was a small fall in resource export volumes (-0.4% q/q) while rural export volumes again declined (-1.7%). Grains export volumes have fallen 35% y/y consistent with a more normal winter crop after several elevated years.

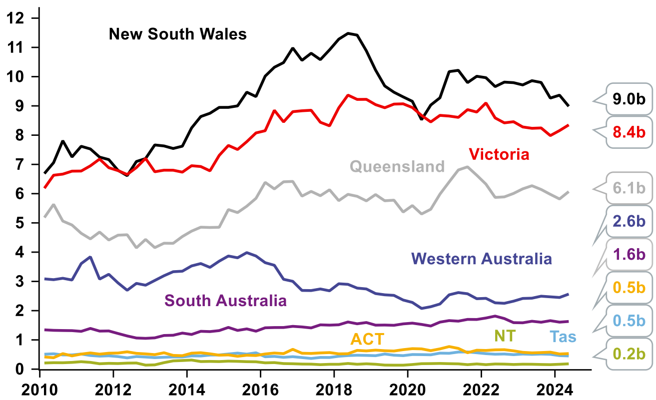
Imports volume fell 0.2%, with modest increases in consumption and intermediate goods, as well as services debits, offset by a 2.7% fall in capital goods, consistent with the weakening in machinery & equipment investment.

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



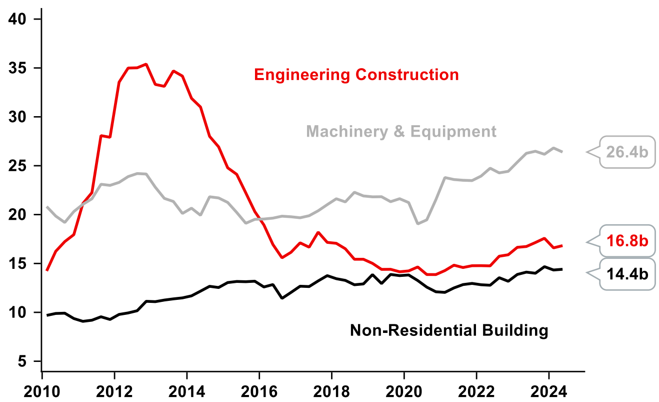
Source: Macrobond, NAB Economics

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



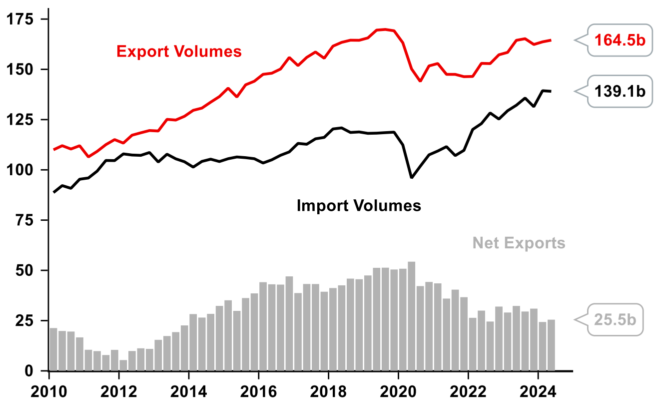
Source: Macrobond, NAB Economics

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



Source: Macrobond, NAB Economics

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



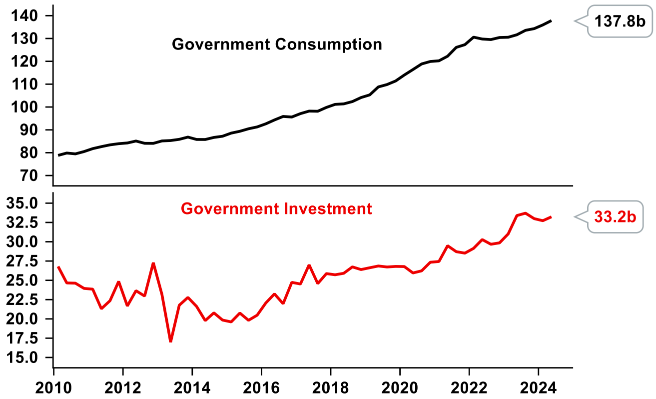
Source: Macrobond, NAB Economics

Public Demand

Public final demand remains a key support to domestic demand. It grew by 1.4% q/q, but this partly reflects asset transfers from the private sector and on an underlying basis we estimate it grew 0.8%q/q (3.4% y/y). The main driver was government consumption (1.4% q/q) - Federal government non-defence consumption rose 2.3%, which the ABS attributes to 'social benefits programs for health services', while state & local government consumption was also solid (1.1% q/q).

Public fixed investment rose 1.5% q/q, but on an underlying basis declined by 2.2% q/q, the third consecutive fall, and is down 2.2% y/y. This largely reflects a decline in state & local general government investment, signalling an end to the expansion in government infrastructure programs, although they remain at a high level.

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



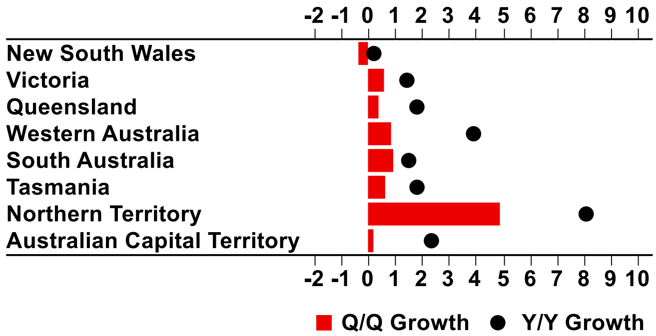
Source: Macrobond, NAB Economics

State Economic Growth

State final demand (SFD) growth was positive across all states other than NSW which saw a decline of 0.4%. NSW mirrored the national experience with household consumption falling and business investment growth soft, but the fall in household consumption was greater than in any other state and there was a large fall in dwelling investment (-4.1% q/q). Household consumption growth was otherwise negative, or only a small positive, across the other jurisdictions, other than W.A. where it grew 0.4%.

Growth was strongest in NT (4.9% q/q), largely reflecting mining related investment although public sector investment also grew strongly.

Chart 13: State Final Demand Growth (%)



Source: Macrobond, NAB Economics

Industry Production

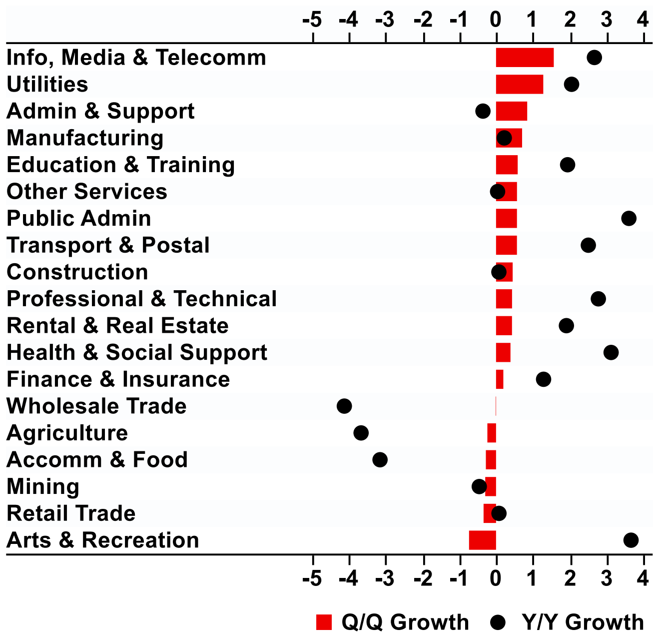
On the **production side** of the accounts, growth was reasonably subdued in the quarter across most industries. The strongest growth in gross value added (GVA) was seen in information, media & telecommunication (up 1.6% q/q), followed by utilities (1.3%).

The weakness in discretionary consumption was evident in falls in GVA in arts & recreation (-0.8% q/q), retail (-0.3%) and accommodation & food services (-0.3%).

There was a 0.5% pickup in construction GVA, in line with small increases in the building and engineering components of business investment. That said construction GVA was broadly flat in year-ended terms,

Primary industries were soft, with mining GVA down 0.3% and agriculture down 0.2%, with the latter down considerably in year-ended terms, but manufacturing saw a 0.7% rise in the quarter.

Chart 14: Industry GVA Growth (%)



Source: Macrobond, NAB Economics

Nominal GDP, Inflation & Productivity

Key price measures point to ongoing inflation pressures. The consumption deflator rose 0.9% q/q, slightly lower than the 1% increase last quarter. DFD deflator growth was unchanged in quarterly terms at 0.9% - with the ABS noting that "high construction prices and skilled labour shortages" continue to drive growth in the IPD. That said, both deflators continue to ease in annual terms though they remain elevated (and above CPI inflation).

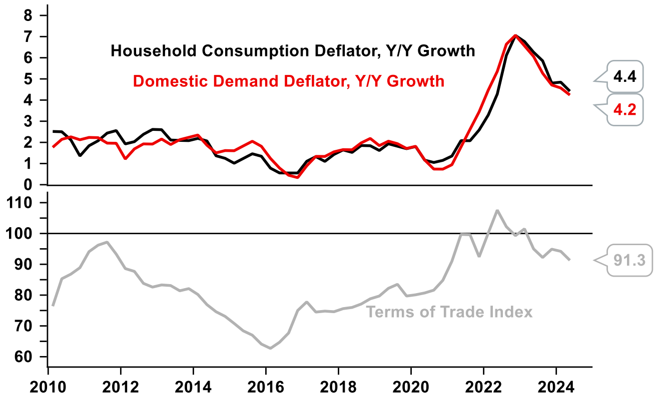
The terms of trade fell by a sharp 3% in the quarter with export prices falling on the back of declines in iron ore and coal. Import prices were broadly unchanged in the quarter.

Wage and labour cost growth measures generally eased. Total COE growth edged down to 0.9% q/q (but remains up 6.3% y/y). Non-farm average earnings per hour rose by a modest 0.3% q/q following a similar sized increase in Q1. In annual terms, AENA per hour remains elevated, in part driven by volatility in hours worked in mid-2023. In a broad, sense these outcomes are consistent with our assessment that we have past the peak in wage growth with an ongoing gradual cooling in the labour market underway.

Productivity outcomes were very weak in the quarter and the trend continues to challenge the RBA's assumed rise in productivity growth. GDP per hour fell by 0.8% q/q (up 0.4% y/y) while market sector productivity (market sector GVA per hour) was also weak, falling 0.7% q/q (up 1.0% y/y). Overall, despite some gains in recent quarters the productivity picture suggests a relatively flat outcome over H1 and little recovery following the declines over recent years.

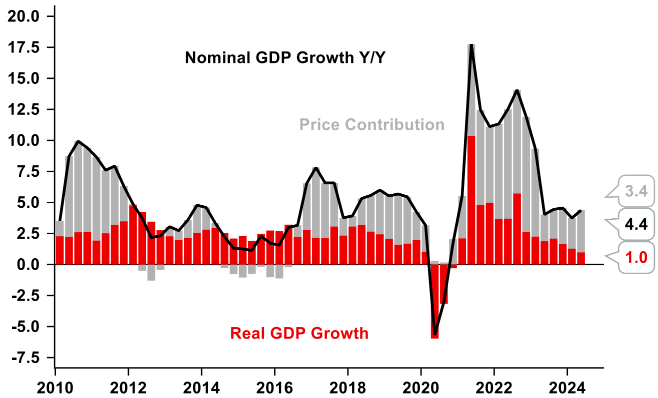
Relatedly, **nominal unit labour costs** growth picked up in the quarter to 1.2% q/q but continued to gradually ease (from a high level) in annual terms. Non-farm nominal unit labour costs growth was marginally stronger but has followed a similar pattern. Overall, the picture on unit labour costs is mixed. Though volatile on a quarterly basis, the annual rate continues to rise strongly – and likely too strongly to be consistent with at-target inflation. This suggests we will likely need to see a further easing in wage pressures in the labour market absent a more material pickup in productivity growth.

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



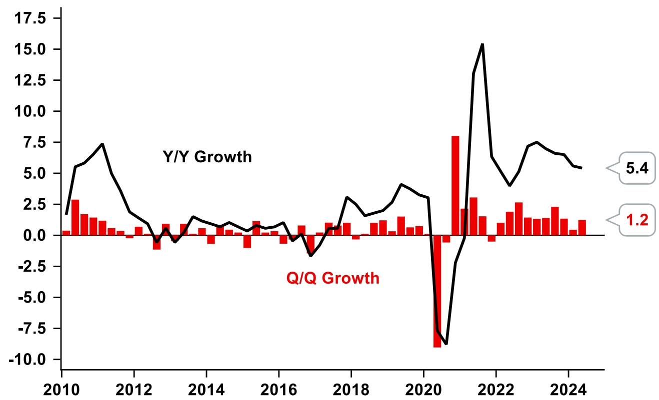
Source: Macrobond, NAB Economics

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



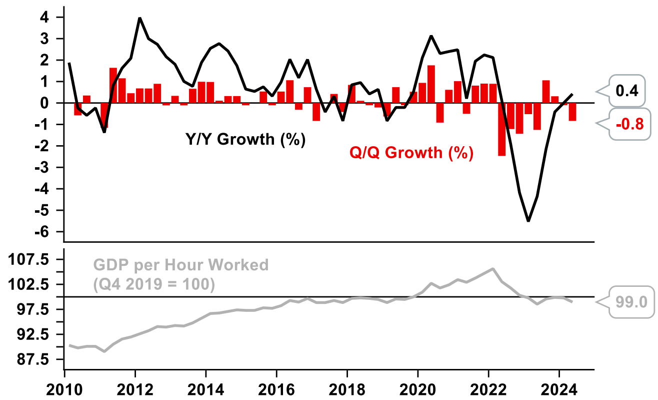
Source: Macrobond, NAB Economics

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
	Mar-24	Jun-24	Jun-24	Jun-24
Household Consumption	0.6	-0.2	0.5	-0.1
Dwelling Investment	0.1	0.1	-3.0	0.0
Underlying Business Investment^	-0.4	0.1	2.2	0.0
Machinery & equipment	2.5	-1.6	0.5	-0.1
Non-dwelling construction	-4.1	1.0	1.2	0.0
New building	-2.3	0.5	2.1	0.0
New engineering	-5.6	1.4	0.5	0.0
Public Final Demand	0.8	1.4	3.7	0.4
Domestic Demand	**0.5**	**0.2**	**1.5**	**0.2**
Stocks (a)	0.7	-0.3	0.6	-0.3
GNE	**1.2**	**-0.1**	**2.2**	**-0.1**
Net exports (a)	**-1.1**	**0.2**	**-1.1**	**0.2**
Exports	0.8	0.5	0.1	0.1
Imports	6.1	-0.2	5.2	0.0
GDP	**0.2**	**0.2**	**1.0**	**0.2**

(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
	Mar-24	Jun-24	Jun-24
Real GDI	0.0	-0.6	0.0
Real net disposable income per capita	-0.8	-1.6	-2.7
Compensation of employees	1.0	0.9	6.3
Average compensation of employees (average earnings)	0.6	0.2	3.3
Corporate GOS	1.2	-1.8	-1.4
Non-financial corporations	1.2	-2.4	-2.9
Financial corporations	1.4	1.0	6.5
General government GOS	2.6	2.7	10.5
Productivity & unit labour cost			
GDP per hour worked	-0.1	-0.8	0.4
GVA per hour worked mkt sector	0.4	-0.7	1.0
Non-farm nominal unit labour cost	0.4	1.3	5.3
Non-farm real unit labour cost	-0.6	1.4	1.9

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