Australian Economic Update

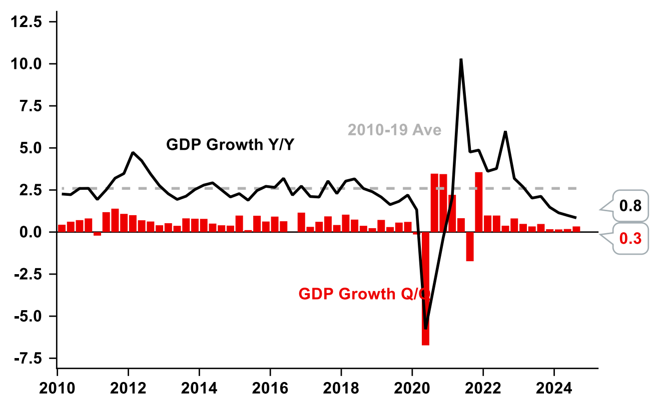
GDP Q3 2024 – In line with our expectations

NAB Group Economics

Key Points

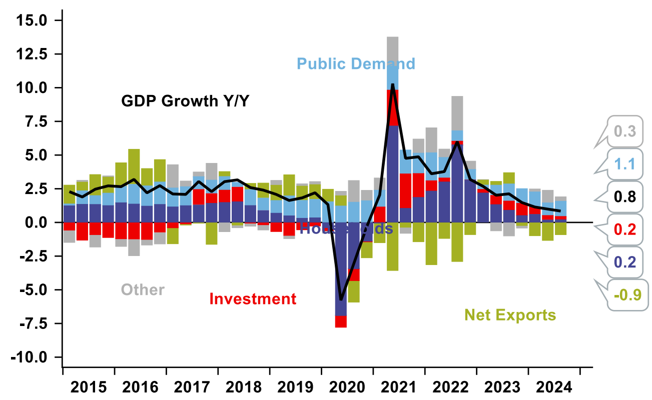
- GDP rose by 0.3% q/q (0.8% y/y) in Q3, in line with our forecast but weaker than consensus (0.5%) and the RBA at ~0.4/0.5% q/q.
- Overall, growth remains very soft in annual terms and is still around its weakest (ex. COVID) since the early 1990s. Public sector spending remains an important support, with private sector growth flat.
- Abstracting from the impact of subsidies, consumption growth saw an improvement in the quarter, alongside the ongoing improvement in real income growth. Discretionary spending edged up after a large fall in the previous quarter.
- The household income account continues to show an easing in real income pressures with a further pickup in disposable income growth driven by tax cuts, an ongoing easing in inflation, and a waning drag from interest rates.
- The savings rate continued to recover and is now at 3.2% following historical revisions. At face value this suggests households, while stretched, may have not been as stretched as initially implied by the accounts.
- Productivity was again weak in the quarter, falling 0.5% to be down 0.8% over the year. Relatedly, unit labour costs growth continues to ease in y/y terms but remains elevated and inconsistent with at target inflation.
- There are few immediate implications for the RBA on these data. The headline growth figure was marginally below their implied forecast and highlights the risk of a slower pickup in consumption, but still weak productivity growth and strong unit labour costs growth point to the risk of ongoing elevated price/cost pressures. We continue to see the RBA on hold until May 2025.
- Today's data are in line with our assessment that the economy is likely passing through the trough in growth with some early indications that the improvement in real income growth is supporting consumption. While quarterly productivity and unit labour costs growth can be volatile, the trend continues to point to the risk that the moderation in inflation will be very gradual from here.

Chart 1: GDP Growth (%)



Source: Macrobond, NAB Economics

Chart 2: Contributions to Y/Y GDP Growth (%)



Source: Macrobond, NAB Economics

Household Consumption, Income & Savings

Real household consumption was flat in the quarter, leaving year-ended consumption growth very weak at just 0.4%.

Electricity spending fell 16% q/q because subsidies reclassify household spending as government spending. That subtracted 0.4ppts from consumption growth in the quarter. Adjusting for electricity shows a modest improvement relative to soft H1 outcomes and supports the assessment that the trough in growth is behind us. Even so, growth on discretionary categories remained tepid at just 0.1% q/q.

By component, clothing and footwear spending (+2.2% q/q) was boosted by warm weather after a soft Q2 outcome. New vehicles (-0.9% q/q) recorded its fourth consecutive decline after being boosted by catchup growth in 2023. Essential spending on rent, health and education services was a continued support for overall consumption, while the ABS notes outbound tourism spend supported growth in hotels, cafes and restaurants, and recreation and culture.

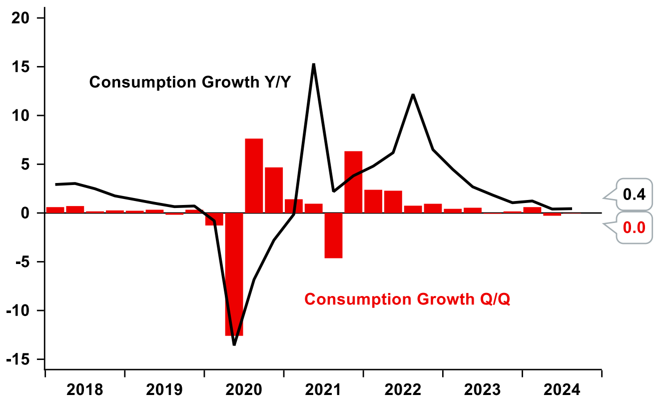
Pressure on real household incomes has been reflected in a squeeze on discretionary consumption. Despite strong population growth, **discretionary consumption** is no higher than it was 2 years ago. More timely data and an improvement in real disposable incomes point to further modest reacceleration through into Q4 and into 2025.

Real household disposable income growth rose to 2.3% y/y, back to around its pre-pandemic average. The drag from real wage declines has moderated in line with cooler inflation, and stage 3 tax cuts contributed to a 3.8% decline in income tax paid by households in Q3. That means rising tax payable did not subtract from incomes over the past year. Income tax payable as share of income remains more than 1.5ppt higher than the 2015-19 average.

Compensation of Employees growth was 1.4% q/q and 5.4% y/y. Annual CoE growth has now slowed to around its level in 2018 and 2019, though weak productivity growth (see below) means that is not translating into cooler unit labour cost growth.

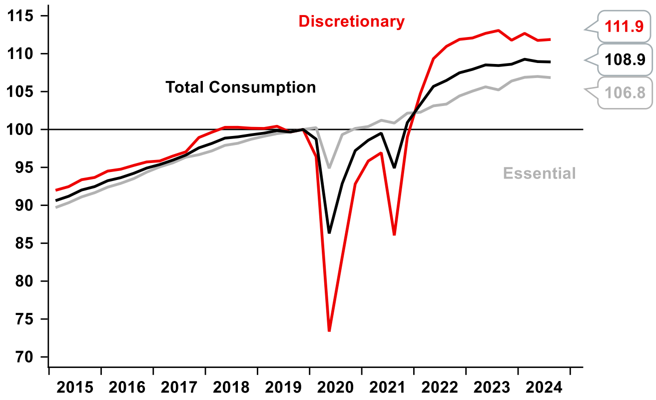
The **savings rate** was revised higher (from 0.6% to 2.5%) in Q2 on the back of an upward revision to disposable income revealed in the annual national accounts. It rose to 3.2% in Q3, driven by lower tax payable and electricity rebates subtracting from consumption. Savings rates remain below their pre-pandemic norm and are likely to rise a little further over the next couple of years as consumers spend some, but not all of the improvement in real income growth.

Chart 3: Real Household Consumption Growth (%)



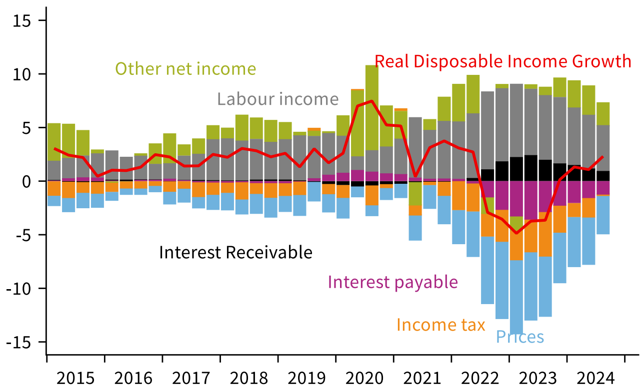
Source: Macrobond, NAB Economics

Chart 4: Levels of Essential vs Discretionary Consumption (Index, Q4 2019 = 100)



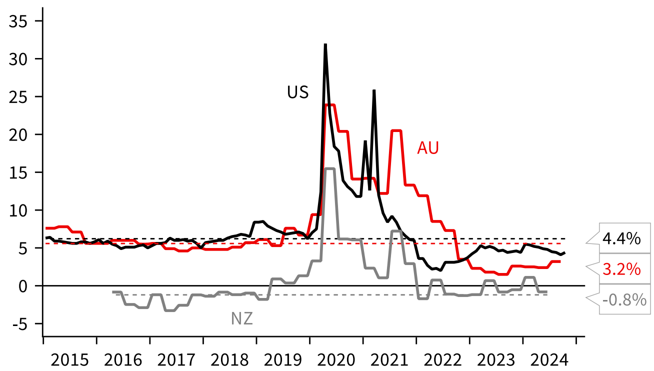
Source: Macrobond, NAB Economics

Chart 5: Real Household Disposable Income Growth (Year-ended, %, with contributions)



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Chart 6: Net savings ratios



*Dashed line is 2016-2019 average
Source: National Australia Bank, ABS, BEA

Dwellings, Business Investment & Trade

Dwelling investment increased for the third consecutive quarter, rising 1.2% q/q. The increase largely reflected new dwelling investment (+1.7% q/q), with alterations & additions growing a more modest 0.4% q/q. By state, there were falls in Victoria (-0.6% q/q) and the territories, with growth strongest in SA (1.7% q/q) and WA (2.9% q/q). While new dwelling investment was also up modestly on its level a year ago (0.8% y/y), the level remains within the range it has been in since 2021; given a still large pipeline of work, this points to ongoing capacity constraints in the sector. **Ownership transfer costs**, were up 1.6% q/q (7.9% y/y), pointing to rising sales activity in the property market.

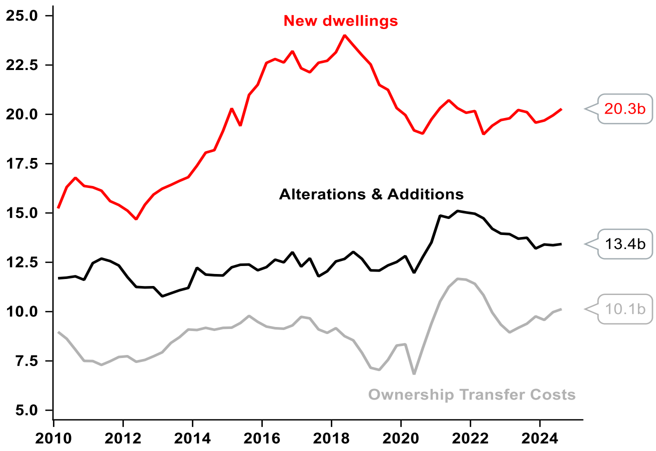
Business fixed investment declined by 0.6% in Q3; this partly reflected asset transfers but on an underlying basis it was still down 0.2%. The decline was driven by falls in new building (-1.8%) and new engineering construction (-1.5%), only partly offset by rise in new machinery and equipment (0.6%) and intellectual property products (1.5%). Compared to a year ago, underlying business investment was up 1.5% - this represents the lowest year-ended growth rate since 2020. Mining sector investment in particular has weakened over the last year, down 10.3% y/y.

Investment cost inflation decelerated only slightly – the business investment deflator grew 2.3% y/y in Q3, only slightly down on Q2 (2.4% y/y) but still a new low since mid-2021. New building construction inflation, however, remains elevated (6.8% y/y).

Net exports added 0.1ppts to Q3 GDP growth. Export volumes rose by 0.2% q/q but were 1.1% lower than a year ago. The increase in the quarter mainly reflected a 1.7% q/q increase in resource exports despite LNG production disruptions. While it was the third consecutive increase in resource exports, the level remains in the range it has been in since mid-2020. There were also increases in rural and manufacturing exports, partly offset by a fall in non-monetary gold. Service exports (credits) also declined by 3.6% q/q, principally due to a fall in travel credits which the ABS indicates was driven by a decline in student arrivals.

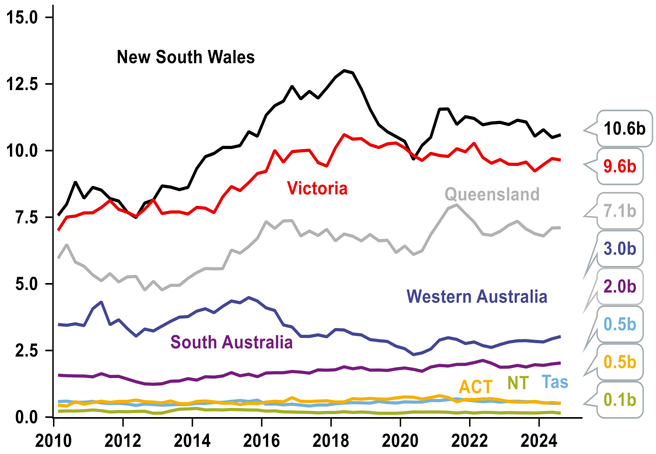
Import volumes declined slightly (-0.3% q/q), driven by a fall in consumption (-4.2%), mainly due to a fall in vehicle imports, and intermediate goods (-1.7%) although capital goods imports rose (1.6%). In contrast service imports (debits) rose 3.0% on the back of a 10% jump in travel debits.

Chart 7: Dwelling Investment & OTCs ($b, CVM)



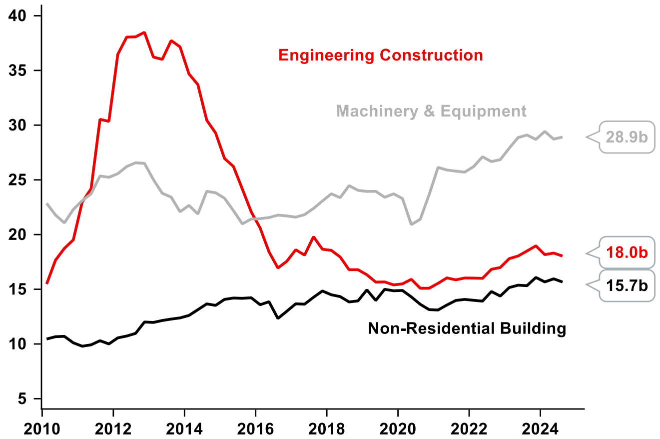
Source: National Australia Bank, Australian Bureau of Statistics

Chart 8: Dwelling Investment by State ($b, CVM)



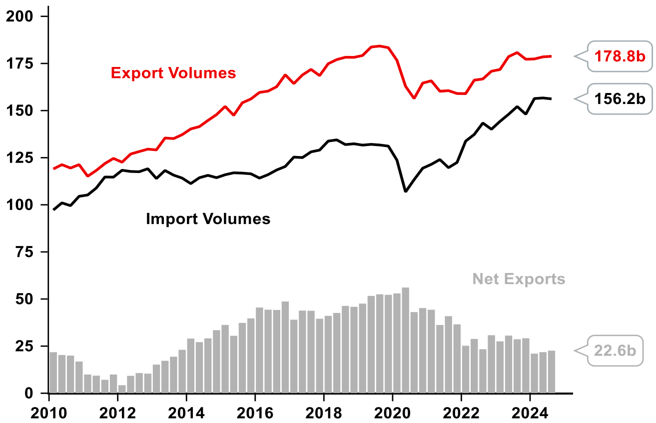
Source: Macrobond, NAB Economics

Chart 9: New Business Investment, Selected Components ($b, CVM)



Source: Macrobond, NAB Economics

Chart 10: Volume of Imports, Exports & Net Exports ($b, CVM)



Source: Macrobond, NAB Economics

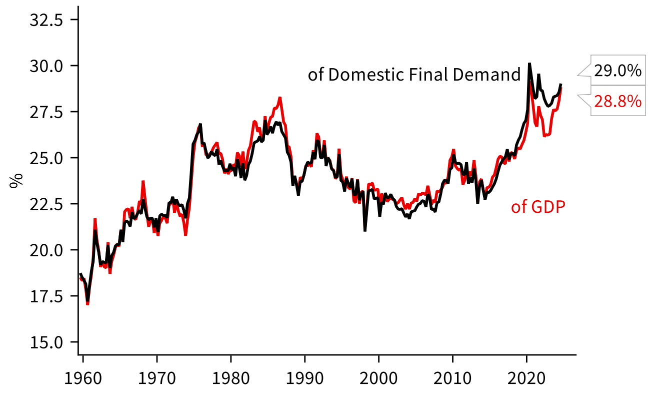
Public Demand

Public final demand grew strongly, rising by 2.4% q/q (or 2.1% after excluding asset transfers), supported by increases in both consumption and asset investment. This is only partly explained by the energy subsidies to households (which are treated as government consumption) – allowing for this we estimate public final demand still grew by 1.7% q/q.

Government consumption increased by 1.4% q/q as in Q2. Growth was a more moderate 0.5% q/q after allowing for the estimated energy subsidy impact, with the slowdown in 'underlying' growth driven by softer Federal government consumption. The ABS notes that growth in aged care and NDIS was lower than in recent quarters.

Public fixed investment rose 6.3% q/q, ending a run of three quarterly falls, and was 2.3% higher than a year ago. Around half of the increase reflected a large jump in national defence investment (driven by defence equipment imports). While there were also increases in national non-defence and state & local government investment in the quarter, overall non-defence fixed investment remains below its 2023 peak.

Chart 11: Public Demand share of Nominal GDP

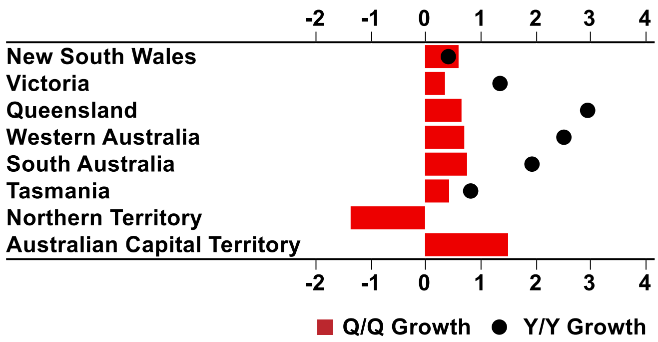


Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

State Economic Growth

Growth in **state final demand** (SFD) was positive across all states in Q3, while it fell in NT, down 1.4% q/q (albeit this followed extremely strong growth in Q2), driven by a drop in private sector investment (mostly in mining).Aside from the ACT, SA recorded the largest increase in Q3 (up 0.8% q/q), just ahead of WA and QLD (both rising by 0.7%) – in each case driven largely by the public sector. Growth in VIC and TAS lagged (both 0.4% q/q). NSW recorded the strongest increase in household consumption (rising by 0.6% q/q), followed by WA (0.1%) and VIC (0%), while consumption contracted in SA, QLD and TAS (albeit we note the impact of electricity subsides here).

Chart 12: State Final Demand Growth (%)

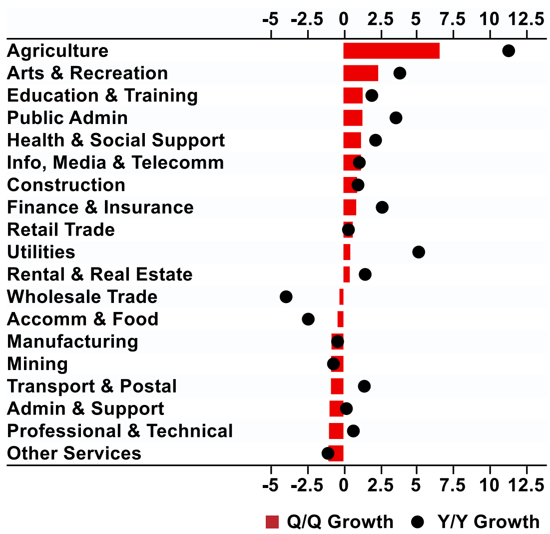


Source: Macrobond, NAB Economics

Industry Production

From an **industrial** perspective, trends remain mixed across the different parts of the economy. Agriculture saw the largest increase in gross value added (GVA) in Q3 (up by 6.6% q/q) on stronger grains and livestock production. The modestly improved consumption trends were evident in a pickup in retail (up by 0.6% q/q – its fastest pace of growth since Q2 2022) and arts & recreation (2.4% q/q), although accommodation and food services (-0.4% q/q) and other services (-1.0%) were weaker. Growth in construction GVA was slightly stronger (up 0.9% q/q), albeit there was stronger expansion in infrastructure and construction services than housing construction (which rose by 0.3% q/q). Elsewhere, GVA growth was comparatively strong in education & healthcare, public administration and information, media & telecommunications. In contrast, professional & technical services, mining and manufacturing saw a contraction in activity.

Chart 13: Industry GVA Growth (%)



Source: Macrobond, NAB Economics

Nominal GDP, Inflation & Productivity

Key price measures were in line with more timely data. The consumption deflator rose 0.7% q/q, lower than the 1% increase in the previous quarter. DFD deflator growth was in line with this. Both deflators continued to ease in annual terms and are now tracking around 3.6% annually – broadly inline with underlying CPI inflation but higher than headline CPI measures given different treatment of government rebates.

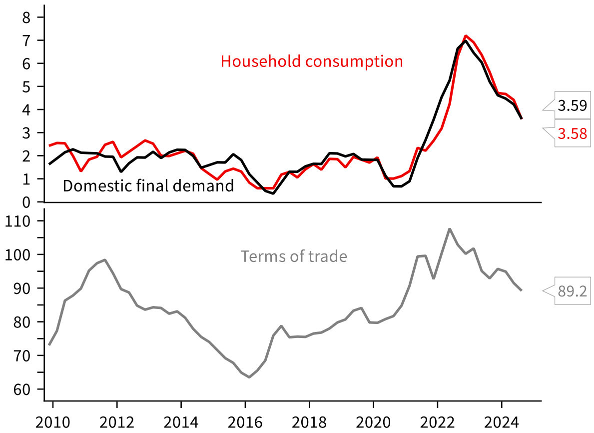
The terms of trade fell by 2.5% - and for the 3rd quarter in a row. Export prices declined by more than import prices, driven by an ongoing easing in bulk commodity prices.

Wage and labour cost growth measures continued to ease. Non-farm average earnings per hour was flat in the quarter (but edged up in per head terms). In annual terms, AENA per hour slowed to 3.2% - in line with the WPI measure when annualised over the past three quarters. While these data are consistent with our assessment that wage pressures have peaked, they remain elevated in the context of weak productivity outcomes.

Productivity outcomes were very weak in the quarter with GDP per hour worked falling 0.8% q/q (0.4% y/y) and GVA per hour down 0.7% in the quarter. In annual terms, the trend for productivity remains healthier in the market sector rising 1.0% y/y.

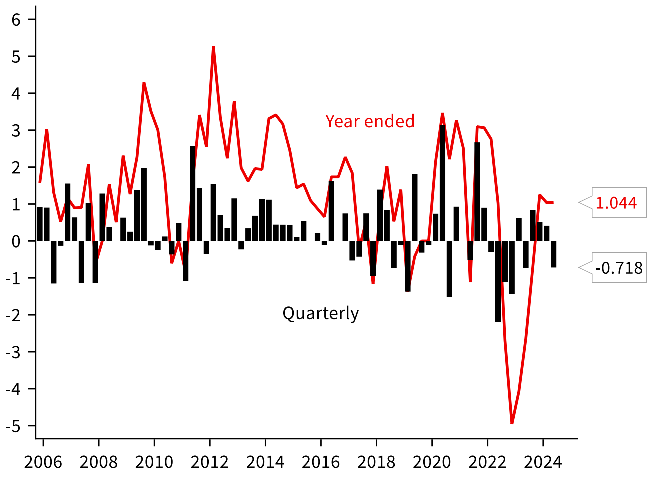
Non-farm **nominal unit labour costs** eased slightly in the quarter to 0.7% q/q (3.9% y/y). Like productivity, unit labour costs, can be volatile on a quarterly basis, but continue to ease in annual terms. That said, they remain elevated and when compared with history remain at a rate that is inconsistent with inflation returning to around 2.5%.

Chart 2: Y/Y Domestic Price Growth (%) & Terms of Trade (Index)



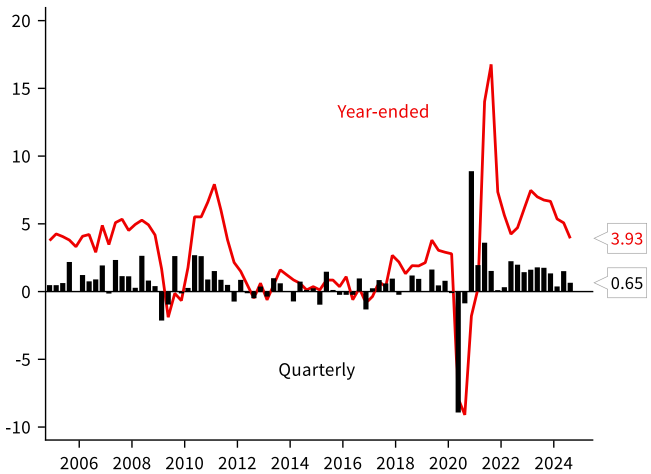
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Chart 3: Market Sector GVA Growth (%)



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Chart 4: GDP per Hour Worked



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Summary Tables

Table 1: Key Expenditure Components

GDP Expenditure Components	q/q % ch		y/y % ch	Contribution to q/q % ch
	Jun-24	Sep-24	Sep-24	Sep-24
Household Consumption	-0.3	0.0	0.4	0.0
Dwelling Investment	0.7	1.2	-0.5	0.1
Underlying Business Investment^	0.2	-0.2	1.5	0.0
Machinery & equipment	-2.4	0.6	-0.7	0.0
Non-dwelling construction	1.3	-1.7	-0.4	-0.1
New building	1.8	-1.8	2.2	0.0
New engineering	0.8	-1.5	-2.5	0.0
Public Final Demand	0.9	2.4	4.2	0.6
Domestic Demand	**0.2**	**0.7**	**1.7**	**0.6**
Stocks (a)	-0.3	-0.4	-0.1	-0.4
GNE	**-0.1**	**0.2**	**1.5**	**0.2**
Net exports (a)	**0.1**	**0.1**	**-0.9**	**0.1**
Exports	0.6	0.2	-1.1	0.0
Imports	0.2	-0.3	2.7	0.1
GDP	**0.2**	**0.3**	**0.8**	**0.3**

(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
	Jun-24	Sep-24	Sep-24
Real GDI	-0.8	-0.3	-0.1
Real net disposable income per capita	-1.9	-0.1	-1.9
Compensation of employees	1.2	1.4	5.4
Average compensation of employees (average earnings)	0.6	0.1	2.1
Corporate GOS	-2.4	-3.1	-3.0
Non-financial corporations	-3.1	-3.9	-4.6
Financial corporations	1.2	1.1	5.3
General government GOS	2.4	2.5	9.2
Productivity & unit labour cost			
GDP per hour worked	-0.9	-0.4	-0.7
GVA per hour worked mkt sector	-0.3	-0.5	0.7
Non-farm nominal unit labour cost	1.5	0.6	3.9
Non-farm real unit labour cost	1.7	0.6	1.6

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