Australian GDP Preview Q4 2024

Households continue to recover

NAB Economics

Key points:

- NAB expects a Q4 GDP print of 0.5% q/q (1.2% y/y).
- Consumption is expected to be the key support, with the other private sector components expected to be soft.
- We continue to expect GDP growth to strengthen over 2025 making H2 2024 the low point in growth for the cycle.
- This Q4 outcome would be in line with the RBA's expectation for growth but key for the rates outlook will be how sustained the rebound in consumption growth is, and how quickly growth picks up over 2025.

Details:

- We expect household **consumption** growth of 0.7% q/q, picking up from an underlying rate of around 0.4% in Q3 (when adjusting for subsidies). Partial spending data for Q4 – including both retail sales (up 1.0% q/q in volume terms) and the new Monthly Household Spending Indicator (up 1.4% q/q in volume terms) – has been noticeably stronger.
- The uplift in consumption has been driven by improving real **household disposable income.** This has been supported by a resilient labour market (with strong monthly gains in employment and a low unemployment rate) and tax cuts. However, we expect that consumers have opted to save part of the pick-up in disposable income, which will be reflected in a higher household saving ratio in Q4.
- We expect a **small decline in business investment** based on the softness in the work done and capex releases this week. That detracts 0.1% q/q from GDP in Q4. Dwelling investment is expected to make no contribution to growth in the quarter.
- We have pencilled in a 0.2% contribution from inventories, while trade is expected to subtract 0.1ppts from growth. These partials will be released early next week.
- Public sector spending is also expected to support growth in the quarter though will likely make less of a contribution over the near-term with the level of infrastructure spending plateauing.

Table 1: Real GDP Growth Forecasts (%)

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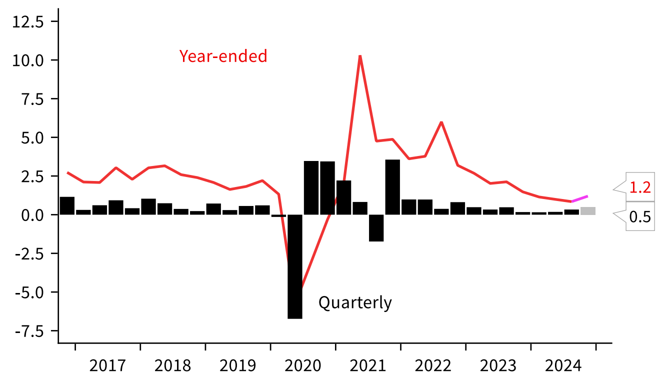
	Q/Q		Y/Y	Contribution to Q/Q
	Sep-24	Dec-24	Dec-24	Dec-24
Household Consumption	0.0	0.7	1.0	0.3
Dwelling Investment	1.2	0.0	2.8	0.0
Underlying Business Investment (a)	-0.6	-1.2	-3.0	-0.1
Underlying Public Final Demand	2.2	1.2	5.2	0.3
Domestic Final Demand	**0.7**	**0.7**	**2.1**	**0.6**
Stocks (b)	-0.4	0.2	0.1	0.2
GNE	**0.2**	**0.9**	**2.4**	**n.a.**
Net exports (b)	**0.1**	**-0.1**	**-1.1**	**-0.1**
Real GDP	**0.3**	**0.5**	**1.2**	**n.a.**

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

Chart 1: Real GDP Growth Forecasts (%)



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

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- **Measures of price and cost growth will likely continue to ease** in line with other price measures. While the CPI remains the core focus for the RBA, the broader set of deflators contained in the national accounts will allow further insight into broader price pressures across building/investment, housing and consumption. Over recent quarters the consumption (and broader domestic final demand deflators) have moved broadly in line with the CPI but remained elevated relative to history.
- Though typically volatile on a quarterly basis, the key **productivity measures as well as nominal unit labour costs (productivity adjusted wage growth) will continue to be important**. Productivity growth has remained weak in aggregate and measured nominal unit labour costs have also remained high, despite the slowing in other wage measures such as the WPI.
- **For the RBA, growth of 0.5% q/q (1.2% y/y) is broadly in line with their February SMP forecasts.** That said, the outlook remains important with growth starting to pick up and the unemployment rate beginning the cycle at a relatively low level.

  Outside of the activity indicators, the RBA will be watching the trend in both productivity and unit labour costs.

  A key focus will also be developments in the savings rate and an updated picture on the drivers of household disposable income which has rebounded over recent quarters with tax cuts flowing through, easing inflation and the waning impact of interest rates. A key support has been the strength in both employment and wage growth at a pace still above pre-pandemic levels.

  That said, we do not see any immediate implications for policy in the near term of the Q4 GDP release, with the focus likely to remain on the Q1 CPI ahead of the next potential cut in May.