BULLETIN

2 December 2022

Australian Q3 GDP preview. Economy In transition, robust growth for now, ahead of sharp slowdown in 2023. Q3 GDP forecast: 0.8%qtr, 6.4%yr

The Australian National Accounts, to be released on Wednesday December 7, will provide an estimate of economic activity for the September quarter.

Over the second half of this year, the economy is in a period of transition. While overall growth is likely to be relatively robust for the September quarter, a sharp slowdown is in prospect for 2023 as high inflation and rising interest rates impact. There is already some evidence of the adverse impacts of these powerful headwinds - notably weak retail sales.

We expect output growth of 0.8% for the quarter, lifting annual growth to 6.4%. The level of activity will be 6.4% above that at the end of 2019 (prior to the pandemic).

Activity in the period will be supported by the tailwinds of earlier policy stimulus and the reopening effect from the delta lockdowns of 2021. That said, the reopening effect is fading, having been most powerful over the first half of 2022, when consumer spending expanded at a 9% annualised pace led by services (travel and hospitality).

The arithmetic of our 0.8% forecast for Q3 is: +0.9% for domestic demand and a net -0.1ppt impact from net exports (-0.5ppts) and inventories (+0.4ppts).

We anticipate that: consumer spending grew by 1.0% (led by services and vehicles); home building was flat (including a pull-back in renovation work); business investment rose by a forecast 1.3% (construction work rebounding and outweighing a dip in equipment spending; and public demand likely returned to growth, a forecast 0.8%.

The Labour Force survey reported muted employment and hours worked gains in the quarter (0.3% and 0.2%) crimped by elevated sick leave (covid impacts) and elevated holiday leave.

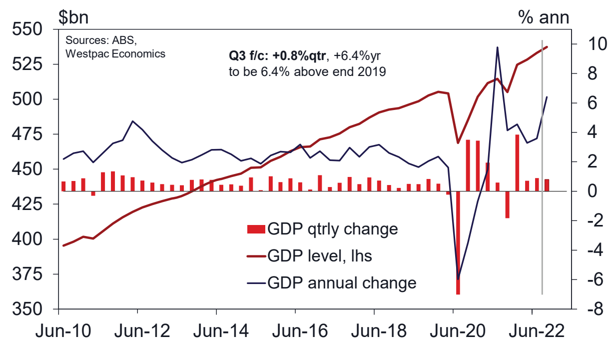
Information and colour around the household sector will be of interest.

The household saving ratio spiked to an extremely elevated 19.8% in the September quarter 2021, associated with the delta lockdowns. Subsequently it moderated to 8.7% in the June quarter 2022, freeing up funds to finance additional spending. That is still above the equilibrium saving ratio of around 6% and is thus supportive of future spending - as is the war chest of $265bb in “excess” savings amassed during the pandemic.

National income growth eased in the September quarter after a period of rapid growth associated with the terms of trade climbing to a record high mid-year. Global commodity prices have pulled back on global recession fears. The terms of trade declined by about 6% in the September quarter, we estimate - which will hit mining profits. Nominal GDP growth is expected to be a little above 1% for the quarter, with annual growth to lift to over 13½%.

Household consumption (+1.0%qtr): Consumer spending, currently accounting for 54% of the economy, is expected to be around 1% for the quarter, throttling back from the 2.2% gains for Q1 and Q2.

Australian economy: Q3, robust growth



Nominal retail sales grew by a relatively strong 2.3% in the September quarter, but household spending power was eroded by high inflation, which was 2.0% for the period. Real retail sales growth slowed to an anaemic 0.2%, following 1% for June.

Vehicle sales lifted on new supply, while services spending likely expanded further on fewer restrictions, albeit the pace of growth will have eased after the strong burst over the past half year.

Dwelling investment (0.0%qtr): Home building activity has struggled to advance, held back by labour and material shortages, as well as inclement weather. While new home building rose in the period renovation work eased back from the highs associated with the earlier Home Builder program.

New business investment (1.3%qtr): Construction work advanced in the period, rebounding from weather disruptions, with commercial building work up by 2.8% and infrastructure activity expanding by 4.2%. However, the upward trend in equipment spending faltered, with a modest pull-back in the quarter.

Public spending (0.8%qtr): Government spending in the form of public demand (27% of the economy) is expanding briskly (latest 7%yr) centred on rising investment and the health response to covid. A 2.5% surge in the March quarter was followed by a consolidation in June (0.0%) and we anticipate a return to growth in September, at a forecast 0.8%.

Net exports (-0.5ppts qtr): Imports have been particularly strong, expanding by an estimated 6%qtr, 19.3%yr in the September quarter, in response to rising domestic demand and as more of us travel abroad on the reopening of the national border. Exports while up in the period, rising by an estimated 3.3% centred on rural goods and services, failed to keep pace with imports. Net exports will subtract around 0.5ppts from activity, we estimate.

Private non-farm inventories (1.4% qtr, +0.4ppts contribution): The inventory rebuild, which faltered in the June quarter, likely resumed and was assisted by the lift in goods imports, with a forecast increase of 1.4% for the September quarter, adding 0.4ppts to activity.

Andrew Hanlan, Senior Economist, ph (61–2) 8254 9337