BULLETIN

24 February 2023

Australian Q4 GDP preview.
Mixed conditions to end 2022, ahead of sharp slowdown in 2023.
Q4 GDP forecast: 0.7%qtr, 2.7%yr

The Australian National Accounts, to be released on Wednesday March 1, will provide an estimate of economic activity over the final three months of 2022, as we head into 2023.

As we've highlighted previously, the Australian economy was in transition over the second half of 2022.

The boost from earlier substantial policy stimulus was still evident, but waning, and household service sectors benefited from the ongoing normalisation of life after the many and prolonged covid restrictions. However, some adverse impacts of sharply higher inflation and rapid interest rate rises became apparent (falling retail sales, declining home renovations and lower housing turnover). The full effects of these negative dynamics will be evident in 2023, triggering a sharp economic slowdown.

We expect output growth of 0.7% for the quarter (following a 0.6% outcome for Q3). Annual growth moderates to 2.7%, down from 5.9% - a figure flattered by weak base effects associated with the delta lockdowns in Q3 2021.

The arithmetic of our 0.7% forecast for Q4 is: +0.3% for domestic demand and a net +0.4ppts impact from net exports (+1.4ppts) and inventories (-1.0ppts).

If domestic demand growth prints a 0.3%, that will be the softest outcome since September 2021 (the delta lockdowns) and the softest outcome outside of a lockdown period since March 2019.

We anticipate that: overall consumer spending grew by a solid 0.8% (centred on services); home building was broadly flat (impacted by an unfolding pull-back in renovation work); business investment slipped a little, down a forecast -0.5%; and public demand is consolidating at a high level, edging up by 0.3%.

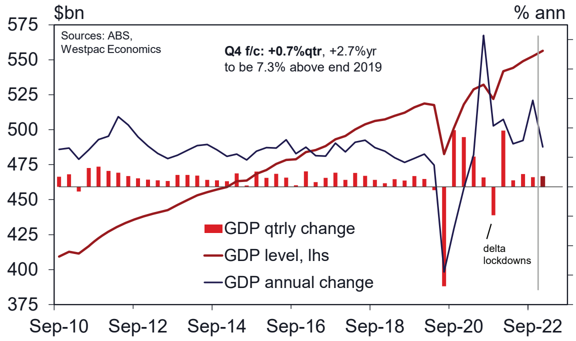
On these figures, consumer spending (accounting for a touch over 50% of the economy) would more than fully account for the lift in domestic demand in the quarter.

The Labour Force survey reported employment numbers up by 0.7% over the final three months of 2022, matching the Q3 outcome. Hours worked expanded by 1.8%, well up on the 0.5% outcome for Q3, a result held back by high levels of absenteeism associated with covid and more folk taking annual leave (after 'stockpiling' during covid).

Information on the household sector will be of particular interest. Recall, the household saving ratio to 6.9% in the September quarter, from 8.3%, nearing the 6% "equilibrium" saving ratio, and well down from the Q3 2021 peak of 19.4%. That decline in the saving ratio over the previous year freed up funds to finance additional spending. Looking ahead, we see the prospect of the saving ratio moving below equilibrium, as well as the buffer from around $300bn in "excess" savings amassed during the pandemic.

National income was boosted of late by the terms of trade climbing to a record high in the June quarter 2022, on higher global commodity prices. Subsequently, the terms of trade fell by -6.7% in Q3 and declined by an estimated near 2% in Q4. Nominal GDP growth for the December quarter is forecast to be around 2%qtr, with annual growth a still brisk 11%.

Australian economy: a mixed end to 2022



<u>Household consumption (+0.8%qtr, 5.9%yr)</u>: Overall consumer spending is expected to be a solid 0.8%, easing a little from 1.1% for Q3 and coming off an 8% annualised pace over the first half of 2022 associated with the reopening from delta lockdowns.

Real retail sales slipped by -0.2% in the quarter, softening from a 0.3% rise in Q3. High retail inflation (1.1%qtr, 7.4%yr) has eroded consumer spending power. Consumers during 2022 spent more freely on hospitality and travel (domestic and international) on fewer restrictions. This dynamic extended into Q4, with the first Christmas (largely) unaffected by covid restrictions since 2019.

<u>Dwelling investment (0.0%qtr, -2.5%yr)</u>: Home building activity went backwards in 2022, hit by disruptions (including wet weather), with a flat end to the year. While new dwelling activity rose for a second consecutive quarter, reducing a large pipeline of work, that was offset by an unfolding pull-back in renovations.

<u>New business investment (-0.5%qtr, +2.5%yr)</u>: After advancing over the past year, +3.7%yr, business investment slipped by a forecast 0.5%. Equipment was sluggish, +0.6%, in the capex survey, on a fall in mining spending. Business construction lacks any sustained momentum and fell back after a strong Q3.

<u>Public spending (0.3%qtr, 3.0%yr)</u>: Government spending, in the form of public demand (27% of the economy), is cresting at a high level as the spike in covid related spending unwinds. Q2 printed a -0.1% and Q3 a +0.2%, while Q4 is a forecast +0.3%.

<u>Net exports (+1.4ppts qtr, flat yr)</u>: The recent export recovery extended into Q4, an estimated +3.3%qtr, +10.6%yr. Services rose further (travel and foreign students) on the border reopening and resources benefited from fewer supply disruptions. Imports, while still at a high level to meet rising demand in 2022, eased back (led by goods), down an estimated -3.5%qtr, +13.5%yr.

<u>Total inventories (-1.0ppt qtr, -1.0ppt yr)</u>: A Q3 run-up of non-farm business inventories, which grew by 1.7%, was likely partially reversed. That Q3 increase was centred on a jump in mining (with disrupted transport links to ports) and an apparent bring forward of stocking by retailers (to avoid supply chain delays).

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