BULLETIN

1 September 2023

Australian Q2 GDP preview.
Economy expands at subdued pace, with household demand flat.
Q2 GDP forecast: 0.4%qtr, 1.8%yr

The Australian National Accounts, to be released on Wednesday September 6, will provide an estimate of economic activity for the months April through to June of 2023.

We expect output growth of 0.4% for that quarter, an improvement on the 0.2% gain for the period prior, but still a relatively subdued pace. Annual growth slows to a forecast 1.8%.

The arithmetic of our GDP forecast is: +0.3% for domestic demand, net exports +0.3ppts and inventories –0.3ppts, as well as the statistical discrepancy +0.1ppt.

Household demand is expected to be flat in the June quarter – weakness which is at the centre of subdued growth overall.

Households are under pressure from high inflation, higher interest rates and additional tax obligations, while labour market strength is cushioning these impacts.

By contrast, businesses are lifting investment spending in order to provide much needed additional capacity, at a time of limited available labour. Business construction activity is marching higher and has further upside, given the strength of starts (which were delayed during covid) and given the sizeable work pipeline (with work on those projects also delayed by covid disruptions).

Labour market developments were positive over the first half of 2023, in part reflecting an overhang of excess demand for labour, which emerged while the national border was closed.

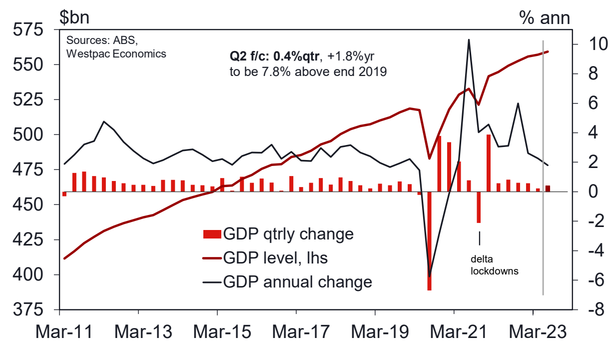
Employment accelerated, with quarterly growth lifting from 0.7% for March to 0.9% for June. Volatile hours worked increased by a brisk 2.9% in the June quarter, the Labour Force Survey reports (although note that the National Accounts uses its own estimate of hours worked and employment numbers).

The gap between output, a forecast increase of 0.4%, and labour market strength, implies that productivity deteriorated further in the June quarter – placing additional upward pressure on unit labour costs.

The National Accounts will include detailed information around the consumer and the household sector balance sheet, which is of particular interest. The household saving ratio moved below the "6% equilibrium" level in the December quarter 2022, indicating that households are now beginning to draw down the $270bn of "excess savings" accumulated during the pandemic. The saving ratio was at 4.4% in the final quarter of 2022, moderated to 3.7% in the March quarter 2023 and likely moved lower still in June.

National income trends shifted in the June quarter as global commodity prices pulled back from earlier elevated levels. The terms of trade declined by around 7.3% in the period, we estimate, a move which will dent mining profits. Nominal GDP is expected decline by a forecast –0.2% in the June quarter, in contrast to a well above trend 9.2% increase over the previous year.

Australian economy: grew a f/c 0.4% in Q2



<u>Household consumption (+0.0%qtr, 1.3%yr)</u>: Overall consumer spending is expected to be flat in the June quarter, following quarterly outcomes of 0.3% and 0.2%. With population growth running in excess of 2%, this will represent the third consecutive quarter of declining per capita spending.

Domestic services spending, a key unknown, is expected to have weakened in the quarter, more than offsetting some less negative results elsewhere. Retail sales fell in Q2, –0.5% after a –0.8%, motor vehicle sales rose, up 5% we estimate, more than reversing a 2% fall, and overseas travel strengthened.

<u>Dwelling investment (–0.8%qtr, –2.0%yr)</u>: The renovation boom is deflating and, in the June quarter, more than outweighed a modest rise in new dwelling activity where builders are working through a sizeable backlog of work. As to the established housing market, real estate turnover picked up in the quarter, with OTCs up by a forecast 3.5%.

<u>New business investment (+1.4%qtr, +6.3%yr)</u>: Business investment moved higher as equipment spending rose by around 2% (ahead of some tax incentives ending on 30 June 2023). Construction work was up, led by infrastructure work.

<u>Public spending (0.3%qtr, 1.4%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.

<u>Net exports (+0.3ppts qtr, +0.8ppts yr)</u>: Export volumes grew by an estimated 2% in the quarter, centred on services, +8.5%, as international students and holiday makers returned in greater numbers. Import volumes grew by a more modest 0.8%, we estimate, with an apparent dip in goods.

<u>Total inventories (+0.3%qtr, –0.3ppts cont'n qtr)</u>: In March, inventories increased by 1.2%, $2.1bn, centred on a build-up at the wholesale level – which was driven by some one-offs (around autos). With an unwinding of this, we anticipate a modest 0.3% inventory increase for the June quarter, subtracting 0.3ppts from activity in the period.

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