BULLETIN

1 December 2023

Australian Q3 GDP preview.
Growth stuck in the slow-lane, as domestic demand cools.
Q3 GDP forecast: 0.4%qtr, 1.8%yr

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

We expect quarterly output growth will again print at 0.4%, matching the March and June period outcomes. Annual growth slows to 1.8%, moderating from 2.7% for 2022, tracking below population growth of around 2½%.

The arithmetic of our GDP forecast is: +0.4% for domestic demand, net exports -0.4ppts and total inventories +0.3ppts.

The Australian economy is stuck in the slow-lane, with declining per capita output as the intense headwinds of high inflation and sharply higher interest rates impact. Domestic demand growth likely slowed from a near 3% annualised pace over the first half of 2023 to around a 1¾% annualised pace in Q3.

Strength in domestic demand over 2023 H1 was boosted by a temporary burst in business investment and public demand - together expanding at a 6.5% annualised pace. These two sectors, representing 40% of the economy, accounted for 87% of the increase in domestic demand over that period.

Roll forward to the September quarter and partial indicators suggest that business investment stalled. Public demand, we assess, is likely to return to the subdued growth evident over much of 2022 - public consumption (82% of total public demand) is cresting as the spike in covid spending unwinds.

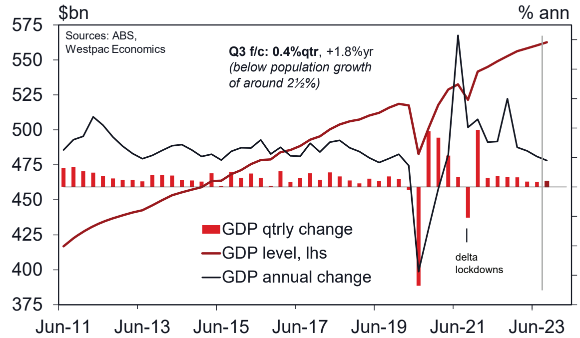
Positives in the quarter include an uptick in household consumption, which received a boost from the Matildas euphoria, and a positive contribution from home building. However, looking ahead, the outlook for both is downbeat. Households are under pressure from high inflation, higher interest rates and additional tax obligations, but supported by recent labour market strength (given an overhang of job vacancies which emerged when the national border was closed).

Labour market developments were mixed in the September quarter. Growth in employment numbers slowed, from 0.8% to 0.6%. However, firms are using hours worked to adjust to shifting conditions, and they declined sharply, down 0.8% in Q3.

Of interest, the Accounts will include detailed information around the consumer and household sector income. In Q3, wages growth climbed as the Fair Work Commission granted an oversized rise in award wages. With real household disposable income declining, -0.1%qtr, -3.0%yr in Q2, households have begun to drawdown the sizeable saving buffer accumulated during the pandemic to help fund spending (the household saving ratio has eased to a below average level of 3.2%).

National income growth was well above during 2022 and into early 2023 boosted by the spike in global commodity prices. As that spike unwound, the terms of trade took a hit (-7.8% in Q2 and an estimated -3.2% for Q3) and so too national income. Company profits will provide an insight into the pressure on businesses from the current challenging backdrop.

Australian economy: grew a f/c 0.4% in Q3



Household consumption (+0.5%qtr, 1.2%yr): After a near flat Q2 result, +0.1%, consumer spending lifted in Q3. Retail sales stabilised, up 0.2%qtr, to still be down sharply over the past year, -1.7%yr. Hospitality benefited from the Matildas' success in the World Cup. Overseas travel was up strongly, and car sales lifted on improved supply. We expect total consumer spending to be up by around 0.5%, to be relatively flat in per capita terms.

Dwelling investment (+1.6%qtr, -0.4%yr): Home building activity, which fell in 6 of the past 7 quarters, posted a rise in the September quarter, up by around 1.6%. New dwelling investment edged 0.5% higher, supported by a large backlog of work. The deflating of the renovation boom paused in Q3, with a bounce in activity in the period. However, the outlook remains challenging with household budgets under pressure.

New business investment (0.0%qtr, +6.1%yr): Partials point to a flat quarter, following quarterly gains of 3.6% and 2.1%. Equipment spending ran-out of steam, +0.5%, with recent strength partly a catch-up (on improved supply) and partly a bring-forward (ahead of tax changes on 1 July).

Public spending (0.3%qtr, 2.7%yr): Public investment potentially consolidated in Q3 after a 5.2% rise in Q2, a result inflated by a 13.5% jump in spending ex public construction work.

Net exports (-0.4ppts qtr, 1.3ppts yr): The trade in services picture appeared to change significantly - from a surge in foreign students boosting exports in Q2, to locals taking to the skies and holidaying abroad in Q3, boosting imports. Net exports swung from +0.8ppts for Q2 to an estimated drag of -0.4ppts for Q3.

Total inventories (+0.3ppts cont'n qtr): Business non-farm inventories are expected to decline, at a time of soft demand, but at a slower pace, a -0.6% after a -1.9% - which would see them add 0.4pps to activity. We expect the emerging stabilisation of public authority inventories to continue, which would see them subtract 0.1ppts from growth.

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

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