

15 February 2024

## Australia: hours worked fell by -0.7% in the December quarter. Risks to Q4 economic growth are tilting to the downside.

Here we provide an update on quarterly hours worked and consider the possible implications for quarterly economic activity.

The ABS has, as occurred last month, downgraded recent history for hours worked in the Labour Force Survey (LFS).

The LFS now reports that for the December quarter hours worked declined by -0.7%. That is downgraded from -0.4%, or to two decimal places, lowered to -0.66% from -0.44%.

In the September quarter, hours worked is now -0.9% in the LFS, rounded down from -0.8%. Recall that the National Accounts printed less weak hours worked for the period, at -0.6%, which was associated with a tepid 0.2% rise in output.

As to the January LFS and the -2.5% fall in hours worked for the month, we're not reading too much into that - seasonal issues are likely the main driver. That January outcome, at the very least, does not contradict the December quarter developments and we await the February LFS to form a clearer picture for the March quarter.

As for the December quarter National Accounts, potentially they will report a larger decline in hours worked than the -0.7% in the LFS.

The pattern over recent years is that the National Accounts December quarter estimate for hours worked is a little softer than the LFS - the reverse of the September quarter relationship. Whether this December quarter pattern continues in 2023 is a source of uncertainty.

Declining hours worked for Q4 point to a further rebound in labour productivity, but how large a bounce is unclear.

Westpac Economics is forecasting GDP growth of +0.2% for the December quarter. The expectation is that growth went sideways, after printing a 0.2% for the September quarter, which represented a material slowing from 0.5% and 0.4% for the two prior quarters.

On the available partial information, the risks to our Q4 GDP forecast are tilting to the downside.

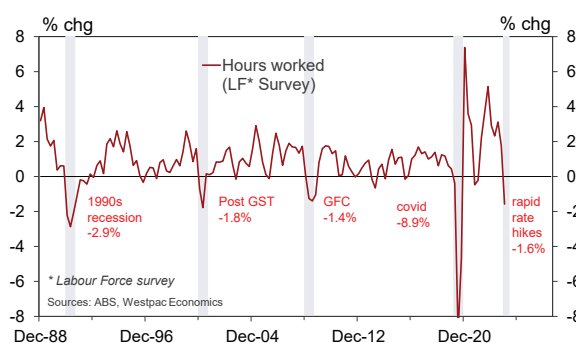
We are mindful that goods trade data was concerning. We had anticipated that both goods exports and goods imports would expand in the period. On available partial information, we calculate that instead both contracted. Goods imports are down an estimated -3% for Q4, which is a sizeable fall and speaks to soft domestic demand. Both consumption goods and capital goods imports contracted in the period, we estimate. Goods exports fell, we estimate by around -1%, but with some degree of uncertainty due to imprecise pass through of partials to the Balance of Payments. Declining goods exports poses another downside for national output.

We also note that private business surveys softened in the December quarter. The NAB business capital expenditure index moved materially lower through the December quarter, and then hit a 10 year low in January (ex covid). The index provides a broad guide to trends in non-mining business investment (although quarter to quarter, movements may differ).

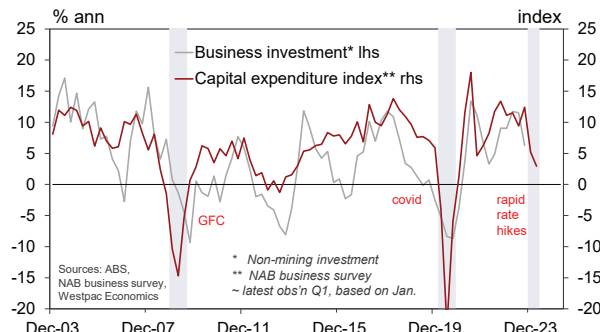
Ahead of the December quarter National Accounts release on March 6, there are still a raft of unknowns and the potential for further and material surprises - which could shift the balance of risks around our Q4 GDP forecast of 0.2%. We would identify public demand as a wild card and potential source of upside surprise, which may be sufficient to keep the economy expanding in the final months of 2023.

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### Hours worked, 2 quarter change



### Capital expenditure index & business investment



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