BULLETIN

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Australian Q1 GDP: a preview
Domestic demand expected to have flatlined. Q1 GDP f/c: 0.3%qtr, 1.3%yr. Domestic demand: +0.1%qtr. Hours worked estimated to be flat in Q1

The Australian National Accounts, to be released on Wednesday June 5, will provide a comprehensive update of economic activity over the first three months of the year including estimates of growth, consumer spending, productivity, and underlying cost pressures.

We expect the recent run of sub-par growth in economic activity continued in the March quarter, driven by weak consumer spending. Hours worked look to have been about flat in the quarter, also pointing to soft growth in economic activity.

We expect GDP expanded by 0.3% in Q1. This would see annual growth ease from 1.5% to 1.3%. These outcomes are well below annual population growth, which is around a brisk 2½%.

Importantly, the domestic demand impulse (spending by consumers, businesses, and governments) is expected to have flatlined, edging 0.1% higher for the second consecutive quarter. This would see the domestic demand impulse run at just 0.5% in six-month annualised terms, the slowest pace since 2014 outside of the pandemic.

Underlying our GDP forecast is a +0.1ppts contribution from domestic demand, net exports are expected to detract –0.3ppts, while total inventories should add +0.5ppts to growth (which largely reverses a –0.3ppts from inventories last period).

Domestic demand detail is expected to include: consumer spending +0.1%, housing –1.7%, business investment +0.5%, and new public demand +0.3%.

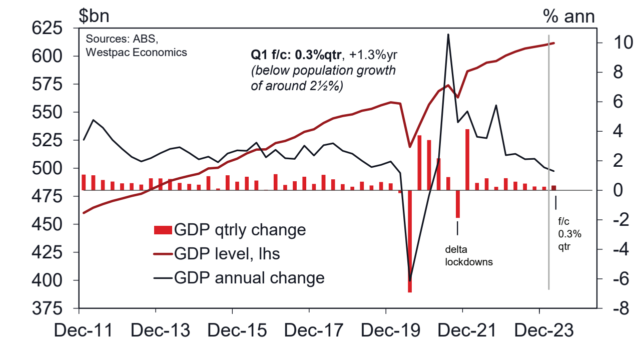
Risks
Risks to our GDP estimate are titled to the downside. Our view is informed by a range of partials including retail trade, construction work done and business capex. Given the strong growth in investment in machinery and equipment, imports are likely to be a larger drag this quarter.

Our net export estimate will be updated with next week's balance of payments release. The business indicators survey and government finance statistics due the same day will also provide some more clues around wage incomes, domestic demand, inventories, and public sector activity.

Labour productivity and hours
Hours worked look to have been about flat in the quarter, after falling by around 1.0% over the second half of 2023. Flat hours coupled with positive, albeit sub-par growth, implies that labour productivity has continued to recover. We have seen productivity post a partial bounce back since the middle of 2023. Higher growth in labour productivity will help soften the rise in unit labour costs, reducing inflationary pressures in the services part of the economy.

Households
An update on household income and saving flows will be a key focus of the National Accounts. The household savings rate ticked up in the December quarter but remained at low levels implying households are continuing to use reserves accumulated during the pandemic to buffer against income pressures. However, if the rise continues, it could suggest households are lifting precautionary saving and may be inclined to save a higher proportion of the stage 3 tax cuts when they arrive. This is consistent with responses in our recent Westpac Consumer Sentiment Survey which suggested consumers intend to save around 80% of the tax cuts.

Australian economy: f/c 0.3% for Q1



The detail
Household consumption (0.1%qtr, 0.1%yr): Consumer spending has broadly flat-lined since the December quarter 2022 due to the squeeze on household budgets from bracket creep, higher interest rates and elevated (albeit moderating) inflation. We assess that consumer spending was again little changed in the March quarter, up a forecast 0.1%. This includes a fall in retail spending, -0.4%, offset by firmer services spending, although the latter likely remained mixed across discretionary and non-discretionary segments.

Dwelling investment (–1.7%qtr, –4.2%yr): Home building activity moved lower in the March quarter, with falls across new home building and renovations. The effects of higher interest rates, elevated building costs and a rise in construction insolvencies are being felt. This follows a sharp 3.8% fall last quarter.

New business investment (0.5%qtr, 4.7%yr): Business investment continues to show resilience, despite the pull-back in consumer spending. Investment is helping ease capacity constraints in some sectors, where reported capacity utilisation levels remain above average. Businesses are also responding to structural changes, including investing in the transition to net zero.

Public spending (0.3%qtr, 4.1%yr): Public consumption remains elevated, with quarter-on-quarter growth volatile. Ongoing cost of relief assistance for households (around electricity bills, rental assistance, and cheaper medicines) will show through as higher public consumption and help offset the drag from the expected pull back in public investment led by a decline in construction work done.

Net exports (–0.3ppts, +0.6ppts yr): Imports look to have increased by an estimated +2.3% (centred on capital imports) outpacing the expected increase in exports, up an estimated +0.8% over the quarter.

Total inventories (+0.5ppts cont'n qtr): Non-farm business inventories are expected to increase, retracing some of the falls recorded last quarter. Partially offsetting this impact, other inventories, particularly public inventories, are expected to decline after increasing last quarter.

Labour productivity and unit labour costs: Labour productivity showed a modest +0.5% increase in the December quarter 2023 but was still down in annual terms. Productivity is likely to post a modest gain in the March quarter, which should see productivity flat in annual terms. Further, unit labour costs (ULC) rose +1.3% in the December quarter 2023 to be +6.6% higher in annual terms. Growth in ULC is likely to have moderated to around 6%yr in the March quarter. This remains elevated but continued moderation will help reduce inflationary pressures in the economy.

Pat Bustamante, Senior Economist

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