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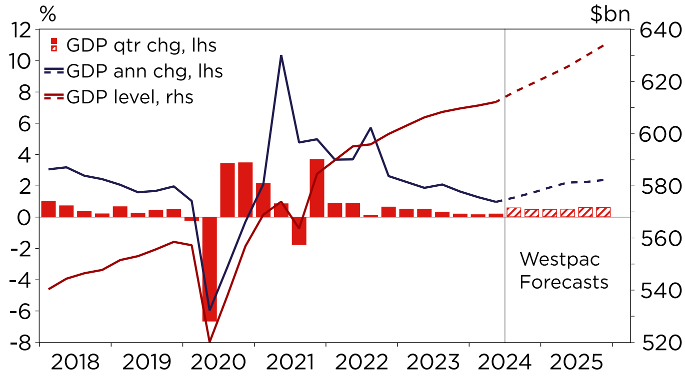
AUSTRALIAN GDP: A PREVIEW BULLETIN

Growth expected to tick higher in Q3
Q3 GDP f/c: 0.5%qtr, 1.1%yr.

Key points

- Domestic demand is expected to have grown by a solid 0.8%qtr in Q3. Public spending will continue to make an outsized contribution (+1.9%qtr), which should see new public demand increase to around 27.7% of real GDP, a fresh record high.
- The 0.8%qtr increase in hours worked expected in Q3 is almost entirely driven by the non-market sector. This will skew 'measured' productivity, with market sector productivity expected to grow 1.0%yr in Q3. There will also be a material step down in unit labour costs to around the growth rate recorded in 2019 when underlying inflation was below the RBA's target.
- We expect private demand to gradually improve. Cost-of-living support, tax cuts, moderating inflation and, eventually, lower interest rates will support consumer income and spending. That said, the pace of recovery is expected to be slow.

Gross Domestic Product



Source: ABS, Macrobond, Westpac Economics

Domestic demand: 0.8%qtr, 1.7%yr.

Private demand expected to record a modest lift in Q3

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The National Accounts, to be released on Wednesday December 4, are likely to show that growth in economic activity ticked higher after the recent run of sub-par outcomes.

Cost of living measures and ongoing recurrent government spending will see public demand continuing to make an outsized contribution. New public demand is expected to grow 1.9%qtr in Q3, at more than double the rate of the pre-pandemic decade average (0.8%qtr). This should see new public demand increase to 27.7% of real GDP, a fresh record high.

Growth in private demand is also expected to be higher, following a flat read in Q2, on the back of modest increases in household and business spending. New private demand is expected to have grown 0.4%qtr in Q3 (and 1.0%yr), which is a touch softer than the pre-pandemic average of 0.5%qtr.

Despite the lift, in per capita terms new private demand is likely to have gone backwards slightly in Q3, suggesting the private sector and households remain timid. As population growth continues to ease and one-off government support measures come to an end, private sector demand will need to show more of a pick-up or the economy may struggle to gather momentum going forward – a risk we have previously flagged.

Domestic demand detail is expected to include: consumer spending +0.2%qtr, housing investment 1.3%qtr, business investment +0.7%qtr, and new public demand +1.9%qtr.

Some of the pickup in domestic demand is expected to have been met by a run down in inventories (particularly for consumer goods) and increased imports. Taken together, we expect a net detraction of -0.3ppts in Q3 from inventories and net exports.

Households

An update on household income and saving flows will be a key focus of the National Accounts. The household savings rate was revised higher in the Annual national accounts, and significantly so - from around 0.9ppts in the quarterly accounts to 2.5ppts in the annual accounts. Given this revision, we estimate that 'excess savings' accumulated during the pandemic was around $290bn in 2022 (about $25bn higher than our initial estimate) and has run down to around $210bn by the end of 2023-24 – a rundown of around 27% compared to our previous estimate of 41%. Westpac's initial analysis suggests that most of the tax cuts that have flowed have been saved. Taken together our estimates imply the savings rate may jump about 2ppts in Q3 to around 4½%.

Labour productivity and hours

Hours worked looks to have increased 0.8%qtr in Q3 to be 1.5% higher in annual terms. This was driven almost entirely by the non-market sector, where hours worked grew 2.3%qtr to be 4.9% higher over the year – the strongest annual growth since 2015 outside of the pandemic. In the market sector hours worked grew a tepid 0.2%qtr and 0.2%yr.

Looking through the quarter-on-quarter volatility, and factoring in likely upward revisions to construction activity, labour productivity looks set to record a small decline in quarterly and annual terms. However, as we have been saying, the fall in aggregate productivity has been skewed by the expansion of the non-market sector, which has a significantly lower level of 'measured' productivity. Productivity in the market sector of the economy looks to have fared better, growing by around 1.0%yr in Q3 (this will be even higher if we exclude mining). Productivity in the market sector is arguably more closely related to domestic cost pressures, given prices and wages in the non-market sector are heavily subsidised by governments.

Importantly, we also expect growth in unit labour costs to step down in annual terms and grow at around 3¼%yr as the impact of the outsized 2022-23 minimum and award wage increase flows out of the annual calculation. As a basis of comparison, unit labour costs grew by 3.2% over 2019, when underlying inflation was persistently below the RBA's inflation target.

The detail

Household consumption (0.2%qtr, 0.9%yr): 'Measured' consumer spending is expected to have increased at a tepid 0.2%qtr, following the shock decline of 0.2% in Q2. Cost of living measures, including the Commonwealth and state electricity rebates, mean government consumption essentially replaces some household consumption. Given the size of the measures that kicked in from 1 July, these will take around 0.4ppts off household consumption in Q3. This will partly offset the modest bounce back in retail sales (+0.5%qtr) and the firmer spending on services we have seen over the quarter.

Dwelling investment (1.3%qtr, -2.3%yr): Home building activity grew strongly over Q3 after going sideways over the first half of calendar 2024. Backlogged work and a pickup in approvals and starts, particularly in WA, is starting to flow into higher activity. Despite the jump, activity remains lower in annual terms. Based on partials, we expect a solid pickup in new home building activity, partly offset by a small fall in renovations. Going forward, easing capacity constraints will determine how quickly the sector can work through the still elevated pipeline of approved projects.

New business investment (0.7%qtr, 1.9%yr): Business investment is expected to have grown in Q3 after edging lower over the first half of calendar 2024. Partials suggest that new machinery and equipment and engineering construction have advanced over the quarter. The capex survey also showed that industries at the coalface of the consumer-led slowdown have pulled back on investment, while those catering to the bigger population, and at the forefront of the structural changes impacting the economy, continue to add to their capital stock.

Public demand (1.9%qtr, 3.5%yr): Electricity rebates, highly concessional public transport fares, discounted government services fees (including registration costs), will see new public demand increase strongly over the quarter to reach a fresh record high of 27.7% of real GDP. Given some of the boost to public consumption reflects rebates and increased subsidies for households, this will also reduce 'measured' household consumption. Public infrastructure works also advanced in the quarter, after falling in Q2 as some large-scale projects were nearing completion. The still large pipeline of public works will see public investment remaining elevated in the near term.

Net exports (+0.1ppts qtr, –0.6ppts yr): The net goods balance is expected to contribute around +0.2ppts to GDP in Q3, on the back of a strong growth in mining exports. This will be partly offset by a -0.1ppt detraction in the net services balance, following the strong contribution made by services expects in Q2.

Total inventories (-0.4ppts cont'n qtr): Non-farm business inventories are expected to decline. Imports of consumer goods have now declined for two consecutive quarters after increasing strongly in Q1. This suggests that firms are using some of that inventory to meet higher consumer demand, particularly in the retail space. Public inventories are set to partly retrace last quarter's increase, as the public sector runs down its stockpile of medicines, vaccines and other health products.

Note

Our net export estimate will be updated with next week's balance of payments release on December 3. The business indicators survey and government finance statistics are also due early next week and will provide some more clues around wage incomes, domestic demand, inventories, and public sector activity.

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