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Melbourne Institute Nowcast of Australian GDP

March 2020

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released Mar 2020

- GDP growth projected to be -0.1 per cent in the March quarter, giving a year-end growth rate of 1.6 per cent. The nowcast only partially reflects the impact of COVID-19.
- Relatively strong numbers of full-time to part-time workers and trade conditions in January are the only positive contributors to the March quarter nowcast, whereas housing market conditions and consumer sentiment have dragged the nowcast down.
- Consumer spending has also dragged down the nowcast, with weak annual growth in food and non-food retail spending. Note that spending patterns in the last few weeks may pose further downside risks.

First nowcast for March Quarter 2020 GDP released in March 2020

On March 4, the ABS reported that GDP grew by 0.5 per cent in the December quarter of 2019, giving an annual growth rate of 2.2 per cent. Public expenditure, consumption and net exports contributed positively to growth, with negative contributions from business investment and dwellings. The next release of the National Accounts, covering the March 2019 quarter, will be on June 3, 2020.

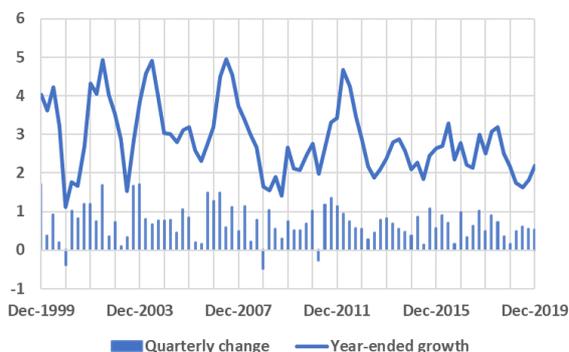
The first nowcast for the March quarter GDP growth is -0.1 per cent, giving a 2020 year-end nowcast growth rate of 1.6 per cent. This figure reflects the aggregate impact of recent bushfires, but only partially reflects the impact of the still-evolving COVID-19 crisis on economic activities.

Our analysis¹ indicates positive contributions from improved numbers of full-time workers and a stabilised trade balance. These are counteracted by weak conditions in discretionary spending and commodity prices. Furthermore, weak housing approvals and retail sales and deteriorating consumer sentiment have dragged down the nowcast.

Our second nowcast for March quarter 2020 will be published in April.

Figure 1: GDP Growth

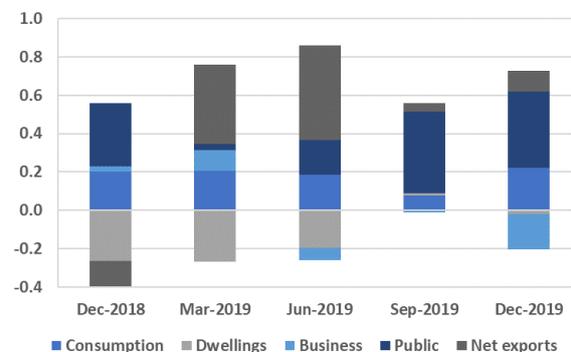
(up to Dec quarter 2019, chain volume, per cent)



Source: ABS

Figure 2: Contributions to GDP Growth

(percentage point)



Source: ABS

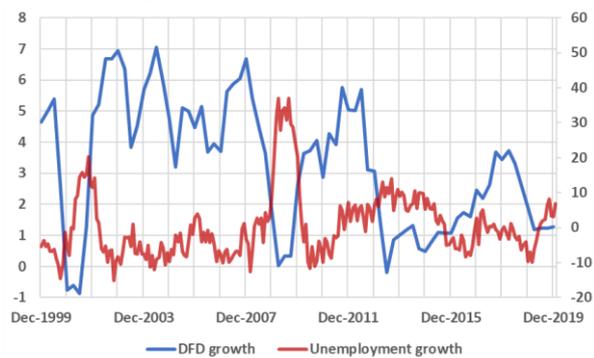
¹ Our nowcast model uses monthly information regarding labour market conditions, housing and business lending, retail sales, housing approvals, consumer expectations, trade conditions and commodity prices to gauge current economic conditions. **We note that the nowcast is currently in the experimental stage.**

The labour market remains relatively strong, but showing signs of weakness

The unemployment rate ticked up from 5.1 per cent in December to 5.3 per cent in January. The monthly growth of the unemployed rose to 6.8 per cent in January. This is expected to continue to be a drag on the growth of domestic final demand (DFD) (Figure 3), which has been subdued since the first quarter last year.

The difference in the numbers of full-time less part-time workers seems to have stabilised at the level observed just before the onset of the GFC (Figure 4). The recent strength in full-time employment is the primary positive contributor to March quarter GDP growth in 2020.

Figure 3: Unemployment and DFD
(year-ended growth, per cent)



Source: ABS

Figure 4: Full-time to Part-time Difference
(number, million)



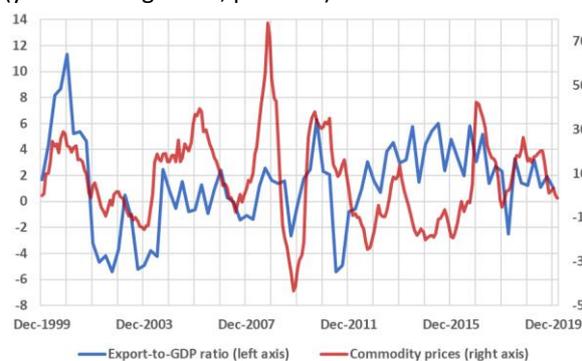
Source: ABS

Weaker growth of commodity prices and stabilised trade

Commodity price growth was weak in January, seemingly back to its falling trend. This has made it a weak contributor to output growth in the March quarter, coinciding with the weak export-to-GDP ratio (Figure 5).

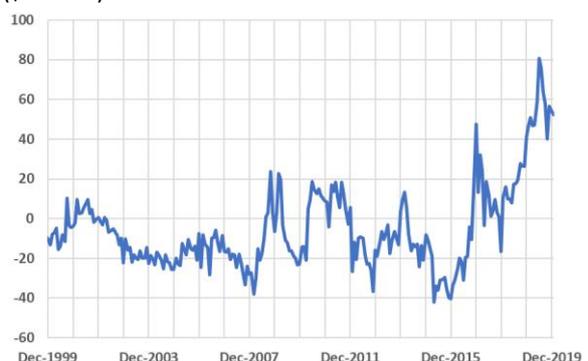
Net exports in January continued to recede from their November high, although they have remained at a relatively high level since early 2019. Exports for both resources and energy have improved (albeit with a moderation in their growth rates during 2019 relative to 2018). Overall, trade conditions in January contributed positively to the March quarter GDP nowcast.

Figure 5: Commodity Prices and Export-to-GDP Ratio
(year-ended growth, per cent)



Source: ABS

Figure 6: Trade balance
(\$ billion)



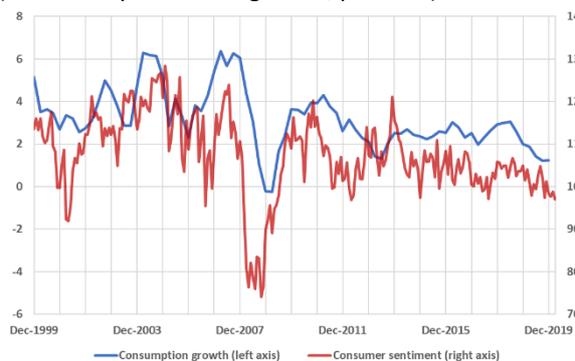
Source: ABS

Retail sales and consumption growth continue to be weak

Annual growth in food and non-food retail spending declined in March, particularly for non-food spending. Consumer spending, in general, has been weak, and there are few signs that this weakness will abate in the short term. Both staple and discretionary spending growth contributed negatively to the March nowcast. We note that spending patterns in the last few weeks may pose further downside risks.

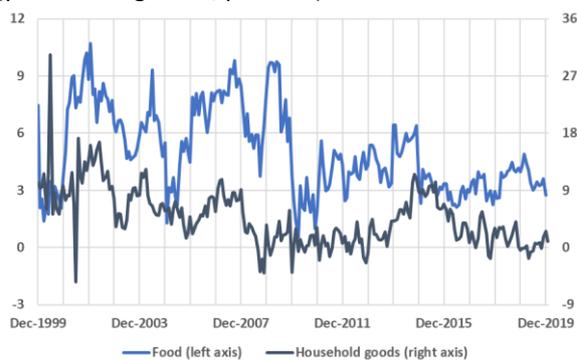
Consumer sentiment, which tends to lead consumption, has been relatively weak in the past two months. The latest sentiment data reflects the recent bushfires but does not fully reflect the coronavirus. In any case, weak consumer sentiment growth is expected to have a negative incremental impact on the March quarter nowcast.

Figure 7: Consumer Sentiment and Consumption
(index and year-ended growth, per cent)



Source: ABS and Melbourne Institute

Figure 8: Retail trade
(year-ended growth, per cent)



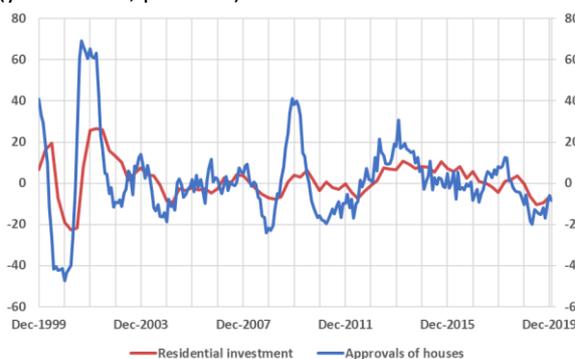
Source: ABS

Housing and lending activity are still relatively weak

The Reserve Bank's two recent rate cuts have pushed the cash rate to a level that is barely different to zero. The recent rate cuts, however, will have little impact on the March quarter nowcast. The incremental impact of housing and business lending on output growth in March is expected to be negligible, with weak growth in both forms of lending.

Although building approvals are no longer exhibiting double-digit annual negative growth, activity remains weak. Annual growth in building approvals declined further in January after two months of improvement. The incremental contribution of building approvals data to the March nowcast is negative.

Figure 9: Dwelling Approvals and Residential Investment
(year-ended, per cent)



Source: ABS

Figure 10: Housing Credit and Business Credit
(year-ended growth, per cent)



Source: ABS

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For information on the data contained in the report contact the Melbourne Institute, The University of Melbourne, on (03) 8344 2196.

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