

MELBOURNE INSTITUTE
Applied Economic & Social Research

Melbourne Institute Nowcast of Australian GDP

February 2020

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released Feb 2020

- GDP growth projected to be 0.2 per cent in the December quarter, giving a 2019 year-end growth rate of 1.8 per cent.
- Relative improvements in labour markets and trade are the primary positive contributors to the December quarter nowcast, which is dragged down by retail sales and housing market conditions.
- There are also downside risks posed by the bushfires for retail sales and consumer sentiment.

Final nowcast for December Quarter 2019 GDP released in February 2020

On 4 December, the ABS reported that GDP grew by 0.4 per cent in the September quarter of 2019, giving an annual growth rate of 1.7 per cent. Public expenditure and net exports contributed positively to growth, with weak contributions from consumption, dwellings and business investment. The next release of the National Accounts, covering the December 2019 quarter, will be on 4 March 2020.

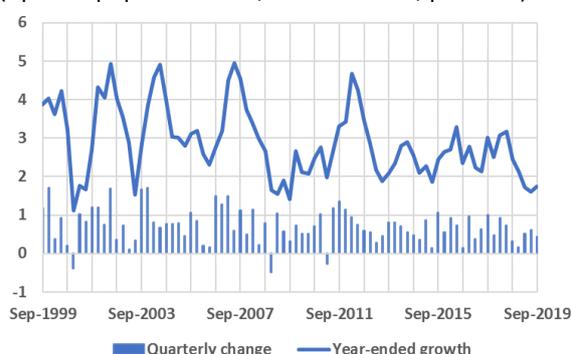
Based on monthly information up to December, the final nowcast for the December quarter GDP growth is 0.2 per cent, giving a 2019 year-end nowcast growth rate of 1.8 per cent. This is 0.1 percentage points lower than the previous nowcast using information up to November 2019, reflecting in part the downside risks in economic activity, including the recent bushfires across the country.

Our analysis¹ indicates a positive contribution from developments in relative numbers of full-time to part-time workers and a stabilisation of trade conditions. These are counteracted by weak conditions in discretionary spending and consumer sentiment. Furthermore, weak growth in retail sales and housing approvals have dragged down the output growth for the December quarter.

Our first nowcast for March quarter 2020 will be published in March.

Figure 1: GDP Growth

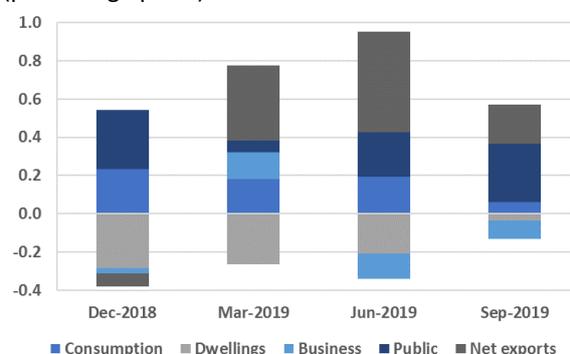
(up to Sep quarter 2019, chain volume, per cent)



Source: ABS

Figure 2: Contributions to GDP Growth

(percentage point)



Source: ABS

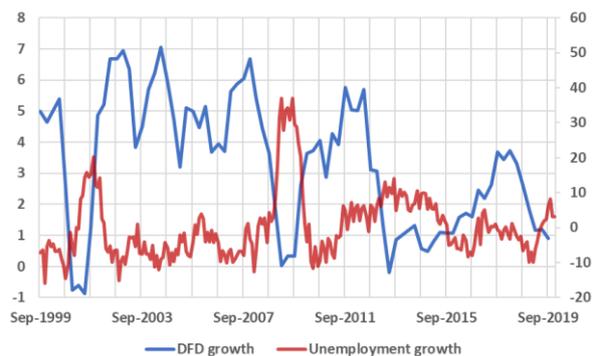
¹ Our nowcast model uses monthly information regarding labour market conditions, housing and business lending, retail sales, housing approvals, consumer expectations, trade conditions and commodity prices to gauge current economic conditions. **We note that the nowcast is currently in the experimental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

The labour market remains relatively positive ...

The unemployment rate fell back slightly from 5.2 per cent in November to 5.1 per cent in December. The monthly growth of the unemployed in December stabilised at 3.2 per cent. This is expected to be a drag on the growth of domestic final demand (DFD). Figure 3 shows that the (negative) relationship between growth in DFD and the growth of unemployed workers has tightened in recent years.

The difference in the numbers of full-time less part-time workers seems to have stabilised in recent months and is similar to the level observed just before the onset of the GFC (Figure 4). This has consistently contributed positively to December quarter GDP growth.

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



Source: ABS

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



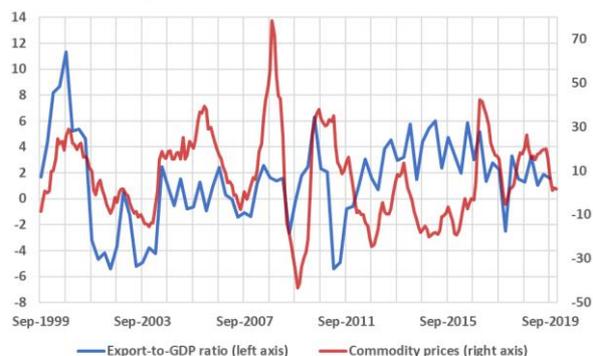
Source: ABS

Commodity prices and trade have stabilised somewhat

Despite a pattern of falling commodity price growth (see Figure 5), there has been a small upshift in commodity prices in recent months, particularly since the low annual growth of only 1 per cent in October. In line with this recent uptick, commodity prices have contributed positively to output growth in the December quarter.

Although exports for both resources and energy have improved (albeit with a moderation in their growth rates during 2019 relative to 2018), imports remain relatively weak commensurate with soft domestic final demand (Figure 6). Net exports in December receded from their November high, with their contribution to the nowcast going from positive to negative. Overall, however, trade conditions contributed positively to the December nowcast.

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



Source: ABS

Figure 6: Trade balance
(\$ billion)



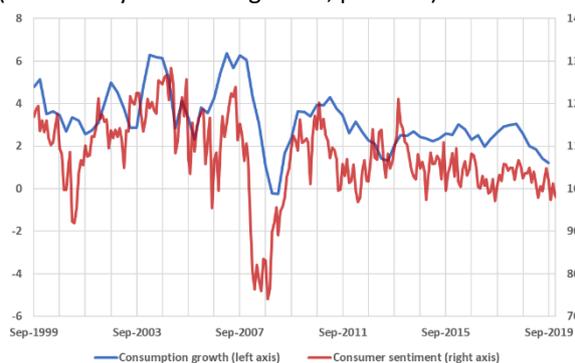
Source: ABS

Retail sales and consumption growth remain weak

Recent retail trade conditions have contributed negatively to the December quarter nowcast. The negative contributions appear to stem from both food-related retail spending and non-food spending. By comparison, food related spend contributed positively to last month's nowcast. In broad terms, however, the data show little departure from the lacklustre consumption growth observed in recent months.

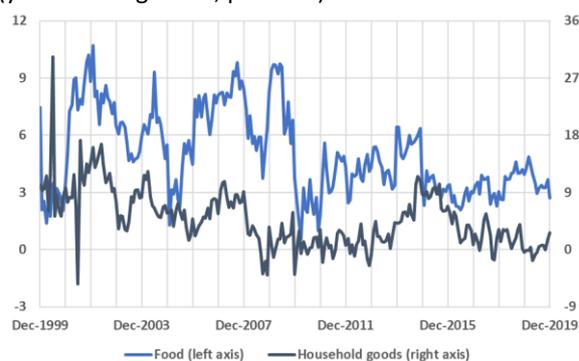
Consumer sentiment, which tends to lead consumption, contributed positively to the December nowcast after a string of negative contributions. We note that this data only partially reflects the recent fires, which will also impact on March quarter output.

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)



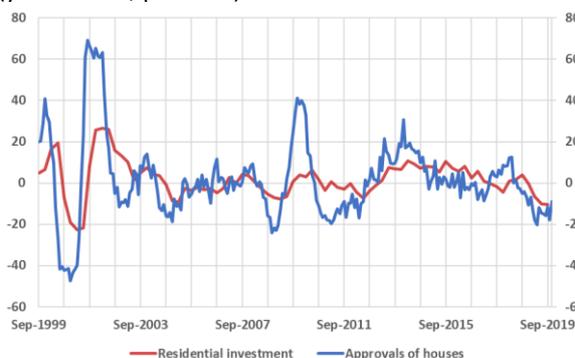
Source: ABS

House prices are rising but activity is relatively weak

It seems that record low cash rates are finally flowing through in terms of housing lending, although business credit remains weak. Investment conditions have contributed positively to the December nowcast, although the contribution is almost entirely attributed to housing credit.

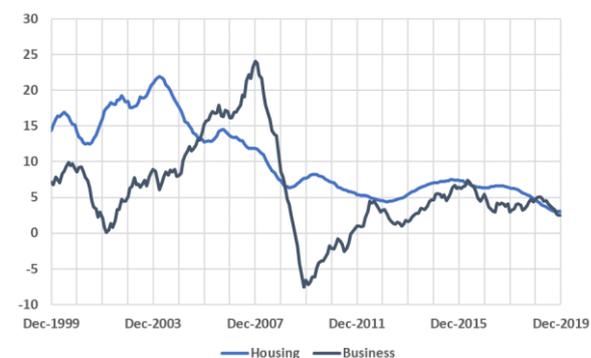
Despite an uptick in housing credit, building approvals remain weak. As such, the contribution of building approvals data to the December nowcast is clearly negative. Overall, it appears that house price appreciation is not being matched (at least thus far) by a commensurate increase in activity.

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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