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Melbourne Institute Nowcast of Australian GDP

May 2020

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released May 2020

- GDP growth projected to be -0.2 per cent in the March quarter, giving a year-end March quarter growth rate of 1.5 per cent. The nowcast only partially reflects the on-going impact of COVID-19 (up to Q1), with Q2 growth expected to be significantly worse than Q1.
- Relatively strong growth of hours worked and business lending conditions up to March are the primary positive contributors to the March quarter nowcast, whereas trade in goods and services and housing conditions are the primary contributors that dragged the nowcast down.
- Notwithstanding a small rebound in May, consumer sentiment has declined dramatically since March. The effects of falling sentiment are likely to be observed in the nowcast for Q2.

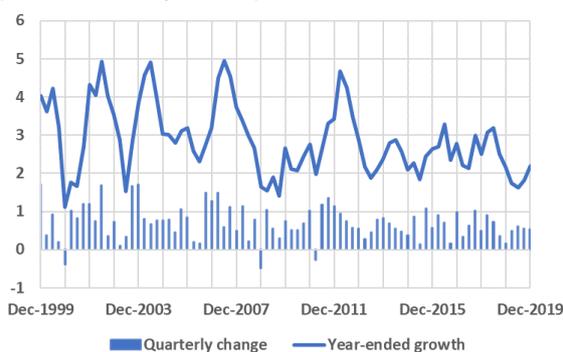
Third and final nowcast for March Quarter 2020 GDP released in May 2020

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 2020 quarter, will be on June 3, 2020.

The third and final nowcast for the March quarter GDP growth is -0.2 per cent, giving a year-end (Mar2019-Mar2020) nowcast growth rate of 1.5 per cent. This figure reflects the gradually worsening impact of the still-evolving COVID-19 pandemic on economic activities up to March. Our first nowcast for Q2 will be next month.

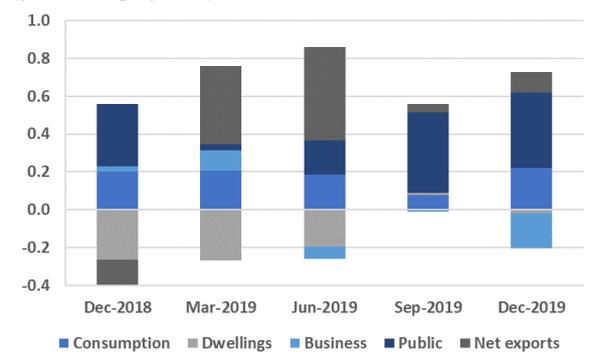
Our analysis¹ indicates positive contributions from developments in labour markets and credit markets. These are counteracted by weak conditions in housing approvals and consumer sentiment.

Figure 1: GDP Growth
(chain volume, per cent)



Source: ABS, up to Dec quarter 2019.

Figure 2: Contributions to GDP Growth
(percentage point)



Source: ABS, up to Dec quarter 2019.

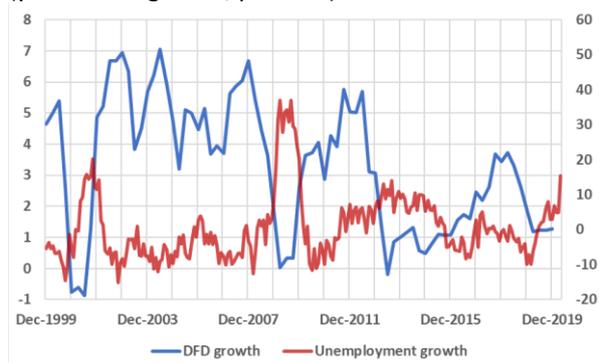
¹ Our nowcast model uses monthly information regarding labour market conditions, housing and business lending, retail sales, housing approvals, consumer expectations, trade conditions and commodity prices to gauge current economic conditions. **We note that the nowcast is currently in the experimental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

Labour market steady till March, but declined sharply in April

The unemployment rate rose from 5.1 per cent in February back to 5.2 per cent in March. The monthly growth rate of the number of unemployed remained at 4.9 per cent in March. Declining weakness in unemployment will be a drag on the growth of domestic final demand (DFD) (Figure 3), although this will be primarily in Q2 and subsequent quarters.

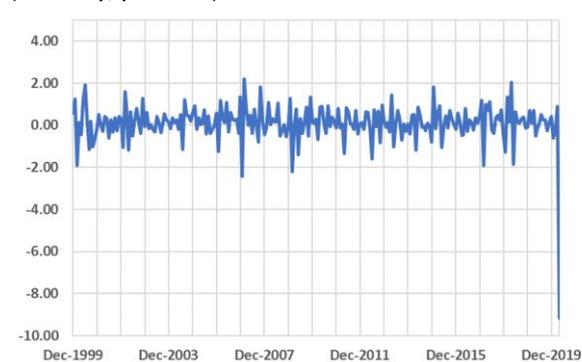
The monthly growth of hours worked was 0.9 per cent in March, an improvement from -0.2 per cent in February. This contributed positively to the Q1 nowcast. However, hours worked declined sharply in April. The effects of this decline will likely be observed in Q2.

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



Source: ABS, up to Apr 2020.

Figure 4: Growth of hours worked
(monthly, per cent)



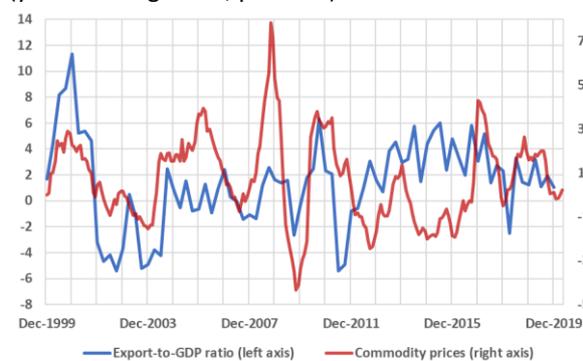
Source: ABS, up to Apr 2020.

Negative contribution from trade, despite March spike

The growth of commodity prices climbed up from -1.4 per cent in February to 0.1 per cent in March, seemingly deviating from its previous falling trend (Figure 5). This has rendered it a positive contributor to output growth in the March quarter.

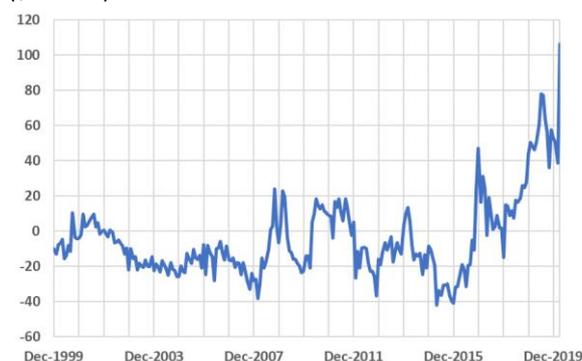
Although the trade balance in goods and services increased significantly in March, the lags in the nowcasting model suggest that most of the benefits of this improvement are likely to be experienced in Q2. We also note that exports of services (especially in travel and tourism) fell by 9 per cent in March and this will likely have a negative impact on domestic economic activity.

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



Source: ABS, up to Apr 2020.

Figure 6: Trade balance
(\$ billion)



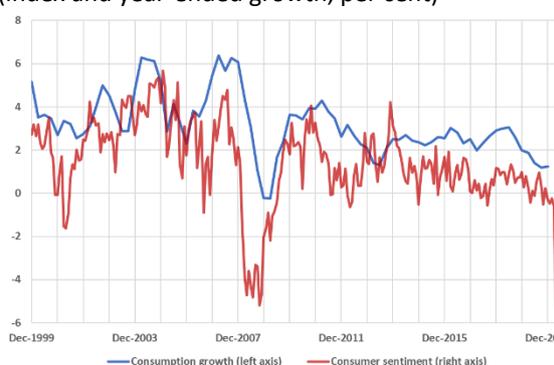
Source: ABS, up to Mar 2020.

Retail sales spike in March, but this is likely to be temporary

Annual growth in food and non-food retail exhibited double-digit percentage growth in March, likely associated with a combination of household uncertainty, temporary fiscal stimulus and work-from-home conditions. The improvement in food-related spend was particularly large, at nearly 30 per cent above this time last year.

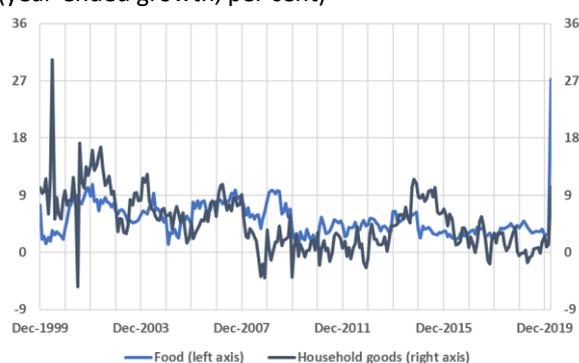
Consumer sentiment, which tends to lead consumption, plummeted in April. Although a small rebound was observed in May, sentiment remains weak and is well below the neutral point (being the point where optimists and pessimists exactly offset each other). Notwithstanding fiscal stimulus, sentiment remains at a similar level to that observed during the Global Financial Crisis. Given the historical correlation between consumer sentiment and consumption, consumers expect that the economic decline in Q2 will be greater than that in Q1.

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



Source: ABS and Melbourne Institute, up to May 2020.

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



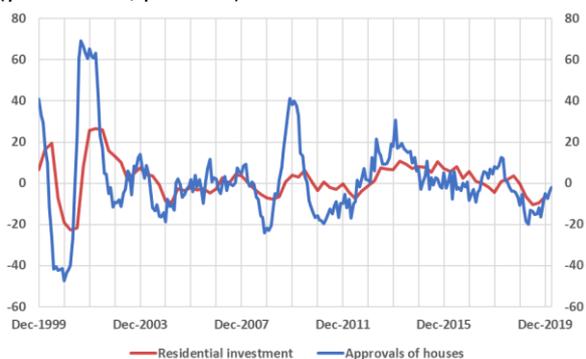
Source: ABS, up to Mar 2020.

Housing activity is weak, although business lending has increased

Although dwelling approvals have rebounded from their low double-digit negative annual growth rates in 2019, housing activity remains weak (and continues to decline, albeit at a slower rate). Commensurate with this decline, residential investment is also declining. Overall, housing market activity is contributing negatively to the current nowcast.

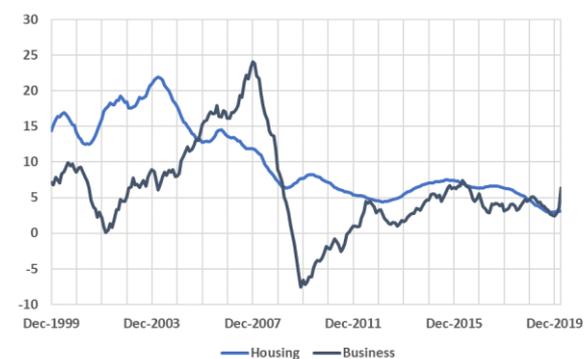
Business credit increased in March thereby increasing the Q1 nowcast. It is unclear, however, if this is temporary. Most likely, the increase is associated with businesses borrowing in the short-term to counter the negative revenue effects of social distancing measures.

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



Source: ABS, up to Mar 2020.

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



Source: ABS, up to Mar 2020.

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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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