MELBOURNE INSTITUTE
Applied Economic & Social Research

Melbourne Institute Nowcast of Australian GDP

February 2024

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Released 29 February 2024

December quarter – third and final nowcast

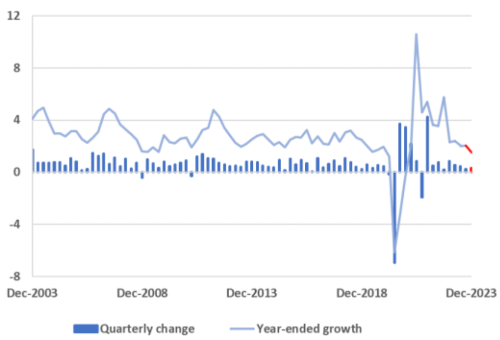
- The Australian economy grew by 0.2 per cent in the September quarter (2.1 per cent year-ended).
- Our third and final nowcast for growth in the December quarter is for growth of 0.3 per cent (1.5 per cent year ended; Figure 1). This is unchanged from last month. We anticipate only slight growth in domestic demand to have occurred, coupled with a small contribution from net exports. The official December quarter GDP data will be released by the ABS on Wednesday 6 March 2024.
- A key risk for the Australian economy remains a downturn in the Chinese economy. Problems in the property market continue, with the major developer Evergrande recently entering liquidation. Weakness in the Chinese economy is evident in consumer prices, with deflation occurring – in January the CPI was 0.8 per cent lower than a year ago. While this will weigh on Australian import prices, which feed into inflation, to date bulk commodity prices, a key determinant of Australian export prices and the terms of trade, to date have displayed surprising resilience.

Wages growth – still strong, but some moderation evident overall

- Nominal wages growth in Australia has been strong. In the December quarter the Wage Price Index (WPI) increased by 0.9 per cent, to be 4.3 per cent higher over the year (Figure 2).
- This quarterly growth, while above the RBA's forecasts, was less than in the September quarter. The slowdown was in private wages; these increased by 0.9 per cent, down from 1.4 per cent.
- In contrast, public wages growth picked up to be 1.3 per cent, its strongest growth rate since early 2010. Public sector wages were 4.3 per cent higher the year.
- Across the sectors, health care and social assistance and education and training made the biggest contribution to quarterly growth.
- Real wages increased by around 0.2 per cent. This is their second quarterly increase, following a protracted period of real wage declines. Real wages remain around 4.8 than just before COVID.
- For inflation unit labour costs – namely productivity adjusted wages – are a key determinant. Unit labour costs are part of the national accounts and will be released next month.
- Productivity increased the September quarter after declining since mid-2022, with the pandemic an important influence (Figure 2). Non-farm unit labour costs moderated to be 6.9 per cent higher over the year. This strong growth is inconsistent with the RBA's inflation target.
- The WPI alternatively is only partially productivity adjusted. Its current growth rate would be high even if the economy was achieving typical productivity gains.
- In the December quarter aggregate hours worked fell by 0.7 per cent. Coupled with our nowcast for output growth of 0.3 per cent, this implies productivity growth of around 0.4 per cent in the quarter. Productivity would still be 1.2 per cent lower over the year. The RBA has highlighted that a return to long-run average productivity growth is important for achieving their inflation forecasts.
- Improved productivity growth also is important for the underpinning future growth in real wages.

Figure 1: GDP Growth

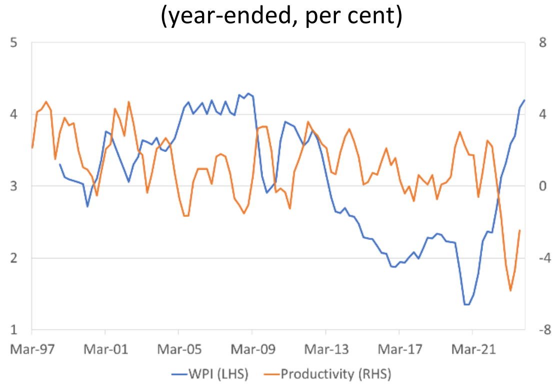
(chain volume, per cent)



Sources: ABS, up to September quarter 2023, and MI.

Figure 2: Wages and Productivity Growth

(year-ended, per cent)



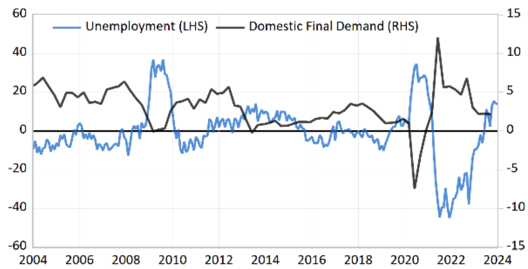
Sources: RBA and ABS, up to December 2023 (WPI).

Labour market eases further…[1]

The unemployment rate increased to be 4.1 per cent in January, 0.4 percentage points higher than a year ago. Alternatively, there was no change in the participation rate. The slowing in the labour market continued to be apparent in hours worked, which fell by a substantial 2.5 per cent (Figure 4), although the ABS noted that a greater tendency to take annual leave in January than previously was evident. Hours worked have been slowing since mid last year. The nowcasting model includes year-end growth in unemployment, which continues to signal very weak domestic final demand growth (Figure 3).

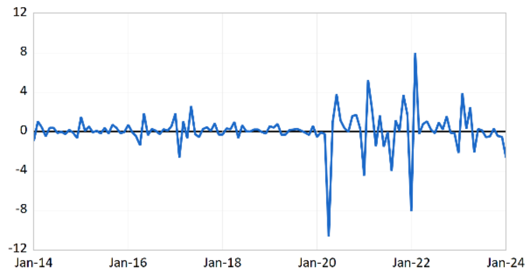
Developments in other timely labour market indicators recently have been more positive. The Westpac-Melbourne Institute Unemployment Expectations Index fell in February, indicating that respondents became more optimistic about the outlook for the labour market. The ANZ-Indeed Australian Job Ads Index and the SEEK Employment Index both improved in January but are substantially lower than a year ago.

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



Source: ABS, up to January 2024 (unemployment).

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



Source: ABS, up to January 2024.

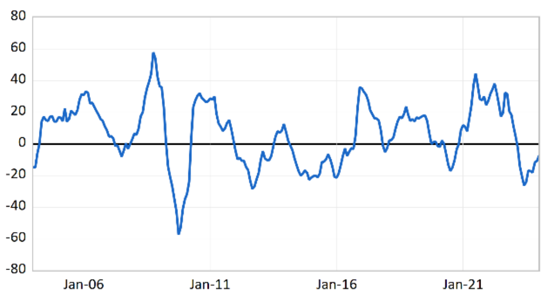
Commodity prices improve again …

The RBA Index of Commodity Prices in A$ increased by 2.9 per cent in January. While prices are now 12.3 per cent higher than six months ago, they remain lower than the same time last year (Figure 5). Underpinning the rise was a 3.1 per cent increase in export prices for the bulk commodities, particularly iron ore prices, despite the sluggish Chinese economy. The terms of trade appear to have improved in the December quarter.

The goods trade surplus decreased slightly in December (Figure 6) with growth in the value of imports outstripping that in exports. These data do not include service exports; in the September quarter service export volumes increased by 1.9 per cent, whereas goods fell by 1.2 per cent. The absence of service data complicates assessing the likely contribution to growth in the December quarter; a modest positive contribution is possible.

The recent tightening of visa requirements for students may weigh on future service exports growth.

Figure 5: Commodity Prices
(year-ended growth, per cent)



Source: RBA, up to January 2024.

Figure 6: Goods Trade balance
($ billion)

Source: ABS, up to December 2023.

[1] Our nowcasting 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.

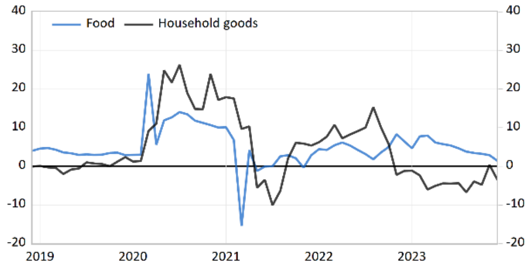
Consumer sentiment strengthens…

The Westpac-Melbourne Institute Consumer Sentiment Index strengthened in February from a very weak level. The improvement was particularly in the Current Conditions Index, which the nowcasting model focuses on, although the Expectations Index also posted a decent gain. Responses to whether it was a good time to buy a major household item rose became more optimistic. Nevertheless, the Current Conditions Index is still pointing to consumption being very weak (Figure 8).

The nowcasting model also includes two components of retail trade, namely year-ended growth in the value of spending on food and household goods. The divergence between these has recently narrowed, and both suggest a subdued consumption outcome (Figure 7). Total retail trade volumes increased by 0.3 per cent in the December quarter. The ABS also produce a Household Spending Indicator from bank transaction data; in December its year-ended growth eased further, held back by lower discretionary spending, reflecting the cost-of-living pressures faced Australian households.

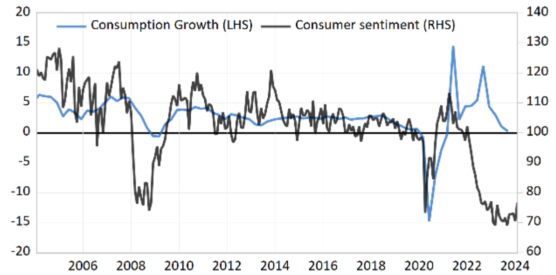
Overall, it appears likely that household consumption – the largest component in GDP – grew slightly in the December quarter.

Figure 7: Retail trade
(year-ended growth, per cent)



Source: ABS, up to December 2023.

Figure 8: Consumer Sentiment and Consumption
(index and year-ended growth, per cent)



Source: ABS and Melbourne Institute, up to February 2024 (consumer sentiment).

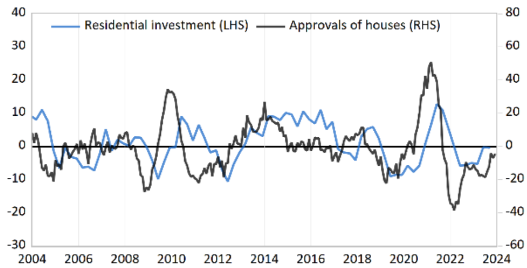
Credit growth stabilizes…

Dwelling approvals fell by 9.5 per cent in December, due mainly to a decline in approvals for dwellings other than detached houses (e.g. apartments). Total approvals have been drifting down since around August. The nowcasting model focuses on approvals for houses, which have been relatively stronger (Figure 9). Year-ended growth in housing credit was little changed (Figure 10). In all, it appears that dwelling investment may contribute slightly to growth in the December quarter.

Developments in indicators for business investment recently have been mixed. Year-ended business credit growth was unchanged in December at a high level relative to the past decade (Figure 10). Business conditions, as measured by the Monthly NAB Business survey, eased in the December quarter, but remained at an above-average level.

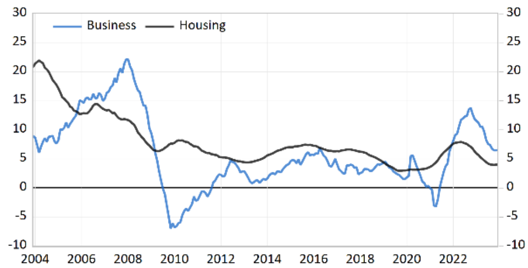
Overall, business investment is likely to make a small contribution to growth in the December quarter.

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



Source: ABS, up to December 2023 (approvals).

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



Source: RBA, up to December 2023.

Next release: 28 March 2024.

Melbourne Institute Nowcast of Australian GDP

The Melbourne Institute Nowcast of Australian GDP used to date the business cycle use monthly information regarding labour market conditions, housing and business lending, retail sales, housing approvals, consumer expectations, trade conditions and commodity prices in order to gauge current economic conditions.

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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