MELBOURNE INSTITUTE
Applied Economic & Social Research

Melbourne Institute Nowcast of Australian GDP

March 2024

THE UNIVERSITY OF MELBOURNE

MELBOURNE INSTITUTE

Melbourne Institute Nowcast of Australian GDP

Released 28 March 2024

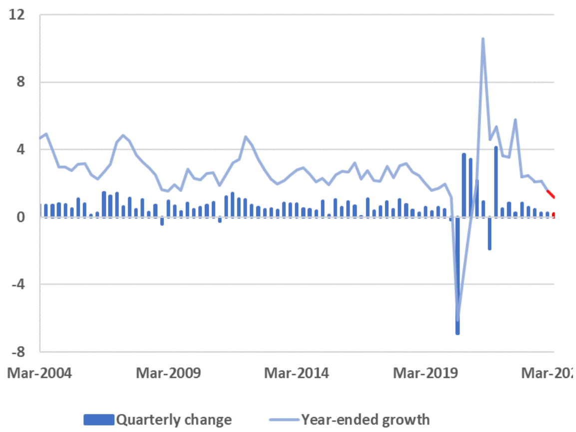
March quarter – first nowcast

- The Australian economy grew by 0.2 per cent in the December quarter (1.5 per cent year-ended). This was slightly less than our final nowcast of 0.3 per cent.
- Our first nowcast for the March quarter is 0.2 per cent (Figure 1). This sees year-ended growth slowing further, reaching a very low 1.2 per cent.
- The official March quarter GDP data will be released by the ABS on Wednesday 5 June 2024.
- In the December quarter Australia's terms of trade, which are driven by commodity prices, rose 2.2 per cent. A worsening in the sluggish Chinese economy, and its impact on commodity prices, remains a key risk for the Australian economy.

December quarter in review: with domestic demand barely growing, net exports were key…

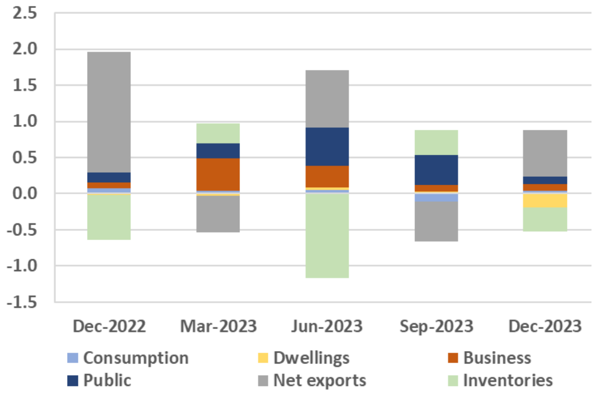
- The GDP per capita recession continued. GDP per capita declined by 0.3 per cent, to be 1 per cent lower over year.
- Domestic demand increased by only 0.1 per cent.
- Reflecting ongoing cost of living pressures, household consumption, which is the largest component of GDP, continued to contribute only slightly to growth (Figure 2). Households cut back on discretionary expenditure in the December quarter but spending on essentials rose. The household saving ratio ticked up for the first time since the September quarter 2021.
- Higher new business investment supported domestic demand, increasing by 0.7 per cent and contributing 0.1 ppt'. Underlying this was a fall in new machinery and equipment, whereas non-residential construction rose. Alternatively, residential investment fell, subtracting 0.2 ppt'.
- Net exports were the main factor underpinning output growth (0.6 ppt'). However, the underlying details were weak. Export volumes declined by 0.3 per cent, despite both resource and service exports growing. Imports fell by 3.4 per cent, possibly a reflection of the weak domestic demand.
- Hours worked fell in the December quarter. This, combined with the sluggish growth, resulted in labour productivity increasing by 0.5 per cent, although it remains 0.4 per cent lower over the year.
- Growth in the Australian economy slowed throughout 2023, with contractionary monetary policy a likely important factor. While growth was weak, [RBA estimates] suggest that the level of activity was above capacity. Consequently, a period of weak growth was necessary to lower inflation, and our nowcast suggests this has continued in the March quarter.
- A key policy issue will be when it is appropriate for monetary policy to move to a less contractionary setting. An important factor influencing this will be the extent of cost-of-living relief provided by the Government this year.

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



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

Figure 2: Contributions to Quarterly Growth
(percentage point)



Sources: ABS, up to December 2023.

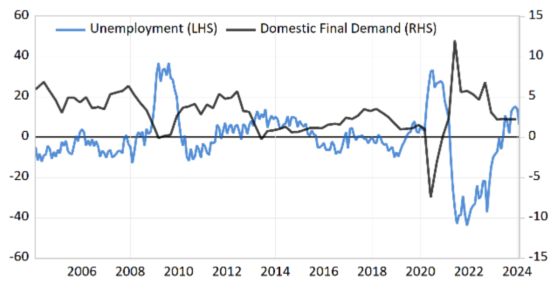
Labour market surprisingly strengthens…[1]

The unemployment rate in February decreased sharply to be 3.7 per cent, down from 4.1 per cent, to be only slightly higher than a year ago. The ABS noted that the increase in employment followed more people than normal in the previous two months holding a job "…that they were waiting to start or to return to." The underemployment rate fell by less than the unemployment rate, and at 6.6 per cent is 0.7 ppt' higher than a year ago. The participation rate edged higher. It will be important to see how much of these improvements are maintained next month.

The nowcasting model includes two labour market indicators. The first is year-ended growth in unemployment, which despite improving is still consistent with low growth in domestic final demand (Figure 3). The second is growth in hours worked, which was strong in February (2.8 per cent).

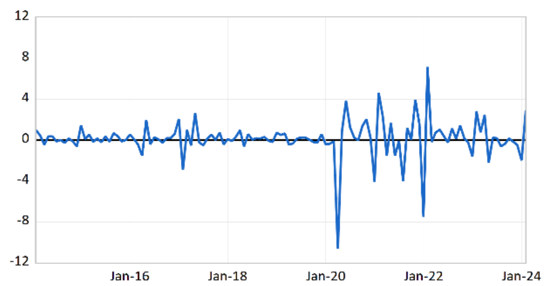
Turning to timely indicators of the prospects for the labour market, the Westpac-Melbourne Institute Unemployment Expectations Index increased in March. This signals that households became less optimistic about the outlook for the labour market, although they remain marginally better than average. The ANZ-Indeed Australian Job Advertisements Index fell. ANZ note that while well beneath their peak, job ads remain nearly 38 per cent higher than their level before COVID. The SEEK Employment Index also fell in February.

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



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

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



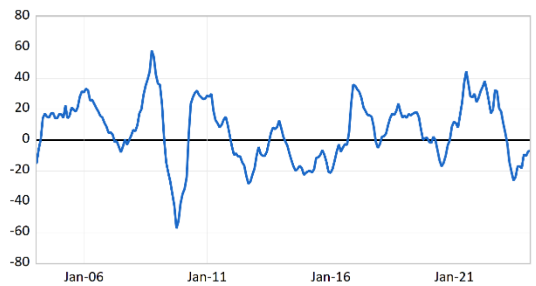
Source: ABS, up to February 2024.

Global commodity prices decline, but a depreciation moderates A$ impacts …

The RBA Index of Commodity Prices in A$ decreased by only 0.1 per cent in February to be nearly 7 per cent lower than a year ago (Figure 4). In US$ in February they fell by 2 per cent, with export prices for the bulk commodities in US$ declining, probably reflecting the weakness in the Chinese economy.

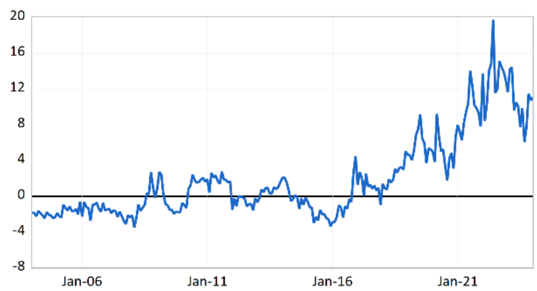
The nowcasting model also includes the goods trade balance. This increased slightly in January (Figure 6), with growth in the value of exports outstripping that in imports. The growth in exports was underpinned by the volatile non-monetary gold component. Imports of both capital and consumption goods increased, although these do not necessarily map well into investment and consumption.

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



Source: RBA, up to February 2024.

Figure 6: Goods Trade balance
($ billion)



Source: ABS, up to January 2024.

---

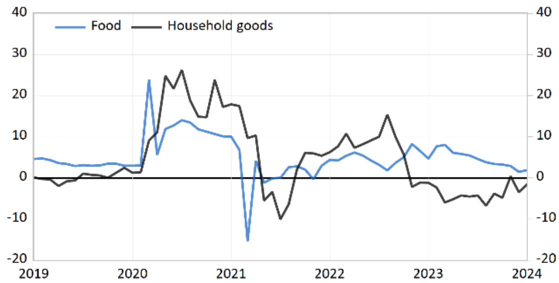
[1] Our nowcasting model uses monthly information regarding labour market conditions, housing and business lending, retail sales, housing approvals, consumer expectations, trade conditions and commodity prices to gauge current economic conditions.

Consumer sentiment eases…

The Westpac-Melbourne Institute Consumer Sentiment Index fell 1.8 per cent in March. While the level of consumer sentiment is very weak (Figure 8), it is 7.6 per cent higher than a year ago. The nowcasting model focuses on the Current Conditions Index, which declined by more, due to a weakening in whether it is a good time to buy a major household item. Consumer sentiment continues to point to consumption being weak.

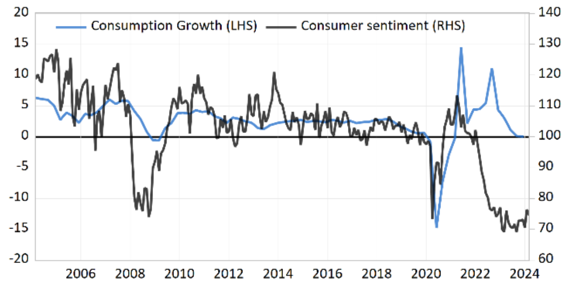
Growth in two components of retail trade also is included in the nowcasting model. These have shown divergent trends, although in recent months this divergence has narrowed, and also suggests weak consumption growth (Figure 7).

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



Source: ABS, up to January 2024.

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



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

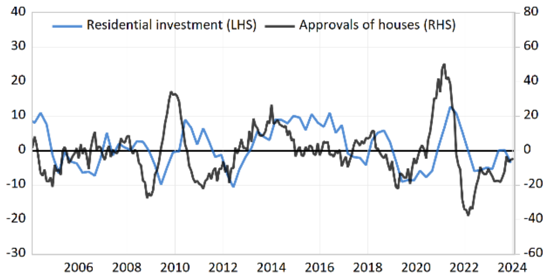
Dwelling approvals edge lower…

Dwelling approvals declined by 1 per cent in January, although they remain 4.8 per cent higher than a year ago (Figure 9). The fall in January was due to private sector houses, rather than other dwellings, such as apartments. Residential investment subtracted 0.2 ppt' from growth in the December quarter and is likely to subtract again in the March quarter.

Housing credit growth is also included in the nowcasting model. This is less closely tied to residential investment than dwelling approvals and was little changed in January (Figure 10). Business credit growth also appears to have stabilized, although at a rate which is high compared to the previous decade. Turning to other indicators, the Monthly NAB Business Survey reported that business conditions strengthened in February, with trading conditions and profitability both improving. Business conditions overall are above their long-run average level.

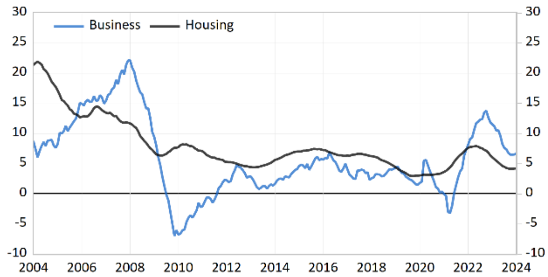
The Monthly NAB Business Survey also reported that capacity utilisation decreased slightly in February but remained substantially above its long-run average level.

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



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

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



Source: RBA, up to January 2024.

Next release: 24 April 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.

For more information about the Melbourne Institute, see:
http://melbourneinstitute.unimelb.edu.au/

For more information about Macro@MI and other reports see:
http://melbourneinstitute.unimelb.edu.au/research-programs/macroeconomics