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Applied Economic & Social Research

Melbourne Institute Nowcast of Australian GDP

April 2024

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March quarter – second nowcast

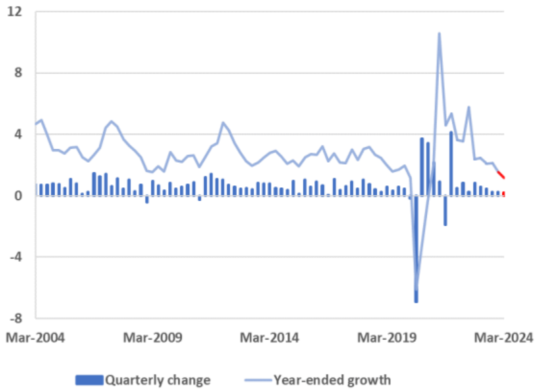
- The Australian economy grew by 0.2 per cent in the December quarter (1.5 per cent year-ended).
- Our second nowcast for the March quarter is 0.2 per cent (Figure 1). This is unchanged from last month. It corresponds to year-ended growth slowing to a weak 1.2 per cent.
- The official March quarter GDP data will be released by the ABS on Wednesday 5 June 2024.
- Looking further out, the IMF expect year-average growth in 2024 of only 1.5 per cent (down from 2.1 per cent), before recovering to 2 per cent in 2025.

Chinese economic prospects: key risk to the Australian economy…

- The Chinese economy grew by a stronger-than-expected 1.6 per cent in the March quarter, to be 5.3 per cent higher than a year ago. The pick-up in quarterly growth was underpinned by the secondary sector, which includes both manufacturing and construction. Growth in the services sector eased.
- Separate data for manufacturing and construction in the March quarter presently are not available. However, the current very weak state of the Chinese property sector is well known, for example with several major developers going to liquidation. It is of importance to Australia construction is a key source of demand for Australia's bulk commodities, such as iron ore, as an input for steel. Resource exports account for around 58 per cent of Australia's exports.
- A RBA author (Baird 2024) recently argued that the Chinese urban residential construction sector began weakening in 2021, with policy to address its previous very strong growth a contributing factor. They note that at then end of 2023 new home sales were nearly 50 per cent lower than on average in 2019. While the unwinding of current malaise in the property sector may result in some recovery in the near term, although the timing is uncertain, drawing on previous RBA work (Berkelmans and Wang 2012), they found that residential steel demand is likely to have peaked in approximately 2019 and to gradually decline in the coming decades.
- In the near term, the IMF recently upgraded its projection for world growth in 2024 slightly to be 3.2 per cent, and anticipate the same rate of growth in 2025 (Figure 2). The outlook for the U.S. was thought to be considerably stronger than in January, whereas their projections for China were unchanged. However, at 4.6 and 4.1 per cent, these growth rates are well below that achieved in 2023 (5.2 per cent). With respect to China, Gourinchas from the IMF noted that "credit booms and busts never resolve themselves quickly, and this one is no exception. Domestic demand will remain lacklustre for some time unless strong measures and reforms address the root cause."
- While "in China, without a comprehensive response to the troubled property sector, growth could falter", overall risks to the global growth outlook were characterised as being "broadly balanced".

Figure 1: GDP Growth

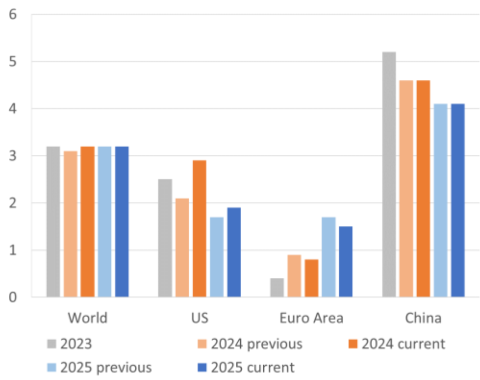
(chain volume, per cent)



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

Figure 2: IMF Growth Projections

(year-average, per cent)



Source: IMF World Economic Outlook (April 2024).
Note: Previous is the January 2024 WEO Update.

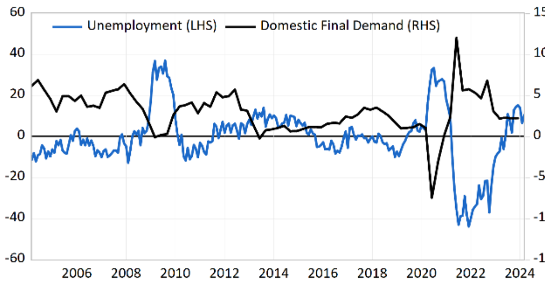
Labour market maintained much of last month's surprising improvement …[1]

The unemployment rate in March increased by only 0.1 ppt' to 3.8 per cent, maintaining much of the sharp fall which occurred in February. Alternatively, the underemployment rate, namely those employed but working less than they desire, fell by 0.1 ppt'. These, while both higher than a year ago, are at low levels by historical standards which point to the labour market remaining robust; the high employment-to-population ratio suggests likewise. That they have weakened only to small extent despite the insipid output growth that occurred throughout much of 2023 and appears to have continued in 2024 is surprising.

The nowcasting model includes two labour market indicators. The first, year-ended growth in unemployment, indicates that weak growth in domestic final demand is likely (Figure 3). The second is growth in aggregate hours worked. Previously, the softening in the labour market had been more evident in growth in aggregate hours worked than in the unemployment rate. This month aggregate hours worked rose again, following strong growth in February (Figure 4). Looking through the volatility, trend aggregate hours worked is little changed from a year ago; alternatively, due to the increase in labour supply that has occurred, average hours worked has fallen by 2.5 per cent.

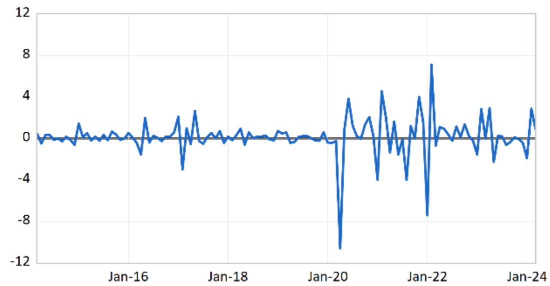
Turning to timely indicators of the prospects for the labour market, the Westpac-Melbourne Institute Unemployment Expectations Index fell by 2.7 per cent in April, signalling that consumers became more optimistic about the outlook for the labour market.

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



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

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



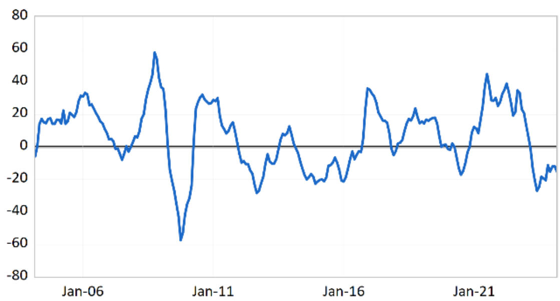
Source: ABS, up to March 2024.

Commodity prices continue to decline….

The RBA Index of Commodity Prices in A$ fell by only 5.1 per cent in March, with falls in prices for bulk commodity exports (8.8 per cent) a key contributing factor, reflecting weak Chinese demand. Commodity prices are now 14 per cent lower than a year ago (Figure 5).

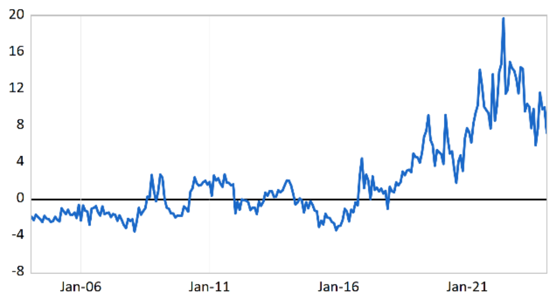
The nowcasting model also includes the goods trade balance. This fell sharply in February (Figure 6), due to the value of exports declining, with metal ores and minerals contributing, and higher imports.

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



Source: RBA, up to March 2024.

Figure 6: Goods Trade balance
($ billion)



Source: ABS, up to February 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 falls again…

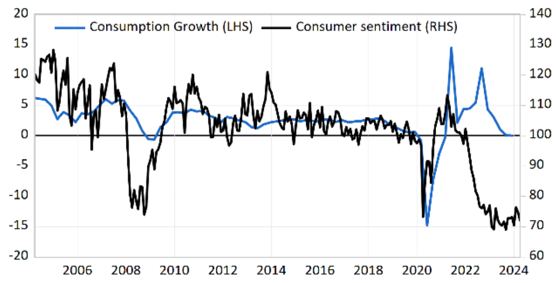
The Westpac-Melbourne Institute Consumer Sentiment Index fell by 2.4 per cent in April, to be 3.9 per cent lower than a year ago. More generally, consumer sentiment now has been weak for a protracted period. The nowcasting model focusses on the Current Conditions Index, which fell by more in April (Figure 6), due to a further weakening in whether it is a good time to buy a major household item. Consumer sentiment is signalling that consumption growth is likely to remain weak.

The nowcasting model also includes two components of retail trade (Figure 7). These had been providing divergent signals about prospects for consumption growth. In recent month this divergence has narrowed, with both pointing to weak growth.

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

Source: ABS, up to February 2024.

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



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

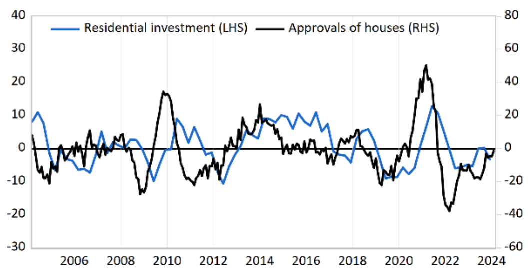
Dwelling approvals continue to move lower…

Dwelling approvals fell by 1.9 per cent in February, to be 5.8 per cent lower than a year ago (Figure 9). This fall was driven by lower approvals for private sector dwellings other than houses, such as apartments, whose trend is more than 20 per cent lower a year ago. The nowcasting model instead focuses on approvals for houses, which has declined much more modestly (2.2 per cent in trend terms). The other indicator included is growth in housing credit, which while less closely tied to residential investment encouragingly has stopped falling and been around its current rate for the past 6 months (Figure 10). Overall, residential investment is likely to remain weak, supporting growth in rents.

Turning to indicators for business investment, year-ended growth in business credit maintained last month's improvement in February (Figure 10). In March both business confidence and conditions, as reported by the NAB Monthly Business Survey, were little changed; the more forward-looking former is slightly above its long-run average level, whereas the latter is slightly above. Trend conditions were strongest in finance, business and property, and weakest in retail.

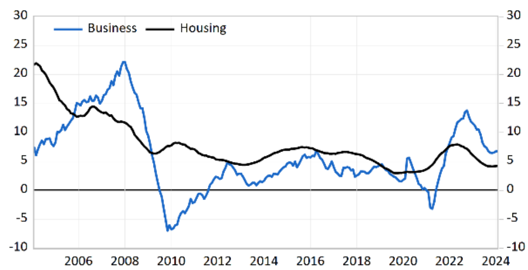
In the NAB survey capacity utilisation continued to drift lower, but in aggregate remained well above its long-run average level. Across the sectors, trend capacity utilisation was only beneath its long-run average level in transport and utilities and manufacturing. Together with the low unemployment rate this suggests that the output gap probably remains positive, although it is closing due to the persistently low output growth.

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



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

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



Source: RBA, up to February 2024.

Next release: 30 May 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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