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Applied Economic & Social Research

Melbourne Institute Nowcast of Australian GDP

May 2022

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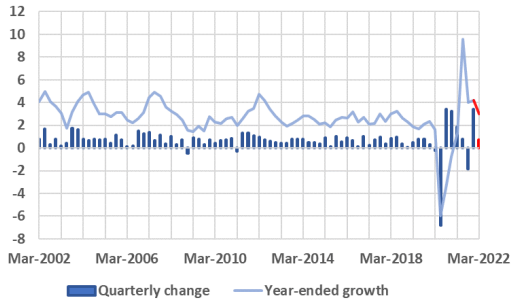
March Quarter GDP – Third Nowcast

- The Australian economy grew strongly in the December quarter (3.4 per cent, Figure 1), reflecting the re-opening of the economy after the Delta COVID-19 outbreak and the associated lockdowns. Household consumption made a sizable contribution (Figure 2). Growth over the year was a strong 4.2 per cent.
- Drawing on timely monthly indicators, our third nowcast for growth in the March quarter is 0.7 per cent, taking year-ended growth to 3 per cent (Figure 1).
- This nowcast mainly reflects data up to March and is weaker than our second nowcast last month (0.9 per cent). Several factors have contributed to the downward revision; the most important is a softening in some indicators for consumption growth. An example is the deterioration in consumer sentiment which has occurred; the tightening of monetary policy and cost of living pressures have weighed on consumer sentiment.
- The monetary policy tightening reflected the high inflation uptick and with the intensity of the adverse economic impacts of the pandemic diminishing, the unwinding of policy response is occurring.
- Another factor in the downward revision to the nowcast is a further deterioration in the outlook for residential investment. Building approvals are substantially lower than a year ago.
- The official March quarter GDP data will be released by the ABS on Wednesday 1 June.

Prospects for consumption

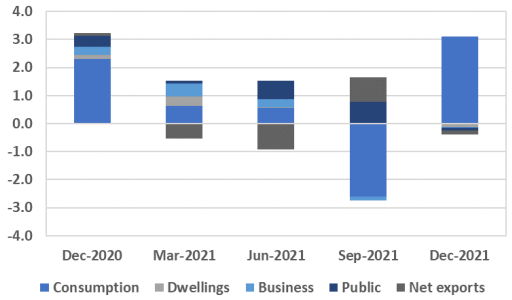
- Consumption growth was key for the December quarter, and despite the Omicron outbreak and floods, it appears to have been solid in the March quarter.
- The saving ratio became elevated during the pandemic and should decline in coming years.
- Consumer sentiment, which we discuss later, is pessimistic about the near-term outlook.
- There are competing forces on the near-term outlook. For example, the strong labour market should flow through to wages growth, although ongoing high inflation will impinge on real wages.
- Alternatively, the tightening cycle for monetary policy will weigh both on disposable income growth, due to higher debt servicing costs, and asset prices, including house prices. Wealth effects, i.e. the implications of these asset price changes for consumption, have been estimated to be larger for houses than stock market wealth in Australia.[1] Furthermore, Australian households' assets are more concentrated in housing, rather than financial assets.

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



Sources: ABS, up to December quarter 2021, and Melbourne Institute.

Figure 2: Selected Contributions to GDP Growth in the December Quarter (ppt)



Source: ABS, up to December quarter 2021.

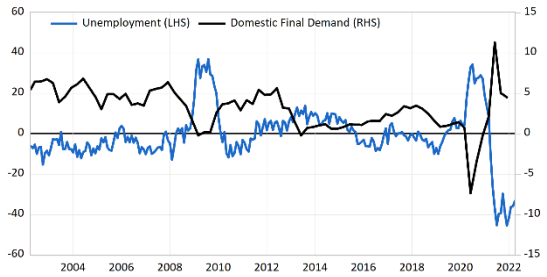
[1] May D., G. Nodari and D. Rees (2019) Wealth and Consumption, *RBA Bulletin*, March.

Unemployment rate edges down to its lowest level since 1974[2]

In April the unemployment rate was 3.9 per cent, which is a particularly low level by historical standards. The underutilisation rate - a broader concept capturing both those that are unemployed and working less than they want (i.e. underemployed) - fell by 0.3 percentage points to 10 per cent. A less positive outcome was that the participation rate decreased slightly, and consequently so too the employment-to-population ratio – a good overall barometer for the state of the labour market – although the latter remains well above pre-pandemic levels.

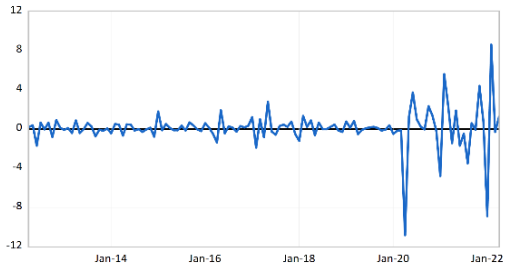
The nowcasting model contains two labour market indicators. The first is year-ended growth in unemployment, which continues to anticipate strong growth in domestic final demand, although less than previously (Figure 3). Monthly growth in hours worked is the second indicator; hours worked posted a marginal decline in March, but grew solidly in April (Figure 4).

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



Source: ABS, up to April 2022 (unemployment).

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



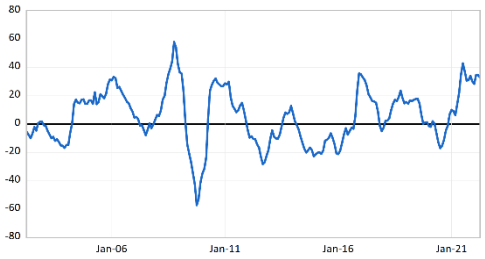
Source: ABS, up to April 2022.

Commodity prices and the trade surplus increase further

The RBA Index of Commodity Prices in A$ posted another increase in April, but smaller than in recent months (1.7 per cent). The increase was underpinned by higher export prices for the bulk commodities; these are now more than 47 per cent higher than six months ago, with the war in the Ukraine an important factor. Spot prices for the bulk commodities fell in April.

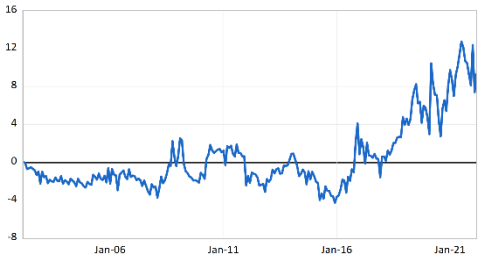
The trade surplus widened in March. This reflected a 5 per cent decrease in the value of imports; the value of exports decreased only marginally. Interestingly, despite the re-opening of international borders, the value of service exports remains lower than a year ago. The fall in imports was primarily in goods.

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



Source: RBA, up to April 2022 (commodity prices).

Figure 6: Trade balance
($ billion)



Source: ABS, up to March 2022.

[2] 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.**

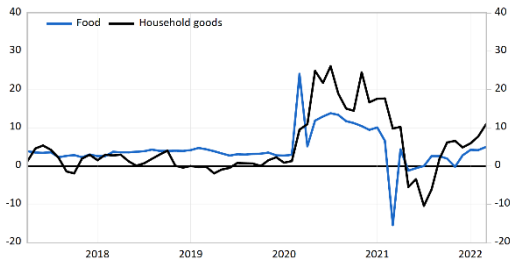
Consumer sentiment weakens further

The value of retail trade continued to post sizable gains in March, increasing by 1.6 per cent. While this is being boosted by price increases, encouragingly the volume of retail sales in the March quarter grew by a strong 1.2 per cent.

The nowcast model includes two components of the value of retail trade: food and household goods. In March year-ended growth in expenditure on food increased only slightly, whereas for household goods it strengthened further (Figure 7).

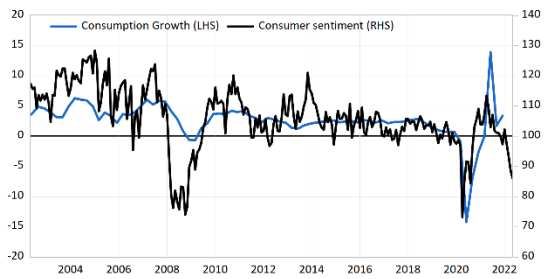
Consumer sentiment, which is more timely than the retail trade data, continues to provide a relatively downbeat indicator on the outlook for consumption growth. The Westpac-Melbourne Institute Consumer Sentiment Index fell further in May and is firmly in pessimistic territory. The nowcasting model includes the Current Condition Index, which declined relatively modestly in May (Figure 8) compared to the Expectations Index; the latter was weighed down particularly by weaker prospects for family finances in the next 12 months.

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



Source: ABS, up to March 2022.

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



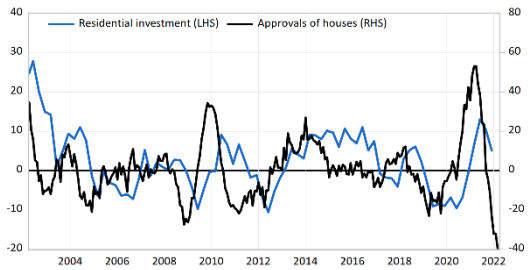
Source: ABS and Melbourne Institute, up to May 2022 (consumer sentiment).

Building approvals decline and business credit growth ticks down

Building approvals fell in March. Approvals are volatile, and this fall follows a sharp rise in February. Nevertheless, total dwelling approvals are more than 35 per cent lower than a year ago. The nowcasting model includes approvals for houses, which are signalling a fall in residential investment (Figure 9). Alternatively, housing credit growth increased further, but by less than in previous months (Figure 10). Housing credit growth is less closely tied to residential investment than dwelling approvals, and may turn down as the RBA has commenced its tightening cycle.

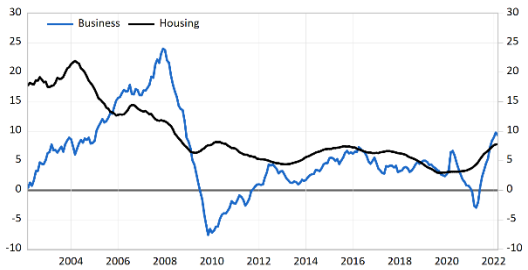
Business credit growth, despite easing in March, remains at a high level relative to that achieved in the past decade and continues to indicate further growth in business investment in the near term (Figure 10).

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



Source: ABS, up to March 2022 (approvals).

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



Source: RBA, up to March 2022.

Next release: 30 June 2022.

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.

We note that the nowcast methodology currently is in an experimental stage.

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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