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Applied Economic & Social Research

Melbourne Institute Nowcast of Australian GDP

August 2022

THE UNIVERSITY OF MELBOURNE

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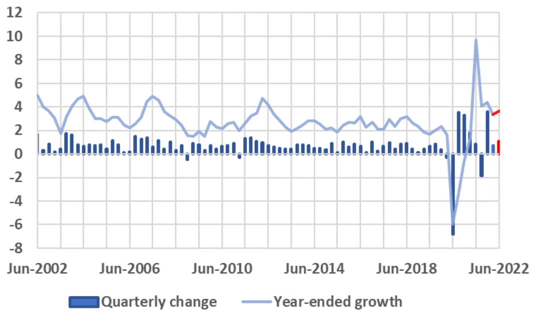
June quarter GDP – third nowcast

- The Australian economy grew by 0.8 per cent in the March quarter (Figure 1), weighed down by the Omicron outbreak and floods in Brisbane and Sydney. Growth was underpinned by household consumption and the public sector; over the year it was 3.3 per cent.
- Drawing on timely monthly indicators, our third and final nowcast for June quarter growth is 1.1 per cent, taking year-ended growth to 3.6 per cent (Figure 1).
- This nowcast mainly reflects data up to June.
- Our nowcast is a downwards revision of 0.2 percentage points from last month. Very weak consumer sentiment and falls in commodity prices contribute to the downward revision, together with a decline in hours worked. Alternatively, some business sector indicators recently have improved.
- The official June quarter GDP data will be released by the ABS on Wednesday 7 September.

Uncertainty surrounding the nowcast

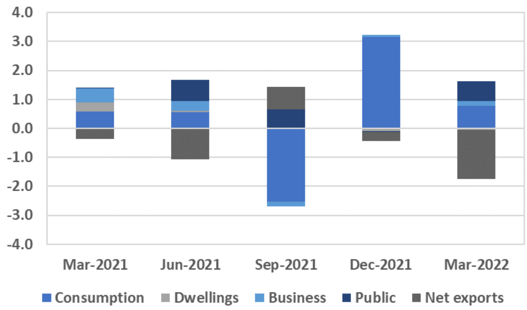
- Considerable uncertainty surrounds our nowcast this month.
- One source is the sizable divergence in timely indicators for consumption, which we discuss later. This is important as consumption is the largest expenditure component of GDP, and therefore typically it makes a substantial contribution to growth; in the March quarter it contributed nearly 0.8 ppt (Figure 2).
- Inventory accumulation contributed nearly 1 ppt. Consequently, a risk is that even if domestic final demand growth is above trend in the June quarter this is met by drawing down inventories, rather than higher production.
- The public sector contributed around 0.7 ppt to growth in the March quarter. Public demand is volatile and difficult to nowcast.
- Private business investment likewise is very volatile. In the March quarter it grew by 1.4 per cent, to be 3.6 per cent higher over the year, and contributed 0.16 ppt to quarterly growth. As we discuss later, some partial indicators for business investment are strong compared to their levels in the past decade. Business investment, however, has had many false dawns and whether a substantial upswing is in its early stages is uncertain.
- Risks also exist on the upside. Exports were disrupted in the March quarter by adverse weather, including the floods. Export volumes, which fell by nearly 1 per cent in the March quarter, appear to have bounced back, although the extent of the bounce back is uncertain.

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



Sources: ABS, up to March quarter 2022, and Melbourne Institute.

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



Source: ABS.

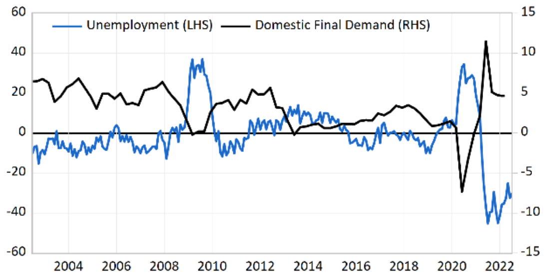
Unemployment rate improves further in July, but not all indicators improve…[1]

In July the unemployment rate fell to 3.4 per cent – a 0.1 percentage point decline – reaching its lowest level since 1974. This was accompanied by a similar-sized fall in the underemployment rate. However, not all labour market indicators improved, in particular the participation rate fell by 0.3 percentage points, although at 66.4 per cent it remained above its pre-pandemic level.

The nowcasting model includes two labour market indicators, namely year-ended growth in the number of unemployed, and monthly growth in hours worked. Despite the fall in the unemployment rate in July, the decline in the number of unemployed compared to a year ago moderated, although it continues to signal strong domestic final demand growth (Figure 3). Hours worked decreased in July and once again is less optimistic about the growth outlook (Figure 4).

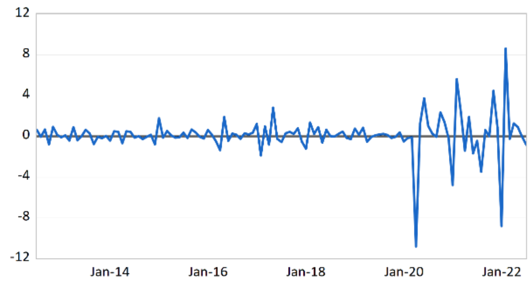
It is too early to see a sizable impact of the sharp tightening of monetary policy that has occurred in recent months in most labour market indicators as these tend to lag the business cycle.

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



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

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



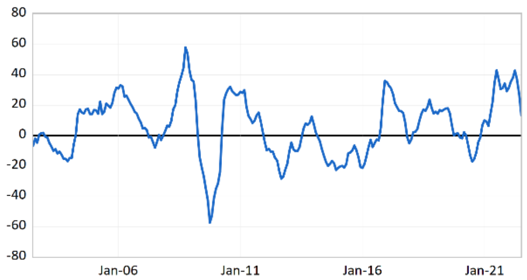
Source: ABS, up to July 2022.

Sharp weakening in commodity prices, but the trade surplus widens

The RBA Index of Commodity Prices in A$ fell by 7.6 in July, although it remains around 14 per cent higher over the year (Figure 5). The fall in July was led by a nearly 12 per cent decline in export prices of the bulk commodities, which includes iron ore and coal, but was broad based, with base metals and rural goods decreasing by 9.7 and 5.9 per cent. Lower anticipated world growth prospects are a likely factor contributing to this broad-based fall.

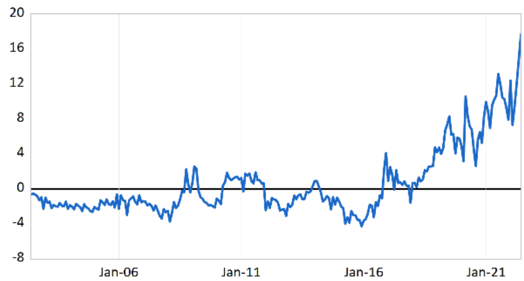
The trade surplus moved higher in June, extending the gains made in May (Figure 6). The value of exports grew by a strong 5.1 per cent, with higher rural exports (particularly cereals) playing an important role. Service exports grew 3.3 per cent, largely due to tourism, but remain well below pre-COVID levels.

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



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

Figure 6: Trade balance
($ billion)



Source: ABS, up to June 2022.

[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.

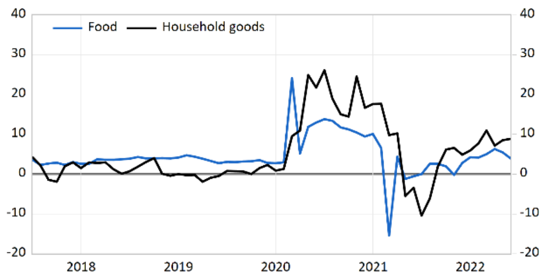
Consumer sentiment falls further…

The value of retail trade increased by only 0.2 per cent in June; noticeably monthly turnover growth slowed throughout the quarter. Nevertheless, the volume of retail trade increased by a strong 1.4 per cent in the June quarter. The ABS noted that higher sales at cafes, restaurants and in takeaway food contributed sizably to the growth in volumes.

The nowcasting model includes two components of retail turnover – food and household goods (Figure 7). In June year-ended growth in household good sales increased slightly, whereas it moderated for food.

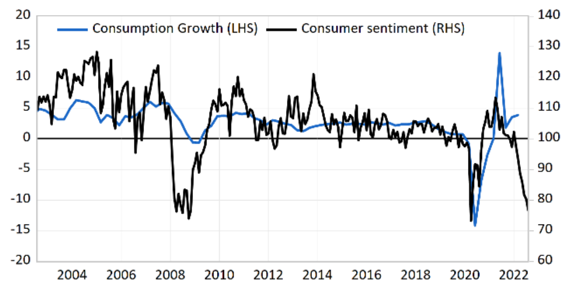
Consumer sentiment, which was already at recessionary levels, declined further in August. The nowcasting model includes the Current Conditions Index, which fell by 4.6 per cent (Figure 8). The fall reflected weaker responses about whether it is a good time to buy major household items; this is now more than 27 per cent lower than a year ago. Higher interest rates are an important factor weighing on sentiment; their impact on retail trade may become more sizable in coming months.

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



Source: ABS, up to June 2022.

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



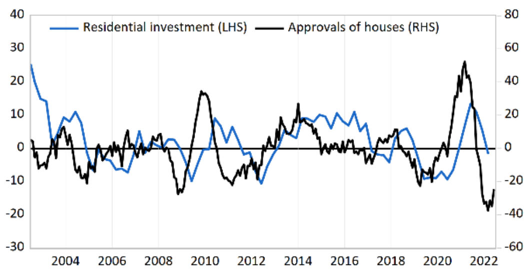
Source: ABS and Melbourne Institute, up to August 2022 (consumer sentiment).

Building approvals stabilising while business credit growth continues to improve…

Building approvals decreased by 0.7 per cent in June but were unchanged in trend terms. The nowcasting model focuses on approvals for houses, which improved in June, although they remain substantially lower than a year ago and indicate a fall in residential investment is likely (Figure 9). Housing credit growth is less closely tied to residential construction, and unsurprisingly higher interest rates appear to be weighing on it.

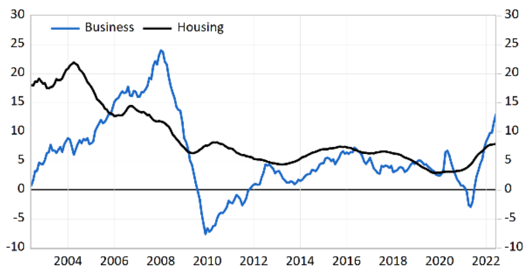
Business credit growth, on the other hand, continued to strengthen in June and is at rates well above those typically achieved in the last decade (Figure 10). In contrast to consumer sentiment, the NAB Business survey reported that both business confidence and conditions improved in June, with the latter now at well above-average levels.

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



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

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



Source: RBA, up to June 2022.

Next release: 29 September 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.

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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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