MELBOURNE INSTITUTE
Applied Economic & Social Research

Melbourne Institute Nowcast of Australian GDP

October 2022

THE UNIVERSITY OF MELBOURNE

MELBOURNE INSTITUTE

Melbourne Institute Nowcast of Australian GDP

Released 27 October 2022

September quarter GDP – second nowcast

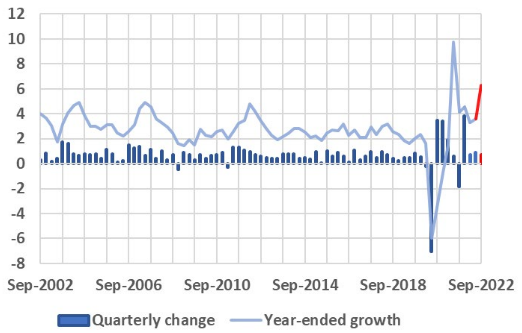
- The Australian economy grew by 0.9 per cent in the June quarter, and by 3.6 per cent over the year.
- Drawing on timely monthly indicators, our second nowcast for the September quarter is for quarterly growth of 0.7 per cent. This nowcast is unchanged from last month. It corresponds to a strong 6.3 per cent year-ended growth rate, driven largely by the pandemic-related decline in activity a year ago and the subsequent recovery, rather than recent momentum (Figure 1).
- This nowcast predominantly reflects data up to August.
- The official September quarter GDP data will be released by the ABS on Wednesday 7 December.
- Inflation was very strong in the September quarter. Underlying inflation, as measured by the trimmed-mean CPI, increased by 1.8 per cent, to be 6.1 per cent higher over the year.
- The international headwinds facing the Australian economy have strengthened. The UK mini budget led to financial and political instability. The economic situation in China is unclear, with September-quarter GDP not being published as scheduled.
- The recent floods are likely to have a sizable, negative, impact on December quarter GDP growth, which already looked soft, and to create further inflationary pressure through supply disruptions.

Budget Wrap Up

- *Economic outlook:* The Government expect growth of 3.25 per cent in 2022/23, falling to only 1.5 per cent in 2023/24 (Figure 2), with the unemployment rate increasing to 4.5 per cent.
  - The weakness in 2023/34 reflects an anticipated sizable slowing in private final demand. While this is broad-based, a sharp slowing in consumption growth plays an important role. The decline in output growth is moderated by growth in imports easing.
  - With considerable uncertainty surrounding the global outlook, the terms of trade are anticipated to fall by 20 per cent in 2023/24, contributing to a 1 per cent fall in nominal GDP.
- *Budget outlook:* An underlying cash deficit of 1.5 per cent of GDP is forecast for 2022/23, widening to 1.8 per cent of GDP with the challenging economic conditions, and even further in 2024/25. This sees net debt increase from 22.5 per cent of GDP in 2021/22 to more than 27 per cent in 2024/25.
- *Policy measures:* Some of the larger policy commitments included increasing childcare assistance; improving aged care provision; increased NDIS spending; a "Powering Australia Plan" to upgrade electricity infrastructure and promote cheaper and cleaner energy; a Housing Accord to increase the supply of affordable housing; additional NBN funding; and a "National Reconstruction Fund".
  - A Government Spending Audit has cut outsourcing and other costs and reprioritised spending. Some infrastructure spending has been delayed, and the tax office is expected to lessen tax avoidance etc. Nevertheless, the size of the ongoing deficits and projected increases in net debt as a share of GDP suggest a need for further revenue measures and reforms in the future.

Figure 1: GDP Growth

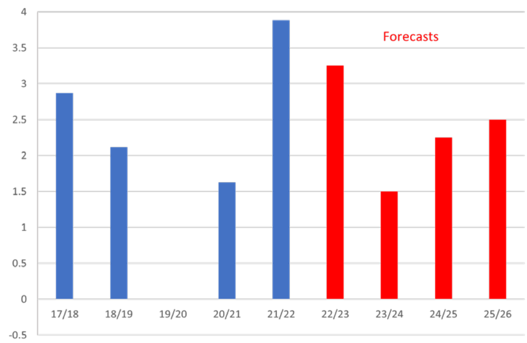
(chain volume, per cent)



Sources: ABS, up to June quarter 2022, and MI.

Figure 2: Annual Economic Growth

(chain volume, per cent)



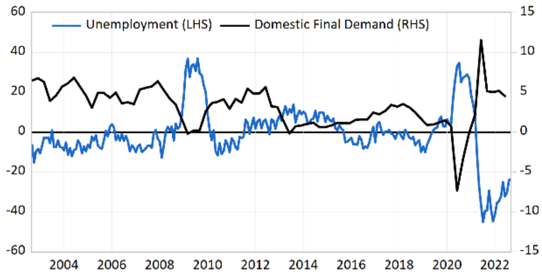
Source: ABS and Commonwealth of Australia (BP 1).

Labour market in a holding pattern…[1]

In September many labour market indicators were broadly unchanged. The unemployment rate remained at a low 3.5 per cent, compared to around 5.2 per cent pre-pandemic. Likewise, the underemployment rate was steady at 6 per cent, and the participation rate was unchanged at a high level (66.6 per cent). Alternatively, the forward-looking Westpac-Melbourne Institute Unemployment Expectations Index increased sizably in October, signalling that more households expect unemployment to increase.

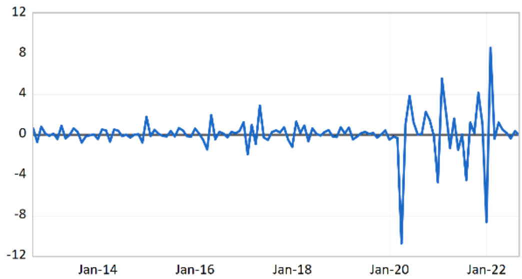
The nowcasting model includes two labour market indicators, namely year-ended growth in the number of unemployed, and monthly growth in hours worked. The former was unchanged in September and points to domestic final demand growing robustly (Figure 3), whereas hours worked decreased marginally (Figure 4).

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



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

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



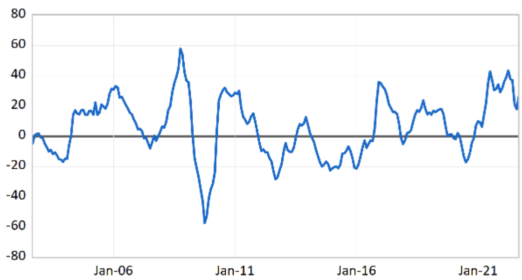
Source: ABS, up to September 2022.

Commodity prices increase as the A$ depreciates, and the trade surplus narrows further …

The RBA Index of Commodity Prices in A$ increased by 2.1 per cent in September but remains 30 per cent higher over the year (Figure 5). The increase in the month largely reflects the depreciation in the A$; in US$ commodity prices fell by 2 per cent. Rural goods prices increased in US$, whereas for the other major commodity groups export prices declined. More generally, concerns about the global growth prospects are likely to be weighing on some commodity prices.

The trade surplus continued to narrow in August (Figure 6). This represented further strong growth in the value of imports (4.5 per cent), outstripping a 2.6 per cent increase in exports. Contributing to the growth in imports were fuels and lubricants; for exports it was coal and related products.

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



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

Figure 6: Trade balance
($ billion)

Source: ABS, up to August 2022.

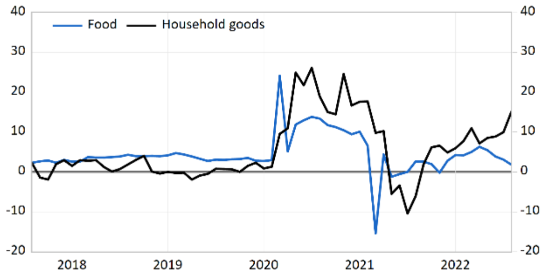
[1] Our nowcast model uses monthly information regarding labour market conditions, housing and business lending, retail sales, housing approvals, consumer expectations, trade conditions and commodity prices to gauge current economic conditions.

Divergence between consumption indicators remains…

Consumer sentiment declined in October, following a small rise in September, and is 20 per cent lower than a year ago. The fall in the month was concentrated in the more forward-looking components, particularly economic conditions in the next 12 months, which fell by 4.2 per cent. Alternatively, the components relating to current conditions improved, particularly whether it is a good time to buy major household items. Despite this improvement they remain very weak, especially the measure of family finances relative to a year ago, which is weighed down by interest rate increases and cost-of-living pressures. The Current Conditions Index, which appears in the nowcasting model, in October was 23.7 per cent lower than a year ago and points to a weakening in consumption growth (Figure 8).

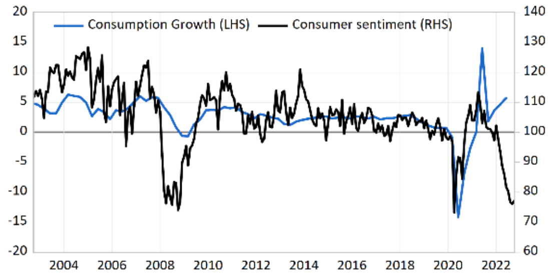
The value of retail trade is only available up to August, which was a robust 0.6 per cent increase. The nowcasting model contains two components of retail trade, namely year-ended growth in the value of food and household goods sales. Recently the divergence between these measures widened, with growth in sales of household goods considerably stronger, although this in part is due to weakness a year ago (Figure 7).

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



Source: ABS, up to August 2022.

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



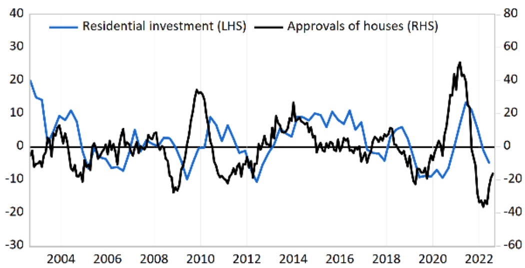
Source: ABS and Melbourne Institute, up to October 2022 (consumer sentiment).

Building approvals stabilising, but a sustained upswing in residential investment unlikely…

Building approvals increased in August but are volatile and in trend terms were little changed. Underlying this, developments in trend approvals for houses have been more positive than for other types of buildings, such as apartments. The nowcasting model focuses on the former and suggests that that year-ended residential investment growth is likely to remain negative in the near term (Figure 9). The other housing indicator included, namely year-ended housing credit growth, eased further in August, although it will be influenced by house price falls and in general is less closely tied to residential construction (Figure 10).

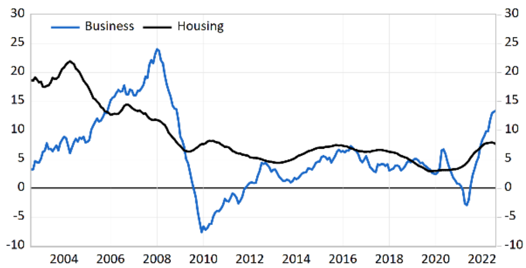
The outlook for business investment is more positive, with year-ended business credit growth edging higher in August (Figure 10). Business conditions, as measured by the NAB Business survey, also improved in September, and are at an above-average level.

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



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

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



Source: RBA, up to August 2022.

Next release: 24 November 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.

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

THE UNIVERSITY OF MELBOURNE

MELBOURNE INSTITUTE