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Melbourne Institute Nowcast of Australian GDP

April 2020

THE UNIVERSITY OF MELBOURNE

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- *GDP growth projected to be -0.4 per cent in the March quarter, giving a year-end (Feb2019-to-Feb2020) growth rate of 1.3 per cent. The nowcast only partially reflects the on-going impact of COVID-19 (up to Feb), with Q2 growth expected to be significantly worse than Q1.*
- *Relatively strong labour market, retail spending and trade conditions are the primary positive contributors to the March quarter nowcast, whereas weak commodity prices, housing market and lending conditions have dragged the nowcast down.*
- *Consumer expectations have declined dramatically since March. The effects of falling sentiment are likely to be primarily observed in consumption weakness for the June quarter.*

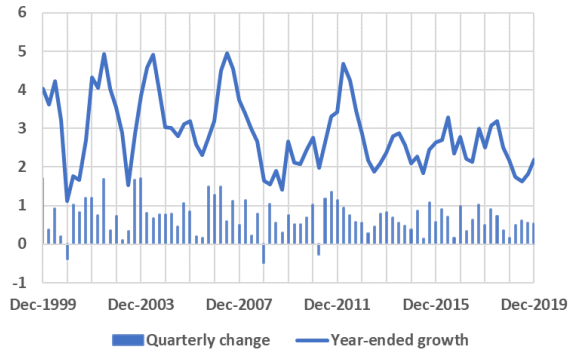
Second nowcast for March Quarter 2020 GDP released in April 2020

On March 4, the ABS reported that GDP grew by 0.5 per cent in the December quarter of 2019, giving an annual growth rate of 2.2 per cent. Public expenditure, consumption and net exports contributed positively to growth, with negative contributions from business investment and dwellings. The next release of the National Accounts, covering the March 2019 quarter, will be on June 3, 2020.

The second nowcast for the March quarter GDP growth is -0.4 per cent, giving a year-end (Feb2019-Feb2020) nowcast growth rate of 1.3 per cent. This figure reflects the gradually worsening impact of the still-evolving COVID-19 pandemic on economic activities up to February. Our third and final nowcast for Q1 will be next month.

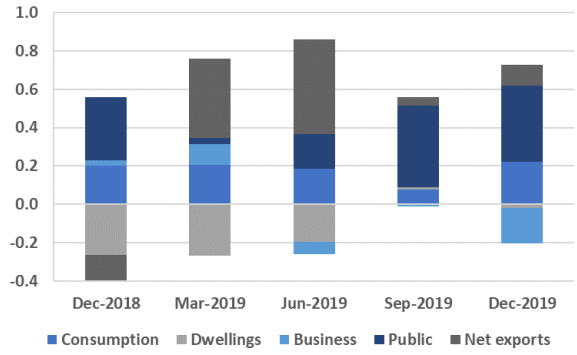
Our analysis[1] indicates positive contributions from an improvement in retail sales, the labour market, and a stabilised trade balance. These are counteracted by weak conditions in commodity prices, housing approvals, and consumer sentiment.

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



Source: ABS, up to Dec quarter 2019.

Figure 2: Contributions to GDP Growth
(percentage point)



Source: ABS, up to Dec quarter 2019.

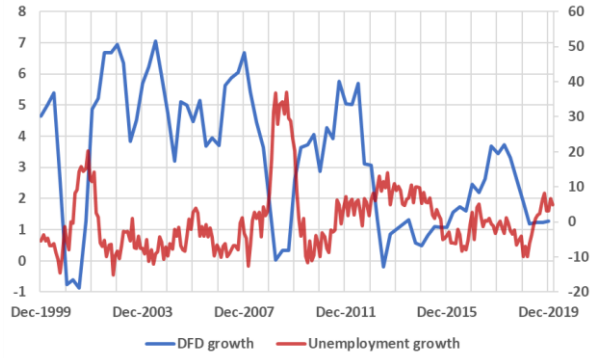
[1] Our nowcast model uses monthly information regarding labour market conditions, housing and business lending, retail sales, housing approvals, consumer expectations, trade conditions and commodity prices to gauge current economic conditions. **We note that the nowcast is currently in the experimental stage.**

The labour market was relatively strong in February

The unemployment rate slid from 5.3 per cent in January back to 5.1 per cent in February. The monthly growth rate of the number of unemployed fell from 6.8 per cent in January to 4.9 per cent in February. This improvement is expected to alleviate, albeit only modestly, the drag on the growth of domestic final demand (DFD) (Figure 3), which has been subdued since the first quarter last year.

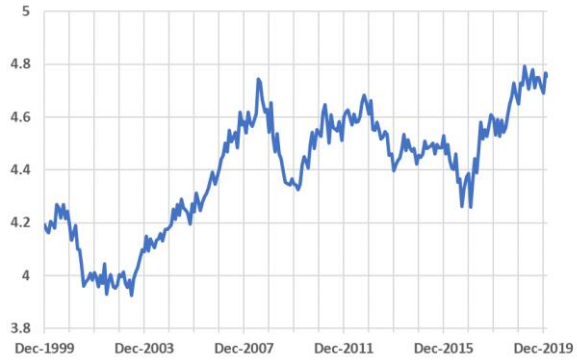
The difference in the numbers of full-time less part-time workers remains at the elevated level observed before the onset of the GFC (Figure 4) and is a key positive contributor to March quarter GDP growth in 2020.

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



Source: ABS, up to Feb 2020.

Figure 4: Full-time to Part-time Difference
(number, million)



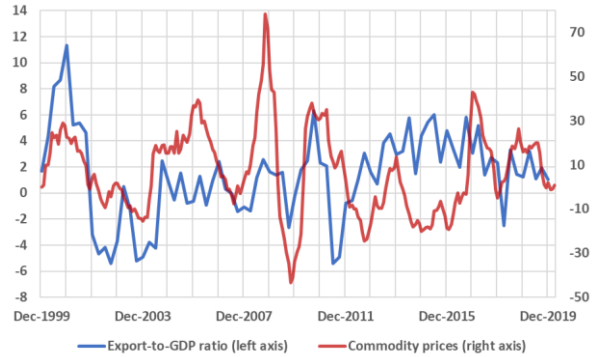
Source: ABS, up to Feb 2020.

Commodity prices continued to weaken

The growth of commodity prices remained negative in February, further confirming its seemingly falling trend. This has rendered it a primary negative contributor to output growth in the March quarter, coinciding with the weak December 2019 quarter export-to-GDP ratio (Figure 5).

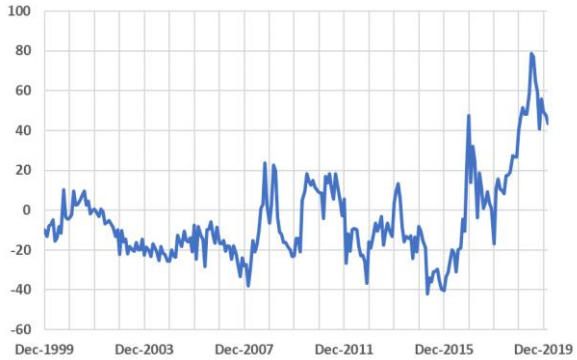
Net exports in February continued to recede from their peak in November, although they have remained at a relatively high level since early 2019. The trade balance is a positive contributor to the March quarter GDP nowcast.

Figure 5: Commodity Prices and Export-to-GDP Ratio
(year-ended growth, per cent)



Source: ABS, up to Mar 2020.

Figure 6: Trade balance
($ billion)



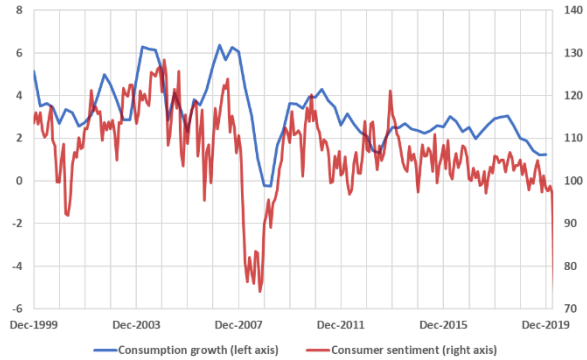
Source: ABS, up to Feb 2020.

Retail sales improved in February, but consumption growth expected to fall

Annual growth in food and non-food retail improved in February. The improvement in non-food spending was notable, particularly following a relatively sharp fall in January. It is important to note, however, that the improvement in non-food spending is likely to be heavily influenced by short-term spending patterns influenced by Covid-19. Consumer spending, in general, has been weak, and there is little evidence to date – even with rate cuts – that this weakness will abate in the medium term.

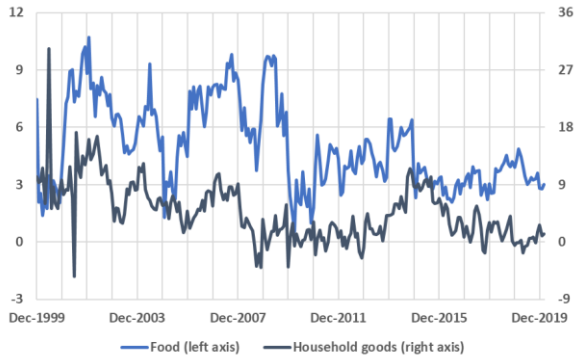
Consumer sentiment, which tends to lead consumption, fell dramatically in April. It is now at a similar level to that observed during the Global Financial Crisis. The consumption effects of this decline will be primarily observed in Q2 and Q3, and do not impact on the Q1 nowcast. Historically, such declines tend to be associated with a sharp fall in consumption growth (see, for example, the common – but lagged – movement during the GFC).

Figure 7: Consumer Sentiment and Consumption
(index and year-ended growth, per cent)



Source: ABS and Melbourne Institute, up to Apr 2020.

Figure 8: Retail trade
(year-ended growth, per cent)



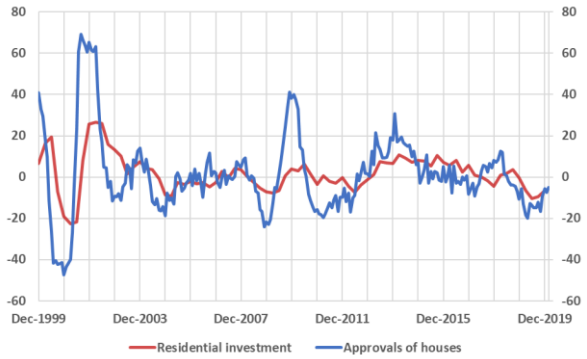
Source: ABS, up to Feb 2020.

Housing and lending activity stable but likely to fall

It is clear that social distancing restrictions will constrain housing market activity considerably in Q2. To date, however, housing-related lending and dwelling approvals data have been stable, albeit unremarkable. Accordingly, the impact of housing markets on economic growth in Q1 is neither negative nor positive.

Similar to housing-related lending, recent business credit data are also unremarkable and have a small marginal impact on the nowcast. Looking forward, business credit is likely to fall in Q2 but may increase further out as businesses attempt a post-Covid19 restart.

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



Source: ABS, up to Feb 2020.

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

Source: ABS, up to Feb 2020.

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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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