29 November 2013

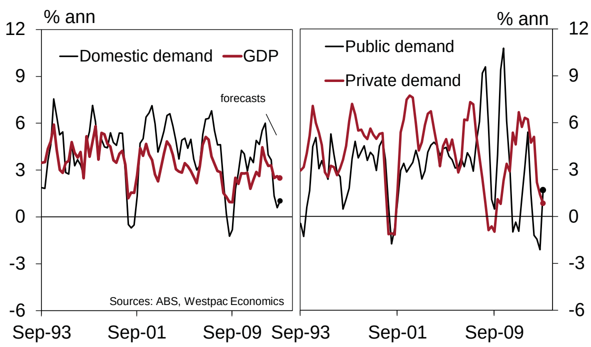
Australian Q3 GDP, a preview: a bumpy transition
2013 Q3(f): 0.7%qtr, 2.5%yr

- **The Australian National Accounts, to be released on Wednesday 4 December, will provide an estimate of economic activity in Q3. GDP growth is forecast to be 0.7%qtr, edging up from gains of 0.6% in Q2, 0.5% in Q1 and 0.7% in Q4 of 2012. Annual growth is expected to come in at 2.5%.**
- **Note that the Q3 release will see significant revisions associated with the incorporation of new annual benchmarks. These were released in November and included a downward revision to GDP growth for the full 2012-13 financial year from 2.9%yr to 2.6%yr. It is unclear how these changes will affect the quarterly growth profile but clearly they could be significant.**
- **Domestic final demand is expected to grow by 0.5% in Q3, driven by a modest pick-up in consumption and what appears to be a temporary bounce in engineering construction. Non-residential investment is also set to provide support, but weaker equipment investment and residential construction will be partial offsets.**
- **Net exports are expected to add 0.2ppts in the quarter on the back of weak imports. The weakness in imports coupled with the solid gain for consumption points to a slower rate of inventory accrual.**
- **Labour market conditions have remained subdued in recent months. Employment declined 0.1% in the quarter. Business confidence hit a clear low in Q3 as disappointing demand combined with uncertainty ahead of the Federal Election; the mood likely contributing to the weakness in investment, spending on equipment in particular.**
- **Housing construction is in an upswing as the sector responds to low interest rates. However, as at the September quarter the upturn was still fragile, with falling renovation activity a significant factor. The segment will likely strengthen in coming months however.**
- **National income was dented again by another decline in Australia's terms of trade, down an estimated 1.9% in Q3 following a flat Q2. Company profits appeared to get some support in the quarter from a lower AUD but are expected to be up only slightly overall with wages growth subdued.**

Domestic demand (Q2 f/c 0.5%qtr, 1.0%yr): Demand firmed a little in Q3 although annual growth remains decidedly weak with some of the drivers in the quarter likely to have been temporary.

Household consumption (Q2 f/c 0.7%): Retail sales rose 0.7% in Q3 after a 0.1% dip in Q2, a surprisingly strong 1.8% gain in Q1 but back to back declines in Q4 (–0.1%) and Q3 (–0.3%) of 2012. New vehicle sales flattened out in the quarter with 'private' sales to consumers up just 0.3%qtr vs a robust 5.7% gain in Q2 and a 4% fall in Q1. Spending on services is expected to have improved on a weak Q2 but to have remained relatively restrained.

Australian economic conditions



Dwelling investment (–1.0%): The housing recovery is continuing to run in fits and starts through 2013. Construction work done showed a 0.3% dip in total residential building with a notable 3.4% drop in renovation work. With the latter having a higher weight in the national accounts measure, we expect a slightly bigger 1% decline in dwelling investment. Prospects look better though with approvals posting a strong rally in recent months and the housing recovery quickening noticeably.

New business investment (0.7%): Non-residential building work rebounded 3% in Q3 after falls of 1.6% and 1.7% in Q2 and Q1; infrastructure activity also bounced 2%qtr although this speaks more to the lumpiness of the work pipeline in the mining sector rather than a likely reversal in the clear down-trend in this segment. Equipment spending was down 1.6% however to be down 12.2%yr; this segment at least giving a very clear message on the investment cycle.

Public spending (flat): Public spending has been volatile around a weak trend over the last year. We expect Q3 to be flat though with a fall in investment (–1.5%qtr) offsetting a modest 0.4% gain in public consumption, all of course subject to revisions which can be hefty in this item.

Net exports (0.2ppts): Export volumes slipped back 0.5% after a 1.3% gain in Q2. However, imports declined 1.5% to be down 2.9%yr, the net effect adding 0.2ppts to headline GDP in Q3.

Private non-farm inventories (flat, –0.1ppt contribution): Inventory levels are expected to have flattened in the quarter. Coming off a small gain in Q2, that gives a slight 0.1ppt drag on headline GDP growth.

The Business Indicators survey (Mon), the Balance of Payments (Tue) and Public Demand data (Tue) will provide further clues as to the risks surrounding our forecast for Q3 GDP (published Wed).

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