GDP is the Headline Act Amid a Frenzy of Data

This week is a huge week for economists.

There is a deluge of data published and the headline act is the national accounts data for the June quarter. The national accounts, out on Wednesday, will reveal the pace of economic activity in the June quarter. We anticipate a gain in GDP of 0.5% in the June quarter, underpinned by growth in consumer spending and business spending. There will be drags from inventories, the trade sector and investment in residential and non-residential housing.

The June quarter featured lockdowns in Victoria, the start of the lockdown in NSW late in the quarter and mini lockdowns elsewhere. It means there is a high degree of variability attached to the GDP forecast, so much so, that there is a tiny risk of a small contraction in the June quarter occurring.

If a contraction materialises for the June quarter, then Australia is currently in the midst of a technical recession. A technical recession is defined as two consecutive quarters or more of a fall in quarterly GDP. Economic activity in the current quarter has slumped, driven by a hard lockdown in New South Wales and Victoria.

Both states are grappling with rising infections, especially New South Wales where the daily number of infections recently pierced 1,200 and the reproductive rate is still above 1, pointing to still rising infections. Vaccinations are picking up pace; at the current rate, 70% of the adult population will be fully vaccinated in October, and 80% in November.

But there are no signs of a peak in cases yet and pressure on the hospital system in NSW is significant and growing, especially in Western Sydney where ICU capacity is exhausted at several of the major hospitals. Across NSW, there are currently 840 cases in hospital and 137 in ICU.

The evidence overseas suggests that you need a very high share of the overall population vaccinated to effectively limit the spread of the virus. So, 70%-80% of the adult population vaccinated might still not suffice to contain outbreaks.

Reopening with high case numbers means the V-shaped recovery in economic activity that usually emerges after lockdown might be more akin to a U-shape due to caution among consumers to resume “normal” activities amid high cases.

The GDP numbers for the June quarter, whilst dated, are important in that they give us a baseline of the economy before heading into the Sydney outbreak, which began on June 16.

The GDP data for the September quarter when it is released later this year will show a sharp fall in economic activity in the current quarter, especially in NSW. Businesses are starting to feel the pinch more from the lockdown now and we expect unemployment to rise. The support measures from the government will help cap the rise in joblessness, but it will not prevent it over the next few months. Smaller businesses are more affected and those in industries like hospitality, accommodation, tourism and personal services have also been hard hit.

Ahead of the GDP data, there are several economic partial indicators that will help crystallise what the final GDP result on Wednesday could be. There are company profits out today and the balance of payments tomorrow.

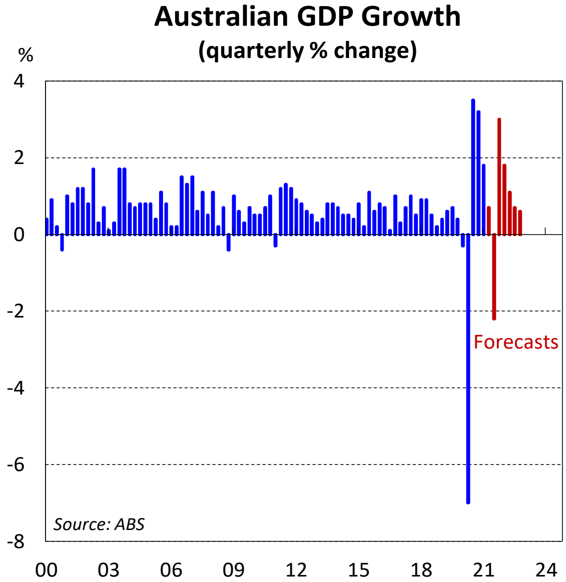
Company profits for the June quarter were published this morning, increasing 7.0% in the June quarter, significantly stronger than consensus expectations of a 2.5% increase. The reading was muddied by government subsidies. Revenues were stronger but this was partly offset by the unwinding of government subsidies that continued into the June quarter.

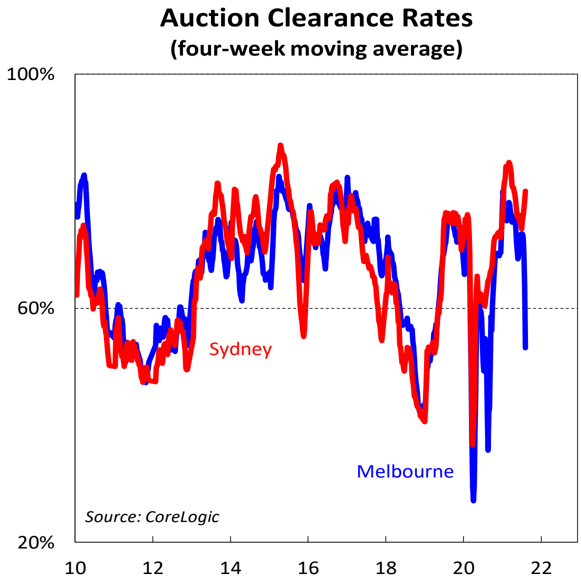
An update on inventories was also published. Inventories rose a meagre 0.2% in the June quarter, after a sharp rundown last year. This falls well short of the sizeable 2.1% bounce in the March quarter, which means inventories will subtract 0.7 percentage points from GDP growth in the June quarter.

The balance of payments tomorrow should show another current account surplus for the June quarter, marking the ninth consecutive surplus – a record run. Higher commodity prices boosted export earnings and likely led to a bigger surplus in the June quarter of $20.5 billion, after a surplus of $18.3 billion in the March quarter.

Net exports in real terms have been a drag on growth of late and this is set to continue in the June quarter. A drag to growth of 0.7 percentage points in the quarter is likely. Import volumes rebounded strongly over the second half of last year and continued in the first half of this year, mirroring the recovery in domestic demand. We estimate a lift in imports of 1.8% in the quarter. On the other hand, exports are likely to have dropped 1.4% over the same time period, due to patchy export shipments. Notably, resource shipments have been disrupted by weather and maintenance.

Amid the deluge of the partial economic indicators for GDP this week, there is also a big batch of housing data.





On Wednesday, we receive an update on house prices for August from CoreLogic. In July, dwelling prices were still running red hot, although the pace of monthly prices growth had tempered in recent months. In July, national house prices rose 1.6% and by 16.1% annually. In the more populous and locked down states of NSW and Victoria, listings have fallen, as restrictions make it harder to inspect properties and sales move online. However, demand in NSW has held up with auction clearance rates staying high. In contrast, Victorian demand has slumped. We expect dwelling prices growth in other states and territories remained strong. The sum of these trends suggests to us that dwelling prices rose 1.5% in August.

Building approvals and housing finance round out the data on housing this week. Building approvals tomorrow are likely to have fallen in July by 5.0%, as the bring-forward effect associated with the HomeBuilder scheme continued to unwind. Despite the unwind, dwelling approvals are still at a very high level, which will help support residential construction activity over the year ahead notwithstanding disruptions from the lockdown.

Housing finance for July is out Thursday and we anticipate a rise of 1.0%, underpinned by investor demand. Owner-occupier demand for finance is likely to be softer due to the decline in housing affordability and finance for construction is likely to be hurt by the unwinding of the HomeBuilder effect.

Other data out this week includes credit extended to the private sector (tomorrow) and the trade balance (Thursday).

A recovery in credit growth began in October of last year, underpinned by the deepening economic recovery and policy stimulus. A strong print occurred for private sector credit growth of 0.9% in June, the fastest monthly pace since early 2008. The extension of the recovery in credit to businesses helped produce the strong result. However, the lockdowns in NSW and Victoria have led to businesses to spending plans put on hold. Surveys and anecdotes suggest some businesses remain cashed up. Regardless, businesses will likely seek to shore up their financial position, so there might be some evidence of businesses trying to access credit to support cash flow in July. Housing credit should continue to grow at a good rate. Overall, we expect credit growth of 0.5% in July, which would take annual credit growth to 3.8%.

Finally, on Thursday, Australia's trade account for July will be released. The trade account has been in the green from the start of 2018. We anticipate that we will see back-to-back fresh record highs for the trade surplus in June and July. We expect the surplus to rise to $12.3 billion in July, up from $10.5 billion for June, underpinned by higher export earnings – especially for iron ore, coal and LNG.

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Forecasts

		2021		2022			
End Period:	**Close (27 August)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**	**Q4 (f)**
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.01	0.04	0.07	0.10	0.15	0.20	0.40
3 Year Swap, %	0.44	0.50	0.55	0.70	0.80	0.95	1.10
10 Year Bond, %	1.21	1.30	1.55	1.70	1.80	1.90	2.00
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.375
US 10 Year Bond, %	1.34	1.45	1.60	1.70	1.80	1.90	2.00
USD Exchange Rates:							
AUD-USD	0.7234	0.72	0.75	0.76	0.77	0.78	0.78
USD-JPY	109.97	111	111	112	112	112	113
EUR-USD	1.1755	1.21	1.22	1.23	1.22	1.21	1.21
GBP-USD	1.3693	1.41	1.42	1.43	1.44	1.45	1.44
NZD-USD	0.6937	0.69	0.71	0.72	0.73	0.74	0.74
AUD Exchange Rates:							
AUD-USD	0.7234	0.72	0.75	0.76	0.77	0.78	0.78
AUD-EUR	0.6190	0.60	0.61	0.62	0.63	0.64	0.64
AUD-JPY	80.33	79.9	83.3	85.1	86.2	87.4	88.1
AUD-GBP	0.5314	0.51	0.53	0.53	0.53	0.54	0.54
AUD-NZD	1.0429	1.04	1.06	1.06	1.05	1.05	1.05

	2019	**2020**	**2021 (f)**	**2022 (f)**
GDP, %	2.1	-1.0	2.2	5.0
CPI (Headline), %	1.8	0.9	2.6	2.4
CPI (Trimmed mean), %	1.6	1.2	1.9	2.6
Unemployment Rate, %	5.2	6.8	5.4	4.0
Wages Growth, %	2.2	1.4	2.1	2.6

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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