Australian 2Q21 GDP growth beats expectations

The forecasting community was looking for a downbeat 0.4%QoQ (ING f 0.7%), but GDP actually grew 0.7% in the second quarter. That's a good result, but it tells us almost nothing about what to expect in the third quarter - although a small contraction seems a reasonable assumption

0.7 QoQ%

2Q21 GDP

Better than expected

How do we arrive at 0.7%?

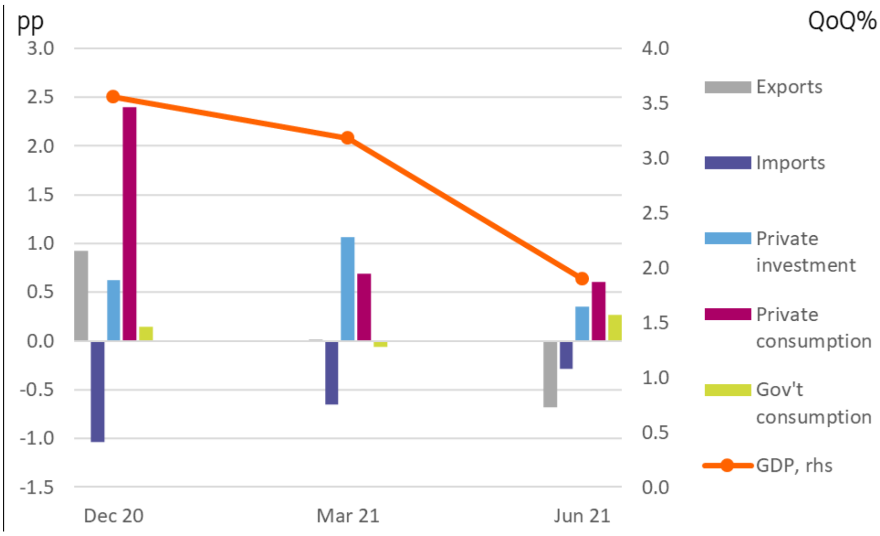
Following an upwardly revised 1.9% QoQ growth rate in the first quarter of 2021, Australian GDP growth slowed to 0.7% QoQ in the second quarter, though this was a better outcome than the consensus of forecasters had been expecting, with forecasts centred on a median of 0.4%QoQ.

Looking at the components of GDP is often helpful when gauging where any outperformance or undershoot has occurred, and can also provide some clues about future growth.

The main observation about the second quarter was that it showed a 1.0pp drag from net exports. 0.7pp of this was due to surging imports - itself a function of a reopened economy for most of the second quarter before the latest Covid wave began to put re-opening into reverse. A further 0.3pp of this came from exports, which grew a little more slowly than in the first quarter. This is also a function of overseas re-opening, but may also echo the slightly disappointing run of data in China, and possibly reflect some of the logistics slowdowns stemming from the Shenzen port shutdown in late May. More of the same for exports may follow the Ningbo-Zhoushan shut down in August, which again has led to congestion in shipping routes.

For the rest, our spreadsheets put the contribution from private consumption at 0.6pp, a bit lower than the 0.7pp in 1Q21 (may differ from official figures due to definitional differences), and there was a further reduction in the contribution from private investment, which only added 0.3pp to the total. Some of that was offset by a greater contribution from the government, which lifted the total by 0.3pp.

2Q 2021 GDP - Contributions to total growth from components



Source: CEIC, ING

3Q21 GDP will be slower still, if not negaitve

By far the bulk of the most recent lockdowns and movement restrictions in Australia took place in this quarter. And while we don't anticipate a repeat of the 6.7pp drag from private consumer spending shown in 2Q20, a negative figure here in 3Q21 looks probable. We've already mentioned that we would not expect exports to add much in 3Q21, but imports could well flip round and provide a small positive, though that is likely to be partially offset by a weaker contribution from inventories, which may be drawn down in the current quarter. In net terms, the two components, imports and inventories, may still provide a small boost to GDP. Government consumption doesn't usually provide long-lasting boosts to growth even if spending remains strong, as it will need to grow even faster from here to deliver a positive GDP impact, and we don't think that is too likely. Consequently, this quarter's boost will most likely drift back towards about zero in 3Q21. And as private-investment will likely be a function of consumption and export strength, that will also probably drift lower.

Putting that all together, we would expect GDP growth of about -0.3%QoQ in the third quarter. With our current forecasts 'on the money" at 0.7% QoQ in 2Q21, and already looking for a 0.3% contraction in 3Q21, we have no reason to change our full-year forecast of 4.7% for 2021. This, however, assumes a 1% QoQ bounceback in 4Q21, and that implies a re-opening of the economy. As this scenario will either take a fall in Covid cases, more vaccination, a different reaction function to the virus from the government (more tolerance), or a bit of some or all of the above, this forecast remains subject to considerable risk, most of it on the downside.

No need for the RBA to do anything in response

Although this was a slightly stronger-than-expected GDP result, it doesn't put the Reserve Bank of Australia (RBA) under any pressure to respond in any direction. This quarter's growth may well be offset by contraction in the third quarter, and it is anyone's guess after that. Conducting monetary policy under conditions of extreme uncertainty usually boils down to a version of the Hippocratic notion of "first, do no harm", which suggests that the current policy setting and very modest reduction in asset purchase pace from September need not be altered. Any big fluctuations in the AUD we see from here are more likely therefore to be driven from the other side of the FX coin, from the US and USD based on changing views of tapering and the US rate profile, than on any change in domestic policy settings.

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