

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%?

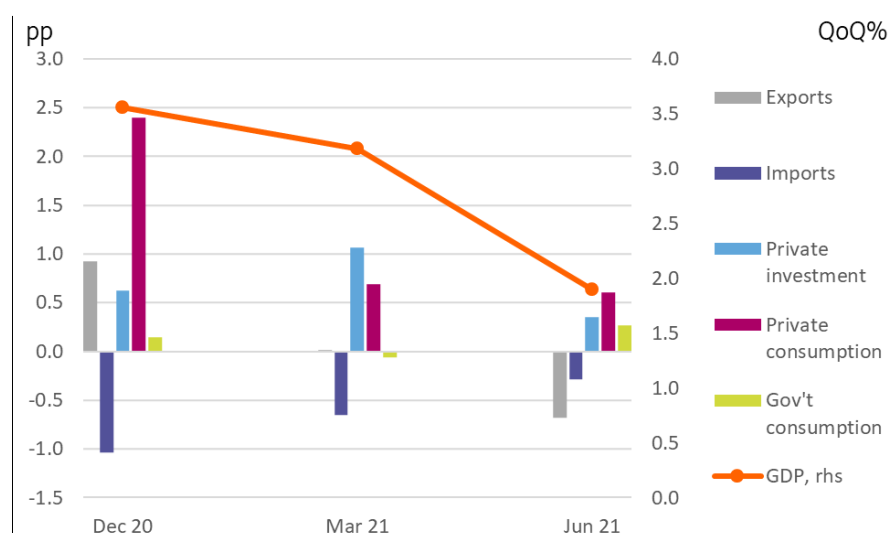
Following an upwardly revised 1.9% QoQ growth rate in the first quarter of 2021, Australian GDP growth slowed to 0.7% QoQ in the second quarter, though this was a better outcome than the consensus of forecasters had been expecting, with forecasts centred on a median of 0.4%QoQ.

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 Shenzhen 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 negative

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.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com