

Australia: 3Q23 GDP growth softens

Weaker GDP growth doesn't guarantee that the Reserve Bank of Australia (RBA) has now finished hiking rates, but it helps



0.2 GDP QoQ% (sa)
Down from 0.4%

Lower than expected

Clue to the weakness came in trade data

One clue that today's 3Q23 GDP growth figure was not going to match the optimistic 0.5%

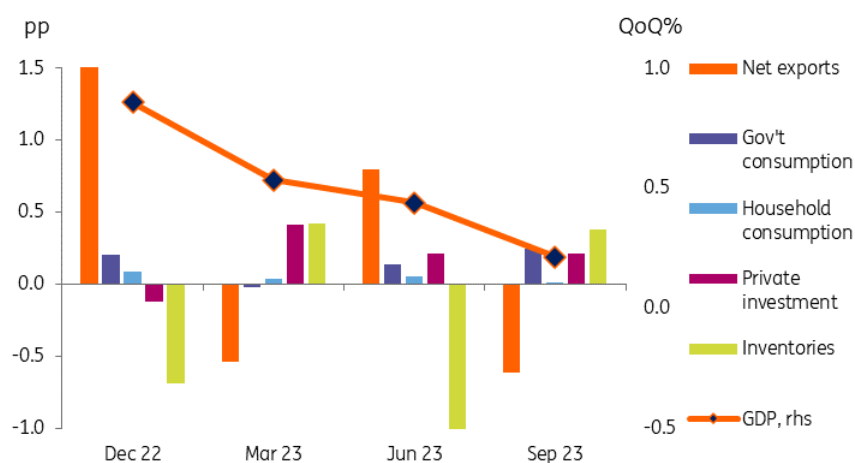
consensus expectation was from the contributions to GDP from net exports data released yesterday. That showed a 0.6pp drag on growth, more than the 0.2pp drag expected, and removing most of the 0.8pp boost from the previous quarter. Inventories fell, but at a slower pace, so actually added slightly to the GDP growth total.

Household consumption has slowed again and made no change over the previous quarter. Household consumption has been slowing continuously since 2Q22, and shows the impact of the RBA's rate increases so far. Encouragingly for them, it appears to be working.

But non-dwelling construction spending rebounded strongly following the weak 2Q23 figure (-1.8%) and grew by 3.3% QoQ. Dwelling construction grew only 0.2% QoQ, with most of that coming from alterations, while new construction slowed by 0.3%.

General government consumption rose 1.1% QoQ, with a strong gain in defence spending (4.7%), and provided a 0.2pp push to overall GDP growth.

GDP QoQ Growth and contributions from components



Source: CEIC, ING

Markets shrug off numbers

Despite the weakness of the GDP release, markets largely shrugged off the news. AUDUSD, which weakened yesterday in sympathy with the EUR, actually picked up slightly following the figures.

2Y government bond yields, which opened lower after declines in US Treasuries and Eurozone bond yields overnight, also showed little inclination to respond to this data, and neither did longer maturity bond yields.

Yesterday, the RBA left the language of its statement largely unchanged from the previous meeting as it left the cash rate unchanged at 4.35%, offering no fresh clues as to whether their rate hiking cycle has ended or not. Today's data don't close the book on further rate hikes, but they do make it harder for the RBA to justify further hikes without some stronger accompanying evidence that the inflation battle is stalling.

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