

Australia: 1Q21 GDP beats expectations

Australian GDP now exceeds pre-Covid levels, though the rebound is likely to slow down in the quarters ahead



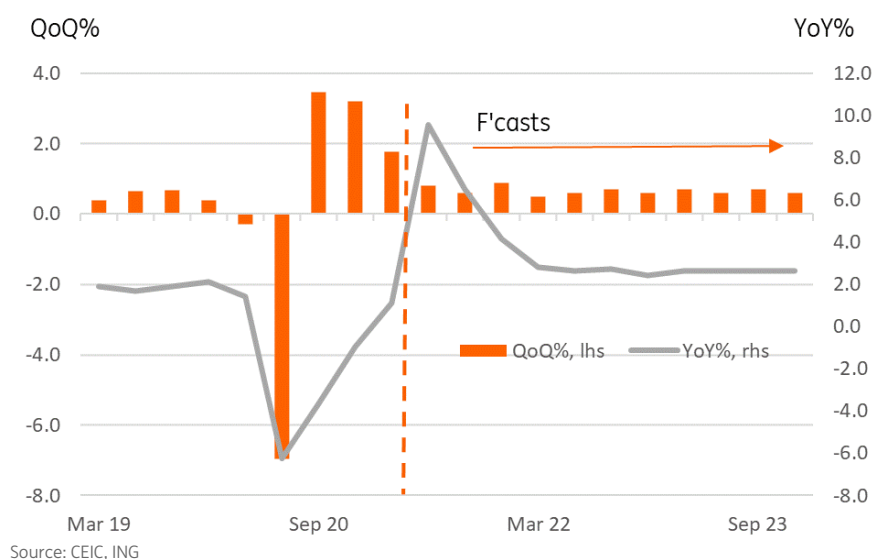
1.8% GDP QoQ%
1Q21

Higher than expected

Pent up demand and the lagged effects of stimulus measures for household spending is still powering the Australian economy along. But with total (real, seasonally adjusted) GDP of AUD501bn in 1Q21, more than the previous pre-Covid high of 497bn in 4Q19, the period of most rapid catch-up has now probably passed. GDP growth is likely to be driven less by "recovery" and "stimulus" in the coming quarters, and more by underlying growth prospects.

That could still see full-year 2021 GDP growth exceed 5%. We've revised up our 2021 full-year GDP forecast to 5.2% on the back of these figures, and we are now also forecasting 2.9% for 2022 GDP growth too (up from 2.6%). Yesterday, the RBA released its own GDP growth estimates for 2021 and 2022 which were 4.75% for 2021 and 3.5% for 2022.

Australian GDP: QoQ and YoY% and forecasts



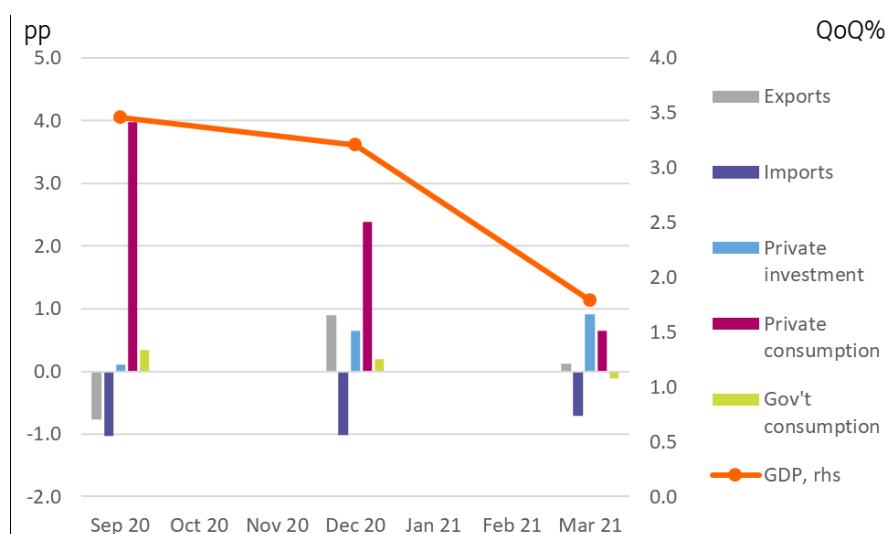
What's driving GDP?

There is a much more balanced contribution to GDP growth in 1Q21 than in the previous two quarters, which were dominated by the rebound in private final household consumption spending. This spending contributed 0.7pp to the 1.8% total GDP growth in 1Q21, much less than the 2.4pp contribution in 4Q20, or the 4.0pp surge in 3Q20. The trend contribution of household consumption since 2013 has been about 0.3-0.4pp per quarter, and we would anticipate consumer spending reverting to levels just a bit higher than this towards the end of the year and into 2022.

Net trade was a drag on growth in the first quarter of this year. As domestic demand recovers, so too will imports. And to the extent that this is not netted off in rising inventories, will tend to weigh on the overall contribution of trade to growth. That said, trade figures are still also in transition/recovery mode. And as the year drags on, the net trade contribution should tend towards more of a neutral contribution from this quarter's drag.

Private investment has remained a fairly solid underpinning to growth in the last couple of quarters and with demand strengthening, we would anticipate further reasonable growth ahead.

Contributions to QoQ GDP growth (pp)



Source: CEIC, ING

What does this mean for policy?

With macroeconomic numbers still hard to interpret in the aftermath of Covid-19 pandemic effects - rebounds and base-effects distorting what is really going on - we don't believe that today's numbers will have a substantial impact on policy setters in the near future. The labour market and its developments, rather than GDP, will most likely continue to play a larger role in deliberations over rate policy, asset purchases and yield curve control. Though to the extent that GDP and the labour market are correlated, today's figures do show that Australia remains on a solid recovery path and markets may from time to time push back at the suggestion that there will be no change to rate policy until 2024 at the earliest.

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