# Australian GDP growth slows in 1Q22

After the huge 3.6%QoQ gain in 4Q21, the 0.8%QoQ increase in 1Q22 isn't a bad result and leaves the RBA free to pursue its tightening path

## Volatile figures

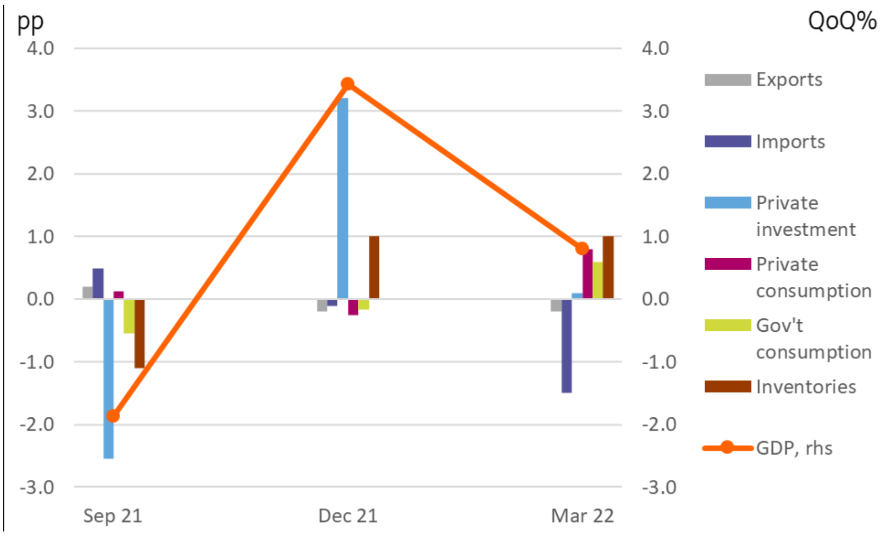
After the re-opening-driven surge in GDP in 4Q21, the 1Q22 GDP figures were always going to look a little tame. And in truth, you can't make much of numbers such as these when they are whipsawing about in this fashion. That said, 0.8%QoQ GDP growth would be a reasonable quarterly growth rate even if there was less volatility, and is equivalent to a 3.2% annualised rate - trend growth or thereabouts for Australia. That growth outcome also occurred even with a very big drag from net exports - data which was already reported the previous day.

The chart below shows the other main contributors to GDP, and what it highlights most of all is the huge volatility stemming from swings in private investment in previous quarters. That appears to be through the pipeline now, with most components now reverting to something closer to trend growth, and private consumption taking up some of the slack that was previously being taken up by investment.

A slight worry is the big inventory build this quarter and last, though running this down next quarter will probably stifle import growth, so it shouldn't be too big a problem in terms of the headline GDP numbers.

The coming quarters will also have to deal with higher prices undermining purchasing power as well as rising interest rates, so taking this into account, we now look for a slightly reduced full-year GDP growth rate for 2022 of 4.0%. Still a very respectable total for the year given the backdrop.

## Contribution to QoQ% GDP growth




Source: CEIC, ING

OZ contribution to GDP

## Where does this leave the RBA?

GDP has not been flagged much by the Reserve Bank of Australia (RBA) in its recent deliberations on monetary policy. And whip-saw GDP data like this will not tell them much about the underlying strength of the economy. But for what it is worth, today's GDP data don't sound any undue alarm bells on economic activity and leave the RBA free to concentrate their attention on the tightness of the labour market, wages growth and inflation.

As such, these figures leave the RBA free to hike rates again this month by 25bp, which would take the cash rate target to 0.6%. More will follow in due course and we look for the cash rate target to end the year at 1.6%.

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