

Further robust recovery in Australia

4Q20 GDP grew by 3.1 QoQ (-1.1%YoY), only a slight moderation from the 3.4% rate of growth in 3Q, and leaving full-year 2020 GDP down by just 2.4%, one of the best results in the APAC region. The strength of this recovery isn't going to change the RBA's monetary stance, but it might cause markets to once more question the appropriateness of that stance



3.1%QoQ

Higher than expected

4Q20 GDP

from 3.4% in 3Q20

Growth likely to continue strongly

4Q20 GDP QoQ growth of 3.1% is a very good outcome, but also came on top of upwards revised 3Q GDP growth of 3.4% (from an initial 3.3%). Even accounting for the tail-wind of a post-Covid bounceback, this was a strong result.

Consumer spending led the charge, with a 4.3% gain over the previous quarter, though down from the 7.9% growth rate of 3Q20. And the public sector helped too, with a 0.8% QoQ increase as government stimulus measures did what they are supposed to do ([for detail, see ABS site](#)).

Capital formation was also respectable, with the total increasing 3.9%QoQ, up from 0.7% in 3Q, with some further assistance from the public sector. But despite the recovery in domestic demand evident in these numbers, the net export side showed only a slight drag of 0.1pp or so as exports held up well despite resurgent imports. Inventories also played a negligible role in the overall total.

These figures do not suggest any statistical payback in 1Q21, so further reasonable growth figures seem probable as the household sector unwinds the large savings pool they accumulated during the pandemic. The household saving ratio fell to 12.0% from 18.7%, but it was only about 5-7% pre-Covid, so we can expect further savings drawdowns from here, potentially fuelling further housing market strength in the bargain.

Also, by ending on such a strong note, the arithmetic has shifted to favour strong growth for 2021 as a whole, with our preliminary tweaking of the numbers pointing to 2021 growth of around 4%. Continued vaccine rollout will also help this process to play out.

RBA will keep sounding dovish

The Reserve Bank of Australia is fighting a rearguard action to keep the AUD from appreciating and bond yields from rising. But data like these suggest that these are the directions that markets should reasonably be heading. All it would take now would be a little stronger inflation data to add to the mix, and markets might justifiably question the RBA's strong assertions that rate policy will not change until at least 2024 (if it does not look credible, no amount of forward-guidance will help). And further dollops of asset purchasing, like we saw earlier this week, will appear like the one-way trading bet they are if the RBA keeps trying to stifle rising bond yields.

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