

Australian Economic Comment

Q3 GDPe 0.8%; resi starts boom, but prices ease

Economics

Australia

Q3 CAD narrows to 4.4% of GDP; & net exports contribute 1.5%pts q/q to GDP

The Q3-15 current account deficit narrowed to \$18.1bn (UBS: \$17.0bn, mkt: \$16.5bn) or 4.4% of GDP, partly offsetting Q2's sharp widening to an upwardly revised \$20.5bn (5.1% of GDP, worst since Q1-10). This was driven by a narrower trade deficit (\$7.4bn after \$10.9bn) – despite a 9-year low in the terms of trade (-2.4% q/q, -10.5% y/y) – while the income deficit widened (\$10.7bn, 2.6% of GDP, worst since Q1-14). For Q3 GDP, export volumes rebounded (4.6% q/q, 6.5% y/y), but imports dropped (-2.4% q/q, -1.2% y/y) – seeing net exports volumes contribute a huge 1.5%pts q/q to growth (UBS: 1.6%, mkt: 1.2%), most since Q1-09 (+1.7%pts y/y), albeit after Q1's -0.8%pts.

Q3 public demand retraces 1.0% q/q, subtracting a solid ¼%pt q/q from GDP

Underlying public demand volumes retraced by 1.0% q/q in Q3 (UBS: -1.5%, mkt: nf) – and will subtract a solid ¼%pts q/q from GDP – albeit only partly offsetting a defense-driven spike in Q2 which drove an overall lift of 2.3% q/q (revised down from 2.9%).

Nov home prices retrace to +8.7% y/y; resi approvals 236k; Nov PMI up to 52.5

While November is a 'seasonally' weak month for CoreLogic-RP data dwelling prices, the 1.5% m/m fall (UBS: -1.5%, pre: +0.1%) is still a sharp retracement – dragging the y/y to a still strong 8.7%, albeit slowest since April (after 10.1%). October residential approvals surged 3.9% m/m (UBS: -3.0%, mkt: -2.5%, pre: +2.3%) to a booming 236k a.r.. Alterations & additions (i.e. renovations) rebounded (+3.7% m/m, +8.9% y/y). Meanwhile, non-residential building approvals weakened (-1.0% m/m, albeit +19.6% y/y). Elsewhere, the November manufacturing PMI rebounded (52.5 after 50.2).

Implications: Q3 real GDPe still 0.8% q/q, but domestic demand likely negative

Overall, a lower AUD cushioned the hit from slumping commodity prices in Q3, seeing the CAD narrow from the worst in >5 years. Notably, exports volumes rebounded (and import volumes dropped) – seeing net exports make a huge 1.5%pts q/q boost to GDP. But, this was partly offset by a retracement in public demand (after a defense driven spike in Q2). Hence, we keep our Q3 real GDP forecast at +0.8% q/q (2.4% y/y). Elsewhere, [residential approvals remain resilient, albeit prices are now moderating](#).

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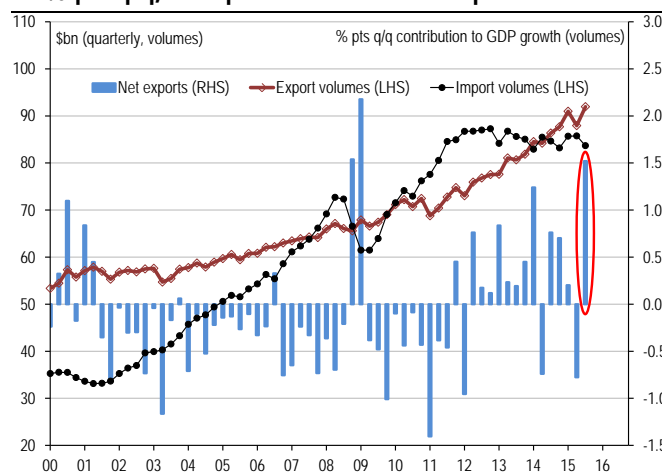
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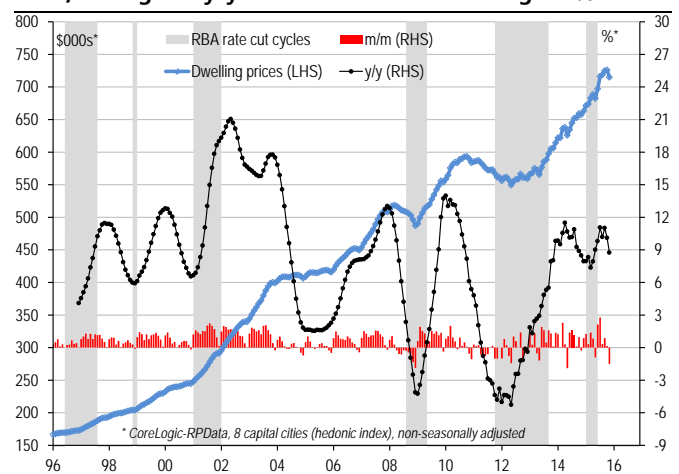
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Figure 1: Q3 net exports (volumes) to add a very large 1.5% pts q/q, as exports bounced and imports retraced



Source: ABS, UBS

Figure 2: November dwelling prices retrace a sharp 1.5% m/m, seeing the y/y moderate to a still strong 8.7%



Source: Core Logic, RPData, RBA, UBS

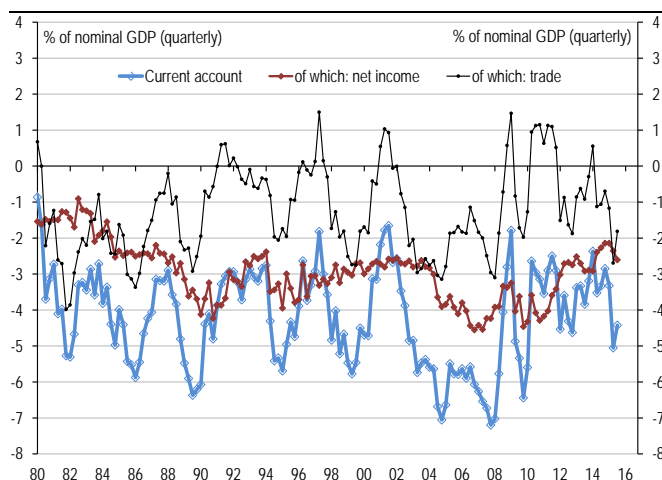
Balance of payments (Q3 2015)

Figure 3: Balance of payments

	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15
Current account balance (\$mn)	-13,337	-11,460	-13,430	-20,505	-18,105
% of GDP	-3.3	-2.9	-3.3	-5.1	-4.4
Trade balance (\$mn)	-4,250	-2,830	-4,743	-10,945	-7,438
% of GDP	-1.1	-0.7	-1.2	-2.7	-1.8
Net income (\$mn)	-9,087	-8,630	-8,687	-9,560	-10,667
% of GDP	-2.3	-2.1	-2.1	-2.4	-2.6
Export volumes - % q/q	2.6	1.5	3.7	-3.3	4.6
- % y/y	7.1	7.1	7.6	4.5	6.5
Import volumes - % q/q	-1.0	-1.7	3.0	0.1	-2.4
- % y/y	-1.1	-2.2	3.3	0.3	-1.2
Net exports contribution to GDP - % pts q/q	0.8	0.7	0.2	-0.8	1.5
- % pts y/y	1.7	2.0	0.9	0.9	1.7

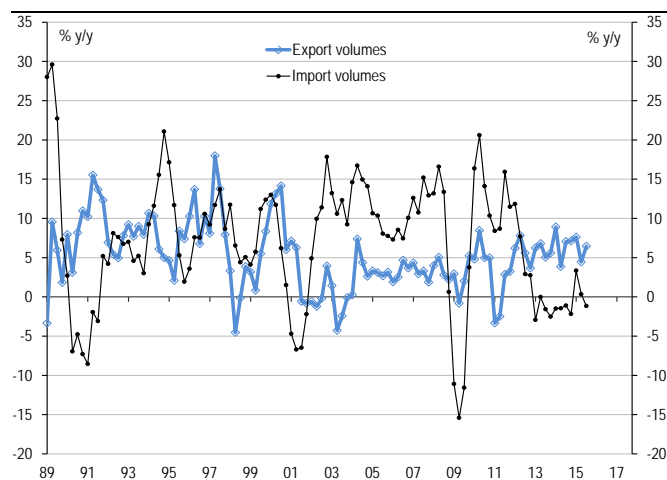
Source: ABS, UBS

Figure 4: Q3 CAD narrowed to 4.4% of GDP – as the trade deficit improved to 1.8% of GDP, but the net income deficit widened modestly to 2.6% of GDP



Source: ABS, UBS

Figure 5: Q3 export volumes bounced 4.6% q/q, lifting the y/y to +6.5%; while imports retraced, falling 2.4% q/q (to now be down 1.2% y/y)



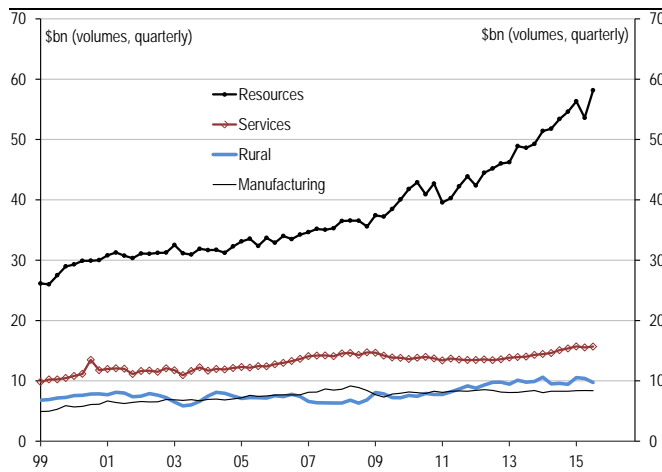
Source: ABS, UBS

Figure 6: Exports and imports: volumes and values * (% q/q)

	Volumes					Values				
	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15
Total exports	2.6	1.5	3.7	-3.3	4.6	-1.1	1.8	1.2	-6.4	5.0
Rural	1.1	-1.8	12.0	-1.4	-6.4	2.5	1.9	11.5	-0.4	-0.4
- Meat	6.5	-3.6	8.8	-1.0	-6.9	13.1	10.5	4.9	-0.8	0.1
- Cereal	-4.4	2.7	3.4	4.7	-4.9	-5.6	3.6	9.5	3.6	0.7
Resources	3.1	2.3	3.2	-4.9	8.5	-3.5	1.2	-2.1	-11.3	8.6
- Metal ores	3.9	3.0	4.0	-1.2	3.2	-6.8	-1.2	-5.3	-7.6	3.6
- Coal	6.1	-0.3	4.3	-10.0	6.3	0.6	3.7	9.6	-13.4	5.3
- Metals (ex-gold)	-13.7	21.1	-15.5	-8.0	25.1	-8.2	24.0	-17.4	-6.6	12.6
- Gold	22.0	-9.4	17.0	-28.7	57.5	19.2	-8.3	18.8	-28.4	56.3
Manufacturing	-0.1	0.1	1.1	0.3	-0.3	-0.3	3.7	4.8	0.9	1.9
Services	3.3	1.9	2.1	-1.1	0.9	3.6	2.6	2.3	-0.7	1.3
Total imports	-1.0	-1.7	3.0	0.1	-2.4	-1.4	0.0	3.5	1.1	0.4
- Consumption goods	0.2	-0.4	1.0	6.7	0.8	-0.2	3.2	4.7	5.8	4.8
- Capital goods	-0.8	-1.3	1.8	-10.2	0.8	-0.2	3.5	5.3	-9.3	5.5
- Intermediate goods	-0.8	-1.6	4.7	2.0	-5.3	-2.1	-3.7	0.2	4.6	-6.2
- Services	-2.2	-3.9	2.5	-1.6	-5.2	-1.8	-0.5	4.8	0.0	0.0

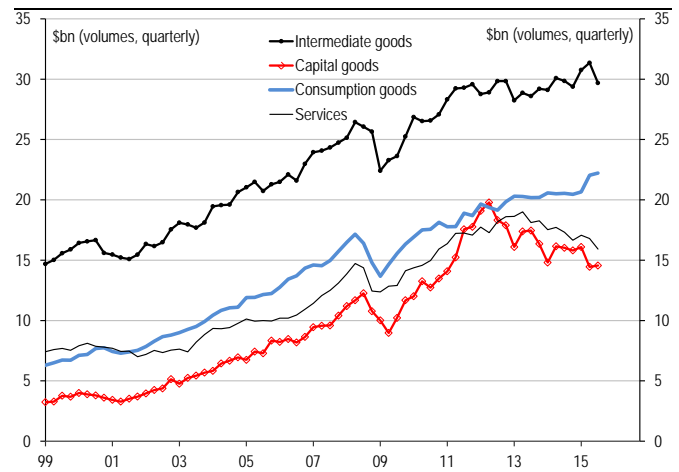
Source: ABS, UBS * Selected components for exports

Figure 7: Q3 export volumes bounce driven by a bounce in resources (+8.5% q/q & +8.9% y/y)



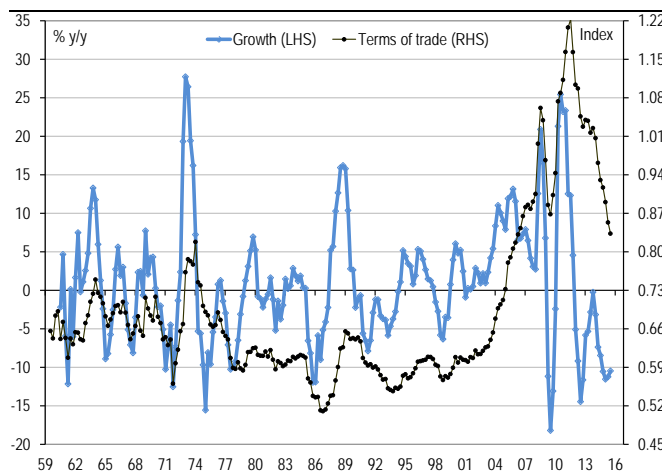
Source: ABS, UBS

Figure 8: Q3 import volumes retraced 2.4% q/q – led by intermediate (-5.3% q/q) and services (-5.2% q/q)



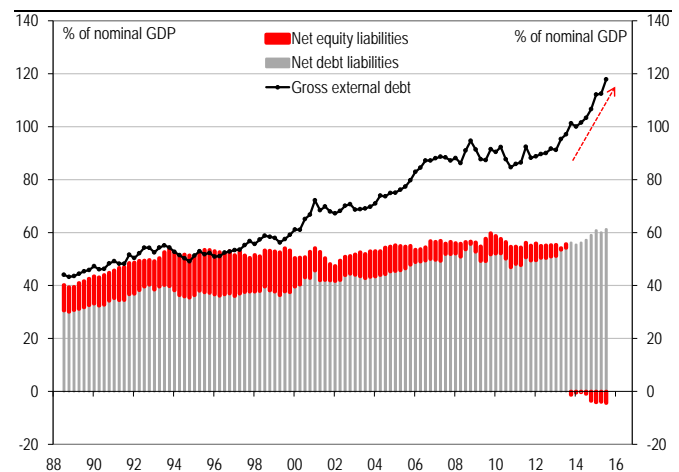
Source: ABS, UBS

Figure 9: Q3 terms of trade slumped a further 2.4% q/q and 10.5% y/y, to the lowest level since Q2-06



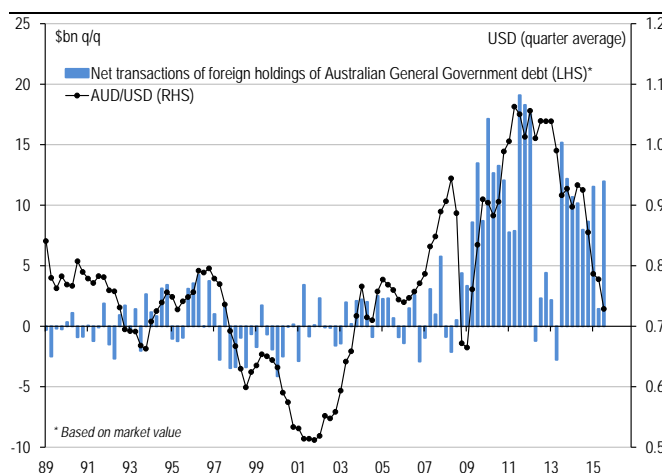
Source: ABS, UBS

Figure 10: Net foreign liabilities ~steady at 56.9% of GDP, but gross external debt lifted to a record 117.9% of GDP



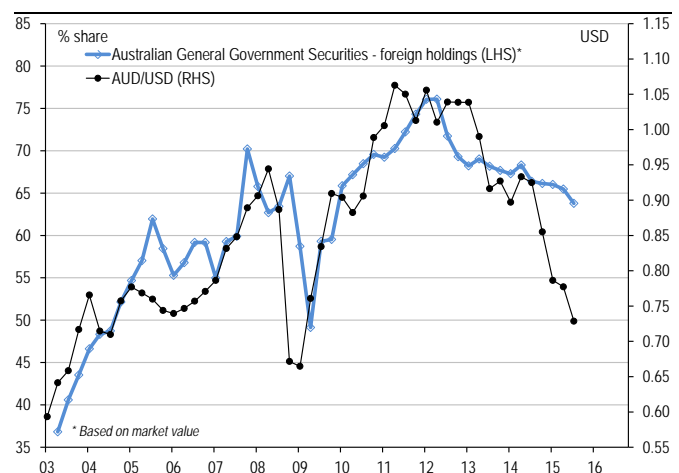
Source: ABS, UBS

Figure 11: Purchases of foreign holdings of Government debt rose in Q3, in sharp contrast to the lower AUD



Source: ABS, Datastream, UBS

Figure 12: Foreign holding share of Commonwealth GG debt fell further to 63.8%, lowest since Q1-10



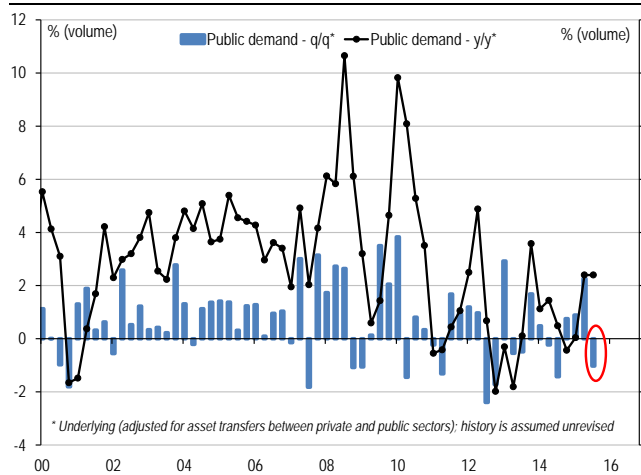
Source: ABS, Datastream, AOFM, UBS

Public demand (Q3-2015)

Figure 13: Public demand

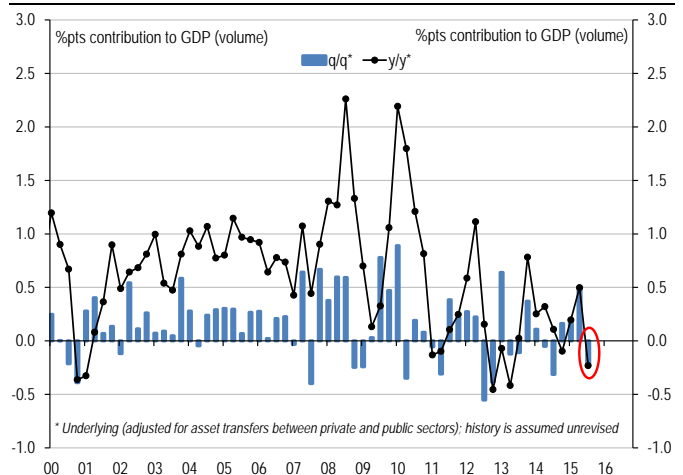
Volume	Total public demand				Public consumption		Public investment				Total public demand – contribution to GDP*			
	Headline		Underlying		Headline		Headline		Underlying		Headline		Underlying	
	% q/q	% y/y*	% q/q	% y/y*	% q/q	% y/y*	% q/q	% y/y*	% q/q	% y/y*	% pts q/q	%pts y/y*	% pts q/q	%pts y/y*
Q1-15	0.7	0.2	0.9	0.0	0.7	2.0	0.9	-6.4	1.7	-7.6	0.2	0.1	0.2	0.2
Q2-15	1.8	3.1	2.3	2.4	1.7	3.6	2.1	1.1	4.7	-2.3	0.4	0.7	0.5	0.5
Q3-15	-1.2	1.7	-1.0	2.4	0.7	3.6	-9.2	-6.2	-8.3	-2.9	-0.3	0.4	-0.2	-0.2

Figure 14: Public demand on underlying basis (adjusted for asset transfers) retraced 1.0% q/q in Q3 (after +2.3%)



Source: ABS, UBS * Assuming unrevised history

Figure 15: Public demand (underlying) to make a solid ¼%pt q/q subtraction from Q3 real GDP



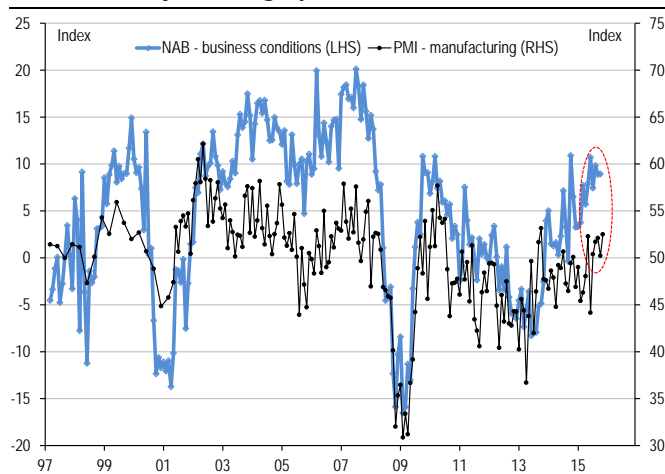
Manufacturing PMI (Nov 2015)

Figure 16: November manufacturing PMI jumps to 52.5 – highest since Oct-13 – after 50.2

Index	PMI	Production	New orders	Employment	Inventories	Deliveries	Prices	Exports	Wages
Aug-15	51.7	51.2	52.9	51.3	48.4	53.0	48.3	44.8	64.3
Sep-15	52.1	51.7	53.4	50.8	48.6	54.0	47.9	51.7	55.0
Oct-15	50.2	50.4	49.9	49.2	50.9	51.3	49.2	55.0	57.7
Nov-15	52.5	53.0	53.2	51.7	47.6	55.0	48.6	56.4	60.5

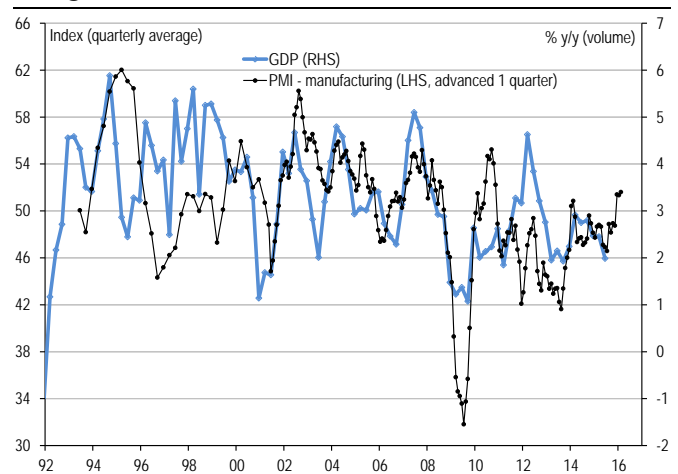
Source: AIG, UBS

Figure 17: Manufacturing PMI rose to 52.5 in November – albeit still only catching up to NAB business conditions



Source: AIG, NAB, UBS

Figure 18: Trend in manufacturing PMI suggests faster GDP growth ahead



Source: ABS, AIG, UBS

CoreLogic-RP Data dwelling prices (Nov 2015)*

Figure 19: November dwelling prices – m/m retracement led by houses (-1.6%), while units also fell (-0.9%)

	Dwellings			Houses		Units	
	\$000s	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y
Jul-15	716.2	2.8	11.1	2.8	11.6	2.5	7.2
Aug-15	718.5	0.3	10.2	0.3	10.6	0.7	7.4
Sep-15	724.8	0.9	11.0	0.9	11.6	0.6	7.3
Oct-15	725.8	0.1	10.1	0.1	10.5	0.4	7.7
Nov-15	714.9	-1.5	8.7	-1.6	9.1	-0.9	6.6

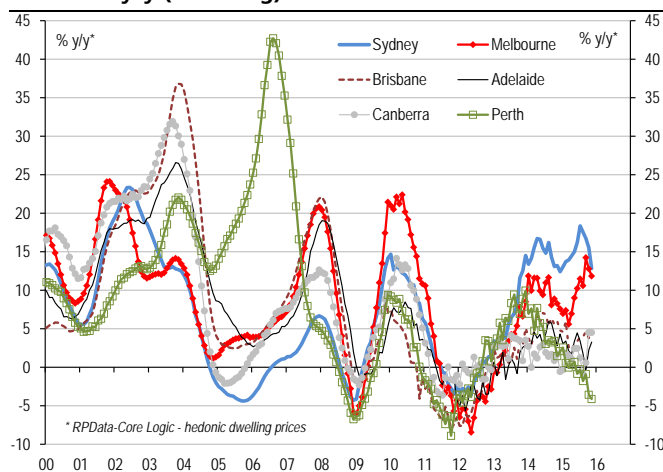
Source: CoreLogic-RP Data, UBS * 8 capital cities, hedonic

Figure 20: By city – Sydney still the strongest y/y, but house price slowing is evident across all major capitals

	Sydney		Melbourne		Brisbane		Adelaide		Perth		Hobart		Darwin		Canberra	
	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y
Jul-15	3.3	18.4	4.9	11.5	0.5	3.9	-1.1	3.4	0.1	-0.3	1.1	2.5	0.4	-5.2	0.3	1.2
Aug-15	1.1	17.5	0.0	10.6	0.0	3.9	0.7	1.8	-1.3	-1.8	-1.1	1.5	0.3	-4.6	-1.7	-0.9
Sep-15	0.1	16.7	2.4	14.2	1.4	4.6	-1.2	-0.3	0.5	-0.9	-1.9	-0.2	-0.3	-3.9	1.0	0.6
Oct-15	0.3	15.6	0.6	12.8	-0.2	3.8	1.5	2.3	-2.8	-3.6	1.4	3.8	-0.1	-3.7	1.5	4.5
Nov-15	-1.4	12.8	-3.5	11.8	0.6	4.0	0.7	3.3	0.3	-4.1	-2.4	1.1	-1.3	-4.2	-0.5	4.5

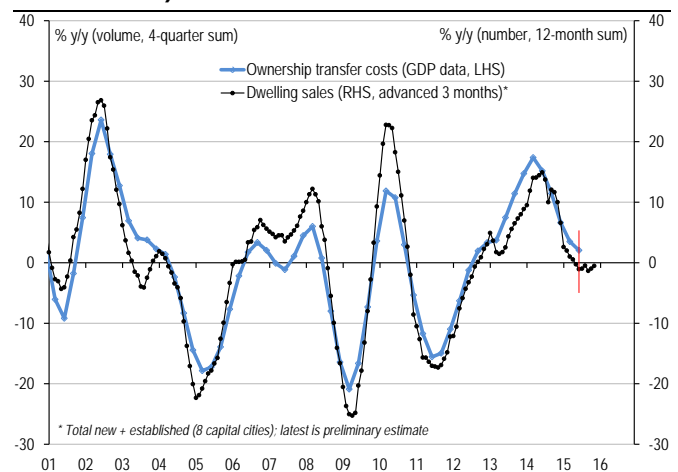
Source: CoreLogic-RP Data, UBS * 8 capital cities, hedonic

Figure 21: Dwelling prices still led by Sydney (+12.8% y/y), and then Melbourne (+11.8% y/y), but other capitals all <4½% y/y (or falling)



Source: CoreLogic-RP Data, UBS

Figure 22: ~Steady dwelling sales suggest some further moderation is likely for GDP activity (i.e. ownership transfer costs)



Source: ABS, CoreLogic-RP Data, UBS

Building approvals (October 2015)

Figure 23: Building approvals – total values bounced 6.4% m/m and 22.9% y/y in October

	Residential total			Private residential			Public	Alterations & additions	Non-residential	Total building	
	Number			Number			Number	Value	Value	Value	
	000s a.r.	% m/m	% y/y	Total % m/m	House % m/m	Other % m/m	% m/m	% m/m	% m/m	% m/m	% y/y
Jun-15	224	-7.2	15.1	-7.6	4.3	-17.9	16.2	-6.1	-6.5	-6.5	-7.4
Jul-15	248	10.4	20.6	7.6	-2.5	18.8	155.9	-3.4	13.5	9.1	23.4
Aug-15	222	-10.4	4.8	-7.2	4.0	-17.4	-81.1	-7.8	-7.2	-5.4	12.0
Sep-15	227	2.3	22.0	1.8	-2.2	6.4	49.1	5.4	-0.6	-2.7	18.4
Oct-15	236	3.9	12.3	4.1	-2.1	10.6	-14.9	3.7	-1.0	6.4	22.9

Figure 24: Residential building approvals – by State – m/m bounce led by NSW, Victoria and SA

% m/m (number)	NSW	Victoria	QLD	SA	WA	Rest of Australia*
Jun-15	-0.9	-27.5	14.9	14.7	-15.2	2.8
Jul-15	47.4	9.5	-18.1	-11.4	0.5	-4.9
Aug-15	-35.3	-1.6	3.7	29.2	6.8	2.5
Sep-15	-16.0	5.2	42.9	-13.0	-11.0	5.9
Oct-15	22.0	21.2	-28.7	23.4	-1.1	-17.3

Figure 25: Residential: private medium density bounced m/m, but private houses and public houses retraced

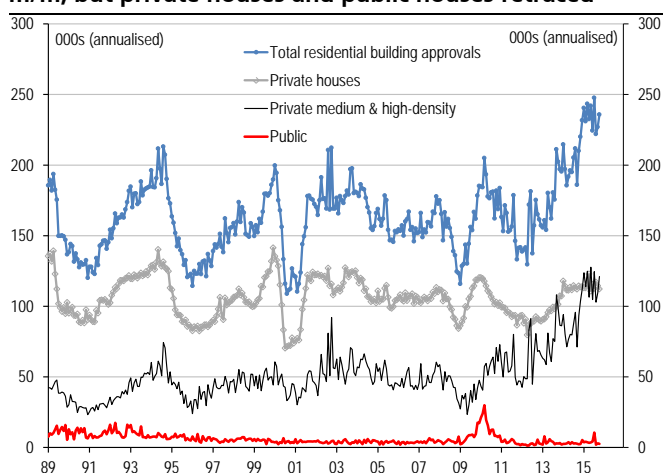
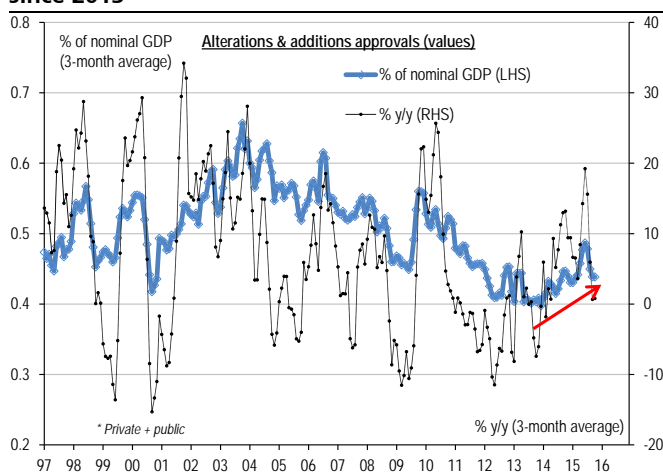


Figure 27: Alterations & additions are broadly trending up since 2013



Source: ABS, RBA, UBS * Rest of Australia is TAS + NT + ACT

Figure 26: Residential: NSW, Victoria and SA bounce >20% m/m, while other States retraced

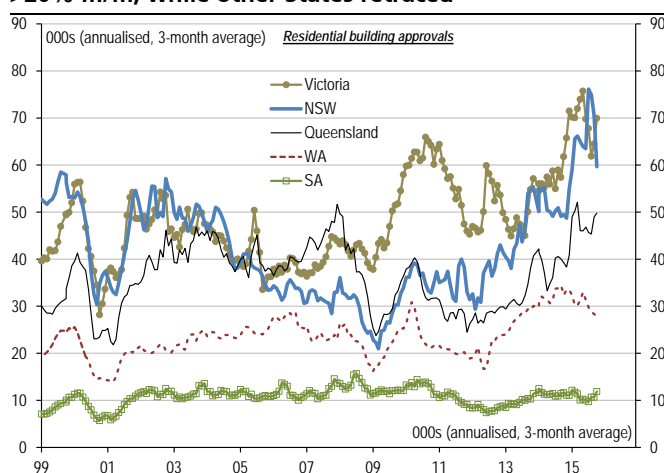
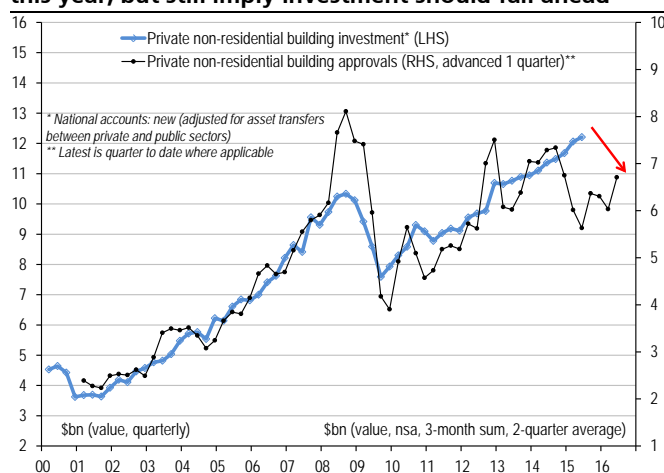


Figure 28: Non-residential building approvals trended up this year, but still imply investment should fall ahead



* National accounts: new (adjusted for asset transfers between private and public sectors)
** Latest is quarter to date where applicable

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