

Monday, 09 November 2020

## Confidence On The Mend?

The US election has been in the limelight. Over the weekend, Joe Biden became President-elect. Donald Trump and his team have vowed to fight the results in the courts.

It will be a quieter week in Australia after last week's stimulus package from the Reserve Bank (RBA) and the RBA's quarterly statement on monetary policy. The data releases this week are dominated by confidence readings on both businesses and consumers.

The NAB business survey for October will be released tomorrow. In September, business confidence and conditions improved modestly but remained well below the long-term average. This improvement reflected better economic activity following the easing of some COVID-19 restrictions.

We are cautiously optimistic about business confidence in October. There are encouraging signs pointing towards a higher reading but also some important headwinds.

On the positive side, the 2020-21 Federal Budget, delivered in October, announced a series of measures to support business activity. Most notably, non-mining businesses with turnover up to \$5bn will be allowed to deduct the full cost of eligible depreciable assets of any value in the year they are installed. Businesses will also be able to write-off any losses incurred until June 2022 against profits made on or before 2018-19.

The ongoing success in controlling new infections and the easing of some restrictions in Victoria during October should also lift businesses confidence.

Leading indicators also suggest a better reading for October. The Australian Industry Group's surveys of businesses – an alternative set of indicators for business conditions – provided positive readings for manufacturing, services and construction in October.

However, headwinds may prevent a rebound in business confidence. The winding back of some temporary support measures, such as the reduced JobSeeker supplement, may pose downside risks. The further waves of infections in Europe and the US could also hurt confidence. Moreover, international and state border restrictions - as well as social distancing measures - continue to restrict "normal" economic behaviour. These obstacles constrain business activity and confidence.

Data on consumer sentiment for November will be released on Wednesday. The Westpac-Melbourne Institute index of consumer sentiment increased sharply following the Federal Budget in October. The index rose 11.9% in October, after a record 18.0% lift in September, and reached its highest level since July 2018.

The outlook for consumer confidence is more uncertain. It remains to be seen if the September and October gains will be sustained in the months ahead.

The RBA implemented a relatively aggressive package of monetary stimulus last Tuesday (Nov 3). It reduced its main policy rates, including the cash rate. It maintained its yield-curve control policy for the 3-year bond yield but cut the target to 0.10%. And it introduced a separate \$100bn

quantitative easing programme for bond maturities of 5-10 years for the next six months.

The RBA hopes to provide favourable conditions for businesses to increase headcount going forward. For consumers, this will likely translate into lower debt repayments, higher asset prices and positive wealth effects. The RBA's forecasts published last Friday suggest that further stimulus from the RBA cannot be dismissed. Further stimulus might include the new bond-buying programme being extended beyond six months.

On top of the monetary stimulus, several State Budgets will be released later this month. These are expected to add further stimulus via changes to State charges and increased local infrastructure spending.

On Thursday, the Melbourne Institute will release data on consumer inflation expectations for November. In October, Australian consumers expected prices to rise 3.4% over the next twelve months.

On Friday, the Australian Bureau of Statistics (ABS) will publish numbers of overseas arrivals and departures for September. Border closures have severely impacted this data set. Inbound and outbound travel is severely restricted. As the international border slowly opens, these figures will resume their significance in measuring tourist and student numbers.

Finally, the trade relationship between China and Australia will be eyed over carefully in the week ahead. This follows an escalation of tensions. The escalation followed an editorial over the weekend in China's state-run China Daily. The editorial warned the Australian government that it would "pay tremendously for its misjudgement" if it continued to back the US government's efforts to contain China. Australia's export sectors are bracing for potential trade bans.

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## Forecasts

End Period:	2020			2021		
	Close (Nov 6)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
<b>Aust. Interest Rates:</b>						
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.02	0.02	0.02	0.02	0.02	0.02
3 Year Swap, %	0.07	0.08	0.08	0.08	0.08	0.08
10 Year Bond, %	0.75	0.70	0.70	0.70	0.75	0.80
<b>US Interest Rates:</b>						
Fed Funds Rate, %	0.13	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.82	0.70	0.65	0.65	0.70	0.75
<b>USD Exchange Rates:</b>						
AUD-USD	0.7258	0.75	0.76	0.76	0.78	0.80
USD-JPY	103.35	104	105	106	106	106
EUR-USD	1.1874	1.19	1.20	1.21	1.22	1.24
GBP-USD	1.3156	1.31	1.33	1.35	1.37	1.38
NZD-USD	0.6774	0.69	0.69	0.69	0.69	0.70
<b>AUD Exchange Rates:</b>						
AUD-USD	0.7258	0.75	0.76	0.76	0.78	0.80
AUD-EUR	0.6114	0.63	0.63	0.63	0.64	0.65
AUD-JPY	75.02	78.0	79.8	80.6	82.7	84.8
AUD-GBP	0.5518	0.57	0.57	0.56	0.57	0.58
AUD-NZD	1.0717	1.09	1.10	1.10	1.13	1.14

	2019	2020 (f)	2021 (f)
GDP, %	2.3	-3.5	2.8
CPI (Headline), %	1.8	0.6	1.6
CPI (Trimmed mean), %	1.6	1.0	1.6
Unemployment Rate, %	5.2	7.5	7.5
Wages Growth, %	2.2	0.9	1.0

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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