

17 February 2020

Labour Market In Focus

The Reserve Bank (RBA) has remained cautiously optimistic on the outlook for Australian economic growth in 2020. Economic data released so far in 2020 has shown some bright sparks, but the overall economic picture remains grey. This week's data on the labour market will provide important clues about the prospect for further rate cuts in the coming months.

At its February board meeting, the RBA noted that the effects of the three rate cuts since June last year were having an impact. The main areas cited were the housing market, the competitive exchange rate and improving labour market outcomes.

Consumer spending has been particularly sluggish. Household consumption expanded just 0.1% in the September quarter and a 0.5% fall in retail sales in December highlight the difficulties faced in the retail trade sector.

There is no doubt that the housing market recovery is in full swing. House prices rose 0.9% across the combined capital cities in January, according to data from CoreLogic. With prices now rising 5.2% on an annual basis and turnover beginning to pick up as well, consumer spending is expected to feel the benefit later in the year.

It's not all good news for consumer spending though. High household debt and low wages growth have been major drags on households' willingness to spend. The surge in house prices appears to be pushing up lending again, reigniting concerns over financial stability.

Recent data on the labour market has been encouraging. Two bumper months of employment gains in a row has seen the unemployment rate fall from 5.3% in October to 5.1% in December. Although inflation remains the RBA's "north star", the labour market has been at the top of the RBA's watch-list for guiding monetary policy. If the unemployment rate were to gradually rise, as it did in the first 10 months of 2019, it will heighten the impetus for the RBA to cut interest rates.

Labour force data for January will be released on Thursday. A tick higher in the unemployment rate may rein in some of the RBA's optimism, increasing the chance of a rate cut in the coming months. Our forecast is for the unemployment rate to edge higher to 5.2% and a net 5k jobs added over the month. On Wednesday, the wage price index for the December quarter will be released, which we expect will confirm the sluggish pace of wage growth last year. Wages are forecast to have risen 0.5% over the quarter and 2.2% over the year. Tomorrow the RBA will release its minutes for the February board meeting. These minutes will provide further detail around the RBA's more upbeat view evident in its February decision and may give clues about the Board's consideration of the bushfires and coronavirus' impact on monetary policy.

Global and domestic markets will remain focused on developments in the coronavirus' spread. We expect the coronavirus and bushfires to downgrade year-ended Australian GDP by 0.2 percentage points to 1.9% in 2020. Economic growth in the March quarter will be particularly affected. Growth over the quarter is likely to have stalled, with the possibility of a contraction not to be ruled out.

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Forecasts

End Period:	2020					2021
	Close (Feb 14)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.75	0.75	0.50	0.25	0.25	0.25
90 Day BBSW, %	0.92	0.85	0.70	0.45	0.45	0.50
3 Year Swap, %	0.72	0.70	0.60	0.50	0.55	0.60
10 Year Bond, %	1.05	1.00	0.95	0.90	0.80	0.80
US Interest Rates:						
Fed Funds Rate, %	1.625	1.625	1.375	1.125	0.875	0.875
US 10 Year Bond, %	1.62	1.60	1.50	1.45	1.40	1.45
USD Exchange Rates:						
AUD-USD	0.6714	0.67	0.66	0.67	0.67	0.68
USD-JPY	109.78	107	106	105	105	106
EUR-USD	1.0831	1.09	1.10	1.11	1.12	1.13
GBP-USD	1.3047	1.30	1.30	1.30	1.30	1.31
NZD-USD	0.6438	0.64	0.66	0.66	0.66	0.66
AUD Exchange Rates:						
AUD-USD	0.6714	0.67	0.66	0.67	0.67	0.68
AUD-EUR	0.6198	0.61	0.60	0.60	0.60	0.60
AUD-JPY	73.69	71.7	70.0	70.4	70.4	72.1
AUD-GBP	0.5146	0.52	0.51	0.52	0.52	0.52
AUD-NZD	1.0430	1.05	1.00	1.02	1.02	1.03

	2018	2019 (f)	2020 (f)
GDP, %	2.1	2.1	1.9
CPI (Headline), %	1.8	1.8	1.8
CPI (Trimmed mean), %	1.8	1.6	1.9
Unemployment Rate, %	5.0	5.2	5.4
Wages Growth, %	2.3	2.3	2.3

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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