

Monday, 23 November 2020

Business Investment Likely to Disappoint

It's not a big week for statistics but there will be some pointers towards the next GDP numbers which are due on 2nd December. This week, we also get to hear from Reserve Bank (RBA) Deputy Governor, Guy Debelle as he speaks on monetary policy, and the Victorian State Budget is due to be handed down.

First the statistics. On Wednesday, the Australian Bureau of Statistics (ABS) will release figures on construction work done in Australia. This covers the value of construction work done on residential and non-residential buildings, as well as on engineering projects. The data is also split by private and public activity.

We suspect that the September quarter 2020 figures will show a 3.8% decline in construction work. In the June quarter, work done fell 0.7% but this was assisted by a 'one off' 8.6% rise in private engineering works.

While there may have been a rebound in public works, as state governments sought to accelerate existing projects, we doubt they will make up for disruptions and general softness in private sector activity.

Private business capital expenditure (capex) for the September quarter will be released on Thursday. This release will also include a measure of expectations for capex in 2020-21.

The June quarter 2020 saw a 5.9% decline in capex with a 4.4% fall in building and structures and a 7.6% decline in equipment plant and machinery. We expect the contraction continued in the September quarter and have forecast a fall of 6.0%.

Both sets of figures are reporting on activity that occurred before the Federal Budget, before the RBA cut interest rates and before stimulatory State budgets were released.

The Victorian Budget is scheduled for release on Tuesday and will contain significant new spending measures.

For those wishing to delve into the mind and processes of the Reserve Bank, its Deputy Governor, Guy Debelle will, on Tuesday, speak on Monetary Policy in 2020. It was a Debelle speech in September that set minds racing with its hints of changes to Reserve Bank policy. The changes came in early November.

We doubt Tuesday's speech will be as seminal as the one given in September, but they always give insight into how the Reserve Bank sees the world and how the RBA can play its role in Australia's economic recovery.

Forecasts

End Period:	2020			2021		
	Close (Nov 20)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:						
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, %	0.13	0.08	0.08	0.08	0.08	0.08
10 Year Bond, %	0.89	0.80	0.95	1.05	1.15	1.25
US Interest Rates:						
Fed Funds Rate, %	0.13	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.83	0.80	0.90	1.00	1.10	1.20
USD Exchange Rates:						
AUD-USD	0.7302	0.75	0.76	0.78	0.79	0.80
USD-JPY	103.86	104	105	106	106	106
EUR-USD	1.1857	1.19	1.20	1.21	1.22	1.24
GBP-USD	1.3275	1.32	1.34	1.36	1.38	1.39
NZD-USD	0.6929	0.70	0.71	0.71	0.71	0.71
AUD Exchange Rates:						
AUD-USD	0.7302	0.75	0.76	0.78	0.79	0.80
AUD-EUR	0.6160	0.63	0.63	0.64	0.65	0.65
AUD-JPY	75.85	78.0	79.8	82.7	83.7	84.8
AUD-GBP	0.5498	0.57	0.57	0.57	0.57	0.58
AUD-NZD	1.0541	1.07	1.07	1.10	1.11	1.13

	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	7.0	7.0
Wages Growth, %	2.2	1.0	1.1

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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