Data to Confirm RBA Updated Outlook

This week's calendar is packed with domestic data ahead of the release of the all-important September quarter National Accounts next week. We expect the domestic data to show that the real economy remains resilient, while elevated inflationary pressures persist. The Reserve Bank (RBA) will be looking for the data to corroborate their recently upgraded outlook for the economy.

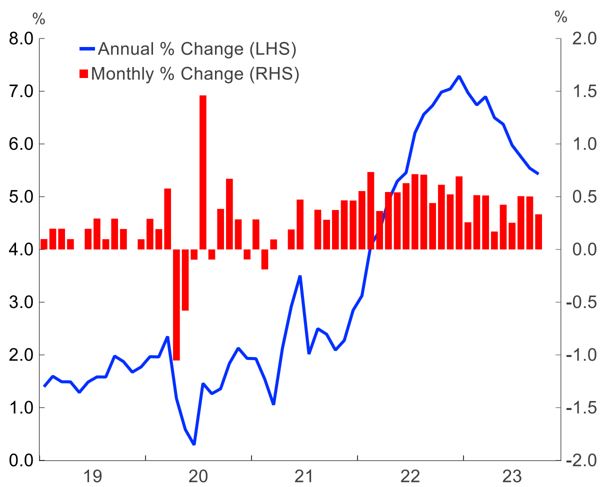
This will be consistent with the key message in the November Board minutes released last week – given the recent run of data, the balance of risks has shifted, with upside risks to inflation increasing while downside risk to the real economy have moderated.

Tomorrow we will receive the monthly inflation read for October. We're expecting a moderation in headline inflation from 5.6% in September to 5.3% in October. The monthly indicator updates a subset of prices every month. We mainly receive updates for the prices of goods (such as clothing, electronics, and household items) in the first month of every quarter, like October. These prices have moderated in line with improved global supply chains. We're expecting improvements to continue to flow through to prices paid by consumers.

While the RBA will welcome further moderation in the prices of goods, the RBA Board is more concern about services inflation and the possibility for high labour costs to lead to persistent inflation. Last week the RBA Governor noted that current rate of wages growth would be "on the high side" if productivity growth does not return to average levels.

Monthly Consumer Price Index Indicator

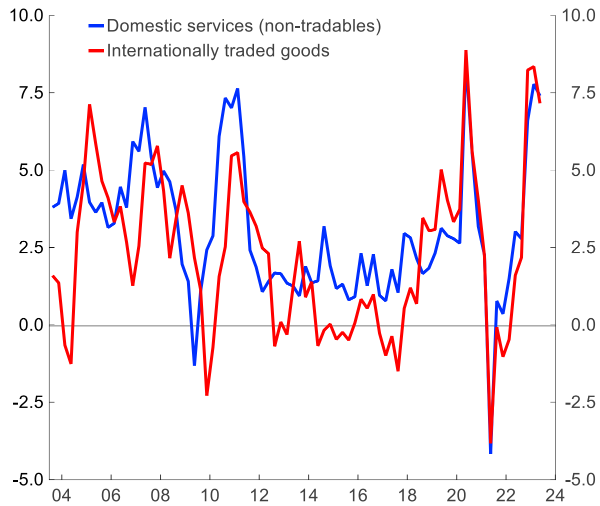
CPI excluding volatile items and holiday travel, Seasonally adjusted



Sources: ABS, Macrobond

Nominal labour costs

Annual change



Sources: Westpac Business Bank, Macrobond

Labour costs have increased strongly and remain elevated across most sectors of the economy. For example, labour costs associated with domestic goods and services (this includes market services such as haircuts, medical services, and recreational services), grew by around 7.4% over the year to the June quarter 2023. This compared with the pre-pandemic 10-year average rate of around 2.5%. Higher labour costs have been driven by higher earnings, but more significantly a fall in labour productivity over the last year. While there is not a one for one mapping between labour costs and inflation, the longer labour costs growth remains elevated the greater the likelihood that inflation becomes sticky.

Other domestic data

We will also receive an updated read on retail trade numbers for the month of October. Retail trade posted a solid 0.9% gain over September. We expect growth in spending slowed to 0.2% over October as household incomes continue to be squeezed by elevated inflation, high interest rates and strong growth in personal income tax. Looking further ahead, we are also expecting a strong November outcome as households bring forward end-of-year spending to take full advantage of Black Friday sales.

Data on construction activity over the September quarter is due out Wednesday. This data is the first key partial indicator for third quarter GDP growth, which is due out next week. Construction work done is expected to have advanced 1.3% in the third quarter largely reflecting a rebound from supply headwinds, such as bad weather.

The September quarter private capital expenditure (CAPEX) data, another key partial reading for next week's GDP report, will be released on Thursday. Business capex is expected to have fallen by 0.6% over the September quarter. Investment in machinery and equipment was particularly strong over the June quarter as businesses took advantage of generous tax incentives which expired on 30 June. Without this tax incentive in place, investment is likely to be somewhat softer.

Also out Thursday is private sector credit data for October. Credit extended to businesses has surprised to the upside. This reflects high-capacity utilisation, resilient business conditions and robust business balance sheets. Housing credit on the other hand has slowed in line with higher mortgage rates. We're expecting growth to moderate in an orderly manner, with credit growing by 0.4% over October to be 4.9% higher through the year.

The week will wrap up with another update on house prices. We expect dwelling prices grew by 0.7% over November down from the 0.9% recorded in October. Last month there were some early indications that the depth of demand may be tested by rising advertised supply. October was the first month since February 2023 that we saw more new listings (supply) than sales (demand) – in other words absorption of new listings was below 100%. New listings have increased by an uncharacteristically large 14.9% over the past two months, and at least over October, demand did not keep up. This is expected to result in a moderation in the pace of price gains over the next few months.

We will also get an updated read on building approvals for October. We expect approvals to have increased by 1.0% over October following a fall of 4.6% last month, which was larger than expected. Despite the increase over October, approvals remain well below recent peaks.

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Group Forecasts

		2023	2024				2025
End Period:	**Close (24 Nov)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**
Aust. Interest Rates:							
RBA Cash Rate, %	4.35	4.35	4.35	4.35	4.10	3.85	3.60
90 Day BBSW, %	4.38	4.55	4.55	4.47	4.22	3.97	3.72
3 Year Swap, %	4.42	4.50	4.40	4.30	4.20	4.10	3.90
10 Year Bond, %	4.55	4.70	4.60	4.50	4.40	4.30	4.15
US Interest Rates:							
Fed Funds Rate, %	5.375	5.375	5.125	4.875	4.625	4.375	4.125
US 10 Year Bond, %	4.47	4.80	4.70	4.60	4.50	4.40	4.20
USD Exchange Rates:							
AUD-USD	0.6585	0.66	0.67	0.68	0.69	0.70	0.71
USD-JPY	149.44	149	147	144	141	138	135
EUR-USD	1.0939	1.08	1.09	1.11	1.13	1.14	1.15
GBP-USD	1.2603	1.23	1.24	1.25	1.26	1.27	1.28
NZD-USD	0.6074	0.60	0.61	0.62	0.62	0.62	0.63
AUD Exchange Rates:							
AUD-USD	0.6585	0.66	0.67	0.68	0.69	0.70	0.71
AUD-EUR	0.6019	0.61	0.61	0.61	0.61	0.61	0.62
AUD-JPY	98.37	98.3	98.5	97.9	97.3	96.6	95.9
AUD-GBP	0.5223	0.54	0.54	0.54	0.55	0.55	0.55
AUD-NZD	1.0842	1.09	1.10	1.11	1.11	1.12	1.13

	2021	**2022**	**2023 (f)**	**2024 (f)**
GDP, %	4.6	2.7	1.2	1.6
CPI (Headline), %	3.5	7.8	4.6	3.4
CPI (Trimmed mean), %	2.6	6.8	4.4	3.3
Unemployment Rate, %	4.7	3.5	3.8	4.7
Wages Growth, %	2.4	3.3	4.1	3.2

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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