

Monday, 28 September 2020

## RBA Rate Cut Expected in November

We now expect the RBA to lower the cash rate in November, rather than October. The delay of one month will allow the RBA to fully assess the Budget measures and will build on expectations that the building blocks for economic recovery are being created.

In terms of data, housing and household spending are the focus this week.

On Wednesday, the RBA releases figures on credit for housing. Also, on Wednesday, the ABS releases its building approvals data. Both will be for the month of August.

On Thursday, CoreLogic releases its house price measures for September and finally, on Friday, the ABS will tell us if we have maintained our rage for spending on household goods and home renovation materials. These will be contained in its retail spending data for August.

The RBA's credit data includes lending for housing investors, owner-occupiers, businesses, and 'other' personal uses such as credit cards and car loans.

Credit extended for housing has been growing at an annual pace of around 3.0% for the past year. However, that number hides the split between owner-occupiers and investors. Credited extended to owner occupiers has risen 5.4% in the past year while credit for housing investors has shrunk 0.7%. Low interest rates appear to be attracting owner-occupiers while investors may be biding their time, possibly anticipating weakness in the market.

Changes to lending regulations announced late last week could assist in the provision of credit in the months ahead.

Two years ago, building approvals were booming. Since then, they have fallen away in the face of possible oversupply of apartments and more recently economic uncertainty and immigration restrictions.

The government's Homebuilder program has spurred some activity but the slowdown in immigration will be felt well into next year and beyond. Following last month's 12% bounce, we expect some pull-back in the August release.

CoreLogic's house-price index has fallen for four consecutive months. Will the September numbers continue the trend? High unemployment, pressure in incomes and no migrants suggest that it will.

House prices are expected to remain soft for the next twelve months but then pick up on the back of low interest rates, the easing of travel restrictions, government stimulus and the eventual resumption of immigration. But for now, some weakness seems most likely.

Retail spending has been relatively firm where restrictions have been eased. Spending on household goods has been particularly strong. We expect some pull-back in the August numbers which will have been impacted by the Melbourne lockdown.

Hans Kunnen, Senior Economist  
Ph: 02-8254 1316

## Forecasts

End Period:	2020			2021		
	Close (Sep 25)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
<b>Aust. Interest Rates:</b>						
RBA Cash Rate, %	0.25	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.08	0.05	0.05	0.05	0.10	0.10
3 Year Swap, %	0.12	0.08	0.08	0.08	0.08	0.08
10 Year Bond, %	0.80	0.80	0.90	1.00	1.05	1.15
<b>US Interest Rates:</b>						
Fed Funds Rate, %	0.13	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.67	0.60	0.65	0.75	0.75	0.85
<b>USD Exchange Rates:</b>						
AUD-USD	0.7031	0.75	0.76	0.76	0.78	0.80
USD-JPY	105.58	105	105	106	106	106
EUR-USD	1.1631	1.21	1.22	1.23	1.24	1.25
GBP-USD	1.2746	1.33	1.34	1.35	1.37	1.39
NZD-USD	0.6546	0.67	0.66	0.66	0.68	0.70
<b>AUD Exchange Rates:</b>						
AUD-USD	0.7031	0.75	0.76	0.76	0.78	0.80
AUD-EUR	0.6044	0.62	0.62	0.62	0.63	0.64
AUD-JPY	74.18	78.8	79.8	80.6	82.7	84.8
AUD-GBP	0.5515	0.56	0.57	0.56	0.57	0.58
AUD-NZD	1.0734	1.12	1.15	1.15	1.15	1.14

	2019	2020 (f)	2021 (f)
GDP, %	2.2	-3.5	2.5
CPI (Headline), %	1.8	0.4	2.2
CPI (Trimmed mean), %	1.6	0.8	1.7
Unemployment Rate, %	5.2	7.7	7.6
Wages Growth, %	2.2	1.9	1.6

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

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

## Contact Listing

### Chief Economist

Besa Deda

[dedab@bankofmelbourne.com.au](mailto:dedab@bankofmelbourne.com.au)

(02) 8254 3251

### Senior Economist

Hans Kunnen

[hans.kunnen@bankofmelbourne.com.au](mailto:hans.kunnen@bankofmelbourne.com.au)

(02) 8254 1316

### The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

---

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.