

Monday, 29 July 2019

All Eyes on CPI

When it rains, it pours in the economic data world with the data calendar ramping up this week.

At home, all eyes will be on CPI, which will be released on Wednesday. It is likely to be same story of the past few years – that inflation is expected to remain low. Core inflation (the trimmed mean measure) is expected to lift 0.3% in the June quarter, and 1.5% in the year. If the data turns out as expected, core inflation would be running below the RBA's 2 to 3 percent target band for 3½ years. Moreover, given the soft pace of wage growth and loss of momentum in the domestic economy since the middle of last year, it doesn't seem likely to see inflation return to the RBA's target any time soon.

Inflation data however, will get more focus given the RBA's stance that it would provide further monetary policy easing "if necessary". This 'ready to act' message highlights a risk that the RBA could pull the rate cut trigger once again at its meeting next week in August, if inflation comes in below expectations. We continue to expect the RBA will lower official interest rates in October, but cannot rule out a move earlier if economic data takes a turn for the worse.

We will also obtain indicators on housing this week, including house prices and building approvals. Signs that house prices are stabilising are mounting, particularly for Sydney and Melbourne markets, although weakness in other capital cities is persisting. Auction clearance rates in the two largest capital cities have again lifted over the weekend in the preliminary readings. We could see a small increase in prices over July in Sydney and Melbourne. Indeed, given the turnaround in measures of housing sentiment, the recent drop in interest rates with the prospect of further declines, a small recovery in dwelling prices could be sooner than what we had previously thought.

Retail sales data on Friday tops off the calendar week, which is expected to show ongoing gloom within consumer spending. The past years of limited wage growth is catching up with consumers, and increasingly restraining household spending.

Overseas, the Federal Reserve's FOMC decision will be the main event on Wednesday, where markets for some time have been widely expecting the Federal Reserve to lower interest rates by 25 basis points. The Bank of England (BoE) will also meet on Thursday, the first meeting since Boris Johnson became the UK's new PM.

Forecasts

End Period:	2019			2020			
	Close (Jul 26)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	1.00	1.00	0.75	0.50	0.50	0.50	0.50
90 Day BBSW, %	1.04	1.10	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.88	0.90	0.85	0.80	0.80	0.85	0.90
10 Year Bond, %	1.23	1.20	1.20	1.10	1.10	1.10	1.10
US Interest Rates:							
Fed Funds Rate, %	2.375	2.125	1.875	1.875	1.875	1.875	1.875
US 10 Year Bond, %	2.07	2.00	2.00	2.00	2.00	2.00	2.00
USD Exchange Rates:							
AUD-USD	0.6911	0.68	0.68	0.66	0.66	0.67	0.67
USD-JPY	108.68	106	105	107	108	109	110
EUR-USD	1.1128	1.14	1.14	1.13	1.13	1.12	1.12
GBP-USD	1.2384	1.26	1.25	1.26	1.27	1.29	1.30
NZD-USD	0.6636	0.65	0.65	0.65	0.66	0.66	0.66
AUD Exchange Rates:							
AUD-USD	0.6911	0.68	0.68	0.66	0.66	0.67	0.67
AUD-EUR	0.6211	0.60	0.59	0.59	0.59	0.60	0.60
AUD-JPY	75.12	72.1	71.2	70.8	71.5	73.0	73.7
AUD-GBP	0.5581	0.54	0.54	0.53	0.52	0.52	0.52
AUD-NZD	1.0414	1.05	1.04	1.02	1.01	1.01	1.01

	2018	2019 (f)	2020 (f)
GDP, %	2.4	2.2	2.5
CPI (Headline), %	1.8	1.7	1.6
CPI (Trimmed mean), %	1.8	1.4	1.9
Unemployment Rate, %	5.0	5.4	5.6
Wages Growth, %	2.3	2.5	2.5

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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The Detail

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