



Monday, 2 December 2019

All will be Revealed

The local economic data calendar is jam-packed this week. After months of see-sawing sentiment over US-China trade relations, mixed economic data and clues about the future direction of monetary policy, Wednesday will see the most complete assessment of how the economy actually performed over the September quarter. Meanwhile, the Reserve Bank (RBA) board will meet tomorrow to decide on the cash rate. The cash rate is widely expected to remain on hold at 0.75%.

Last week, Governor Philip Lowe provided some further insight into the RBA's thinking on unconventional monetary policy. He clarified that the RBA judges the effective lower bound (ELB), or the interest rate at which lowering the official policy rate becomes ineffective, to be 0.25%. If interest rates were to fall to this point, and further easing was judged to be necessary, then the next step for the RBA would be quantitative easing (QE), and specifically the purchase of government bonds.

If the preferred method of unconventional policy was made clearer, the timing of its deployment remains uncertain. Governor Lowe was at pains to emphasise that QE remains a hypothetical situation for the RBA. He stressed that the RBA would only consider its implementation if we were moving away from the RBA's targets of full employment and inflation. For rates to fall to 0.25% and unemployment and inflation to continue to move away from their targets, ongoing signs of malaise in the economy would be required.

Our forecast for GDP growth in Q3 is 0.6%, following 0.5% growth in the previous quarter. Consumer spending is likely to have remained lacklustre, evidenced by tepid retail sales over the quarter. Spending is being restrained by persistent slow wages growth coupled with high household debt. Investment is also forecast to remain weak. We expect only a modest stabilisation in these trends, resulting in below-trend growth in 2020, which adds to the case for further monetary easing.

Today saw the release of building approvals, house prices and company profits. All reinforced our view of a soft economy struggling to find its gear. Despite the rapid and significant turnaround in house prices, construction activity looks to remain subdued. Meanwhile, company profits data show that an uncertain global outlook continues to weigh on the company operating environment.

Along with the RBA's cash rate decision, Tuesday will see the release of the balance of payments for Q3. We expect another strong current account surplus of \$5.0 billion, which would see a further 0.2 percentage points added to GDP over the quarter. On Thursday, separate monthly trade data for October becomes available, which we expect to show a trade surplus of \$6.3 billion. Retail sales are also released for October, and are forecast to expand by a modest 0.3% following a 0.2% increase in September.

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Forecasts

End Period:	2019		2020			
	Close (Nov 29)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.75	0.75	0.50	0.25	0.25	0.25
90 Day BBSW, %	0.89	0.85	0.70	0.45	0.45	0.45
3 Year Swap, %	0.72	0.75	0.65	0.50	0.50	0.60
10 Year Bond, %	1.03	0.95	0.90	0.90	0.90	0.90
US Interest Rates:						
Fed Funds Rate, %	1.625	1.625	1.375	1.125	0.875	0.875
US 10 Year Bond, %	1.78	1.70	1.50	1.45	1.40	1.50
USD Exchange Rates:						
AUD-USD	0.6763	0.67	0.66	0.66	0.67	0.67
USD-JPY	109.49	108	107	106	105	105
EUR-USD	1.1018	1.09	1.09	1.10	1.11	1.12
GBP-USD	1.2925	1.30	1.33	1.32	1.32	1.31
NZD-USD	0.6422	0.63	0.62	0.62	0.63	0.63
AUD Exchange Rates:						
AUD-USD	0.6763	0.67	0.66	0.66	0.67	0.67
AUD-EUR	0.6138	0.61	0.61	0.60	0.60	0.60
AUD-JPY	74.04	72.4	70.6	70.0	70.4	70.4
AUD-GBP	0.5231	0.52	0.50	0.50	0.51	0.51
AUD-NZD	1.0529	1.06	1.06	1.06	1.06	1.06

	2018	2019 (f)	2020 (f)
GDP, %	2.2	2.3	2.4
CPI (Headline), %	1.8	1.7	1.9
CPI (Trimmed mean), %	1.8	1.6	1.9
Unemployment Rate, %	5.0	5.3	5.6
Wages Growth, %	2.4	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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