

Monday, 2 September 2019

Domestic Data Deluge

It's a busy week on the economic calendar - GDP growth for the June quarter being the main highlight. We are expecting the economy grew 0.5% in the quarter for annual growth of 1.4%. Such an outcome would be the weakest annual pace of growth since 2009. Consumer spending has remained soft and dwelling investment is continuing to provide a significant drag on the economy.

We expect some improvement in consumer spending from the middle of this year, reflecting tax rebates and cuts to interest rates, but this improvement is unlikely to be sufficient to bring economic growth back to trend. Moreover, the uncertain global outlook is providing a further downside risk to the domestic economy.

Elsewhere, we should achieve a milestone in data to be released tomorrow. We are expecting a current account surplus for the June quarter. Yes, a current account surplus, and that would be the first current account surplus since 1975! The strength in commodity prices, in particular, for iron ore have driven up export receipts over recent months. We are likely to see another sizeable trade surplus in data released on Thursday. However, the surplus in the current account is likely to be short-lived – a retreat in iron ore prices over August suggests that the surge in revenues will unlikely be sustained. Other commodity prices are also easing due to softer world growth prospects.

Other data of importance this week includes dwelling prices which are released today. There continues to be further signs of recovery in dwelling prices, particularly in Sydney and Melbourne. The rebound suggests that the negative wealth effect on the consumer of the past few years is turning into a positive, although high household debt levels and soft wages growth will still constrain spending.

The release of retail sales for July tomorrow will be of interest, particularly given this will be an early indication on how the consumer is being impacted by the stabilising of house prices, the two rate cuts from the RBA and the tax rebate from the Federal Government. We, however, expect a modest increase of 0.3% in retail spending, as income growth is still limiting the ability of consumers to increase their spending. Further, it will take some time before tax refunds hit the bank accounts of households.

Also on Tuesday, the RBA is expected to leave rates on hold for its second consecutive meeting, but we still expect that the RBA will cut official interest rates further to as low as 0.5% by early next year. The RBA has indicated that it will "ease monetary policy further if needed". Financial markets will be watching closely for any shift in guidance and also to gauge the RBA's view on the latest developments in the trade conflict.

Forecasts

End Period:	2019			2020			
	Close (Aug 30)	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, %	0.97	0.95	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.72	0.70	0.70	0.75	0.80	0.85	0.90
10 Year Bond, %	0.89	0.90	0.90	1.00	1.00	1.10	1.10
US Interest Rates:							
Fed Funds Rate, %	2.125	1.875	1.375	1.375	1.375	1.375	1.375
US 10 Year Bond, %	1.50	1.55	1.55	1.60	1.60	1.65	1.65
USD Exchange Rates:							
AUD-USD	0.6733	0.67	0.67	0.66	0.66	0.67	0.67
USD-JPY	106.28	106	106	107	108	110	111
EUR-USD	1.0982	1.09	1.08	1.08	1.08	1.09	1.11
GBP-USD	1.2156	1.18	1.19	1.20	1.22	1.24	1.26
NZD-USD	0.6328	0.64	0.64	0.63	0.63	0.64	0.64
AUD Exchange Rates:							
AUD-USD	0.6733	0.67	0.67	0.66	0.66	0.67	0.67
AUD-EUR	0.6132	0.61	0.62	0.61	0.61	0.61	0.60
AUD-JPY	71.59	71.0	71.0	70.6	71.3	73.7	74.4
AUD-GBP	0.5539	0.57	0.56	0.55	0.54	0.54	0.53
AUD-NZD	1.0646	1.05	1.05	1.05	1.05	1.05	1.05

	2018	2019 (f)	2020 (f)
GDP, %	2.4	2.2	2.5
CPI (Headline), %	1.8	1.7	1.9
CPI (Trimmed mean), %	1.9	1.5	1.8
Unemployment Rate, %	5.0	5.4	5.6
Wages Growth, %	2.3	2.5	2.6

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
(02) 8254 3251

Senior Economist

Janu Chan
chanj@bankofmelbourne.com.au
(02) 8253 0898

Economist

Nelson Aston
nelson.aston@bankofmelbourne.com.au
(02) 8254 1316

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