

Monday, 30 November 2020

GDP Rebound to Enter the Spotlight

It is another huge week of data and economic events this week. The release of the national accounts this Wednesday will no doubt steal the spotlight. These accounts are likely to show that gross domestic product (GDP) rebounded by 3.0% in the September quarter, after a severe recession in the first half of this year. The rebound reflects the rolling back of restrictions across most of Australia in the quarter, although the rebound has been capped by the second lockdown in Victoria. This easing of restrictions encouraged a resumption of spending by consumers. Government stimulus is also likely to have underpinned the rebound.

A recent Bloomberg survey of 21 economists revealed every economist expects a recovery for Q3 GDP, although the range of estimates are very wide. The median expectation is for GDP quarterly growth of 2.4% with 0.5% growth at the low end of the range and 4.1% growth at the high end.

A lift in economic activity in line with our forecast would still leave GDP nearly 4% weaker than a year ago. It would also still leave economic output substantially below the level at the end of 2019.

More importantly, this data is now dated and since the end of the September quarter, consumer and business confidence have improved and many interstate borders have lifted. The suppression of the virus in the populous States of NSW and Victoria have also been remarkably successful in recent months.

The economic recovery underway across Australia, therefore, is likely to continue. For now, it remains an uneven path of recovery with ongoing social-distancing restrictions and closed international borders still impacting industries differently. The recent vaccine news is encouraging and if can be deployed next year effectively could see economic outcomes surprise to the upside.

Before Wednesday, there will be the release of partial economic indicators that help us finalise GDP forecasts. Earlier today, business indicators and data on inventories were published. Gross company profits expanded 3.2% in the September quarter and inventories declined further. The fall of 0.5% in inventories means they are likely to add 0.9 percentage points to GDP growth in Q3. Tomorrow, there is the balance of payments, which includes the contribution from net exports, and government statistics.

Earlier today, private sector credit was out for the month of October. A flat outcome occurred in October, which is the third straight month of no change, after a string of contractions. Credit for housing continues to grow, but credit to businesses and continues to shrink. Whilst there has been an improvement in confidence and a wave of stimulus in October from the Federal Budget, businesses are reluctant to take on debt to expand investment activity. Credit to consumers for 'other' purposes (i.e. credit cards, personal loans) also continued to decline, but this has decline has been an ongoing trend since 2015.

Tomorrow, there is fresh data on housing with both building approvals and house prices slated for release. The Reserve Bank (RBA) board also meets.

Dwelling prices are likely to grow again in November with prices data in October suggesting the

start of a housing upturn. Forward-looking indicators, such as auction clearance rates and housing lending data, are also consistent with the green shoots of an upturn sprouting. The data is once again likely to show demand is stronger for regional Australia, smaller capital cities and stand-alone dwellings.

Building approvals surged in September and we are likely to see a continued recovery in approvals in October, supported by the government's HomeBuilder scheme, as well as the recent recovery in dwelling prices and housing sentiment.

The RBA meets tomorrow, which is its first meeting after the significant stimulus package deployed on November 3. That stimulus included cutting the cash rate to its new lower bound of 0.10% and delivering a separate and new quantitative easing program of \$100 billion for bond maturities of five to ten years. The minutes from this meeting and a speech from the RBA Governor after the meeting suggested the RBA was now focussing more on actual outcomes employment and inflation in its policymaking. Previously, forecast outcomes had arguably a heavier weighting. Greater importance is also being placed on the labour market. The statement following tomorrow's meeting is likely to reiterate this approach. We suspect that the RBA may eventually extend its new bond-buying program beyond six months; we will be looking for any possible hints around a possible extension in tomorrow's statement, but the RBA is not likely to be so forthcoming this early on. For now, the RBA is watching and waiting.

The week is rounded up by housing finance (Thursday), the trade balance (also Thursday) and retail sales (Friday).

Housing finance is likely to have lifted by 2.0% in October, after a strong gain in September. Indeed, the value of new housing loans was up nearly 40% in September compared with its May low.

The trade surplus is likely to have widened slightly to \$5.8 billion in October, from \$5.6 billion in September. Lower imports and rising iron ore prices have helped Australia run trade surpluses this year, albeit these troubled times have caused considerable volatility in the outcomes.

Preliminary estimates showed a rise of 1.6% in retail trade in October, after two straight months of falls. The gain in Victoria was particularly strong, despite restrictions not being fully relaxed in the month. Black Friday sales have started earlier and are also likely to underpin spending in the month, especially online sales. The recent trends of spending on the "homebody economy", the "caring" economy and on essential, non-discretionary goods is likely to have maintained.

Forecasts

End Period:	2020			2021		
	Close (Nov 30)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.02	0.02	0.02	0.02	0.02	0.02
3 Year Swap, %	0.13	0.08	0.08	0.08	0.08	0.08
10 Year Bond, %	0.90	0.85	0.95	1.05	1.15	1.25
US Interest Rates:						
Fed Funds Rate, %	0.13	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.84	0.80	0.90	1.00	1.10	1.20
USD Exchange Rates:						
AUD-USD	0.7387	0.75	0.76	0.78	0.79	0.80
USD-JPY	104.09	104	105	106	106	106
EUR-USD	1.1963	1.19	1.20	1.21	1.22	1.24
GBP-USD	1.3311	1.32	1.34	1.36	1.38	1.39
NZD-USD	0.7027	0.70	0.71	0.71	0.71	0.71
AUD Exchange Rates:						
AUD-USD	0.7387	0.75	0.76	0.78	0.79	0.80
AUD-EUR	0.6176	0.63	0.63	0.64	0.65	0.65
AUD-JPY	76.89	78.0	79.8	82.7	83.7	84.8
AUD-GBP	0.5549	0.57	0.57	0.57	0.57	0.58
AUD-NZD	1.0515	1.07	1.07	1.10	1.11	1.13

	2019	2020 (f)	2021 (f)
GDP, %	2.3	-3.0	2.8
CPI (Headline), %	1.8	0.6	1.6
CPI (Trimmed mean), %	1.6	1.0	1.6
Unemployment Rate, %	5.2	7.0	7.0
Wages Growth, %	2.2	1.0	1.1

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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