

Monday, 4 November 2019

The Meeting That Won't Stop The Nation

It's a busy week ahead on the Australian calendar. The highlight for many will be tomorrow when the Melbourne Cup is held. The other key event that day is unlikely to involve the same level of excitement or consumption of booze. Markets are pricing in just a 5% chance that the Reserve Bank (RBA) will cut the cash rate at its meeting tomorrow. We expect that the RBA will leave the official cash rate unchanged.

A pause in rate cuts in November doesn't necessarily signal the end of the current easing cycle. The RBA has cut rates three times this year and despite some assistance from tax breaks, the unemployment rate remains higher than the RBA would like. Moreover, inflation has been below its target range for nearly 4 years and consumer spending growth remains soggy. We expect the RBA will cut rates once more by another 25 basis points to 0.50% in February next year but weaker-than-expected data could bring this move forward to December.

An important insight into the RBA's thinking will be delivered on Friday when the Statement of Monetary Policy (SoMP) is released. The SoMP provides forecasts for the Australian economy and the RBA's outlook for inflation. The last statement in August offered a cautiously upbeat assessment of the domestic economy while noting that global growth was under threat from US-China trade tensions. Since then, there have been further signs that global growth is being hit by the loss in confidence and uncertainty from the trade frictions. Domestically, there has been limited improvement in economic activity, despite three rate cuts. Today's retail-spending data is testament to the muted impact from rate cuts as well as the government's tax-related boost.

We continue to characterise the forecasts in the August SoMP as optimistic. Given the Governor's recent statements we do not expect a material change in the November edition's forecasts for 2020. We think GDP growth is likely to be 2.3% this year, compared with the RBA's August forecast of 2.5% growth. The RBA have noted that risks are tilted to the downside for its GDP and inflation forecasts, but they still expect the economy to return to trend growth in 2020.

Further clues about the momentum of the economy will be provided in a raft of economic data released this week. Retail-sales data released this morning showed that consumer spending remains sluggish. Weak wages growth and high household debt continues to weigh on consumer spending, despite recent fiscal and monetary stimulus.

Thursday will see September's trade balance data. We expect the trade surplus to fall to \$4.7 billion. Commodity prices have ticked lower since July while imports are anticipated to be flat.

The SoMP is released on Friday as well as housing finance data. We expect the recent recovery in house prices and sales volumes to result in further growth in new lending. We expect the number of owner-occupier loans, excluding refinancing, to increase 1.0% in September and in value terms for a rise of 1.5% to be recorded. The value of investor loans should rise 1.5% in the month.

Nelson Aston, Economist

Ph: 02-8254-1316

Forecasts

End Period:	2019		2020			
	Close (Nov 1)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.75	0.75	0.50	0.50	0.50	0.50
90 Day BBSW, %	0.93	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.90	0.75	0.75	0.75	0.80	0.85
10 Year Bond, %	1.10	0.95	1.00	1.15	1.20	1.25
US Interest Rates:						
Fed Funds Rate, %	1.625	1.375	1.125	0.875	0.875	0.875
US 10 Year Bond, %	1.69	1.45	1.40	1.45	1.50	1.55
USD Exchange Rates:						
AUD-USD	0.6904	0.67	0.66	0.66	0.67	0.67
USD-JPY	108.19	108	107	107	107	108
EUR-USD	1.1166	1.10	1.08	1.07	1.07	1.09
GBP-USD	1.2946	1.30	1.33	1.33	1.32	1.31
NZD-USD	0.6427	0.63	0.62	0.62	0.63	0.63
AUD Exchange Rates:						
AUD-USD	0.6904	0.67	0.66	0.66	0.67	0.67
AUD-EUR	0.6192	0.61	0.61	0.62	0.63	0.61
AUD-JPY	74.70	72.4	70.6	70.6	71.7	72.4
AUD-GBP	0.5343	0.52	0.50	0.50	0.51	0.51
AUD-NZD	1.0746	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), %	1.9	1.5	1.8
Unemployment Rate, %	5.0	5.4	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.

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

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.
