

Weekly Economic Outlook

Monday, 20 January 2020



New Year, New Economy?

Welcome back to our first weekly economic outlook for 2020.

We hope you and your families had a very happy and safe festive season.

For many, the new year is a time to reflect and set resolutions for the year ahead. The Reserve Bank (RBA) will be hoping that 2020 delivers the elusive “gentle turning point” in the Australian economy it has been looking for. In 2019, growth remained lacklustre, despite three cuts to the cash rate to a record low 0.75%.

Abroad, the global economy is improving and expectations for further stimulatory measures in the US and China have been pared back. In particular, global manufacturing sentiment surveys have turned more upbeat since the US and China agreed to a “Phase One” trade deal while the USMCA legislation was passed in the US senate, removing trade barriers between the US, Canada and Mexico.

Closer to home, the data released so far in 2020 has also been more upbeat; house prices continue to recover at a runaway pace while building approvals and retail sales both bounced back in November following tepid outturns in the month before. However, the domestic economy remains on a fragile footing. A dismal September quarter of just 0.4% growth in GDP means that the starting point is low. Although building approvals jumped 11.8% in November, this comes off the back of a 7.9% fall in October and the series –which can be volatile on a month-to-month basis– has been trending lower since peaking in late 2017. Meanwhile, retail sales in November were likely bolstered by the burgeoning popularity of “Black Friday” discounting. Indeed, discretionary spending saw the biggest bump in November. There is a risk that some of the spending that would have otherwise occurred in the month of December was brought forward and that there is not yet a meaningful turnaround in household consumption.

There is likely to be an additional negative impact from the devastating bushfires that have wreaked havoc on the east coast of Australia. The economic cost is likely to be in the billions, not only via the direct effect on the agricultural, retail and tourism sectors, but through the consumer confidence channel and through the adverse effect of smoke haze over major metropolitan areas.

The RBA will need to consider these factors when it meets in early February to decide whether or not it will cut the cash rate further. Before that time, there will be the key release of labour force data later this week on Thursday. Persistent slack in the labour market has been a key driver of low inflation over the last year. Despite a surge in employment last month, the unemployment rate has been trending higher. We continue to expect the RBA to cut the cash rate to 0.50% in February and to 0.25% in June. After that time, the RBA may need to consider unconventional monetary policy.

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Forecasts

| End Period: | 2019 | | 2020 | | | 2021 |
|------------------------------|----------------|--------|--------|--------|--------|--------|
| | Close (Jan 17) | Q1 (f) | Q2 (f) | Q3 (f) | Q4 (f) | Q1 (f) |
| Aust. Interest Rates: | | | | | | |
| RBA Cash Rate, % | 0.75 | 0.50 | 0.25 | 0.25 | 0.25 | 0.25 |
| 90 Day BBSW, % | 0.87 | 0.70 | 0.45 | 0.45 | 0.50 | 0.50 |
| 3 Year Swap, % | 0.78 | 0.65 | 0.50 | 0.50 | 0.60 | 0.65 |
| 10 Year Bond, % | 1.18 | 0.90 | 0.90 | 0.90 | 0.90 | 0.95 |
| US Interest Rates: | | | | | | |
| Fed Funds Rate, % | 1.625 | 1.375 | 1.125 | 0.875 | 0.875 | 0.875 |
| US 10 Year Bond, % | 1.82 | 1.50 | 1.45 | 1.40 | 1.50 | 1.55 |
| USD Exchange Rates: | | | | | | |
| AUD-USD | 0.6879 | 0.66 | 0.66 | 0.67 | 0.67 | 0.68 |
| USD-JPY | 110.14 | 107 | 106 | 105 | 105 | 106 |
| EUR-USD | 1.1092 | 1.09 | 1.10 | 1.11 | 1.12 | 1.13 |
| GBP-USD | 1.3016 | 1.33 | 1.32 | 1.32 | 1.31 | 1.31 |
| NZD-USD | 0.6615 | 0.64 | 0.64 | 0.65 | 0.65 | 0.66 |
| AUD Exchange Rates: | | | | | | |
| AUD-USD | 0.6879 | 0.66 | 0.66 | 0.67 | 0.67 | 0.68 |
| AUD-EUR | 0.6197 | 0.61 | 0.60 | 0.60 | 0.60 | 0.60 |
| AUD-JPY | 75.75 | 70.6 | 70.0 | 70.4 | 70.4 | 72.1 |
| AUD-GBP | 0.5284 | 0.50 | 0.50 | 0.51 | 0.51 | 0.52 |
| AUD-NZD | 1.0394 | 1.03 | 1.03 | 1.03 | 1.03 | 1.03 |

| | 2018 | 2019 (f) | 2020 (f) |
|-----------------------|------|----------|----------|
| GDP, % | 2.1 | 2.1 | 2.1 |
| CPI (Headline), % | 1.8 | 1.7 | 1.9 |
| CPI (Trimmed mean), % | 1.8 | 1.6 | 1.8 |
| 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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