

24 February 2020



Risks to Growth Abound

Data released last week jolted some optimism out of the Australian economic outlook. Labour market data showed the unemployment rate rising back to 5.3% in January, after falling in the previous two months. Confirming the spare capacity in the labour market, wages growth remained sluggish in Q4. From this weak footing, it will be a challenge for economic growth to return to the Reserve Bank (RBA)'s forecast of trend this year.

Firstly, the coronavirus presents an acute problem for Australian economic growth. Not only does China account for an overwhelming proportion of Australian commodities exports (not limited to iron ore; seafood, meat and other commodities end up in China as well), but many of our services exports rely on Chinese activity. Containment measures to slow the spread of the virus are likely to have a significant impact on the education and tourism sectors. Unlike with goods exports, it is unlikely that these losses will be recouped in later quarters due to “catch up” demand. The longer travel bans and other containment measures are in place, the greater the risks of a longer-lasting impact to the Australian services sector through reputational and sentiment damage.

A second major risk to the Australian economic recovery is the cautious consumer. High household debt and low wages growth has put downward pressure on disposable incomes. An already low savings rate means that consumers' appetite for spending remains low. Rising house prices should encourage some additional spending through the wealth effect, however, we expect only a gradual pick-up in consumption.

Further clues about how the economy performed in Q4 –before the major impact of the coronavirus and bushfires was felt– will be released this week. Construction work done for Q4 will be released on Wednesday, before private business capital expenditure for Q4 is released on Thursday. We forecast a 0.6% decline in construction work done in Q4, with some disruption due to bushfire smoke likely to have occurred.

Private business capital expenditure is forecast to fall 0.2%, consolidating around the flat trend experienced throughout 2019. The release will also update businesses' expected capital investment for the 2019-20 financial year, as well as their initial estimate for investment in the 2020-21 financial year. Our forecast is for a modest increase in investment expectations for 2019-20 of 2% to \$119 billion. We expect year-ahead investment expectations for 2020-21 to be \$94 billion, up slightly from investment expectations set a year earlier. The early estimates for capital expenditure in the coming year can vary significantly from later estimates, which tend to be closer to realised investment.

Private credit extended to the economy in January will be released on Friday. It will be closely watched by the RBA who has said that it was balancing the benefits of monetary policy easing with the risks of unabated credit growth brought on by low rates. We forecast a 0.2% increase in private sector credit over the month.

Nelson Aston, Economist

Ph: 02-8254-1316

Forecasts

End Period:	2020					2021
	Close (Feb 21)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.75	0.75	0.50	0.25	0.25	0.25
90 Day BBSW, %	0.91	0.85	0.70	0.45	0.45	0.50
3 Year Swap, %	0.65	0.70	0.60	0.50	0.55	0.60
10 Year Bond, %	0.94	1.00	0.95	0.90	0.80	0.80
US Interest Rates:						
Fed Funds Rate, %	1.625	1.625	1.375	1.125	0.875	0.875
US 10 Year Bond, %	1.52	1.60	1.50	1.45	1.40	1.45
USD Exchange Rates:						
AUD-USD	0.6627	0.67	0.66	0.67	0.67	0.68
USD-JPY	111.61	107	106	105	105	106
EUR-USD	1.0847	1.09	1.10	1.11	1.12	1.13
GBP-USD	1.2964	1.30	1.30	1.30	1.30	1.31
NZD-USD	0.6349	0.64	0.66	0.66	0.66	0.66
AUD Exchange Rates:						
AUD-USD	0.6627	0.67	0.66	0.67	0.67	0.68
AUD-EUR	0.6108	0.61	0.60	0.60	0.60	0.60
AUD-JPY	73.94	71.7	70.0	70.4	70.4	72.1
AUD-GBP	0.5113	0.52	0.51	0.52	0.52	0.52
AUD-NZD	1.0440	1.05	1.00	1.02	1.02	1.03

	2018	2019 (f)	2020 (f)
GDP, %	2.1	2.1	1.9
CPI (Headline), %	1.8	1.8	1.8
CPI (Trimmed mean), %	1.8	1.6	1.9
Unemployment Rate, %	5.0	5.2	5.4
Wages Growth, %	2.3	2.3	2.3

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@stgeorge.com.au
(02) 8254 3251

Senior Economist

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

Economist

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

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 St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George’s agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George 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 St.George products and details are available. St.George 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. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.