

Weekly Economic Outlook

Monday, 28 September 2020



RBA Rate Cut Expected in November

We now expect the RBA to lower the cash rate in November, rather than October. The delay of one month will allow the RBA to fully assess the Budget measures and will build on expectations that the building blocks for economic recovery are being created.

In terms of data, housing and household spending are the focus this week.

On Wednesday, the RBA releases figures on credit for housing. Also, on Wednesday, the ABS releases its building approvals data. Both will be for the month of August.

On Thursday, CoreLogic releases its house price measures for September and finally, on Friday, the ABS will tell us if we have maintained our rage for spending on household goods and home renovation materials. These will be contained in its retail spending data for August.

The RBA's credit data includes lending for housing investors, owner-occupiers, businesses, and 'other' personal uses such as credit cards and car loans.

Credit extended for housing has been growing at an annual pace of around 3.0% for the past year. However, that number hides the split between owner-occupiers and investors. Credited extended to owner occupiers has risen 5.4% in the past year while credit for housing investors has shrunk 0.7%. Low interest rates appear to be attracting owner-occupiers while investors may be biding their time, possibly anticipating weakness in the market.

Changes to lending regulations announced late last week could assist in the provision of credit in the months ahead.

Two years ago, building approvals were booming. Since then, they have fallen away in the face of possible oversupply of apartments and more recently economic uncertainty and immigration restrictions.

The government's Homebuilder program has spurred some activity but the slowdown in immigration will be felt well into next year and beyond. Following last month's 12% bounce, we expect some pull-back in the August release.

CoreLogic's house-price index has fallen for four consecutive months. Will the September numbers continue the trend? High unemployment, pressure in incomes and no migrants suggest that it will.

House prices are expected to remain soft for the next twelve months but then pick up on the back of low interest rates, the easing of travel restrictions, government stimulus and the eventual resumption of immigration. But for now, some weakness seems most likely.

Retail spending has been relatively firm where restrictions have been eased. Spending on household goods has been particularly strong. We expect some pull-back in the August numbers which will have been impacted by the Melbourne lockdown.

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Forecasts

End Period:	2020			2021		
	Close (Sep 25)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.25	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.08	0.05	0.05	0.05	0.10	0.10
3 Year Swap, %	0.12	0.08	0.08	0.08	0.08	0.08
10 Year Bond, %	0.80	0.80	0.90	1.00	1.05	1.15
US Interest Rates:						
Fed Funds Rate, %	0.13	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.67	0.60	0.65	0.75	0.75	0.85
USD Exchange Rates:						
AUD-USD	0.7031	0.75	0.76	0.76	0.78	0.80
USD-JPY	105.58	105	105	106	106	106
EUR-USD	1.1631	1.21	1.22	1.23	1.24	1.25
GBP-USD	1.2746	1.33	1.34	1.35	1.37	1.39
NZD-USD	0.6546	0.67	0.66	0.66	0.68	0.70
AUD Exchange Rates:						
AUD-USD	0.7031	0.75	0.76	0.76	0.78	0.80
AUD-EUR	0.6044	0.62	0.62	0.62	0.63	0.64
AUD-JPY	74.18	78.8	79.8	80.6	82.7	84.8
AUD-GBP	0.5515	0.56	0.57	0.56	0.57	0.58
AUD-NZD	1.0734	1.12	1.15	1.15	1.15	1.14

	2019	2020 (f)	2021 (f)
GDP, %	2.2	-3.5	2.5
CPI (Headline), %	1.8	0.4	2.2
CPI (Trimmed mean), %	1.6	0.8	1.7
Unemployment Rate, %	5.2	7.7	7.6
Wages Growth, %	2.2	1.9	1.6

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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