

# Weekly Economic Outlook

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)
<b>Aust. Interest Rates:</b>						
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
<b>US Interest Rates:</b>						
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
<b>USD Exchange Rates:</b>						
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
<b>AUD Exchange Rates:</b>						
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@stgeorge.com.au](mailto:dedab@stgeorge.com.au)  
(02) 8254 3251

### Senior Economist

Janu Chan  
[chanj@stgeorge.com.au](mailto:chanj@stgeorge.com.au)  
(02) 8253 0898

### Economist

Nelson Aston  
[nelson.aston@stgeorge.com.au](mailto:nelson.aston@stgeorge.com.au)  
(02) 8254 1316

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