

Weekly Economic Outlook

Monday, 8 July 2019



The Hunt for Silver Linings

'Maybe things aren't so bad after all', the market seemed to say, as Friday's US jobs data exceeded expectations. The reaction was swift – bond yields rebounded and the US dollar lifted. Share markets fell as the prospect of lower interest rates from the US Federal Reserve lessened.

While expectations have pared back, the market is still expecting a sizeable amount of easing by the Federal Reserve. There is still a 25 basis point cut fully priced in when the Fed meets July 30-31 and a total of three 25 basis point rate cuts priced in by the middle of next year.

Friday's market reaction suggests that the pessimism with regards to the US economy had been overdone. While uncertainty from the global environment and trade tensions continue to linger, and there have been growing signs that economic activity in the US is slowing, the labour market remains tight.

At home this week, there will be hope for some better news with confidence measures for businesses and consumers. A clearer reading is likely after the Federal election and following rate cuts from the RBA.

In the previous business survey release for May, business confidence lifted with the uncertainty from the Federal election out of the way, however, business conditions continued to disappoint. The initial reaction to the RBA rate cut in June according to the consumer confidence survey was also disappointing, overshadowed by the concerns regarding the outlook for the global and domestic economies.

That said, the consumer survey indicated that sentiment in the housing market is improving. It follows the first monthly increase in Sydney and Melbourne house prices in June since 2017. Preliminary auction clearance rates over the weekend topped 70% in Sydney and Melbourne. APRA have also formally announced the removal of "the at least 7%" rule in determining borrowing capacity, and replaced it with a buffer of 2.5% above a loan's current rate. Confidence has clearly been boosted, however, we remain wary about calling a sustained turnaround in the housing market.

We will receive an update on housing finance, which will be released on Thursday. Home lending has been weak and we expect it will remain so in the data for May.

The passage of tax cuts last week through Parliament will also provide some support to the household sector. However, it is unlikely enough to completely offset the headwinds of slow income growth and high household debt.

The second half of 2019 is shaping up to be better for the domestic economy, but we continue to expect economic growth at a pace below trend.

Forecasts

End Period:	2019			2020			
	Close (Jul 5)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	1.00	1.00	0.75	0.75	0.75	0.75	0.75
90 Day BBSW, %	1.13	1.10	1.00	1.00	1.00	1.00	1.00
3 Year Swap, %	1.04	1.00	1.05	1.15	1.20	1.25	1.30
10 Year Bond, %	1.28	1.30	1.40	1.45	1.60	1.70	1.75
US Interest Rates:							
Fed Funds Rate, %	2.375	2.125	1.875	1.875	1.875	1.875	1.875
US 10 Year Bond, %	2.03	2.10	2.05	2.10	2.20	2.25	2.30
USD Exchange Rates:							
AUD-USD	0.6980	0.68	0.68	0.66	0.66	0.67	0.67
USD-JPY	108.47	106	105	107	108	109	110
EUR-USD	1.1225	1.14	1.14	1.13	1.13	1.12	1.12
GBP-USD	1.2521	1.26	1.25	1.26	1.27	1.29	1.30
NZD-USD	0.6628	0.65	0.65	0.65	0.66	0.66	0.66
AUD Exchange Rates:							
AUD-USD	0.6980	0.68	0.68	0.66	0.66	0.67	0.67
AUD-EUR	0.6216	0.60	0.59	0.59	0.59	0.60	0.60
AUD-JPY	75.71	72.1	71.2	70.8	71.5	73.0	73.7
AUD-GBP	0.5571	0.54	0.54	0.53	0.52	0.52	0.52
AUD-NZD	1.0532	1.05	1.04	1.02	1.01	1.01	1.01

	2018	2019 (f)	2020 (f)
GDP, %	2.4	2.2	2.5
CPI (Headline), %	1.8	1.8	1.6
CPI (Trimmed mean), %	1.8	1.4	1.8
Unemployment Rate, %	5.0	5.4	5.6
Wages Growth, %	2.3	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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