

# Weekly Economic Outlook

Monday, 9 September 2019



## Central Banks Ready to take Action

The warning lights are still flashing amber according to economic developments over the weekend. The run of data is suggesting that the trade tensions are increasingly impacting the global economy.

Take Chinese trade data released on Sunday. Chinese exports were disappointing and contracted 1.0% in the year to August. The weak result was despite the fact that the yuan depreciated over the month and despite the fact demand was expected to be brought forward ahead of US tariff hikes. Moreover, weak imports further suggest weakness in the Chinese domestic economy.

The US economy is also facing headwinds. The uncertainty over tariffs and trade developments has not been conducive for business investment and hiring decisions. The downturn in business confidence has translated into a weaker pace of hiring; the run of job gains this year has been consistently below the heady pace of last year. While the current rate of job growth is still sufficient to prevent the unemployment rate from rising, jobs growth is likely to weaken further. Indeed, the softer pace of employment growth is likely to impact the US consumer, which has been resilient to date.

Consequently, it seems increasingly likely that the 25 basis point rate cut delivered by the Federal Reserve will not be the only one. US Federal Reserve Chair Powell has said that the rate cut was a “mid-cycle adjustment”, but the comments preceded the escalation in the trade conflict over recent weeks and further indications that economic growth is losing momentum.

The increasing risk that US economic growth will slow to a pace below trend suggests the Federal Reserve will implement rate cuts at every meeting for the remainder of this year and twice more next year, taking the Fed funds rate to 0.875% by mid-2020.

The Federal Reserve is not the only central bank looking to provide monetary policy support. Just last Friday, the People’s Bank of China (PBoC) lowered its reserve requirement ratio (the amount of funds that banks have to hold in reserve) for the third time this year, which will be its lowest since 2007.

Additionally, on Thursday, we expect the European Central Bank (ECB) to lower its deposit rate by 10 basis points and announce a new round of quantitative easing to be implemented by the end of the year.

Unlike the financial shocks that have resulted in global recessions in the recent past, the current risks seem more like a kettle slowly coming to the boil rather than being thrown into the fire. However, as RBA Governor Lowe recently highlighted, “political shocks are turning into economic shocks”. The long-running trade tensions continue to suggest that the risk to the outlook are skewed towards the downside.

## Forecasts

End Period:	2019		2020			
	Close (Sep 6)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
<b>Aust. Interest Rates:</b>						
RBA Cash Rate, %	1.00	0.75	0.50	0.50	0.50	0.50
90 Day BBSW, %	1.00	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.82	0.70	0.75	0.80	0.85	0.90
10 Year Bond, %	1.09	0.95	0.90	0.95	1.00	1.05
<b>US Interest Rates:</b>						
Fed Funds Rate, %	2.125	1.375	1.125	0.875	0.875	0.875
US 10 Year Bond, %	1.56	1.45	1.40	1.45	1.50	1.55
<b>USD Exchange Rates:</b>						
AUD-USD	0.6846	0.67	0.66	0.66	0.67	0.67
USD-JPY	106.92	105	104	104	106	108
EUR-USD	1.1029	1.07	1.05	1.06	1.07	1.09
GBP-USD	1.2283	1.17	1.18	1.20	1.22	1.24
NZD-USD	0.6421	0.64	0.63	0.63	0.64	0.64
<b>AUD Exchange Rates:</b>						
AUD-USD	0.6846	0.67	0.66	0.66	0.67	0.67
AUD-EUR	0.6210	0.63	0.63	0.62	0.63	0.61
AUD-JPY	73.20	70.4	68.6	68.6	71.0	72.4
AUD-GBP	0.5573	0.57	0.56	0.55	0.55	0.54
AUD-NZD	1.0671	1.05	1.05	1.05	1.05	1.05

	2018	2019 (f)	2020 (f)
GDP, %	2.4	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, %	2.3	2.5	2.6

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

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.

---

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.

---