Week beginning 2 December 2019

- RBA on hold in December but 0.25% cash rate likely in 2020.
- Australia: RBA policy decision, Q3 GDP and partials, dwelling approvals and prices, retail sales, trade balance and Q3 current account.
- NZ: terms of trade, building work, RBNZ bank capital announcement.
- China: Caixin PMIs.
- Europe: ECB President Lagarde testimony, Q3 GDP 3rd estimate.
- US: payrolls, ISM surveys, factory orders.
- Key economic & financial forecasts.

Information contained in this report current as at 29 November 2019.
RBA on hold in December but 0.25% cash rate likely in 2020

The Reserve Bank Board meets next week on December 3. As we have argued consistently, despite confident market pricing at various stages over the last few months, we see little chance that the Board will decide to change the cash rate in December. However we do expect an even lower cash rate in 2020 than had been our view.

Westpac now expects two rate cuts next year from the RBA with the cash rate cut to 0.25% in June 2020. Quantitative Easing is also expected to begin in the second half of 2020.

Westpac has not changed its rate call for the RBA since July 24 this year. At that time we envisaged two more cuts from the RBA in October 2019 and in February 2020.

That would have seen the terminal cash rate in this cycle at 0.5%.

We expected that the final cut in February would have been insufficient to provide the RBA with enough comfort that the economy was moving into line with their growth; inflation; and unemployment targets.

Consequently, we expected that the RBA would have seen the need for unconventional policies, largely centred around the purchase of Australian government securities and clear forward guidance, to maintain the emphasis that it was still easing policy.

That emphasis was going to be important to maintain downward pressure on the Australian dollar, in particular.

Of course there was always the option to push the cash rate even lower than 0.5% but we assessed that the RBA would see the impact on confidence and inflationary expectations of even lower rates to be counter-productive.

The minutes of the November RBA Board meeting provided some support to our view when it was noted the Board “also discussed the possibility that a further reduction in interest rates could have a different effect on confidence than in the past, when interest rates were at higher levels”.

That observation was certainly consistent with the 5.5% fall in the Westpac MI Consumer Sentiment Index following the announcement of the rate cut in October. Concerns around the implications of ultra-low rates for the state of the economy along with negative publicity around the limited impact of rate cuts on private sector rates are likely to have largely explained that development.

Indeed, since the RBA started this current easing cycle, the Index has fallen by 4.2% to now be firmly in the range where pessimists outnumber optimists.

However in a speech to the Australian Business Economists last night the Governor stated, “Our current thinking is that QE becomes an option to be considered at a cash rate of 0.25%, but not before that.” During the presentation he noted that 0.25% represents the Effective Lower Bound of the cash rate as the interest rate paid on reserves at the RBA is 25bp under the prevailing cash rate and therefore would mean the “Reserve Bank would already be at zero”.

That is a clear signal to us that the RBA will be prepared to cut the cash rate down to 0.25%, rather than the lower bound we had expected of 0.5%.

Accordingly, we have adjusted our cash rate forecast to include a second cut in June 2020 following the cut we expect in February.

We have also delayed the timing of the expected introduction of Quantitative Easing.

In identifying the likely timing of the second cut we need to make a number of points:

- The Governor has indicated considerable reluctance to adopt Quantitative Easing. Consequently the RBA will be attracted to convincing the market that it has a strong commitment to ease policy, to keep downward pressure on the AUD, without actually implementing its last cut too soon.
- It is also likely to be attracted to holding back its final cut until after it gets an indication around the structure of the Federal Budget.
- Our forecast is that the unemployment rate is likely to reach 5.6% by March 2020 and hold around that level through 2020. Consequently, the case for further stimulus following the February cut will be strong throughout 2020 with no apparent progress in bringing the unemployment rate back towards full employment.

Taking these issues into account we expect that a cut in June to 0.25% would be the most prudent approach.

We see this June RBA rate cut as complementing fiscal policy - with the May Federal Budget likely to include some new policy measures (Westpac strongly supports a partial bring forward of the already legislated personal income tax cuts, which are not due to be implemented until July 2022). We doubt that any package of budget measures will be sufficiently expansionary to preclude the need for additional monetary policy easing.

The timing of the expected follow up adoption of Quantitative Easing must be impacted by the Governor’s comment “there is no smooth continuum running from interest rate reductions to quantitative easing. It is a bigger step to engage in money-financed asset purchases by the central bank than it is to cut interest rates”.

Taken at face value, it would appear that the hurdle for Quantitative Easing is high with a further deterioration in the unemployment rate and, potentially, the inflation rate required.

However we expect that with the unemployment rate “stuck” at around 5.6%; the US Federal Reserve easing rates (we expect three FOMC rate cuts in 2020) and no further interest rate flexibility available, Quantitative Easing will surely become an attractive option.

Note that the Governor did observe that “there are, however, circumstances where QE could help... QE does put additional downward pressure on both interest rates and the exchange rate”. However, as discussed, he did put a fairly tough pre condition for using QE, “if we were moving away from, rather than towards, our goals for both employment and inflation.”

Moving too slowly towards QE runs the risk of an unwelcome rise in AUD.

If we look forward to the second half of 2020, with no interest rate flexibility available, and the RBA still holding, at best, its current inflation and unemployment forecasts – 1.9% trimmed mean inflation in 2021 (outside 2-3% target zone); 2.3% wage inflation in 2021 (totally inconsistent with the inflation target); and 4.9% unemployment rate (well above the 4-4.5% full employment target); it seems a reasonable prospect that the QE option will become quite attractive.

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Note that we qualify the comment “at best” given our own comparable forecasts of 1.7%; 2.3% and 5.3% respectively.

We also expect that a small (3-2 billion) open ended monthly commitment to purchases would have a meaningful impact for the RBA.

**The Australian Dollar**

Westpac’s forecast for the AUD, since July 24, have been a narrow range of USD0.66 in the first half of 2020 followed by USD 0.67 in the second half of 2020.

We remain comfortable with that view given the delayed introduction of QE being offset by the lower cash terminal rate. And note that these forecasts are in a world where the Federal Reserve does three rate cuts in 2020 and “risk off” remains the dominant theme.

**Conclusion**

The RBA has indicated it is prepared to push the cash rate to 0.25%.

Westpac has always argued that monetary easing will be necessary in 2020 but assessed that the RBA would see 0.5% as the effective lower bound for the cash rate.

The Governor has corrected that view and we have adjusted our forecasts accordingly to anticipate a second rate cut to 0.25% in June 2020.

Furthermore, while detecting a reluctance to adopt Quantitative Easing we expect that economic conditions in the second half of 2020, coupled with the need to maintain a credible easing policy, will see the RBA adopt QE in the second half of 2020.

**Bill Evans, Chief Economist**
The week that was

Following two speeches from the RBA this week, Westpac Economics changed our RBA view. A further cash rate cut to 0.25% in June is now expected following a (long-foreseen) February cut to 0.50%. We now expect QE will not begin in Australia until the second half of 2020.

As detailed by Chief Economist Bill Evans, Governor Lowe was clear in his speech that the RBA see 0.25% as the effective lower bound for Australia’s cash rate. This is because the interest rate paid on reserves at the RBA is 25bp under the prevailing cash rate and therefore a cash rate at 0.25% would mean the “Reserve Bank would already be at zero”. For the RBA, it is only after this level is reached that “QE will become an option”.

From the above, it is clear that the hurdle for QE to be introduced in Australia is high. However, to our mind, an unemployment rate forecast to be stuck at 5.6% from mid-2020 (well above the 4-4.5% full-employment level) and the Australian dollar remaining at risk of appreciating as the US FOMC delivers three cuts through the year will require the RBA to provide further policy support via QE. We see monthly government bond purchases in the order of $2-3bn for an open-ended period from the second half of 2020.

Note that the June cut and the adoption of QE does not remove the need for fiscal policy to be eased. Recently we have been emphasising that the 2022/23 personal tax cuts could be brought forward to 2020/21 and 2021/22 without the budget falling back into deficit.

In addition to persistent global risks, the case for complementary monetary and fiscal support in scale is made by two pressing domestic realities. First is the enduring weakness in wages growth, which has and will continue to materially restrict consumer spending. Second is the expectation that business investment will struggle to gain traction over the outlook.

Deputy Governor Debelle made clear in his speech this week that soft wages growth is becoming more entrenched in Australia. The distribution of wage gains has narrowed around a historically-weak 2-3% range. Further, this soft momentum is increasingly being locked in for longer periods as enterprise bargaining agreements are lengthened.

There is currently no need for employers to bid up wages to attract new staff, with the supply of labour plentiful thanks to rising participation amongst prime-aged women and as older workers remain in the workplace for longer. Deputy Governor Debelle’s speech highlighted that, for both groups, financial considerations (the cost of living and household debt) are key, while individuals’ willingness to participate is also being aided by labour market flexibility. If the Australian economy is to achieve trend growth, employment opportunities for all entrants must remain strong to reduce labour market slack and buoy wage gains. If not, consumption growth will remain sub-par and at risk over the forecast period, as it has for the past five years.

The other major concern for Australia’s domestic economy is soft business investment. Both construction work and equipment investment contracted in the September quarter, signalling some downside risk to our 0.6% estimate for Q3 GDP (due next week). The bigger concern though is that expectations of business investment look to have deteriorated.

Whereas the prior CAPEX survey expectation for 2019/20 investment pointed to a near 11% nominal gain, the most recent estimate suggests a rise of only 2.5%. Moreover, the mix of investment by industry is troubling, with the gain coming as a result of a resurgent mining sector after six years of decline. In contrast, a decline in service sector investment is projected. Needless to say, achieving trend growth in 2020 or beyond in these circumstances seems highly unlikely absent considerable policy support.

Turning to offshore matters, it was a quiet week as the US celebrated Thanksgiving. The major development of note was that President Trump signed the Hong Kong Human Rights and Democracy act into law. How this affects ongoing US-China trade negotiations in coming weeks will be of keen interest.

Note, a new tranche of US tariffs is also still scheduled to be implemented on December 15 if a phase 1 deal cannot be reached before then.

Across to Europe, a new European Commission led by Germany’s Ursula von der Leyen was approved and will take office on December 1. In the UK, the clock continues to tick down to the UK general election on December 12. Bookies odds now give a Conservative Majority around a 70% chance after an influential YouGov poll predicted a 68 seat advantage.

Chart of the week: Black Friday sales

As per our preview box for October retail sales in this weekly, activity has been disappointing despite recent policy stimulus. Sales recorded a 0.2% increase in September which followed an average 0.1% gain between April and July.

That largely reflects soft household income growth in a period of subdued wage inflation. However, it may be that in part, consumers have held back purchases in anticipation of the increasingly popular Black Friday sales.

The sales are set to take place this weekend from November 29 to December 2. That means like last year, sales will be split over two months of data, posing issues for how the statistician treats seasonality. Last year online sales in November and December posted a record $2bn performance. Unfortunately, we will not get an update on the ABS data for this period until January and February next year, but anecdotes will no doubt filter their way through long before then.

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New Zealand: week ahead & data wrap

This week brought a grab-bag of data releases that were largely on the positive side for the domestic economy, though with some lingering points of weakness. The Reserve Bank’s six-monthly review of the financial system didn’t offer up any surprises. The real highlight will be next week’s announcement on its proposed changes to bank capital requirements.

First up for the week was retail spending, which rose by 1.6% in the September quarter after a subdued 0.2% rise in the June quarter. The gains were widespread across store-types, including strong gains in home furnishings and recreational goods. The pickup in spending was consistent with the recent firming in the housing market, which will give households a little more confidence about opening up their wallets.

While the rise in retail spending was well above market forecasts, it was close to our own forecast and doesn’t alter our view that overall GDP for the September quarter is likely to be soft. We expect that gains in retail, agriculture and construction will be largely offset by weakness in personal and business services and in manufacturing. We’re expecting GDP growth of just 0.3% for the quarter, a forecast that we’ll firm up as other sectoral indicators are released over the next two weeks.

As we noted in our latest quarterly Economic Overview, while we’ve marked down our expectations for September quarter GDP over the last few months, we’ve also become more confident that this will mark the low point for growth. The remainder of this week’s data releases, all relating to the December quarter, have bolstered that view.

Residential building consents fell by 1.1% in October, meaning that they largely held on to their 7.4% jump in September. Over the past year just under 37,000 new dwellings were consented, the highest number since 1974. That points to a substantial pipeline of building work across the country, and we expect building activity to rise further over the coming year and through 2021.

Business confidence posted a solid gain in November, rising to its highest level in a year. Firms were feeling more positive about their own operations, and there was also a lift in investment and hiring intentions. Confidence remains well down from its earlier highs, and has arguably been lower than what economic conditions would warrant. Nevertheless, it has proven to be a useful indicator of near-term GDP, and the latest reading supports our forecast that December quarter growth will be modestly stronger than September.

The one data release this week that struck a note of caution was Stats NZ’s newly-launched monthly employment indicator. The new measure is drawn from tax data, giving it wider and more timely coverage compared to the existing quarterly household and employer surveys. Filled jobs fell by 0.4% in October, following a 0.3% fall in September. There is some inevitable choppiness in the monthly figures, but there has been a clear softening in the trend in recent months, which is consistent with the slowdown in job advertisements this year. We’ve been expecting unemployment to worsen in the near term, before stronger GDP growth sees it resume its downward path in 2021. The monthly indicator certainly suggests some softness to come in the next quarter or so.

You can take that to the bank
As we expected, the Reserve Bank’s latest six-monthly Financial Stability Report did not result in any changes to the loan-to-value ratio (LVR) restrictions on mortgage lending. With the renewed strength in the housing market in recent months on the back of lower mortgage rates, the RBNZ concluded that “it would not be appropriate to ease LVR restrictions further at this point”.

The more significant event for the banking sector will come next Thursday when the RBNZ reveals its final decision on its review of bank capital requirements. This has been a long time coming – the initial proposal was released almost a year ago, and has been through a long process of consultation and review.

We expect that the heart of the original proposal will remain unchanged: an increase in the minimum level of capital that banks must hold from 8.5% to 16% of risk-weighted assets. That’s the level that the RBNZ has judged to be enough to protect the banking system against a 1-in-200-year shock.

Higher capital requirements would increase banks’ overall cost of funding, which would be passed on to some extent as higher interest rates for lending, and ultimately a lower long-run level of economic activity. Based on the initial proposal, we’ve estimated that lending rates would rise by about 50 basis points relative to the OCR, and the long-run level of GDP would be 1% lower than otherwise.

Importantly, we’ve already largely built this impact into our forecasts – though not fully, allowing for the possibility that the RBNZ softens some of the details of the proposal. In particular, the RBNZ has indicated that it will look at the length of the phase-in period (initially proposed to be five years for the major banks, and longer for the smaller banks), and whether it will accept less costly forms of capital such as bonds that are convertible to equity.

It’s also important to note that, even if the impact on lending rates is as large as we’ve estimated, the long phase-in period means that it wouldn’t necessarily require a monetary policy response in the near term. The RBNZ’s most recent projections imply OCR hikes by 2022; we think the more likely response would be to keep the OCR low for even longer, rather than a lower terminal point.

Round-up of local data released over the last week

<table>
<thead>
<tr>
<th>Date</th>
<th>Release</th>
<th>Previous</th>
<th>Actual</th>
<th>Mkt f/c</th>
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<tr>
<td>Tue 26</td>
<td>Q3 real retail sales</td>
<td>0.2%</td>
<td>1.6%</td>
<td>0.5%</td>
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<td>Wed 27</td>
<td>Oct trade balance $m</td>
<td>–1319</td>
<td>–1013</td>
<td>–1000</td>
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<td>Thu 28</td>
<td>Oct monthly employment indicator</td>
<td>–0.3%</td>
<td>–0.4%</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Nov ANZ business confidence</td>
<td>–42.4</td>
<td>–26.4</td>
<td>–</td>
</tr>
<tr>
<td>Fri 29</td>
<td>Nov ANZ consumer confidence</td>
<td>118.4</td>
<td>120.7</td>
<td>–</td>
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<tr>
<td></td>
<td>Oct building permits</td>
<td>7.4%</td>
<td>–11%</td>
<td>–</td>
</tr>
</tbody>
</table>

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Data previews

Aus Nov CoreLogic home value index

Dec 2, Last: 1.4%, WBC f/c: 1.8%

• After a material 10.7% correction over the previous two years, Australian dwelling prices have posted a clear recovery since mid-2019, prices rising 3.8% nationally over the four months to October, the pace accelerating month to month.

• The daily index shows a further pick up in November with the ‘5 capital city’ measure tracking towards a 1.8% gain for the which would be the biggest since October 2003. Sydney is heading for a particularly strong 2.5% rise. The detail also suggests price momentum is quickening in Brisbane. The November result will lift annual growth out of negative for the first time since March 2018 with the national measure set for a 2.5% gain for the 2019 calendar year.

Aus Q3 company profits

Dec 2, Last: 4.5%, WBC f/c: -0.5%
Mkt f/c: 1.0%, Range: -2.0% to 4.0%

• The company profit uptrend has been centred on mining, boosted by rising commodity prices. However, that dynamic was absent in the September quarter.

• For Q3, we expect the survey to report profits down by 0.5%.

• That follows a +4.5%qtr, +12.5%yr outcome for Q2 and a 68% jump in profits since the start of 2016.

• Mining profits are expected to fall, with commodity prices slipping in the quarter (down 1% on the RBA measure). Profitability across the broader economy has been patchy since mid–2018, against the backdrop of soft demand.

• Note that the survey is on an “accounting basis” – profits are impacted by fluctuations in inventory valuations. In Q3, we assess the IVA to be a negative. Abstracting from this, the national accounts company profits estimate is a +0.8%.

Aus Q3 inventories

Dec 2, Last: -0.9%, WBC f/c: -0.5% (+0.2ppt cont’n)
Mkt f/c: -0.2%, Range: -0.6% to 1.0%

• Private business inventories were particularly volatile over the first half of 2019 – around a weak underlying trend.

• Inventories declined by a sharp 0.9% in Q2, reversing a 0.8% spike in Q1. The Q1 gain was largely centred on an above par rise in manufacturing and by mining (with supply disruptions between the mines and the ports a factor).

• For the September quarter, we expect inventories to fall further – due to the weak domestic backdrop.

• Our Q3 forecast is for a decline of 0.5%.

• That will see inventories add to growth, in the order of +0.2ppt, given that the rate of decline has moderated.

Company profits: commodity prices slip in Q3

Inventories: sharp Q2 fall reversed Q1 spike

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Data previews

Aus Oct dwelling approvals

Dec 2, Last: 7.6%, WBC f/c: –2.0%
Mkt f/c: -1.0%, Range: -5.0% to 3.0%

- Approvals rose 7.6% in September but were coming off a sharp 10% drop through July–August. The detail also cautions against over-reading the latest rise as part of a trend with the gain centred on the volatile ‘high rise’ segment.
- Australia’s housing markets are showing a clear improvement since mid-year but any flow on to boost construction activity looks likely to come through slowly and be overshadowed by ongoing weakness in the high rise segment where downside risks still dominate. Construction-related finance approvals have been pointing to a firmer tone for non-high rise activity for some time. A slight lift in this segment is expected to dampen a pull-back in high rise approvals in October, with the total forecast to decline 2%.

Aus Q3 net exports, ppt’s cont’n

Dec 3, Last: 0.6, WBC f/c: +0.2
Mkt f/c: +0.1, Range: +0.0 to +0.3

- Net exports are adding to growth – a trend that extended into the second half of 2019.
- The export uptrend has resumed after stumbling in the second half of 2018, due to drought and mining supply disruptions. Imports are soft on weak domestic demand.
- For Q3, net exports are estimated to add 0.2ppts to growth.
- Export volumes rose by an estimated 0.8%, with resources and services up, more than offsetting further falls in rural and a pull-back in manufacturing after strong gains.
- Import volumes were broadly flat we estimate, constrained by weakness in capital goods and services (with the lower dollar making such imports more expensive).

Aus Q3 current account, AUDbn

Dec 3, Last: +5.9, WBC f/c: +5.0
Mkt f/c: +6.1, Range: +4.0 to +7.8

- In the June quarter, the nation recorded the first current account surplus since June 1975! Now it is set to record back-to-back surpluses.
- In Q2, the current account deficit was $5.9bn, including a trade surplus of $19.9bn and a net income deficit of $14.0bn.
- In Q3, the mix is a trade surplus widening to $20.9bn and an expectation that the NID rebounds to $15.9bn (unwinding the surprise dip in Q2).
- The trade surplus has improved on a higher terms of trade (up an estimated +0.5%) and a rise in real net exports.

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**Aus Q3 public demand**

**Dec 3, Last: 1.4%, WBC f/c: 0.9%**

- Public sector spending, in the form of public demand (directly accounting for a quarter of the economy) has been expanding at a brisk pace. It is a key growth driver and a key generator of jobs.
- Public demand grew by 1.4%qtr, 5.5%yr in Q2. Over the past year, this directly added 1.3ppts to activity (thereby accounting for almost all of the 1.4% increase in total output over the period).
- The focus is on health care (the introduction of the NDIS and the pharmaceutical benefit scheme) and on investment (including transport infrastructure).
- For Q3, we expect a solid rise of 0.9%, including a rebound in public construction work (up by 5.4%).

**Aus Dec RBA policy decision**

**Dec 3, Last: 0.75%, WBC f/c: 0.75%**

- The Reserve Bank is in an easing cycle, lowering the cash rate in June, July, and October, taking the level down from 1.50% to 0.75%.
- This mirrors global developments as heightened uncertainty around international trade erodes business confidence and dents investment plans. The US FOMC and the RBNZ have also lowered policy rates by 75bps this year.
- The domestic backdrop is challenging. GDP in per capita terms has stalled and unemployment is rising. Real wages are flat, constraining consumer spending, and construction activity is in a cyclical downturn, led by housing.
- For now, the RBA has hit “pause” as the Board monitors the response to recently deployed stimulus.
- We expect further easing in 2020, with 25bp rate cuts in February and June, followed by QE in H2 2020.

**Aus Q3 GDP**

**Dec 4, Last: 0.5%qtr, 1.4%yr, WBC f/c: 0.6%qtr, 1.8%yr**

- The Australian economy has lost considerable momentum, with annual growth slowing from an above trend 3.1% in mid–2018 to 1.4% in mid–2019 – the slowest pace since 2009 Q3.
- Key dynamics are: cyclical weakness, centred on construction (notably housing, with lending standards tightened); structural headwinds around wages and productivity; and a slowing global economy.
- For Q3, we expect real GDP growth of 0.6%qtr, 1.8%yr.
- The arithmetic is: domestic demand, 0.2%; total inventories, +0.2ppt; and net exports, +0.2ppt.
- Domestic demand is weak on our figuring, at only 0.2%qtr, 0.8%yr. Private demand has stalled, at 0.0%qtr, −0.2%yr.
- See our preview bulletin for additional detail.

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Data previews

Aus Oct retail trade

Dec 5, Last: 0.2%, WBC f/c: 0.3%
Mkt f/c: 0.3%, Range: -0.1% to 0.5%

- Retail sales rose 0.2% in September following a 0.4% gain in August. That’s a slight improvement on the 0.1% average over April–July but a very disappointing result given the interest rate cuts in June–July and $7.7bn in tax offset payments that started to go out from July (with retail sales running at $28bn/mth, the results – 0.4% equates to $110m – imply barely a sliver of this stimulus has been spent).
- Consumer and business surveys suggest there was little or no improvement in October – consumer sentiment falling sharply in the wake of the RBA’s October rate cut and retailers reporting no improvement in business conditions in the month. While these measures are not good enough to give month to month point forecasts for sales and there is an outside chance that we start to see more of a policy boost show through, we expect the October sales result to again be on the disappointing side with a lacklustre 0.3% gain.

Aus Oct trade balance, AUDbn

Dec 5, Last: 7.2, WBC f/c: 6.3
Mkt f/c: 6.5, Range: 5.0 to 7.6

- Australia’s trade surplus, while still sizeable, is in retreat from the June record high of $7.9bn.
- For October, we expect the surplus to narrow to $6.3bn, down from $7.2bn in September.
- Export earnings are forecast to decline by 2.8% (~$1.2bn). Falls are likely for iron ore (prices and volumes) and gold, descending from a high base.
- Imports are expected to fall by 0.8%, (~$0.3bn) coming on the heels of a strong showing in September, +2.5%, centred on some volatile segments.

Monthly retail sales

$bn

% chg

Sep-12 Sep-13 Sep-14 Sep-15 Sep-16 Sep-17 Sep-18 Sep-19

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Data previews

NZ Q2 building work put in place
Dec 5, Last -1.5%, WBC f/c: +2.5%

- Total construction activity fell 1.5% in the June quarter. That fall was mainly due to a sharper than expected 3.4% fall in non-residential construction. Residential construction was essentially flat for the quarter.
- We’re forecasting a 2.5% increase in total building activity in the September quarter, with gains spread across both the residential and non-residential components. Recent months have seen strong dwelling consent issuance. There’s also likely to be a rebound in the ‘lumpy’ non-residential category after last quarter’s unexpected weakness.
- The underlying trend in construction is expected to remain firm through the remainder of 2019 and 2020.

US Nov employment situation report
Dec 6, nonfarm payrolls last: 128k, WBC: 185k
Dec 6, unemployment rate last: 3.6%, WBC: 3.6%
Dec 6, hourly earnings growth last: 3.0%, WBC: 3.0%

- US employment growth has clearly slowed from 2018 to 2019. We expect this trend to persist as we head into 2020. That said, as GM workers return to work, a bounce in Nov to an above-average gain of 185k is anticipated.
- The unemployment rate is, in contrast, expected to remain unchanged at 3.6%. On a multi-month view, while we see employment growth slowing further, any rise in the unemployment rate should be marginal.
- An enduring absence of labour market slack is why we believe wages growth will remain sticky around 3.0%yr, even as the heat comes out of employment growth. There is no reason for employers to bid-up wages aggressively, but equally no ability for them to force wages growth lower, with many an employment opportunity open to workers.
## Key data & event risk for the week ahead

<table>
<thead>
<tr>
<th>Date</th>
<th>Risk/Comment</th>
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<tr>
<td>Mon 02</td>
<td>Gains in dairy and meat export prices.</td>
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<tr>
<td></td>
<td>Durable goods orders surprised to upside on first estimate.</td>
</tr>
<tr>
<td></td>
<td>Initial jobless claims</td>
</tr>
<tr>
<td></td>
<td>Construction in cyclical downturn – led by home building.</td>
</tr>
<tr>
<td>Tue 03</td>
<td>Export uptrend continues and imports flat.</td>
</tr>
<tr>
<td></td>
<td>Services index volatile around soft trend, +2.7pts in Oct.</td>
</tr>
<tr>
<td></td>
<td>Arithmetic is: domestic demand 0.2%; inventories +0.2pts...</td>
</tr>
<tr>
<td>Wed 04</td>
<td>Employment indexes to be watched closely for payrolls lead.</td>
</tr>
<tr>
<td></td>
<td>Employment indexes to be watched closely for payrolls lead.</td>
</tr>
<tr>
<td>Thu 05</td>
<td>Another lackluster month of sales expected.</td>
</tr>
<tr>
<td></td>
<td>Bounce back in commercial and strength in residential.</td>
</tr>
<tr>
<td>Fri 06</td>
<td>Construction in cyclical downturn – led by home building.</td>
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</tbody>
</table>

### Westpac weekly

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Economic & financial forecasts

Interest rate forecasts

<table>
<thead>
<tr>
<th></th>
<th>Latest (29 Nov)</th>
<th>Dec-19</th>
<th>Mar-20</th>
<th>Jun-20</th>
<th>Sep-20</th>
<th>Dec-20</th>
<th>Jun-21</th>
<th>Dec-21</th>
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<tbody>
<tr>
<td>Cash</td>
<td>0.75</td>
<td>0.75</td>
<td>0.50</td>
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<td>0.25</td>
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<td>3 Year Swap</td>
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<td>0.60</td>
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<td>10 Year Bond</td>
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<td>1.00</td>
<td>1.20</td>
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<tr>
<td>10 Year Spread to US (bps)</td>
<td>-75</td>
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<td>-60</td>
<td>-55</td>
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International

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<td>Fed Funds</td>
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<td>US 10 Year Bond</td>
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<td>US Fed balance sheet USDtrn</td>
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<td>ECB Deposit Rate</td>
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New Zealand

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<td>2 year swap</td>
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Exchange rate forecasts

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<th>Dec-20</th>
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<td>EUR/USD</td>
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Australian economic growth forecasts

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<td>GDP: % qtr</td>
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<td>Q1</td>
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<td>1.8</td>
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New Zealand economic growth forecasts

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