Week beginning 30 November 2020

- Australia’s economy reopening in Q3, consumers head back to the shops.
- RBA policy decision, RBA Governor Lowe Parliamentary testimony.
- Australia: Q3 GDP and partials, current account, trade balance, retail, dwelling approvals, house prices, housing finance and credit.
- NZ: terms of trade, building permits, commodity prices and building work put in place.
- China: PMIs.
- Federal Reserve: Beige Book, speakers include Fed Chair Powell, Brainard and Evans.
- US: payrolls, trade balance, factory orders, construction spending, pending home sales.
- Key economic & financial forecasts.

Information contained in this report current as at 27 November 2020.
Australia's economy reopening, consumers head back to the shop: Q3 GDP, a preview

Overview

The Australian National Accounts, to be released on Wednesday December 2, will provide an estimate of economic activity for the September quarter.

This year has been the most extraordinary period. The nation endured an unprecedented temporary and partial shut-down in an effort to contain the spread of covid.

This led to a severe recession over the first half of the year, output contracting by 0.3% in the March quarter and then plunging by 7.0% in the June quarter.

The September quarter saw output rebound as restrictions were rolled back. The rebound in the quarter was limited by Victoria's second lock-down, which has since come to an end.

The key dynamic is that the covid restrictions limited the movement and travel of households - thereby significantly curtailing the opportunity of consumers to spend. As the restrictions were eased, consumers were able to return to the shops in much greater numbers.

We anticipate that output increased by 3.0% in the September quarter, which would still leave it some 3.9% below a year earlier and even further below the base line in the absence of covid.

The labour force survey reports that hours worked lifted by 4% in the September quarter. Hours worked collapsed in the June quarter, down by 9.8% in the national accounts (although the labour force survey reported a slightly more modest decline of 8.4%).

The arithmetic of our Q3 forecast is: domestic demand +3.4%; total inventories +1.4pts and net exports -1.7pts.

Within domestic demand, the expected detail is: consumer spending +6.0%; home building, +0.5%; real estate, +14%; business investment, -5%; and public demand, +1.2%.

One of the key features of the covid recession is the sheer magnitude of the income transfer from the government sector to households and businesses.

By way of context, taxes less subsidies deteriorated by $56bn in Q2. The upshot, total factor incomes (wages and profits) actually grew in Q2, up by 3.8%, rather than tracking nominal GDP, which declined by 7.6% in the period.

On the consumer, 53% of domestic demand, the national accounts provide us with a detailed update on spending, saving and incomes. Of note, the household saving ratio spiked to 19.8% in Q2, up from 3.6% at the start of the year - boosted by income transfers from the government. This strengthening of the household balance sheet enables consumers to lift spending as confidence improves.

Looking beyond the September quarter, near-term the end of Victoria's second lock-down and success in containing the virus locally will support a further rebound in activity.

The 2021 year will be a period of transition as the momentum from the reopening effect fades. Legacies from the virus, social distancing and international travel restrictions, and legacies from the recession, high unemployment, as well as the fragilities pre COVID, will act to temper the pace of recovery. That said, positive news on vaccines is encouraging.

Detail

Household consumption (6.0%qtr, -7.6%yr): Consumer spending plunged by an unprecedented 12% in the June quarter, associated with the nationwide partial lock-down and the closure of borders, including the national border. Spending rebounded in Q3, albeit tempered by Victoria's 2nd lock-down, up by an expected 6% (although we note considerable uncertainty around this forecast).

Retail sales, down 3.5% in Q2, jumped 6.5% in Q3, with folk spending more in retail categories. Across services spending trends will vary following some dramatic results in Q2, e.g. transport services, -86% in Q2; and hospitality, -56% in Q2.

Dwelling investment (+0.5%qtr): Home building activity grew in Q3, up an estimated 0.5%, breaking an 8 quarter run of declines and a sharp turnaround from a -6.8% for Q2. Work on detached houses rose, +1.1%, so too renovations, +4.6% following a -5%, together more than offsetting a further and sizeable fall in work on units, down 6%.

New business investment (-3%qtr): Business investment is hit hard by recessions, including this covid recession, with a jump in excess capacity and increased uncertainty. Investment fell by 3.5% in Q2 and by a forecast further 3% in Q3. Construction work is understandably falling (commercial building -6.4% in Q3), so too spending on equipment, -2.2%.

Public spending (1.2%qtr, 5.9%yr): Public demand, 27% of the economy and half the size of consumer spending, has been expanding at a brisk pace for 6 consecutive years now (2015 to 2020). The covid response, including stockpiling of health supplies, has added impetus to government spending.

Net exports (-1.7pts qtr, -0.2pts yr): Import volumes, up an estimated 6.5%, rebounded following a 19% fall over the first half of the year as the domestic economy reopened. Exports fell further, -2.4% we estimate, hit by the global recession.

Private non-farm inventories (1.0% qtr, +1.4pts contribution): Business non-farm inventories (often volatile) fell by a sharp 3% in Q2 as sales and output collapsed. A partial rebuild, +1%, as the economy reopened and aided by a flood of imports, will see inventories add 1.4pts to activity in Q3.

Andrew Hanlan, Senior Economist, ph (61–2) 8254 9337
**The week that was**

This week saw the release of Australian partial data related to next week’s Q3 GDP report. Meanwhile, in the US and Europe, the focus remained on COVID-19’s spread and how it can be suppressed.

The *construction work done survey* was the first of two preliminary reads for Q3 investment. The 2.6% decline reported was between our and the market’s expectation and continues the downtrend present since 2018 - initially because of declining residential construction, and more recently COVID-19 disruptions.

The positive surprise versus our expectation for Q3 was due to residential construction. This sub-sector has recently surprised in its resilience, and dwelling approvals point to a constructive outlook despite the dramatic decline in population growth related to border closures. Public investment has been and should remain a positive as governments look to offset weakness in other areas of the economy such as in private non-residential construction – where approvals data points to further weakness ahead.

The *CAPEX survey* subsequently provided a perspective on equipment investment in Q3. Here the Q3 fall was much smaller than we had anticipated at just -2.2%. Investment in mining and services was down around 3% in the quarter, manufacturing -1%. This positive surprise notwithstanding, the outlook for investment remains poor, with the fourth estimate for 2020/21 spending still down 10% on the comparable figure for 2019/20 (estimate 3 three months ago was -12.6%).

Within the industry detail, while we did see a material upward revision in planned investment in manufacturing and services over the last 3 months, the investment intentions of miners deteriorated. We expect the latter outcome will reverse in the months ahead as the global recovery gathers pace, increasing anticipated commodity demand. The continued re-opening of our own economy should also provide for further upward revisions in services and manufacturing investment plans.

The *Housing Pulse*. This edition highlights the building confidence in housing and provides an assessment of regional/ sub-regional price performance. Both confidence and the price action seen to date argue for a stronger price growth profile. We have responded by pulling-forward the circa 15% gain in prices previously seen in 2022 and 2023 by a year to 2021 and 2022. Gains thereafter will be dictated by success in healing the labour market and the policy mix, as discussed by Chief Economist Bill Evans earlier this week.

Staying with housing, but turning to New Zealand, this week saw the NZ Minister of Finance propose house prices be added to the variables that the RBNZ is to minimise unnecessary instability in. This comes as a result of concern over the strong gains in house prices being supported by ultra-low interest rates – deemed necessary by the RBNZ to accelerate consumer inflation back towards target and to counter upward pressure on the NZ dollar as well as downside risks around domestic employment. This is clearly a complex topic which requires in-depth discussion, as provided by New Zealand Chief Economist Dominick Stephens.

Finally, to the US and Europe. In the US, the focus of the short trading week ahead of Thanksgiving and Black Friday shopping was on the conflict between the immense cost of the pandemic currently being experienced and the hope vaccines offer, albeit likely not till mid-to-late 2021.

Clearly, with the daily new case count around 180k ahead of Thanksgiving, there is a real risk of a further spike in cases following the holiday period. With hospital capacity already extremely stretched in many states, any significant increase in cases from here is likely to trigger additional restrictions and impinge on growth prospects in early-2021.

While the *November FOMC minutes* gave little away ahead of the December FOMC meeting, given new restrictions are being imposed on the economy; initial jobless claims are now rising; and the considerable uncertainty remaining around the 3-6 month outlook, the provision of additional support for the economy at the December meeting seems justified, particularly as the FOMC’s inflation and full-employment mandate is a long way from being met, and fiscal policy is absent.

In Europe and the UK, the past fortnight has shown evidence of success in slowing the virus’ spread. Consequently, the *UK this week* announced another change in the approach to lockdowns, with a tiered system of restrictions to again be adopted and some additional flexibility for Christmas celebrations given.

That said, stringent restrictions are still set to remain in place in the UK into 2021. European countries are likely to follow a similar approach. Economic risks and a need for additional policy support will therefore also remain in place for the region to at least the end of Q1 2021, when it is hoped that successful vaccine deployments will quickly suppress the virus.
No easy answers

Rising house prices, and the resulting political and social fallout, have been an unintended consequence of the Reserve Bank’s interest rate cuts. But that doesn’t mean the RBNZ is going to change course – its decisions will continue to be guided by the outlook for inflation and employment in the wake of the Covid-19 shock. In that respect, while activity continues to rebound strongly, we are still convinced that substantial monetary stimulus over an extended period is warranted.

This week saw the unusual step of the Minister of Finance writing to the RBNZ Governor, expressing concern about the role that low interest rates have played in boosting house prices. The Minister proposed a change to the monetary policy Remit that would require the RBNZ to avoid ‘unnecessary instability’ in house prices when setting monetary policy.

Importantly, this would not make house prices another target for the RBNZ. Its primary focus, which is written into the legislation, would remain on inflation and employment. What could change, however, is that the RBNZ may take a more gradual path to meeting those targets. The RBNZ has taken a ‘least regrets’ approach so far this year – it has erred on the side of more aggressive monetary stimulus, judging the cost of overshooting its inflation and employment targets would be less than the cost of an undershoot. The proposed change to the Remit could mean a more balanced approach.

The RBNZ for its part has held the line, reiterating that its responsibility is for inflation and employment. And that’s what will guide our thinking as we review our OCR forecasts. We have been forecasting cuts in April, May and August next year, taking it to a low of -0.5%. That timing now looks less likely, although the case for further easing is by no means off the table.

It’s certainly true that the economy has come through the Covid-19 shock much better than was initially feared. We’ve consistently been at the less bearish end of the forecasting spectrum, and even we have been surprised by the strength of the rebound.

There was further evidence of that this week, with a whopping 28% rise in retail spending over the September quarter, taking it well above pre-Covid levels. It’s likely that there was an element of catch-up spending after the Covid lockdown in the previous quarter, with particularly strong sales of cars and durable goods. That does raise the risk that GDP could slow and even go backwards in the December quarter, as spending drops back to more sustainable levels. Nevertheless, the retail data highlights the ongoing resilience of the consumer.

Although activity has rebounded strongly, we are still not completely convinced that medium-term inflation is on track. The non-tourism part of the economy may be doing well, but the closure of the international borders has created a huge hole in economic demand. Surveyed inflation expectations remain lower than what would be consistent with the RBNZ’s target. There is evidence of price increases for some items due to supply chain disruptions, but this doesn’t appear to be widespread and will probably test temporary.

To complicate matters further, the recent rise in the exchange rate and wholesale interest rates amounts to a de facto tightening of monetary policy. While in part this has been happening for positive reasons, such as the better than expected news on vaccine development, it actually takes the RBNZ further away from meeting its inflation target.

We’d also point out that while increasing the RBNZ’s focus on house prices might change the timing of OCR cuts in the short term, it would make very little difference to the level of interest rates (or house prices) over a longer timeframe. The fact is that central banks can’t cheat nature. Falling interest rates are a global phenomenon, caused by deep fundamentals like the global return on capital and global savings patterns. In the long run, central banks have to deliver the level of interest rates that economic conditions warrant.

We’ve seen several occasions, both here and overseas, where central banks have taken their eyes off their inflation targets in pursuit of some side goal. The end result is always the same: by pursuing gradualism in the near term, they have ended up having to raise or lower interest rates by even more than they hoped.

Where the RBNZ has been more sensitive to the impact of rising house prices has been in the financial stability sphere. Prior to this week’s Financial Stability Report, it had already indicated that it plans to reintroduce limits on high loan-to-value ratio (LVR) mortgage lending by March next year. The limits were temporarily removed in April as part of the RBNZ’s measures to support the economy through the Covid shock.

The RBNZ has said that it plans to restore the LVR limits to their pre-Covid settings. That would mean a hard 70% LVR limit on investor loans, and a ‘speed limit’ on owner-occupier loans where only 20% of lending could be at an LVR above 80%.

Reimposing these limits is sensible from a financial stability point of view, but we expect that the direct impact on house prices would be only modest. That’s consistent with studies of previous conditions. Nevertheless, the housing market was already gaining momentum under these same settings before Covid struck.

While it’s tempting to pin the rise in house prices on a particular group of buyers, the lending data compiled by the RBNZ suggests otherwise. New mortgage lending dropped during the Covid lockdown, but has since rebounded strongly and in October was at its highest on record going back to 2014. But in that time there has been equally strong growth in both high-LVR and low-LVR lending. And within the high-LVR bracket, the growth has been driven by both investors and first-home buyers. It might prove tricky to clamp down on the latter, given that the Labour Government has expressed strong concern about any measures that might shut first-home buyers out of the market.

Round-up of local data released over the last week

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<th>Date</th>
<th>Release</th>
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<th>Actual</th>
<th>Mkt f/c</th>
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<td>Oct trade balance $m</td>
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<td>Nov ANZ consumer confidence</td>
<td>108.7</td>
<td>106.9</td>
<td>-</td>
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Data previews

Aus Q3 company profits

Nov 30, Last: 15%, WBC f/c: 6%
Mkt f/c: 4%, Range: -7% to 10%

- The Australian economy took a battering in the June quarter - on a scale not seen in peace time since the Great Depression of the 1930s. Business sales plunged, so too sales revenue.
- Despite this, “business profits” surged, up 15% ($14.3bn). This was possible because the government “over compensated” businesses and households - with an income transfer on a scale that is unprecedented.
- Taxes less subsidies deteriorated by $56bn, such that total factor income across the economy (wages and profits) grew by 3.8% rather than falling by 7.6% in line with nominal GDP.
- In the September quarter, the money from Canberra kept flowing and the economy was reopening - together suggesting that business profits rose further.
- Our forecast is for profits to rise by 6% - however we caution that there is considerable uncertainty around point forecasts in this turbulent environment.

Aus Q3 inventories

Nov 30, Last: -3.0%, WBC f/c: 1.0% (+1.4ppt cont'n)
Mkt f/c: -0.7%, Range: -3.2% to 1.9%

- As sales plunged in the June quarter, down by 9.4%, inventory levels were cut, contracting by 3.0%.
- By way of context, at the height of the GFC, sales fell by a more modest 2% in Q4 2008.
- The reopening of the economy in the September quarter saw output locally lift from its lows. In addition, there was a flood of imports as supply lines were restored.
- Increased output and the snap-back in imports flowed through to higher inventory levels, as well as meeting higher sales. Just how quickly inventories can be rebuilt is unclear.
- Our forecast is for inventories to stage a partial rebound, up by 1.0%, a rise of $1.6bn - following a $7.2bn decline spread over Q1 and Q2. Such a result would see inventories add 1.4ppt to activity in Q3.

Aus Oct private credit

Nov 30, Last: +0.05%, WBC f/c: 0.1%
Mkt f/c: 0.1%, Range: 0.0% to 0.2%

- Credit to the private sector was broadly flat in September, up by only 0.05%, after moving lower in each of the previous four months (down by a cumulative -0.5%).
- These trends are not surprising with the economy navigating a severe recession, leading to a sharp jump in spare capacity and increased uncertainty.
- Business credit is down by 2.7% over the past five months, while personal credit has crashed, down 5.5% over 5 months.
- The one positive, the interest rate sensitive housing sector is responding to cheap credit.
- For October, we anticipate a rise of 0.1% in total credit, with expanding housing credit just outweighing further declines in business and personal.

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Data previews

Aus Nov CoreLogic home value index
Dec 1, Last: 0.2%, WBC f/c: 0.6%
• The COVID-related shock to dwelling prices now looks to be largely over. While there will likely be residual areas of weakness for some time, the broader market has turned, especially outside Sydney and Melbourne.
• Prices nationally nudged up 0.2% in Oct, the first monthly gain since April. The CoreLogic daily measure points to a much firmer 0.6% gain in November, the reopening in Melbourne finally seeing prices turn in the one major market still seeing declines a month ago.

Aus Oct dwelling approvals
Dec 1, Last: 15.4%, WBC f/c: -3.0%
Mkt f/c: -3.0%, Range: -5.0% to 5.0%
• Dwelling approvals surged strongly in Sep with no discernible impact from Vic’s second wave lockdown and what looks to have been a big boost both from reopening and the Federal Government’s HomeBuilder scheme. Total dwelling approvals jump 15.4%, with detached houses – normally a stable component – up 9.7%.
• Vic’s ‘second wave’ lockdown may yet impact but with other states well into re-opening rebounds, housing markets lifting and the HomeBuilder scheme still giving a boost, approvals are likely to remain relatively well supported.
• On balance we expect the Oct update to see approvals retrace 3% but hold on to much of Sep’s gain.

Aus Q3 net exports, ppts cont’n
Dec 1, Last: +1.0, WBC f/c: -1.7
Mkt f/c: -1.7, Range: -2.2 to -1.3
• International trade flows have been greatly disrupted by the covid pandemic, restrictions on the movement of people, and by the resulting global and domestic recession.
• The first half of the year saw imports fall faster than exports. Net exports hence added to growth, contributing 0.4ppt to activity in Q1 and then adding a hefty 1.0ppt in Q2.
• The second half of the year, to date, is a different story. Imports have flooded in as supply lines are restored and the domestic economy reopens; and as consumers are permitted to return to the shops in greater numbers.
• For Q3, we estimate net exports subtracted 1.7ppts.
• Import volumes rebounded by around 6½% in the quarter, after falling by almost 19% over 2020 H1. Export volumes declined further, down by almost 2½%, after an 11% drop over 2020 H1.

Australian dwelling prices

Net exports: f/c -1.7ppts, imports rebound

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Data previews

Aus Q3 current account, AUDbn
Dec 1, Last: 17.7, WBC f/c: 6.5
Mkt f/c: 7.1, Range: 3.0 to 10.0

- The great trading nation of Australia is running current account surpluses - and has been since June 2019.
- The September quarter will mark the 6th consecutive current account surplus.
- Our point forecast is for the surplus to narrow from a record high of $17.7bn (3.7% of GDP) in the June quarter to $6.5bn.
- The trade surplus likely shrank by a whopping $11.3bn - narrowing from $23.9bn to around $12.6bn as imports flooded in and as exports sank further on weak demand.
- The net income deficit is likely to remain relatively low, having printed at $6.1bn for Q2 - well down from $16.7bn back at the start of 2019.

Aus RBA policy decision
Dec 1, Last: 0.10%, WBC f/c: 0.10%
Mkt f/c: 0.10%, Range: 0.10% to 0.10%

- The RBA cut its key rate targets to 0.10% – viewed as the effective lower bound – and adopted a more aggressive quantitative easing at its Nov meeting. Minutes and a subsequent speech from the Governor also outlined a significant pivot in the Board’s approach: emphasising outcomes over forecast outcomes in its decision-making process; placing primary importance on the labour market; acknowledging the influences of policy developments abroad; and noting that quantities are now a key aspect of policy.
- The RBA is now back in ‘watch and wait’ mode. We are unlikely to see any additional moves given November’s momentous changes but the Board will reiterate its changed approach and that it remains prepared to do more if needed.

Aus Q3 GDP
Dec 2, Last: -7.0%qtr, -6.3%yr, WBC f/c: 3.0%qtr, -3.9%yr
Mkt f/c: 2.4%qtr, Range: 0.5%qtr to 4.1%qtr

- The covid pandemic and government imposed restrictions to contain the virus triggered a severe recession over the first half of 2020 - with output a -0.3% for Q1 and a -7.0% for Q2.
- The second half of the year sees the virus under control locally (but only after a 2nd lock-down in Victoria) and restrictions being reversed - allowing consumers to return to the shops in greater numbers.
- For Q3, we expect output to expand by 3.0%, associated with a 4% lift in hours worked (which fell by 9.8% in Q2).
- The arithmetic is: domestic demand +3.4%; total inventories +1.4ppts; and net exports -1.7ppts. Consumer spending is a forecast +6.0%; home building +0.5%; business investment -3%; and public demand +1.2%.
- We acknowledge considerable risks around the Q3 forecast, with exceptionally large and uneven swings in activity. See page 2 for additional detail.

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Data previews

Aus Oct housing finance approvals

Dec 3, Last: 5.9%, WBC f/c: 2.0%
Mkt f/c: 2.0%, Range: 1.0% to 4.0%

- Housing finance outstripped expectations again in Sep, the total value of new loans rising a further 5.9% to be up 38% from May’s low and 25.5% from a year ago. That is despite a 7.2% fall in Vic as COVID-related disruptions impacted, and continued weak levels of investor lending in most states.
- Vic activity likely stabilised in Oct, possibly even lifting ahead of the relaxation of restrictions in Nov. Reopening recoveries also look to have gained momentum across other states. Overall, a further gain of around +2% looks reasonable with owner occupier loans likely to continue outperforming investor loans.

Aus Oct trade balance, AUD

Dec 3, Last: 5.6, WBC f/c: 5.8
Mkt f/c: 5.8, Range: 2.1 to 7.3

- Australia is running trade surpluses, albeit with considerable volatility in these troubled and turbulent times.
- The surplus began the year at about $5bn, doubled to $10.8bn in March (supported by rising iron ore prices and aided by lower imports) and then dipped to $2.6bn in August.
- September saw something of a normalisation, with the surplus returning to $5.6bn. For October we expect little change, at a forecast $5.8bn.
- Imports are advancing as supply lines are restored and as the domestic economy reopens, triggering a lift in demand from earlier lows. Imports are forecast to expand by around 3.5%.
- Exports are also expected to advance by about 3.5%, emerging from a soft spot. The world economy made gains over the second half of the year, boosting demand and prices for Australian exports.

Aus Oct retail trade

Dec 4, Last: -1.1%, WBC f/c: 1.6%
Mkt f/c: 1.6%, Range: 1.2% to 1.8%

- Preliminary estimates showed a 1.6% rise in retail sales in Oct following a 1.1% decline in Sep and a 4% fall in Aug as Vic entered lockdown. The gain in Oct was a little surprising, sales in Vic reported surging more than 5% despite restrictions not being fully relaxed until Nov.
- Final estimates will shed more light on the gain, including the picture across store-type and states, as well as online sales and sales by business size. Note that early signs suggest November has seen a very strong gain, our Westpac Card Tracker pointing to a monthly rise in the 4-5% range.

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Data previews

NZ Nov ANZBO business confidence (final)

Nov 30, Last: -15.7, flash result for Nov: -15.6

- The early release of the November Business Outlook survey indicated that business conditions have remained steady. Overall, the survey has been consistent with the themes we have been highlighting: While Covid-related headwinds remain a drag in sectors like international tourism, domestically focused activity is proving to be resilient.
- The news flow in recent weeks has pointed to a continued firming in economic conditions, and we expect that business confidence will continue to edge higher from what are still low levels.
- It will be worth keeping an eye on the survey’s inflation and pricing gauges. With a firming in activity, the recent softness in prices looks like it’s starting to fade.

NZ GlobalDairyTrade auction, whole milk powder prices

Dec 2, Last: +1.8%, Westpac f/c: +1%

- We expect whole milk powder prices to be slightly higher at this auction. Prices rose 1.8% at the last auction.
- Our pick is on the bearish side of futures market pricing, which is pointing to a circa 3% lift.
- Global dairy prices are proving relatively resilient this year as evidenced by our 2020/21 milk price forecast upgrade to $7.00/kg in October. The strength or otherwise of New Zealand production, though, remains a swing factor.

NZ Oct residential building consents

Dec 3, Last: +3.6%, Westpac f/c: -5%

- The number of residential dwelling consents rose by 3.6% in September. Over the past year, 37,725 new dwellings were consented. We haven’t seen that sort of strength in consent numbers since the 1970s.
- We expect that consent numbers will fall by 5% in October. That follows a large number of apartment consents in September, which tend to be issued in lumps. That would still leave annual issuance at very high levels, signalling a strong construction pipeline as we head into the new year.
- While Covid disruptions clouded the outlook for building earlier in the year, strong house price growth and tightness in many regions are supporting continued firmness in home building.

NZ business confidence

NZ building consents
Data previews

NZ Q3 building work put in place
Dec 4, Last -22.4%, WBC f/c: +33%

- Total construction activity fell by 22% in the June quarter. Covid related restrictions resulted in significant delays. That saw residential building activity dropping by 19% and non-residential activity falling by 27%.
- We’re forecasting a 33% rise in the September quarter, with bounce backs in both residential and non-residential work following the easing in Covid-related restrictions on activity. That would take building activity back around the levels we saw prior to the outbreak.
- The risks for building activity are to the upside, due to possible catch up activity. However, construction activity was elevated before the outbreak. Furthermore, there have been reports of difficulty sourcing staff and materials that may provide some brake on activity.

NZ real building work put in place

US Nov employment report
Dec 4, nonfarm payrolls, last: 638k, WBC: 450k
Dec 4, unemployment rate, last 6.9%, WBC 6.9%

- Following the strong rebound seen in the September quarter, the US economic recovery looks to have lost its way in the December quarter.
- Consumer spending growth has abruptly slowed and gains for business investment remain modest. Housing continues to show great strength, but is not capable of offsetting weakness elsewhere. We also have to recognise that, while we wait for the deployment of the vaccines, the new case count continues to rise rapidly, forcing authorities to respond.
- The above points to a further deceleration in job growth in November which will persist in December and likely early-2021. The biggest risk is that the unemployment rate downtrend stalls out a long way from maximum employment, creating a lasting impediment to wages growth.

US full employment still a long way off

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Key data & event risk for the week ahead

**Mon 30**

**AUS**
- Q3 company profits: Last: 15.0%, Median: 4.0%, Westpac forecast: 6.0%
- Q3 inventories: Last: -3.0%, Median: -0.7%, Westpac forecast: 1.0%
- Oct private sector credit: Last: 0.1%, Median: 0.1%, Westpac forecast: 0.1%
- Nov M1 inflation gauge, %yr: Last: 1.1%
- NZ
  - Nov ANZ business confidence (final): Last: -15.6, Median: -
  - Final result likely to hold around pre-Covid levels.
- JPN
  - Oct industrial production: Last: 3.9%, Median: 2.2%, Westpac forecast: -
  - Recovery has been gradual, with production down 9.0% yr.
- CHN
  - Nov manufacturing PMI: Last: 51.4, Median: 51.5
  - Nov non-manufacturing PMI: Last: 56.2, Median: 56.0
  - ...and services were boosted by longer golden week.
- UK
  - Oct net mortgage lending £bn: Last: 4.8, Median: 4.5
  - Volumes continue to recover; approvals at a 13yr high.
- US
  - Nov Chicago PMI: Last: 61.1, Median: 59.2
  - Nov pending home sales: Last: -2.2%, Median: 1.0%
  - Nov Dallas Fed index: Last: 19.8, Median: 14.5

** Tue 01**

**AUS**
- Nov CoreLogic home value index: Last: 0.2%, Median: -
  - Reopening rebounds gained momentum into year end.
  - Timely indicator but did not capture Oct’s big jobs gain.
- Weekly Payrolls w/e Nov 14: Last: -
  - Activity lifts from lows as covid restrictions eased, allowing consumers to return to the shops in greater numbers.
- Oct dwelling approvals: Last: 15.4%, Median: -3.0%, Westpac forecast: -3.0%
  - Partial unwind of Oct’s big gain but still at firm level.
- Q3 net exports, ppts cont’d: Last: 1.0, Median: -1.7
  - Import volumes partial rebound, exports slide continued.
- Q3 current account balance, $bn: Last: 17.7, Median: 7.1
  - Down from record high as trade surplus narrows.
- Q3 public demand: Last: 2.1%, Median: -
  - A sizeable increase, albeit down from highs of Q1 and Q2.
- Nov AIG PMI: Last: 56.3, Median: -
  - Manufacturing index up 9.6pts in Oct, led by NSW & Vic.
- RBA policy decision: Last: 0.10%, Median: 0.10%
  - In "watch & wait" mode, assessing impact of Nov package.
- CHN
  - Nov Caixin Mfg PMI: Last: 53.6, Median: 53.5
  - Mfg continues to post a steady recovery.
- ASIA
  - Nov Nikkei manufacturing PMI: Last: -
  - Surveys for Malaysia, Indonesia, South Korea, Taiwan, India.
- EUR
  - Nov CPI %yr: Last: -0.3%, Median: -0.2%
  - Anemic inflation should prompt ECB response in Dec.
  - Nov ISM manufacturing: Last: 59.3, Median: 57.6
  - Strong residential construction offset by declining non-res.
- US
  - Oct construction spending: Last: 0.3%, Median: 0.8%
  - Fedspeak: Last: -
    - Chair Powell (02:00 AEDT), Brainard, Daly & Evans to speak.

**Wed 02**

**AUS**
- RBA Governor Lowe speaking: Last: -
  - Testimony before Parliament Economic Committee.
- Q3 GDP %yr: Last: -7.0%, Median: 2.4%
  - Activity lifts from lows as covid restrictions eased, allowing consumers to return to the shops in greater numbers.
- Q3 GDP %qtr: Last: -6.3%, Median: -4.5%
  - Prices largely flat around current firm levels.
- GlobalDairyTrade auction: Last: 1.8%
  - Down on temporary export price weakness.
- Q3 terms of trade: Last: 2.5%, Median: -3.8%
  - Down on temporary export price weakness.
- EUR
  - Oct unemployment rate: Last: 8.3%, Median: 8.5%
  - Labour market softening; policy remains supportive.
- US
  - Nov ADP employment change: Last: 365k, Median: 500k
  - Initial claims point to downside risks.
  - Federal Reserve’s Beige book: Last: -
  - Employment gains mentioned in Sep may start unwinding.
  - Fedspeak: Last: -
    - Chair Powell (02:00 AEDT) & Williams (05:00 AEDT).

**Thu 03**

**AUS**
- Oct housing finance: Last: 5.9%, Median: 2.0%
  - Ex Vic reopening rebounds consolidate, Vic reopening starts.
- Oct owner occupier finance: Last: 6.0%, Median: 2.8%
  - Owner occupiers leading the resurgence to date ...
- Oct investor finance: Last: 5.2%, Median: -1.2%
  - ...but investor activity should start to lift a little as well.
- Oct trade balance $bn: Last: 5.6, Median: 5.8
  - Export earnings and imports both advancing – solid gains.
- Nov AIG PCI: Last: 52.7, Median: -
  - Construction +7.5pts on housing. > 50 1st time since Aug 2018.
- NZ
  - Oct building permits: Last: 3.6%, Median: -
  - Moderation after last month's lift in apartment consents.
  - Nov ANZ commodity prices: Last: 1.9%, Median: -
  - Dairy prices broadly unchanged for the month.
  - Nov Caixin China PMI services: Last: 56.8, Median: 56.2
  - Services to benefit from resurgence of household spend.
- EUR
  - Oct retail sales: Last: -2.0%, Median: 0.5%
  - Consumer recovery will be stifled by lockdowns.
- US
  - Initial jobless claims: Last: 778k, Median: -
  - Consecutive increases concerning.
  - Nov ISM non-manufacturing: Last: 56.6, Median: 56.0
  - COVID and capacity constraints have hindered recovery.

**Fri 04**

**AUS**
- Oct retail sales: Last: -1.1%, Median: 1.6%
  - Preliminary figures showed solid gain. Vic up 5%+.
- NZ
  - Q3 building work put in place: Last: -22.4%, Median: 31.5%
  - Construction has rebounded following the lockdown.
- US
  - Nov non-farm payrolls: Last: 638k, Median: 500k
  - Sloping employment growth to see...
  - Nov unemployment rate: Last: 6.9%, Median: 6.8%
  - Wages will remain weak for an extended period.
  - Nov average hourly earnings %mth: Last: 0.1%, Median: 0.1%
  - Deficit has progressively widened since the onset of COVID.
  - Oct trade balance US$bn: Last: -63.9, Median: -64.8
  - Investment in imojo against the uncertain backdrop.
  - FOMC’s Bowman on Banking and Fintech (02:00 AEDT).
Economic & financial forecasts

Interest rate forecasts

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US

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New Zealand

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Exchange rate forecasts

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Australian economic growth forecasts

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New Zealand economic growth forecasts

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