

Weekly Economic Outlook

Monday, 12 August 2019

Trade Woes, Confidence & Jobs

Last week was tumultuous for markets given the escalation in trade tensions. A threat to impose another a 10% tariff on the remaining \$300 bn worth of Chinese imports to the US on September 1 was met with a response by China that its companies would stop buying US agricultural products. On top of this, the People's Bank of China (PBoC) let the Chinese yuan depreciate, passing through a rate of 7 against the US dollar and leading Trump to declare China a "currency manipulator".

Trade and technology tensions have been ongoing for more than a year, however it would seem that China and the US are now as far away as ever in coming to an agreement. This recent escalation is occurring at a time when global economic growth is faltering, and confidence has already been dented by the long-running dispute.

As well as hitting Chinese economic growth over the coming year, the new round of tariffs will impact the US consumer more directly, given a range of consumer goods will be targeted. Moreover, Trump said on Friday that he was not ready to make any deal and that planned talks with China in Washington next month "maybe" cancelled.

Financial markets will no doubt continue to be on edge with regards trade developments this week. In the US, a number of retailers will be reporting results, and investors will be watching their response to the latest tariffs and how it would impact their earnings.

In terms of economic data locally, the focus will be on confidence and the labour market this week.

Business confidence and consumer confidence will be released over the next two days, which will be important in gauging the impact on sentiment from the RBA rate cuts and heightened global concerns, although the surveys would pre-date the latest escalation in trade tensions and market jitters.

The labour market is also continuing to gain greater focus than usual given the RBA has highlighted its importance in guiding monetary policy decisions. A number of leading indicators on jobs have been suggesting for some time that employment growth will soften, which suggests that the unemployment rate could rise. We're expecting a modest 5.0k increase in July, in step with the view of moderating employment growth. The unemployment rate is therefore at risk of creeping up to 5.3%, which would shorten the odds that the RBA could cut sooner rather than later.

Wages growth will be released on Wednesday, and is likely to remain subdued. We are expecting annual growth to remain steady at a pace of 2.3%. RBA Governor Lowe said last Friday in his appearance to Parliament that he would like to see wages growth to have a '3' in front. We are certainly very far from that, and the prospects of getting even close remain dim, and dimmer still if the unemployment rate moves further away from the RBA's estimate of full-employment at 4.5%.

Forecasts

End Period:	2019			2020			
	Close (Aug 9)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	1.00	1.00	0.75	0.50	0.50	0.50	0.50
90 Day BBSW, %	0.97	0.95	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.74	0.75	0.75	0.80	0.80	0.85	0.90
10 Year Bond, %	0.96	1.00	1.00	1.05	1.05	1.10	1.10
US Interest Rates:							
Fed Funds Rate, %	2.125	1.875	1.375	1.375	1.375	1.375	1.375
US 10 Year Bond, %	1.72	1.75	1.55	1.60	1.60	1.65	1.70
USD Exchange Rates:							
AUD-USD	0.6786	0.68	0.68	0.66	0.66	0.67	0.67
USD-JPY	105.69	106	106	107	108	110	111
EUR-USD	1.1200	1.09	1.08	1.08	1.08	1.09	1.11
GBP-USD	1.2033	1.18	1.19	1.20	1.22	1.24	1.26
NZD-USD	0.6468	0.64	0.64	0.63	0.63	0.64	0.64
AUD Exchange Rates:							
AUD-USD	0.6786	0.68	0.68	0.66	0.66	0.67	0.67
AUD-EUR	0.6058	0.62	0.63	0.61	0.61	0.61	0.60
AUD-JPY	71.72	72.1	72.1	70.6	71.3	73.7	74.4
AUD-GBP	0.5640	0.58	0.57	0.55	0.54	0.54	0.53
AUD-NZD	1.0496	1.06	1.06	1.05	1.05	1.05	1.05

	2018	2019 (f)	2020 (f)
GDP, %	2.4	2.2	2.5
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.

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