Australia & New Zealand weekly.

Week beginning 25 November 2019

- Ideas for unconventional monetary policy.
- RBA: Governor Lowe and Deputy Governor Debelle speak.
- Australia: business capex, construction work, credit.
- NZ: RBNZ Financial Stability Report, retail, business confidence, dwelling consents.
- China: NBS PMI's.
- Europe: European Commission surveys, CPI, unemployment.
- US: Fed Chair Powell speaks, GDP 2nd estimate, PCE inflation, Thanksgiving.
- Key economic & financial forecasts.

Information contained in this report current as at 22 November 2019.

Westpac Institutional Bank

Ideas for unconventional monetary policy

The minutes of the November monetary policy meeting of the Reserve Bank Board give us no significant reason to change our view that the next rate cut will occur in February.

While some forecasters have been promoting the idea of a move in December, the minutes provided the flavour of a Board that is in no hurry to make the next cut. The minutes conclude that "the Board would continue to monitor developments". It also referred to "having already delivered a substantial monetary stimulus in recent months, there was a case to wait and assess the effects of this stimulus, especially given the long and variable lags".

Nevertheless, the minutes do not want to leave the reader in any doubt that the Board continues to have a clear easing bias. The minutes concluded that the Board "was prepared to ease monetary policy further if needed" and also noted that "members reviewed the case for a further reduction at the present meeting".

Some commentaries interpreted the latter remark as indicating that the Board was close to cutting rates at the meeting. However, my view is that it was used to emphasise a strong easing bias, particularly aimed at containing any upward drift in the AUD rather than any serious risk of an unexpected move in November.

The second important issue around the policy outlook is the "effective lower bound" (ELB) of the cash rate. Westpac has argued since July that the ELB will prove to be 0.50% and will be reached in February 2020. One factor that has been important to our thinking has been the response of the Westpac–MI Consumer Sentiment index to the rate cuts that began in June 2019. The index has been on a clear downward trend (see Figure 1) since that first cut and the Board has recognised that by noting that "a further reduction in interest rates could have a different effect on confidence than in the past". Put another way, the Board "recognised the negative effects of lower interest rates on savers and confidence".

There are two elements to this downward pressure on confidence through these recent cuts; firstly the impact on consumers of the explanation behind very low rates and, secondly, the media coverage around the banks' responses to ultra-low rates.

In that regard, the Board was informed that it appears that banks still have adequate scope to pass on future rate cuts. The minutes noted that "while close to a quarter of deposits were estimated to be earning interest at rates between 0–50bps, most deposits earned interest at rates over 1%". The RBA reports that banks' response to the cumulative 75bp reduction in the cash rate was to lower interest on at-call retail deposits by an average of 60–70bps.

As noted above, this reduction in deposit rates is affecting the confidence of savers, whereas the data also showed that borrowers had been repaying existing loans at a faster pace. This observation puts one of the most important channels of monetary policy, a boost to spending from the increased cash flows of borrowers, at some risk.

In last week's preview to these minutes, we were hopeful that they might cast some light on the sentence in the November Statement on Monetary Policy (SMP), "the Board was mindful that rates were already very low, and that each further cut brings closer the point at which other policy options might come into play". The issue here is whether these "other policy options" refer to unconventional monetary policy, fiscal policy, or both. It is most likely "both".

So more details on the unconventional side would have been helpful. The Governor is speaking on "Unconventional Monetary Policy: Some Lessons from Overseas" next week on November 26. Hopefully, he will cast some light on his thinking in that speech. It is also the last day before the blackout for the December RBA Board meeting. If he wanted to signal to the market that the very disappointing labour force and wages reports from last week, which printed after the November Board meeting, had swayed his thinking towards a December move, that speech would be the time. However, we would be very surprised, given the earlier discussion about these minutes, to see such a move from the Governor.

On the reasonable expectation that the Governor will cast more light on the "unconventional " issue next week it is worth providing a "summary" of our views on this issue which have been communicated on these pages and other Westpac reports in recent times.

Back on July 24 when we extended our rate cut cycle to a final cut to 0.5% in February next year we noted that with rates likely to reach the "effective lower bound" at 0.5% the preferred policy approach would be to link that cut with a "package" of unconventional policies.

The Governor has noted five policies that have been used offshore: negative rates; forward guidance; term lending to banks; large scale asset purchases; and FX intervention.

Various comments from RBA officials, including the Governor, have effectively eliminated negative rates and FX intervention.

Forward guidance has already been embraced, "we are expecting interest rates to stay low for a very long period of time" (Governor Lowe). However, the more hard edged form of "forward guidance" – for example "we are not expecting to raise rates any time before the underlying inflation rate is firmly entrenched near the mid-point of the 2–3% target band" – has not, to this point been used, and it seems unlikely that the RBA would be prepared to make such a rigid commitment.

"Term lending to banks" may well be considered in one form or another. On July 24 we noted the policies of the Bank of England following the surprise Brexit vote in June 2016. The Bank of England cut the bank rate from 0.5% to 0.25% and offered, conditional, fixed rate loans to the banks up to 4 years in duration at 0.25%. At the time the banks' alternative sources of funding – retail and wholesale were both considerably more expensive.

The motivation behind that policy was both to ensure adequate liquidity and to enhance the effectiveness of monetary policy. The liquidity concerns stemmed from the fears around the markets' response to the Brexit vote. Separately, the Bank of England noted the difficulty banks would have in passing on the rate cut to private borrowing rates and noted that pressure on banks' margins might compromise the supply of credit.

Other forms of "term lending to banks" might take the form of term repurchase facilities at attractive rates (used by central banks during the GFC, including RBA) although the motivation has generally been around boosting liquidity rather than enhancing the impact of monetary policy.

On a number of occasions the Governor has seemed to favour "large scale asset purchases" – the specific definition of Quantitative Easing (QE).

The US Federal Reserve adopted QE in three major tranches. QE 1 and QE 2 defined specific volumes of asset purchases (including US Treasuries and ABS). Those tranches were generally targeted at boosting liquidity, whereas QE 3 was targeted at boosting the effectiveness of the monetary transmission mechanism. QE 3 also differed from QE 1 and QE 2 in that monthly purchase quotas of Treasuries and ABS were nominated without tying the program to a specific total volume.

I expect that structure of QE 3 should be adopted by RBA if it decides to purchase CGS (Commonwealth Government Securities).

Westpac has previously estimated that the supply of CGS that might be available for purchase by the RBA is probably around AUD 140 billion (due to the majority of the AUD 600 billion on issue being "locked" in the portfolios of overseas investors, particularly central banks). Of course, the Federal government's commitment to Budget surpluses from 2019/20 further tightens the available supply (current Budget forecasts are for surpluses of AUD 7 billion in 2019/220; AUD 11 billion in 2020/21; and AUD 17.8 billion in 2021/22).

Readers may be aware that Westpac has set out a "plan" to bring forward the personal tax cuts which are legislated for July 2022 to July 2020 in two tranches, providing the economy with a timely boost while allowing slim surpluses in 2020/21 and 2021/2022 of around AUD 4 billion in each year.

In any case, that limited supply of tradeable CGS should not deter a QE strategy. However it must take the form of an open ended monthly purchase commitment of, say, AUD 2–3 billion rather than a specific total target.

One of the RBA's most important objectives behind unconventional policies should be to convince the market that it has an ongoing easing commitment. That could be achieved with an open ended monthly program rather than a finite program, which, once completed, would risk upward pressure on the AUD as the market perceived the RBA as "done"..

Purchases of other securities, including RMBS, (around AUD 80 billion currently available) should also be considered with RMBS issued by the banks dominating supply (non– bank issuance around AUD 20 billion). Banks are capable of boosting RMBS supply over and above that supply required for the CLF liquidity facility through their self–securitisation processes.

Hopefully by November 26 we will see the RBA's clearer preferences for unconventional policy so we can move on from this "constructive speculation" and assess the specific policy preferences.

To again return to the November Board meeting, the minutes also discusses the Staff's revised growth outlook. As we noted in the discussion of the SMP, there were very few changes in the RBA's forecasts. The RBA continues to forecast trend growth (2.8%) in 2020, and above–trend growth (3.1%) in 2021. Westpac is forecasting 2.4% growth in 2020, with the major differences being around the outlook for business investment and dwelling construction. In fact, the minutes highlight that the RBA remains uncertain about the pace of recovery in the dwelling cycle with one of the key factors being the impact of rising prices in the established market on new construction of detached dwellings.

Westpac, which sees the bringing forward of the legislated personal tax cuts as central to boosting demand through 2020, would be much more comfortable if the RBA had a more "downbeat" view on growth next year. The case for tax cuts is not assisted by RBA growth forecasts pointing to a return to trend growth.

Commentary around the international outlook continues to point to risks being tilted to the downside. However, a key reason justifying the decision not to move in November was around the "decline in pessimism" which had been signalled by global financial markets. A further reason to delay any more cuts is to await outcomes for the global economy, with the developments around the US–China trade conflict being front of mind.

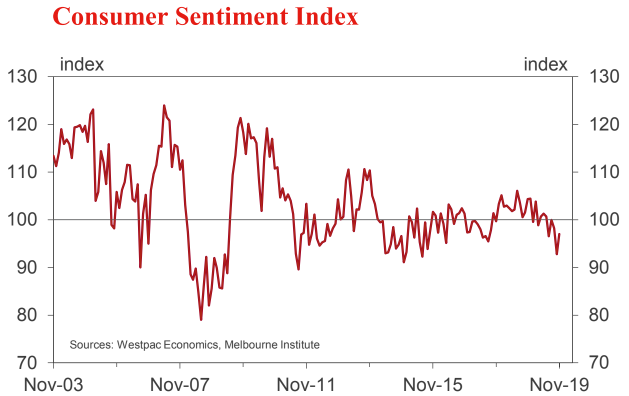
Recent developments would not be encouraging but, we expect, insufficiently disturbing to trigger an unexpected move in December.

Conclusion

The minutes provide little support for a December rate cut but certainly keep our preferred timing – next February – in the picture.

We will be eager to see more light cast on the RBA's intentions around unconventional policies next Tuesday.

Bill Evans, Chief Economist



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The week that was

It has been a quiet week for data, leaving the market to focus on whispers around the possible US–China phase one trade deal as well as central bank communications.

From the RBA, the November meeting minutes confirmed that, while the Board has a clear easing bias, for the time being they are in monitoring mode. Westpac continues to see a 25bp cut to 0.50% in February after which a move to unconventional monetary policy seems probable as Australian activity growth remains below trend and slack continues to build in our labour market.

One of the prime reasons we continue to put forward 0.50% as the effective lower bound for rates in Australia is their impact on confidence. As we highlighted last week, the Westpac–M Consumer Sentiment index has suffered multiple adverse reactions to the 2020 rate cuts and, at November, the downtrend for sentiment remains in place. In the current minutes, the RBA recognised "the negative effects of lower interest rates on savers and confidence" and that "a further reduction in interest rates could have a different effect on confidence than in the past".

While the Board was informed by RBA staff that it appears banks still have adequate scope to pass on future rate cuts – providing an income boost to households – leveraged consumers have to be willing to spend this benefit. Anecdotes suggest this is not the case, with loan pre-payments instead rising. Meanwhile lower rates are reducing savers incomes and/or pushing them to put capital at risk in pursuit of offsetting returns.

On unconventional monetary policy, there was no new information in the minutes, but Governor Lowe is due to speak on the topic next week.

We also got an update this week on the fiscal policy outlook from Prime Minister Morrison and Treasurer Frydenberg. Morrison warned "a panicked reaction to contemporary challenges… would amount to a serious misdiagnosis of our economic situation", and noted that "against this backdrop, it would be reckless to discard the disciplined policy framework". In short, the Government remains committed to its goal for a budget surplus in 2019/20. Notwithstanding that, Morrison announced that $3.8bn of infrastructure spending is now being brought forward into the next four years with $1.8bn of that to be spent in this financial year and the next.

In our view, Australia needs fiscal policy to complement monetary policy to boost domestic demand. We believe there is scope for the government to boost domestic demand by bringing forward the legislated personal income tax cuts to 2020/21 through a phased in approach while providing adequate protection to its surplus strategy – as set out by Chief Economist Bill Evans a few weeks back.

Across in New Zealand, following the RBNZ's surprise on-hold decision last week, our New Zealand team has released their latest quarterly Economic Overview. While the economy's slowdown intensified in the September quarter, NZ Chief Economist Dominick Stephens highlights that recent data tentatively imply the worst is behind New Zealand. One more cut is expected from the RBNZ in February, but this will principally be owing to enduring global uncertainty. The NZ economy is meanwhile expected to strengthen aided in particular by gains in the housing market.

Turning to the US, the FOMC's October meeting minutes were a repeat of the decision statement and follow-up testimony to Congress by Chair Powell. Of prime significance for the December meeting, FOMC confidence in the core of the US economy, the consumer, remains strong. The October cut was, at least in part, to protect the US economy against downside risks from the global environment. Having cut three times in 2020, and with global risks having receded somewhat, the Committee feel they have done enough to insulate the US and can now pause to assess.

While we see the FOMC on hold in December, come 2020 a further deterioration in US consumption growth will be cause for the FOMC to cut three more times to 0.875% by September. Persistent global uncertainty will also justify this course, as trade tensions linger and global growth remains soft.

Chart of the week: personal income tax cuts

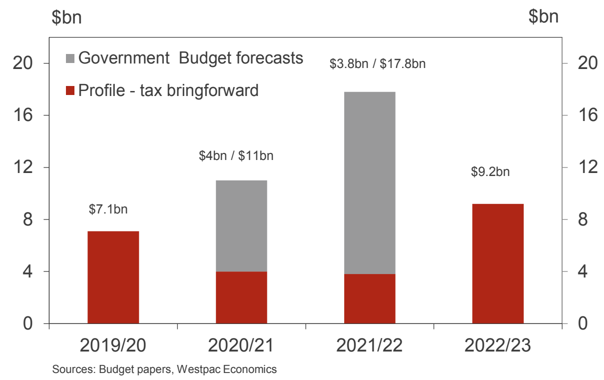
A few weeks ago, Westpac released a thought piece calling for personal income tax cuts, which the government has already legislated for July 2022, to be brought forward to July 2020.

The July 2022 tax cuts are estimated to cost around $14.0 billion in fiscal 2022/23. Bringing the full tax cuts forward to 2020/21 would push the Budget into deficit of around $3 billion before consideration of any further initiatives.

Alternatively, these thresholds could be phased in over two years, moving to $41,000 and $105,000 in the first year and then to $45,000 and $120,000 in the second year.

That change should cost around $7 billion in year 1 and $7 billion in year 2. The Department of Finance would be able to fine tune the adjustment to ensure that equal spread of the costs between fiscal years and maintain slim surpluses in the forward profile.

Federal budget: phased tax bring forward



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New Zealand: week ahead & data wrap

Our long-held view has been that, after the economic slowdown over the past year, we will see a reacceleration in economic growth underpinned by increases in fiscal spending and supportive monetary policy. Recent data indicate that just such a reacceleration is underway, and it's likely to continue over the coming years. With much of the pickup in activity centred on the housing market, stability concerns are back on the radar. As a result, we expect the RBNZ will keep the current loan-to-value restrictions unchanged when it releases its latest Financial Stability Report next week.

Signs of spring

The wind has come out of the New Zealand economy's sails, with GDP growth estimated to have slowed to 2.3% in the year to September. That's well down on the rates of 3 to 4% per annum that we saw over the past few years.

A range of factors has contributed to this deceleration in economic growth. The global backdrop has been rocky, with trade disputes and geopolitical tensions weighing on growth in many major economies. Closer to home, business confidence has fallen to low levels. There's also been a slowdown in household spending, with a cooling in population growth and a downturn in parts of the housing market.

At the same time, the inflation backdrop has remained benign. Domestic inflation pressures have firmed and are set to continue strengthening over the coming year. However, that's balanced against ongoing softness in import prices and continued strong competition in the retail sector. This combination of conditions means that inflation continues to linger at levels a little below 2%.

But while GDP growth has cooled, it looks like the worst is now behind us. As we discuss in our recently released *Economic Overview*,[1] our long-held view has been that the economy will be dragged out of its recent funk by increases in government spending and accommodative monetary policy. And over the past few months, we've started to see the early signs of a turn in activity, including a strengthening in the housing market and a lift in household spending. That comes atop continued strength in construction and firmness in prices for some of our key commodity exports. We expect that this strengthening in activity will continue over the coming years, with GDP growth to reaccelerate back to 3% in mid-2021.

A crucial part of our view has been that supportive monetary policy will underpin a firming in the housing market and household spending. When we announced that forecast back in April, it was greeted with widespread scepticism. However, the pick-up in the housing market is now undeniable. Following the steep slide in mortgage rates that began in April, along with the shelving of the proposed capital gains tax, house sales have lifted by 14% from their lows, and house prices have risen by 3.2% in the last three months (having risen just 1.5% in the year before that). Notably, there are also tentative signs that the housing market is helping to support consumers' spending appetites, with electronic card transactions picking up over the past few months after they effectively stalled through the first half of the year.

Looking ahead, with inflation still struggling to reach 2%, we think that the RBNZ will cut the cash rate again in early 2020 and keep it at low levels for an extended period. That will support a further acceleration in the housing market and household spending over the coming years. In fact, our forecast for nationwide house price inflation of 7% in 2020 could come good even sooner.

Fiscal stimulus will also remain a key feature of the economic environment over the next few years. Recent data show that government spending is up 8% over the past year. And with the recent announcement of large surpluses, there is more where that came from. We expect next year's Budget to feature a substantial increase in projected spending – not least because of election-year considerations.

No change in lending restrictions

With much of the pickup in activity centred on the housing market, stability concerns are back on the radar. The Reserve Bank will be releasing its six-monthly Financial Stability Report (FSR) at 9am next Wednesday, and we expect that they will keep the loan-to-value ratio restrictions (LVRs) unchanged.

The RBNZ has two conditions for loosening the LVRs. The first is that house price and credit growth are well contained, i.e. in line with household income growth. Right now, this appears to be met – nationwide average house prices are up by 3.9% on a year ago, while credit growth is running a bit faster than that at 6.5%yr. Both measures are only slightly higher than they were on the two previous occasions that the LVRs were loosened.

The second condition is that the RBNZ must be satisfied that loosening the LVRs won't lead to a resurgence in the housing market and hence in financial stability risks. We think that this will be the sticking point. The housing market is already accelerating on the back of a steep fall in mortgage rates and the removal of the prospect of a capital gains tax. Loosening the LVRs would add even more fuel to the fire.

There has been speculation that last week's on-hold OCR decision signalled an intention to loosen the LVR rules instead. That's not generally the way it works at the RBNZ – each tool is assessed separately. And in any case, such a combo would shift the mix of credit conditions in the opposite direction to what we think the RBNZ would want. It's business lending, not housing lending, where banks have been tightening up recently, and the proposed increase in bank capital requirements will push further in this direction. Housing is not the area that could do with some relief.

[1] Available here: https://www.westpac.co.nz/assets/Business/Economic-Updates/2019/Bulletins-2019/Westpac-QEO-November-2019-Final.pdf

Round-up of local data released over the last week

Date	Release	Previous	Actual	Mkt f/c
Mon 18	Oct BusinessNZ PSI	54.5	55.4	–
Wed 20	GlobalDairyTrade auction	3.7%	1.7%	–

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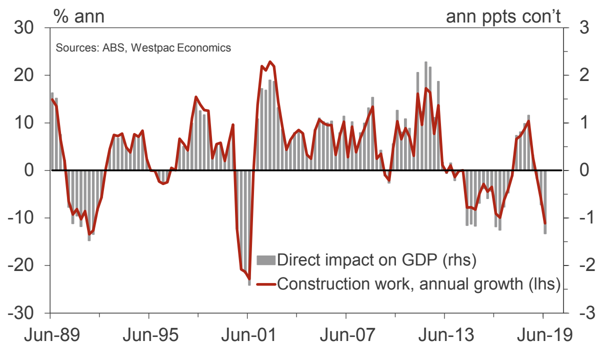
Data previews

Aus Q3 construction work

Nov 27, Last: –3.8%, WBC f/c: –1.0%
Mkt f/c: –1.0%, Range: –3.5% to 1.0%

- Construction weakened from mid-2018, with falls in each of the past four quarters, to be 11% lower over the year (–$6.1bn). Infrastructure is down $3.8bn (both private and public) and private building work is $2.2bn lower (led by housing).
- For the September quarter, we anticipate a 1.0% fall, with downside risks.
- Private new home building activity (–5.3%qtr, –9.9%yr in Q2) has further to fall, with approvals taking another leg lower around mid-2019.
- Public works, while at a high level, moderated over the year (–0.8%qtr, –11.3%yr in Q2) reflecting a gap in the investment project pipeline. Another fall is a risk.
- Private infrastructure work (–2.5%qtr, –13.0%yr in Q2) may be at a turning point. In mining, a few projects have proceeded of late and the work pipeline has expanded.

Construction cycles

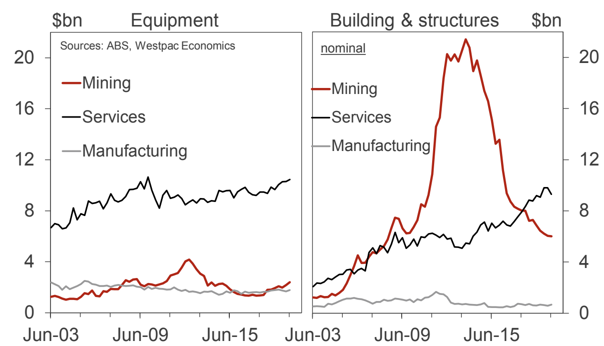


Aus Q3 private business capex

Nov 28, Last: –0.5%, WBC f/c: –0.5%
Mkt f/c: flat, Range: –1.4% to 1.0%

- Private business capex spending was mixed over the past year, including a Q2 outcome of –0.5%qtr, –1.0%yr.
- We expect a further decline in Q3, a forecast –0.5%.
- Building & structures capex trended lower from mid-2014, including a 6.6% fall over the past year, centred on mining ~ as work on the large gas projects was completed. With that wind-down behind us, we expect a small rise in Q3, +0.5%, as work on a few iron ore projects proceeds.
- Equipment capex has been mixed, with a broadly flat profile late in 2018 and early in 2019, followed by a (temporary) bounce in the June quarter, +2.5%. In the current challenging environment (both weak demand and an uncertain outlook) we see the risk of a pull-back in Q3, down a forecast 1.5%.

CAPEX: by industry by asset

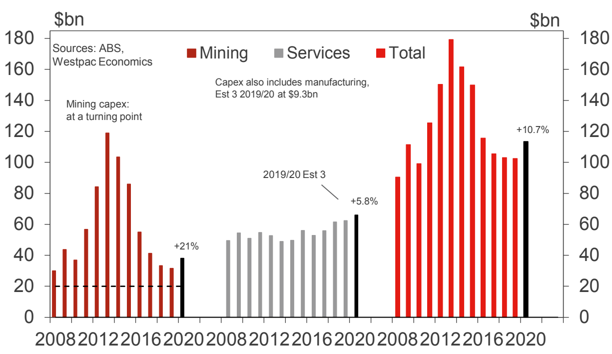


Aus 2019/20 capex plans

Nov 28, Last: Est 3 2019/20: $113bn, +10.7% vs Est 3 a yr ago

- This survey, conducted in October and November, includes the 4th estimate of 2019/20 capex plans.
- Est 3 printed at $113.4bn, 10.7% above Est 3 of a year ago
- That headline number of +10.7% sounds like an upbeat outlook. However, we are sceptical. This figure, in our view, is flattered by weak base effects.
- More fundamentally, the challenging economic backdrop points to a more modest outlook for business capex – albeit one supported by an emerging uptrend in mining investment after 6 years of decline.
- We anticipate an Est 4 in the order of $120bn. By way of context, that is a 6% upgrade on Est 3, in line with the average upgrade of recent years, but well below the oversized 11% mark-up this time a year ago.
- An Est 4 of $120bn is 5.5% above Est 4 a year ago, well down on the +10.7% for Est 3 on Est 3.

Capex plans, by industry: Estimate 3



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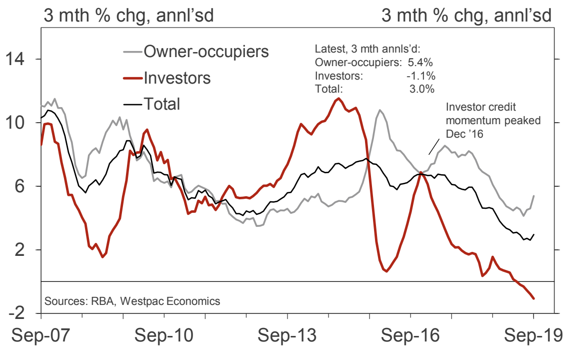
Data previews

Aus Sep private credit

Nov 29, Last: 0.2%, WBC f/c: 0.3%
Mkt f/c: 0.3%, Range: 0.2% to 0.3%

- Private sector credit growth has slowed to a weak pace led by the housing downturn. Annual growth is 2.7%, and is 2.8% on a 3 month annualised basis. Monthly gains have averaged 0.2% during 2019, including a 0.2% rise in September.
- For October, growth is expected to edge higher to 0.3%, supported by the boost from recent RBA rate cuts.
- Housing credit grew by 0.24%mth, 3.1%yr in September (and by 3.0% 3 month annualised). New lending has rebounded in response to the RBA's 75bps of rate cuts, which will see a pick-up in credit – although the pass through to date has been slow as repayments have been slow to adjust.
- Business credit grew by a modest 3.3% over the past year in what is a challenging environment. That said, there has been a rebound from the soft spot around the May Federal election, with the 3 month annualised pace jumping to 3.7% in September, up from 0.9% in June.

Housing credit weak ahead of RBA rate cuts

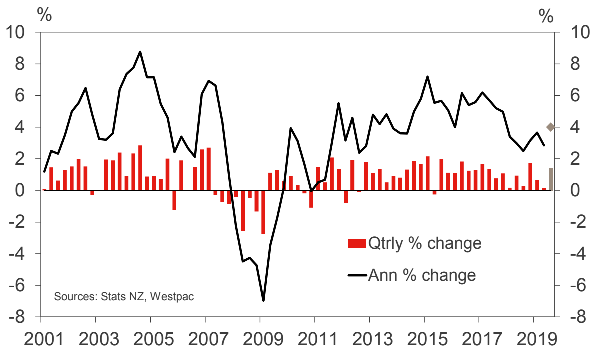


NZ Q3 retail spending

Nov 26, Last: +0.2, WBC f/c: +1.4%

- Retail sales posted a modest 0.2% gain in the June quarter, with spending patterns mixed across sectors. On the upside, there were gains in areas like electronics and recreational goods. However, on the downside, spending on groceries and home furnishings fell. Part of the reason for that softness is likely to have been the earlier weakness in the housing market.
- We're expecting a 1.4% rise in spending through the September quarter, underpinned by a solid 1.6% rise in core spending. With interest rates down and a firming in the housing market, households spending appetites have firmed recently. Monthly spending gauges have picked up through the September quarter, with notable increases in spending on hospitality and durables.

NZ real retail sales

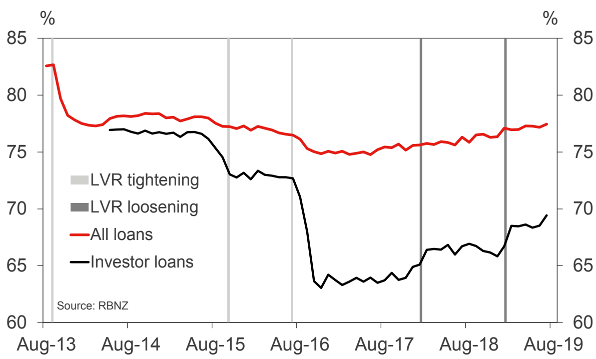


NZ RBNZ Financial Stability Report

Nov 27

- The RBNZ's six-monthly review of the financial system often serves as a window for reviewing the loan-to-value restrictions on mortgage lending. The LVR restrictions have been loosened twice so far, in November 2017 and 2018.
- We do not expect a further change at this review. House prices are up by just 3.9% in the last year, but there has been a marked acceleration in recent months as mortgage rates have fallen sharply and the threat of a capital gains tax has been removed. The RBNZ will be wary of adding more stimulus at this point.
- The RBNZ is unlikely to make any substantial comment on its proposal to increase bank capital requirements, ahead of the announcement scheduled for 5 December.

Average LVR of new mortgage commitments



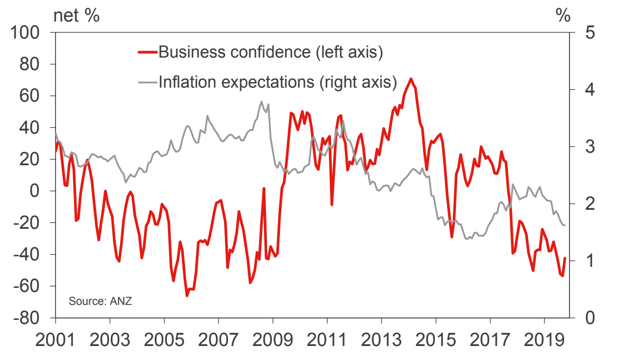
Data previews

NZ Oct ANZ business confidence

Nov 28, Last: –42.4

- Business confidence picked up in October, but it remained at very low levels. We also saw businesses continuing to report extremely weak trading activity.
- We expect that overall business confidence and trading activity will remain low in the upcoming November survey. However, we may see some diverging conditions across sectors. Recent months have seen firming economic conditions in some parts of the economy, including the retail sector. But at the same time, conditions remain rocky in areas like manufacturing, where soft global conditions are a headwind.
- It will also be worth keeping an eye on the survey's gauges of inflation expectations which have remain muted in recent months, despite continued reports of rising costs.

NZ business confidence and inflation expectations

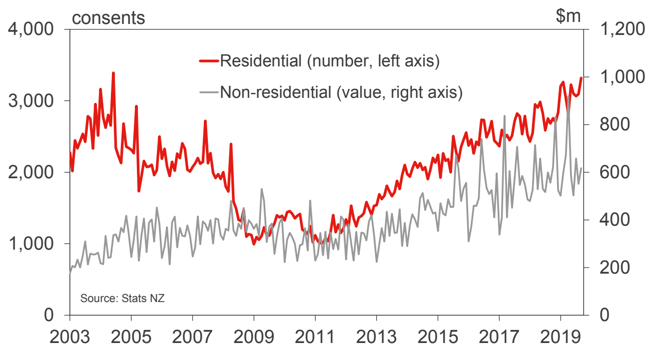


NZ Oct dwelling consents

Nov 29, Last: +7.2%, WBC f/c: –8%

- Residential dwelling consent issuance rocketed higher in September, rising by 7.2%. That was underpinned by a large number of medium density consents, with those increases occurring in a number of regions.
- Given the lumpy nature of multi–unit consents, we expect to see some pull back in October and are forecasting an 8% decline. That would still leave annual consent issuance at a multi–decade high.
- Issuance is trending upwards in Auckland. In other regions, consent numbers are rising more gradually, but is at elevated levels.

NZ building consents



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 25					
Ger	Nov IFO business climate survey	94.6	95.0	–	Sentiment weak. Recent easing in global tensions may help.
US	Oct Chicago Fed activity index	–0.45	–	–	Regional surveys remain volatile…
	Nov Dallas Fed index	–5.1	–2.9	–	… amid uncertainties, offset by consumer strength.
Tue 26					
Aus	RBA Dep. Governor Debelle speaks	–	–	–	"Employment & wages", ACOSS, Canberra, 10:50am
	RBA Governor Lowe speaks	–	–	–	"Unconventional Monetary Policy …", Sydney, 8:05pm
NZ	Q3 real retail sales	0.2%	–	1.4%	Higher spending on durables and hospitality boosting core.
Eur	ECB Chief Economist Lane speaks	–	–	–	In London.
US	Oct wholesale inventories	–0.4%	–	–	Volatile.
	Sep FHFA house prices	0.2%	0.5%	–	House price growth has slowed materially…
	Sep S&P/CS home price index %yr	2.0%	2.1%	–	… across the nation.
	Nov Richmond Fed index	8	6	–	Manufacturers under pressure.
	Oct new home sales	–0.7%	0.8%	–	Modest growth likely into 2020.
	Nov consumer confidence index	125.9	126.8	–	Optimism supported by a tight labour market.
	Fed Chair Powell speaks	–	–	–	Greater Providence Chamber of Commerce (AEDT 11am).
	Fedspeak	–	–	–	Brainard on policy framework review.
Wed 27					
Aus	Q3 construction work	–3.8%	–1.0%	–1.0%	Cyclical downturn to continue, housing further weakness.
NZ	RBNZ Financial Stability Report	–	–	–	We expect no change to LVR restrictions this time.
	Oct trade balance $m	–1242	–	–1000	Meat exports rising strongly on Chinese demand.
US	Q3 GDP 2nd est %ann'd	1.9%	1.9%	1.9%	Growth to slow further in coming quarters.
	Oct durable goods orders	–1.2%	–0.5%	–	Weak investment trend to continue.
	Initial jobless claims	227k	–	–	Very low, and will remain so.
	Nov Chicago PMI	43.2	47.1	–	Manufacturers under pressure.
	Oct personal income	0.3%	0.3%	0.4%	Wages growth still solid.
	Oct personal spending	0.2%	0.3%	0.3%	Spending growth to slow into 2020.
	Oct PCE deflator %yr	1.3%	1.4%	1.4%	PCE measures modestly below target.
	Oct pending home sales	1.5%	0.2%	–	Existing market held back by supply.
	Federal Reserve's Beige book	–	–	–	Conditions across the districts.
Thu 28					
Aus	Q3 private new capital expenditure	–0.5%	flat	–0.5%	Mixed result. Expect equipment pull-back, f/c –1.5%.
	2019/20 capex plans, $bn	113.4	–	120	Est 3 on 3, was +10.7%. For Est 4, expect 'downgrade' to +5.5%.
NZ	Nov ANZ business confidence	–42.4	–	–	Business conditions are soft, but have started to improve.
Eur	Oct M3 money supply %yr	5.5%	5.5%	–	Credit growth remains robust.
	Nov economic confidence	100.8	101.0	–	Firms are concerned about the outlook…
	Nov business climate indicator	–0.19	–0.14	–	… as persistent weakness in manufacturing threatens.
Ger	Nov CPI %yr prelim.	1.1%	1.3%	–	Lack of inflationary pressure.
US	Thanksgiving holiday	–	–	–	Public holiday.
Fri 29					
Aus	Oct private sector credit	0.2%	0.3%	0.3%	RBA rate cuts providing a boost to housing finance.
NZ	Nov ANZ consumer confidence	118.4	–	–	Continues to linger around average levels.
	Oct building permits	7.2%	–	–8%	Likely to fall after earlier surge in apartment numbers.
Jpn	Oct jobless rate	2.4%	2.4%	–	Very low on moderating labour supply.
Kor	Bank of Korea policy decision	1.25%	1.25%	–	No move after 50bp of easing this year.
Eur	Oct unemployment rate	7.5%	7.5%	–	Close to the historical low of 7.3%.
	Nov core CPI %yr prelim.	1.1%	1.3%	–	Core inflation stuck around 1%yr.
UK	Nov GfK consumer sentiment	–14	–13	–	Holding just below average.
	Oct net mortgage lending £bn	3.8	–	–	Market stable, holding around three year average.
US	Day after Thanksgiving	–	–	–	Holiday in almost half of the states (Black Friday).
Can	Q3 GDP ann'd %	3.7%	–	–	Softness in manufacturing, but firmer services.
Sat 30					
Chn	Nov manufacturing PMI	49.3	49.5	–	Manufacturers to remain under pressure…
	Nov non-manufacturing PMI	52.8	53.7	–	… with consequences for services.

Economic & financial forecasts

Interest rate forecasts

	Latest (22 Nov)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Jun-21	Dec-21
Cash	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50
90 Day BBSW	0.89	0.85	0.70	0.70	0.70	0.70	0.75	0.75
3 Year Swap	0.77	0.75	0.70	0.70	0.80	0.85	0.95	1.05
10 Year Bond	1.10	1.10	0.90	0.90	1.00	1.10	1.30	1.50
10 Year Spread to US (bps)	-67	-60	-60	-55	-40	-40	-30	-30
International								
Fed Funds	1.625	1.625	1.375	1.125	0.875	0.875	0.875	0.875
US 10 Year Bond	1.77	1.70	1.50	1.45	1.40	1.50	1.60	1.80
US Fed balance sheet USDtrn	4.03	4.10	4.28	4.43	4.55	4.61	4.73	4.85
ECB Deposit Rate	-0.50	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
New Zealand								
Cash	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75
90 day bill	1.02	1.10	0.90	0.90	0.90	0.90	0.90	0.90
2 year swap	1.14	1.10	1.00	1.00	1.00	1.00	1.05	1.15
10 Year Bond	1.34	1.35	1.20	1.20	1.20	1.25	1.40	1.55
10 Year spread to US	-43	-35	-30	-25	-20	-25	-20	-25

Exchange rate forecasts

	Latest (22 Nov)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Jun-21	Dec-21
AUD/USD	0.6787	0.67	0.66	0.66	0.67	0.67	0.69	0.72
NZD/USD	0.6405	0.63	0.62	0.62	0.63	0.63	0.65	0.67
USD/JPY	108.64	108	107	106	105	105	107	109
EUR/USD	1.1064	1.09	1.09	1.10	1.11	1.12	1.14	1.15
GBP/USD	1.2914	1.30	1.33	1.32	1.32	1.31	1.31	1.32
USD/CNY	7.0322	7.10	7.10	7.05	6.95	6.90	6.75	6.60
AUD/NZD	1.0598	1.06	1.06	1.06	1.06	1.06	1.07	1.08

Australian economic growth forecasts

	2018	2019				2020		Calendar years			
	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	2018	2019f	2020f	2021f
GDP: % qtr	0.1	0.5	0.5	0.6	0.7	0.6	0.6	–	–	–	–
% yr end	2.2	1.7	1.4	1.8	2.3	2.4	2.5	2.2	2.3	2.4	2.7
Unemployment rate: qtr avg, yr end	5.0	5.0	5.2	5.2	5.3	5.5	5.6	5.0	5.3	5.6	5.3
CPI: % qtr	0.5	0.0	0.6	0.5	0.5	0.4	0.4	–	–	–	–
% yr end	1.8	1.3	1.6	1.7	1.7	2.1	1.9	1.8	1.7	1.9	1.9
CPI trimmed mean: %qtr	0.4	0.3	0.4	0.4	0.5	0.5	0.5	–	–	–	–
% yr end	1.8	1.5	1.6	1.6	1.6	1.8	1.9	1.8	1.6	1.9	1.7

New Zealand economic growth forecasts

	2018	2019				2020		Calendar years			
	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	2018	2019f	2020f	2021f
GDP % qtr	0.7	0.6	0.5	0.3	0.5	0.7	0.8	–	–	–	–
Annual avg change	2.8	2.7	2.4	2.3	2.2	2.0	2.1	2.8	2.2	2.6	2.9
Unemployment rate %	4.3	4.2	3.9	4.2	4.3	4.4	4.4	4.3	4.3	4.2	3.9
CPI % qtr	0.1	0.1	0.6	0.7	0.3	0.5	0.4	–	–	–	–
Annual change	1.9	1.5	1.7	1.5	1.7	2.0	1.8	1.9	1.7	1.8	1.9

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