Bath House, Rotorua

Weekly Economic Commentary.

That's a wrap.

Our last Weekly Commentary for 2019 is a double issue. The first couple of pages are our usual round-up of recent economic developments. Then on page three we detail an update to the OCR outlook, which was published shortly before this Weekly Commentary went to press. The Weekly Commentary will be back on 20 January 2020. Until then, we wish our readers a great holiday season!

Last week the Government released its Half-Year Economic and Fiscal Update (HYEFU). With the economy losing steam over the past year and the 2020 election coming into sight, we've been expecting a ramp up in fiscal spending. And that's exactly what the Minister of Finance delivered, with the announcement of $12bn of new investment spending. The lion's share of that new spending will be on transport projects ($6.8bn). Smaller amounts will go to District Health Boards, school maintenance, regional investment opportunities, and decarbonisation projects (like removing coal-fired boilers from schools and hospitals).

These planned increases are still modest relative to the size of the economy. Even with the increase in spending, the net debt to GDP ratio is expected to remain close to its current level and well within the 15-25% range that the Government has adopted in its fiscal responsibility rules. In addition, rather than trying to front-load that spending in response to the recent period of slower economic growth, the planned spending is actually spread out over several years. Around $1.4bn is expected to be spent in the June 2021 year, ramping up to just over $2bn in each of the next few years.

These announcements reinforce our view that government activity will stimulate the economy over the coming years. However, we had already allowed for something like this, so there will be no material change to our economic forecasts. Indeed, as we've seen for several years now, capital spending often gets delayed due to capacity constraints in the construction industry. Consequently, the actual economic stimulus implied by these latest announcements is well within what we had already baked into our forecasts.

The HYEFU fiscal projections acknowledge the softer than expected starting point for the economy. That means that there is only limited scope to ramp up operational spending in next year's Budget. Nevertheless, we still think that the Government will increase its operational spending allowance next year, though perhaps by less than the $1.5bn per annum that we were previously allowing for. We should note that the next Budget has already been given an allowance of $3bn a year of new operational spending, so there is still plenty of room to announce new programmes.

The announcement of plans for increases in Government spending comes atop other recent economic news that has reinforced our view that a turn in economic activity is underway and is likely to continue over the coming year.

The pace of growth clearly slowed over 2019 as the economy encountered a range of headwinds. However, it looks like the September quarter will mark the low point for growth. In addition, recent detailed economic data indicates that the trough in economic activity won't be as deep as we had been expecting, with solid gains in retailing, manufacturing and business services over the quarter. As a result, we've revised up our forecasts for GDP growth in the September quarter to 0.5% (vs. our earlier estimate of 0.3%). That would be on par with the pace seen in the June quarter.

More recently, there have been signs that economic activity has picked up in the final part of the year. That's been seen most clearly in the household sector, with a sustained step higher in retail sales in recent months, including a monster 2.6% rise in the November month alone.

Some of that recent strength in household spending is likely to be related to the growing prevalence of global sales events, like Black Friday, in the New Zealand marketplace. However, there's also been a more general lift in households' spending appetites, supported by the low level of mortgage rates and the related firming in the housing market.

Importantly, it looks very likely that this strength in demand will continue into the new year with the housing market continuing to charge higher. The latest update from REINZ showed house prices rose by 1.5% in November to be up 5.6% over the past year. That was led by a whopping 2.6% rise in Auckland, which means that Auckland house prices have now reversed all of their decline from the previous couple of years and are at new record highs.

All signs point to this strength in the housing market continuing into the New Year, and our long-held forecast for 7% nationwide house price inflation is on track to come good even sooner than we had expected. We expect that this strength in the housing market will underpin continued strength in household spending.

It's a slightly more mixed picture in terms of business activity. Gauges of business conditions remain fairly subdued, and there is still some reluctance regarding hiring and capital expenditure. However, several key indicators of business activity, like the PMI, have been gradually trending higher in recent months. We expect that this will continue over the coming year as demand improves. Over time, that will also support increases in hiring and investment.

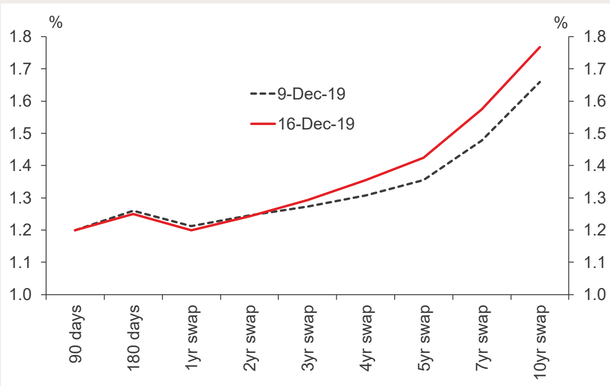
Fixed vs Floating for mortgages.

Now is a good time to take a fixed mortgage. Fixed mortgage rates have tumbled over the past six months, but they will not go lower any time soon because the Reserve Bank has paused its series of OCR reductions.

Among the fixed rates on offer, we think the best value is in the one- and two-year rates. Longer-term rates are high relative to where we think future short-term rates will go. That said, fixing for longer terms does offer security against future interest rate increases, and therefore may be preferred by those with low risk tolerance.

Floating mortgage rates are normally expensive for borrowers, but they may be the preferred option for those who require flexibility in their repayments.

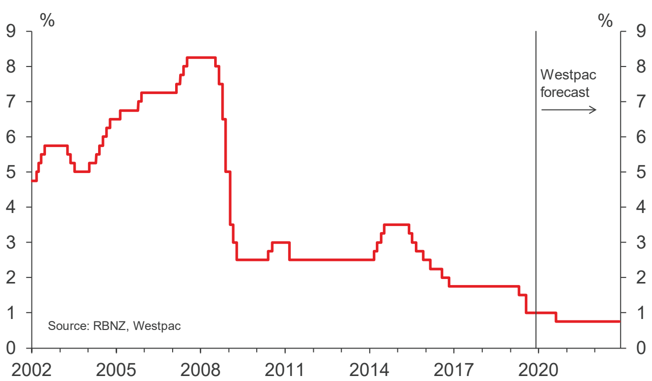
NZ interest rates



Update on the OCR – no cut over the first half of 2020.

- We no longer expect the RBNZ will cut the OCR in February, or at any point over the first half of 2020.
- The New Zealand economy and housing market have lived up to our more constructive forecasts and then some.
- Meanwhile, global economic sentiment has held up recently.
- Although we expect the global economy to deteriorate next year, the NZ housing market and economic upturn will prevent the RBNZ from cutting over the first half of 2020.
- We are now forecasting that the OCR will drop to 0.75% in August.
- Our OCR forecast strikes a balance within a spectrum of possibilities. We could easily envisage the OCR remaining at 1% all year or falling to 0.5%, depending on the data.
- A cut of some kind remains more likely than on hold or hikes, because of lingering softness in the inflation outlook.
- We will continue to update our OCR forecasts as and when required by new information.

Official Cash Rate



We no longer expect the RBNZ to cut the OCR in February, or at any point in the first half of 2020.

At the time of the November *Monetary Policy Statement* the Reserve Bank implied that there was roughly a 50/50 chance that it would reduce the OCR at some point, to be determined by the data.

We expected that New Zealand economic data, particularly the housing market, would exceed the Reserve Bank's expectations. Even so, we pencilled in a February OCR cut on the basis that a renewed bout of global economic jitters could push the RBNZ over the very fine line on which it has been dancing.

Our forecast for a modest improvement in the New Zealand economy has proved correct and then some, and so far there hasn't been a marked deterioration in global economic sentiment. This means a February OCR cut is now looking unlikely.

The New Zealand housing market has taken off even more sharply than our bullish forecasts. Back in May our prediction of 7% house price inflation next year made us the only major house tipping a housing market upturn. Now house price inflation is already 5.6% according to the REINZ House Price Index, and all and sundry are talking about how the market has turned.

In response to rising house prices, households have opened their wallets. Retail sales volumes rose by 1.6% in the September quarter. The momentum has continued since then, albeit with some volatility – a 0.5% drop in electronic card spending in October was followed by a whopping 2.6% rise in November.

Indicators of business activity have improved as well. Business confidence is still low but has risen in the last couple of surveys. The PMI manufacturing survey suggests that the sector is back in growth mode. And residential building consents have been going from strength to strength and are up by 12% on the previous year.

The Government's recent announcement of a large increase in planned infrastructure spending doesn't significantly alter our forecasts, as we already recognised that a pre-election spend-up was likely. But it will come as a positive surprise relative to the forecasts that the Reserve Bank published in November.

The only real counter to the string of upside surprises for the RBNZ is that the New Zealand dollar has risen recently. The trade-weighted index is 2% above where the RBNZ expected it to be at this point. This will dampen the RBNZ's near-term inflation forecasts, but it only goes some way towards offsetting the 6% rise in export commodity prices seen since July.

Global economic sentiment has held up well recently, but we still anticipating a deterioration next year because we expect the US economy to slow. We are forecasting that the Federal

Reserve and Reserve Bank of Australia will be reducing interest rates next year. However, the current New Zealand housing market and economic upturn will have momentum. By May, we expect the New Zealand housing market will be even stronger than today, while annual inflation will touch 2.1% (although it will drop again soon after). Under those conditions, we doubt the RBNZ would cut the OCR by May even if global economic conditions have deteriorated.

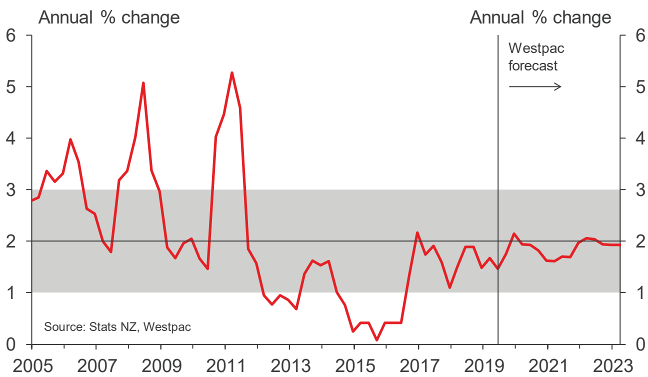
The OCR outlook over the second half of 2020 is murkier. We are now forecasting that the OCR will fall to 0.75% in August, and will stay at that level for two and a half years.

Our forecast strikes the best balance within a spectrum of possibilities in a highly uncertain future. We could easily imagine a scenario in which the OCR is kept on hold at 1.00% throughout 2020, for example if the New Zealand housing market turns out even stronger than we currently anticipate. Alternatively, the OCR could fall to 0.50% or below this year, particularly if the global economy falters to a greater extent than we are forecasting.

A lower OCR in some shape or form does remain the most likely outcome. That is because the inflation outlook remains slightly below 2%. Our forecasts of a weak world economy and a rising exchange rate trump the accelerating domestic economy in terms of the inflation outlook. And under conditions of a sub-2% inflation outlook, it makes sense to forecast a lower OCR.

We will continue to update our OCR forecasts as and when required by new information.

Consumer price inflation



Update to our wider forecasts.

We will also take this opportunity to update our wider economic forecasts. The details are in the table on the following page, and the highlights are:

- Previously, we forecast that house price inflation would reach 7% by the end of 2020. We now expect 7% will be reached by April next year, as the market is accelerating faster than expected. However, with mortgage rates now rising and expected to rise further next year, we also expect the housing market upturn will start petering out as soon as late-2020.
- We have updated our forecasts of government spending to reflect the investment boost announced in last week's half year update. But at the same time, we have downgraded our forecast of government operational spending, because it looks as though surpluses will not be sufficient to support the spending increase we expected. Overall, we are now forecasting a slightly smaller fiscal stimulus than we were previously forecasting.
- We have upgraded our exchange rate forecasts to reflect the fact that we now expect the central banks of Australia and the US will be reducing rates while the RBNZ is on hold in the first half of 2020. For June 2020, we are now forecasting NZD/USD at 0.64 (previously 0.62) and NZD/AUD at 0.97 (previously 0.94).

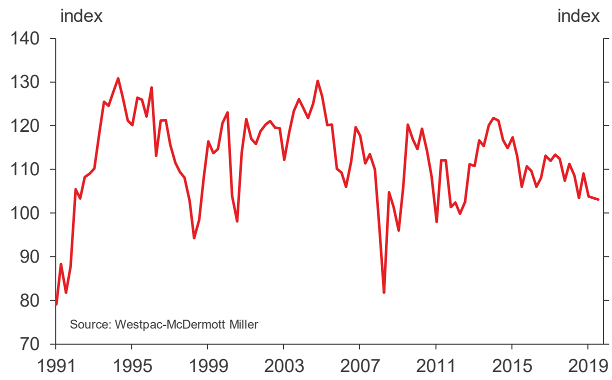
The week ahead.

NZ Q4 Westpac McDermott Miller Consumer Confidence

Dec 17, Last: 103.1

- Consumer confidence nudged down again in September, leaving it at below average levels. While households were more optimistic about their personal financial situation, there was increased concern about the economic outlook more generally.
- Since the time of the last survey, there has been some mixed news on the economic front. Mortgage rates have pushed down, and there has been a related firming in the housing market and household spending. The Government has also announced plans for increases in spending. However, recent media reports have highlighted the risk that changes in capital requirements for banks could add to upside pressure on interest rates.

Westpac-McDermott Miller consumer confidence

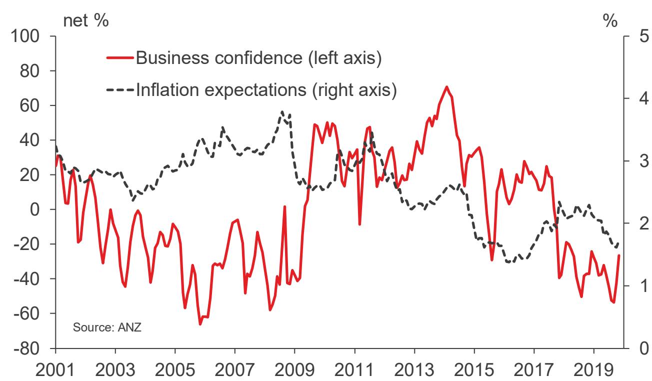


NZ Dec ANZ business confidence

Dec 17, Last: -26.4

- Business confidence posted a solid gain in November but remains at historically low levels.
- Conditions in the New Zealand economy appear to be past a turning point. The impact of low interest rates is starting to be seen, especially in the housing market and the retail sector. The Government has also announced plans for increases in spending. While those conditions are likely to see business confidence lifting over time, any increases are likely to lag the improvement in economic activity more generally. Crucially, businesses will be looking for greater certainty before committing to increases in capital expenditure or staff numbers.
- While business conditions are firming, there may be a modest pullback in business confidence after last month's sharp rise.

NZ business confidence and inflation expectations

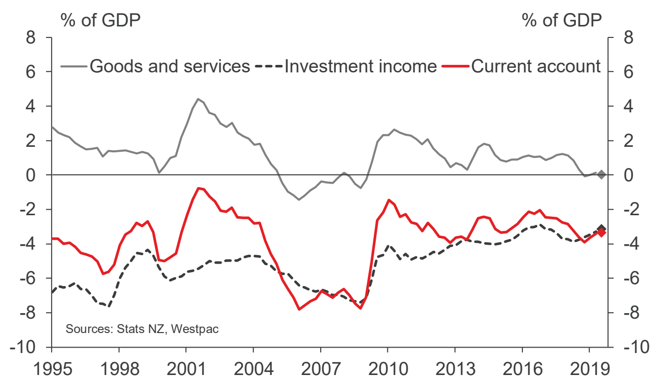


NZ Q3 current account % of GDP

Dec 18, Last: -3.4%, Westpac f/c: -3.4%, Mkt f/c: -3.4%

- We expect the current account deficit to remain at 3.4% of GDP for the year to September. Upward revisions to nominal GDP could reduce this ratio slightly.
- The goods trade deficit worsened over the quarter due to a sharp drop in export volumes, more than offsetting the rise in prices.
- Offsetting this, we expect the investment income deficit to narrow. In particular, profits for overseas-owned banks were relatively low for the quarter.

Annual current account balance



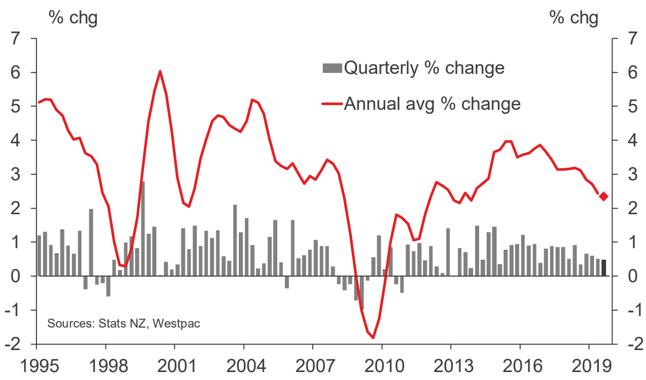
The week ahead.

NZ Q3 GDP

Dec 19, Last: 0.5%, Westpac f/c: 0.5%, Mkt f/c: 0.5%

- We expect a 0.5% rise in GDP for the September quarter, taking the annual growth rate down to 2.3%.
- Conditions were mixed over the quarter, with strength in retailing and business services, while forestry, travel and personal services were soft. A stronger than expected manufacturing survey has made it likely that growth will exceed the Reserve Bank's estimate of 0.3%.
- The pace of growth has clearly slowed over the course of this year, as the economy has faced a range of headwinds. However, recent more positive news has reinforced our view that the September quarter will mark the low point.

Production-based GDP



Aus Federal budget, 2019/20 mid-year update, AUDbn

Dec 16, Last: –0.7, WBC f/c: +5.0

- The Federal Government's Mid-Year Economic and Fiscal Outlook (MYEFO) will likely see a net downward revision to the economic outlook and a trimming of the budget surplus.
- Real GDP growth for 2019/20 will be 2.25% (a 0.5% downgrade), reflecting recent weaker outcomes. For nominal GDP growth, we expect 3.25% for 2019/20 (unchanged) and 3.00% for 2020/21 (a 0.75% downgrade) - impacted by the (delayed) fall in commodity prices.
- For the iron ore price, currently at US$90/t spot, we expect MYEFO to adopt a cautious approach - confirming the Budget forecast of US$55/t (fob), albeit pushing back the timing by a quarter to June 2020.
- The budget surplus is: trimmed by $2bn to $5bn for 2019/20 (dented by weakness in the private economy); and lowered by $3bn to $8bn in 2020/21, on the softer economy.

Aus Federal budget key forecasts

Key forecasts		'19/20	'20/21	'21/22	'22/23
Budget balance	Budget	7.1	11.0	17.8	9.2
($bn)	MYEFO*	5.0	8.0	14.8	6.2
Real GDP	Budget	2.75	2.75	3.00	3.00
(% chg)	MYEFO*	2.25	2.75	3.00	3.00
Nominal GDP	Budget	3.25	3.75	4.50	4.50
(% chg)	MYEFO*	3.25	3.00	4.50	4.50
Terms of trade	Budget	–5.25	–4.75	–	–
(% chg)	MYEFO*	–2.50	–7.00	–	–

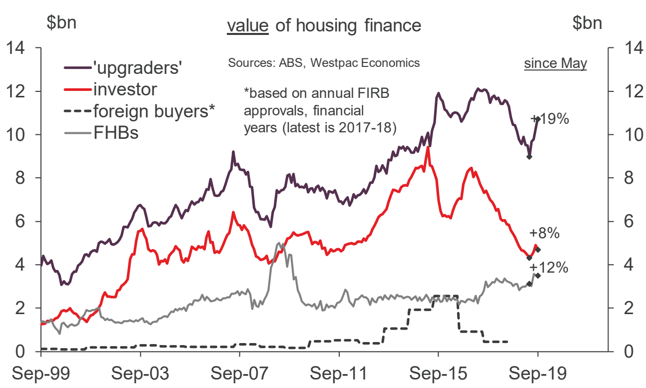
* Westpac's expectation of Government forecasts to appear in MYEFO
Sources: Budget papers, ABS, Westpac Economics

Aus Oct housing finance approvals

Dec 17, Last: 3.6%

- Sep housing finance approvals showed a strong rise in owner occupier loans but a pull-back in the value of investor loans leaving the total value of approvals broadly in line with expectations. The 3.6% rise in the number of owner occupier loans means they are now up 11.4% from their Apr low. The value of investor loans declined 4%, reversing much of last month's 6.5% surge and suggesting a more muted upturn.
- The market resurgence gained momentum through Oct-Nov although strength remains concentrated in prices rather than turnover. This will tend to restrain the upturn in finance approvals, especially the number rather than the dollar value.
- Note also that the ABS is overhauling the survey this month meaning most housing-related estimates will see changes both to the level and history. This includes changes to the way loans are classified into owner occupier and investor that are likely to see a significant boost to the latter.

Housing finance approvals by segment



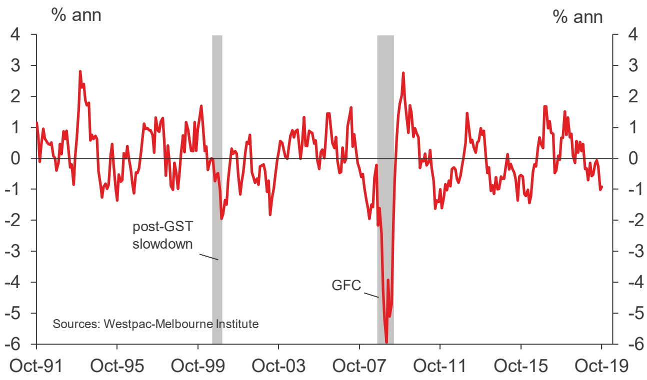
The week ahead.

Aus Nov Westpac–MI Leading Index

Dec 18, Last: –0.91%

- The Leading Index growth rate lifted from –1.01% in September to –0.91% in October. Despite the slight improvement, the growth rate remains materially below trend and continues to point to weak economic momentum carrying well into 2020.
- The November update looks likely to see another weak read. While it will include a positive update on the ASX200 (+2.7%), all other components weakened in the month including sharp falls in commodity prices (-3.7% in AUD terms) and dwelling approvals (-8.1%).

Westpac-MI Leading Index

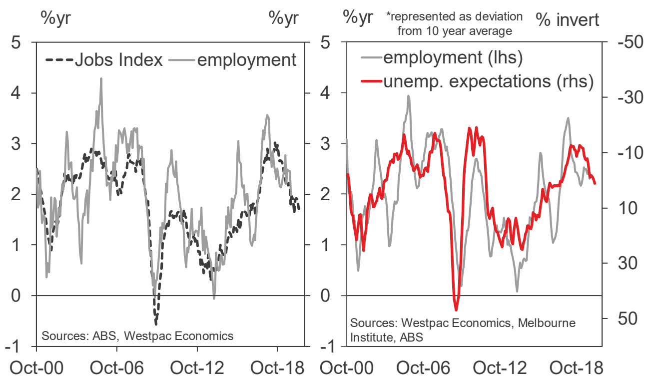


Aus Nov Labour Force: employment '000

Dec 19, Last: –19k, WBC f/c: 8k
Mkt f/c: 15k Range: -10k to 40k

- The October Labour Force Survey surprised with a 19.0k decline in employment; the market median was +15k while the lowest forecast in the range was +7k. The employment pulse has slowed to a six month annualised pace of 1.6%yr from a very robust 2.6%yr as recently as August.
- NSW and Victoria are slowing, NSW more so than Victoria. Total employment fell 10.3k in NSW and in the year, employment growth in NSW has fallen from 3.8%yr in July to 1.5% in October. Victoria has been a bit more robust with employment lifting 2.9k and annual pace a very solid 3.2%yr.
- Given such a weak October print it is tempting to forecast a robust November print just on survey volatility. However, the leading indicators we prefer, the various business surveys and the Westpac-MI Unemployment expectations, all suggest the labour market continues to weaken. As such, we are forecasting a very modest gain of 8k.

Westpac employment indicators

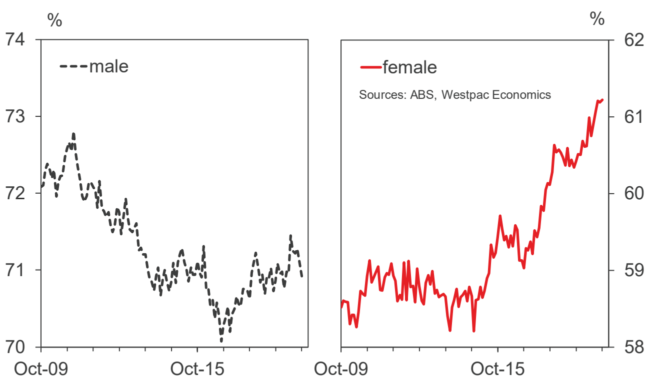


Aus Nov Labour Force: unemployment %

Dec 19, Last: 5.3%, WBC f/c: 5.3%
Mkt f/c: 5.3% Range: 5.3% to 5.6%

- In the October Labour Force Survey, the unemployment rate lifted to 5.3% from 5.2%.
- Given the soft employment print, the reported decline in participation to 66.0% from 66.1%, was to be expected. Nevertheless, unemployment still bumped up to 5.3% (5.32% at two decimal places) from 5.2%, confirming October as a soft update.
- Westpac is expecting unemployment to rise from here as we expect participation to remain relatively robust despite softer employment growth. And while male participation has lifted off its cyclical low, it is the trend rise in female participation that is behind the outsized gains in the labour force.
- Holding the participation rate flat at 66.0%, a soft 8k gain in employment would hold the unemployment rate at 5.3%.

Australian participation rates by gender



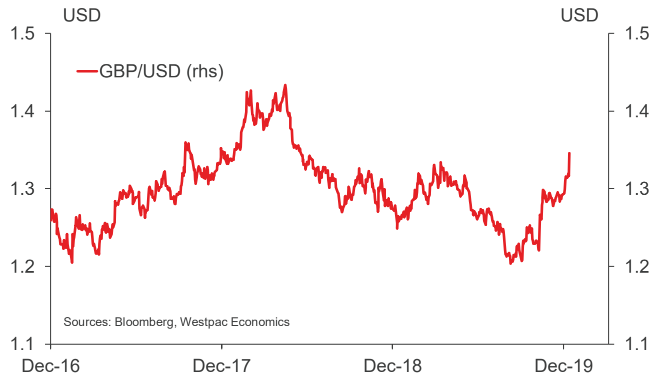
The week ahead.

UK Bank of England Bank Rate Decision

Dec 19, Last: 0.75%, WBC f/c: 0.75%, Mkt: 0.75%

- At the November meeting, the BOE left policy on hold but surprised with a dovish 7-2 vote on the decision with the two dissenters, Saunders and Haskel, opting instead for a rate cut. Economic forecasts were also revised lower. Inflation is seen at just 1.5% in 2020 and only gets back to the 2% target in 2021. In addition, Governor Carney noted that the risks to the forecasts are "skewed to the downside".
- As we go press, the Conservatives look to have won a clear majority in the election, which should allow Johnson to pass the withdrawal agreement bill (WAB) already accepted by the EU. That will see a smooth Brexit on January 31, but future arrangements between the UK and EU will then need to be agreed in 2020.
- In December, the BOE will be in monitoring mode to assess how the economy responds to the election result and a significant lift in GBP.

GBP/USD exchange rate

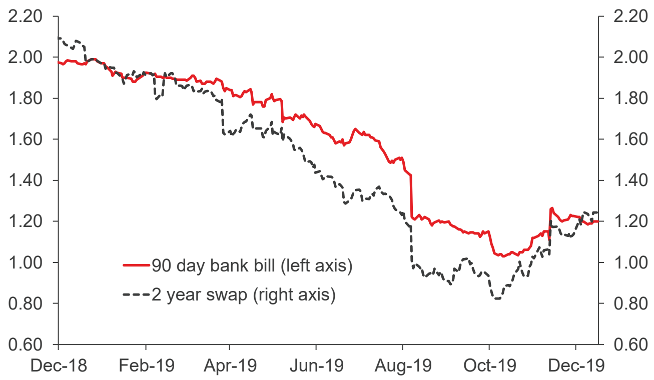


New Zealand forecasts.

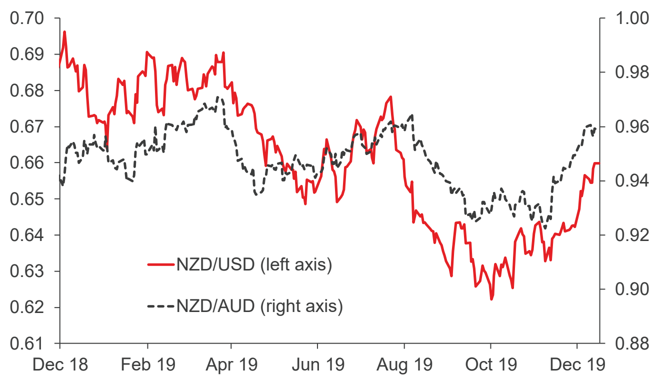
Economic forecasts	Quarterly				Annual			
	2019			2020				
% change	Jun (a)	Sep	Dec	Mar	2018	2019f	2020f	2021f
GDP (Production)	0.5	0.5	0.6	0.6	2.8	2.3	2.5	3.0
Employment	0.6	0.2	0.4	0.3	1.9	1.2	1.8	2.0
Unemployment Rate % s.a.	3.9	4.2	4.3	4.4	4.3	4.3	4.2	3.9
CPI	0.6	0.7	0.4	0.5	1.9	1.8	1.8	1.7
Current Account Balance % of GDP	-3.4	-3.4	-3.1	-2.9	-3.9	-3.1	-2.9	-3.2

Financial forecasts	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Cash	1.00	1.00	0.75	0.75	0.75	0.75
90 Day bill	1.20	1.10	0.90	0.90	0.90	0.90
2 Year Swap	1.00	1.00	1.00	1.00	1.00	1.05
5 Year Swap	1.10	1.15	1.20	1.25	1.30	1.35
10 Year Bond	1.20	1.20	1.20	1.25	1.35	1.40
NZD/USD	0.64	0.64	0.65	0.65	0.66	0.66
NZD/AUD	0.96	0.97	0.97	0.97	0.96	0.96
NZD/JPY	67.9	67.8	68.0	68.3	69.4	70.6
NZD/EUR	0.58	0.58	0.58	0.58	0.58	0.58
NZD/GBP	0.48	0.48	0.49	0.50	0.50	0.50
TWI	71.1	71.4	71.5	71.5	71.5	71.5

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 16 December 2019

Interest rates	Current	Two weeks ago	One month ago
Cash	1.00%	1.00%	1.00%
30 Days	1.17%	1.17%	1.23%
60 Days	1.18%	1.20%	1.24%
90 Days	1.20%	1.23%	1.24%
2 Year Swap	1.24%	1.14%	1.17%
5 Year Swap	1.42%	1.21%	1.24%

NZ foreign currency mid-rates as at 16 December 2019

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.6599	0.6432	0.6406
NZD/EUR	0.5933	0.5835	0.5795
NZD/GBP	0.4949	0.4985	0.4962
NZD/JPY	72.16	70.45	69.71
NZD/AUD	0.9586	0.9499	0.9401
TWI	72.71	71.48	70.96

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 16					
NZ	Nov BusinessNZ PSI	55.4	–	–	Business conditions have been firming in late 2019.
Aus	Federal Budget, MYEFO, $bn	-0.7	–	5.0	Budget surplus profile to be trimmed on softer economy.
	RBA Head of Financial Stability	–	–	–	Kearns at Finance & Banking conference, Sydney 12:00pm.
Chn	Nov fixed asset investment ytd %yr	5.2%	5.2%	5.2%	Growth to remain weak versus history through 2020.
	Nov industrial production ytd %yr	5.6%	5.5%	–	Signs of stabilisation apparent in manufacturing.
	Nov retail sales ytd %yr	8.1%	8.0%	–	Consumers under pressure, with employment weak.
Eur	Dec Markit manufacturing PMI	46.9	47.1	–	Showing signs of stabilisation...
	Dec Markit services PMI	51.9	52.0	–	... but services have softened a bit further.
UK	Dec Markit manufacturing PMI	48.9	49.4	–	Composite now sub-50...
	Dec Markit services PMI	49.3	49.5	–	... probably too early to see any post-election effect.
US	Dec Fed Empire state index	2.9	5.0	–	Regional surveys have been volatile.
	Dec NAHB housing market index	70	71	–	Housing market supported by low rates and labour market.
	Dec Markit manufacturing PMI	52.6	52.6	–	More constructive than ISM...
	Dec Markit services PMI	51.6	52.0	–	... signals those exposed to domestic demand fairing better.
Tue 17					
NZ	Q4 WBC–MM Consumer Confid.	103.1	–	–	Confidence continued to slide in September.
	Dec ANZ business confidence	–26.4	–	–	Business confidence still low, but has started to turn.
Aus	RBA minutes	–	–	–	To emphasise "long and variable lags" as RBA hits "pause".
	Oct lending indicators	–	–	–	Replaces the housing finance survey with revised data.
UK	Oct ILO unemployment rate	3.8%	3.9%	–	Remains low.
US	Oct total net TIC flows $bn	–37.6	–	–	Long-term bond flows.
	Nov housing starts	3.8%	2.0%	–	Residential construction activity is yet to show robust...
	Nov building permits	5.0%	-3.8%	–	... momentum, despite optimism and positive supports.
	Nov industrial production	–0.8%	0.8%	–	Outlook remains uncertain for US manufacturers.
	Oct JOLTS job openings	7024	7000	–	Hires; fires; quits and job openings.
Wed 18					
NZ	Q3 current account (% of GDP)	–3.4%	–3.4%	–3.4%	Weak export volumes offset by lower profit outflows.
Aus	Nov Westpac–MI Leading Index	-0.91%	–	–	Suggests below trend growth.
Eur	Nov core CPI %yr final	1.3%	1.3%	–	Lifted due to base effects. Pressures are subdued.
	ECB President Lagarde speaks	–	–	–	In Frankfurt.
UK	Nov CPI %yr	1.5%	1.5%	–	Stronger GBP should keep inflation below target.
Thu 19					
NZ	Q3 GDP	0.5%	0.5%	0.5%	Shaping up to be the low point for growth this year.
	Nov trade balance $m	–1013	–800	–700	Stronger meat and dairy export prices.
Aus	Nov employment, '000 chg	–19	15	8	Business surveys continue to paint a softer jobs picture...
	Nov unemployment rate	5.3%	5.3%	5.3%	...as unemployment expectations continue to rise.
UK	Nov retail sales	2.7%	2.1%	–	Consumer remains in reasonable shape.
	BoE policy decision	0.75%	0.75%	0.75%	On hold, watching economy's response to election result.
US	Dec Phily Fed index	10.4	9.0	–	Regional surveys have been volatile.
	Initial jobless claims	252k	–	–	Very low.
	Nov leading index	-0.1%	0.1%	–	Pointing to growth around trend.
	Nov existing home sales	1.9%	-0.2%	–	Supply continues to hold market back.
Fri 20					
NZ	Dec ANZ consumer confidence	120.7	–	–	Remains around average levels.
Eur	Dec consumer confidence prelim.	-7.2	-7.6	–	Anticipated to reverse Nov's decline.
UK	Q3 GDP final	0.3%	0.3%	–	Rebound from Q2 contraction.
US	Q3 GDP 3rd estimate %annualised	2.1%	2.1%	2.1%	Likely unrevised from second estimate.
	Nov personal income	0.0%	0.3%	0.3%	Income growth remains robust, though upside is limited.
	Nov personal spending	0.3%	0.4%	0.3%	2019 has been a strong year for consumption.
	Nov core PCE deflator %yr	1.6%	1.5%	1.5%	Inflation pressures remain absent.
	Dec Kansas City Fed index	3	–	–	Regional surveys have been volatile.

International forecasts.

Economic forecasts (Calendar years)	2016	2017	2018	2019f	2020f	2021f
Australia						
Real GDP % yr	2.8	2.5	2.7	1.8	2.1	2.5
CPI inflation % annual	1.5	1.9	1.8	1.7	1.9	1.9
Unemployment %	5.7	5.5	5.0	5.3	5.6	5.3
Current Account % GDP	-3.1	-2.6	-2.1	0.6	-0.5	-1.8
United States						
Real GDP %yr	1.6	2.4	2.9	2.3	1.6	1.5
Consumer Prices %yr	1.4	2.1	2.4	1.8	1.9	1.9
Unemployment Rate %	4.9	4.4	3.8	3.6	3.6	3.8
Current Account %GDP	-2.3	-2.3	-2.3	-2.6	-2.5	-2.4
Japan						
Real GDP %yr	0.6	1.9	0.8	0.8	0.1	0.3
Euro zone						
Real GDP %yr	1.9	2.5	1.9	1.2	1.0	1.2
United Kingdom						
Real GDP %yr	1.8	1.8	1.4	1.3	0.8	1.5
China						
Real GDP %yr	6.7	6.8	6.6	6.1	5.8	5.8
East Asia ex China						
Real GDP %yr	4.0	4.5	4.3	3.6	3.6	3.9
World						
Real GDP %yr	3.4	3.8	3.6	3.0	3.0	3.2
Forecasts finalised 11 December 2019						

Interest rate forecasts	Latest	Mar–20	Jun–20	Sep–20	Dec–20	Mar–21	Jun–21	Dec–21
Australia								
Cash	0.75	0.50	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW	0.90	0.70	0.45	0.45	0.45	0.50	0.50	0.50
10 Year Bond	1.27	0.90	0.90	0.90	0.90	0.95	1.00	1.20
International								
Fed Funds	1.625	1.375	1.125	0.875	0.875	0.875	0.875	0.875
US 10 Year Bond	1.91	1.50	1.45	1.45	1.50	1.55	1.60	1.80
ECB Deposit Rate	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60

Exchange rate forecasts	Latest	Mar–20	Jun–20	Sep–20	Dec–20	Mar–21	Jun–21	Dec–21
AUD/USD	0.6926	0.66	0.66	0.67	0.67	0.68	0.69	0.72
USD/JPY	109.57	107	106	105	105	106	107	109
EUR/USD	1.1176	1.09	1.10	1.11	1.12	1.13	1.14	1.15
GBP/USD	1.3472	1.33	1.32	1.32	1.31	1.31	1.31	1.32
USD/CNY	6.9688	7.10	7.05	6.95	6.90	6.80	6.75	6.60
AUD/NZD	1.0471	1.04	1.03	1.05	1.05	1.05	1.06	1.08

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