Australian 3Q19 GDP disappoints

Expectations for a further 25bp of easing from the Reserve Bank of Australia should rise following a slowdown in QoQ growth from 0.6% in 2Q19 to 0.4% in 3Q19.

Reserve Bank of Australia Governor Philip Lowe

Source: Shutterstock

0.4%QoQ

3Q19 GDP

1.7%YoY

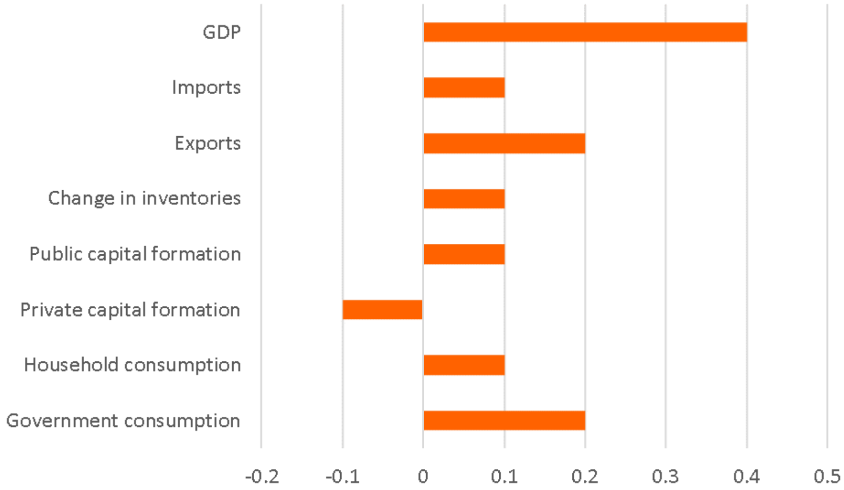
Lower than expected

Expectations lean towards more easing

Markets were already leaning towards a further rate cut in February next year, but the mildly disapointing GDP figures for 3Q19 GDP now make that look a more solid call. The Reserve Bank of Australia has been characterising the economy as experiencing a "gentle upturn". But this data seems to suggest more of a gentle downswing. Consequently, it will be very hard for RBA Governor Lowe to hold back from easing again in February 2020, as he did this week. About the only thing now that could unseat views of more easing, would be a clear turnaround in the labour data. If instead this remains soft, then a February rate cut will look all but a done deal.

We imagine that if the data is looking sufficiently soft to merit a further rate cut, then in all likelihood, it will end up requiring two, so as long as the forthcoming labour data don't change the picture, then we will be looking to reduce our rate outlook to 0.25% by the end of 2Q20, and most likely scaling back our AUD forecasts too.

Contribution to 3Q19 QoQ GDP



Source: Australian Bureau of Statistics

Contribution to 3Q19 GDP

Even split between domestic demand and net exports

One could argue that the upward revision to 2Q19 GDP makes this a better set of numbers than the headline implies. It certainly suggests that activity has been stronger in the recent past, though it is the sharper downturn in activity in 3Q19 that we think is the more important consideration for the RBA, and which will likely weigh on the AUD. Private investment remained weak, household consumption contributed only 0.1pp, and government consumption was the main driving force for domestic demand, along with a little help from inventories.

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